HOUSE OF COMMONS

Welsh Affairs Committee

Oral evidence: Wales and the Shared Prosperity Fund, HC 90

Tuesday 10 March 2020

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Watch the meeting

Members present: Stephen Crabb (Chair); Tonia Antoniazzi; Simon Baynes; Virginia Crosbie; Geraint Davies; Ben Lake; Robin Millar; Rob Roberts; Dr Jamie Wallis; Beth Winter.

Questions 1 - 27

Witnesses

I: Professor Steve Fothergill, Centre for Regional Economic and Social Research, Sheffield Hallam University, Professor Dylan Jones-Evans OBE, Faculty of Business and Society, University of South Wales, Jan Zeber, Deputy Head of Economics and Prosperity, Policy Exchange, and Andrew Carter, Chief Executive, Centre for Cities.

Examination of witnesses

Witnesses: Professor Steve Fothergill, Professor Dylan Jones-Evans, Jan Zeber, and Andrew Carter.

Q1 **Chair:** Good morning, and welcome to the very first evidence session of the new Welsh Affairs Committee in this new Parliament. The first inquiry that we have chosen to focus on is the proposed shared prosperity fund replacement for EU structural investment funds and how that can best be designed in the best interests of Wales. We are going to crack straight into questions, but before we do, if you could just introduce yourselves for the benefit of all members, that would be helpful.

Jan Zeber: Good morning. I am Jan Zeber, Deputy Head of Economics at Policy Exchange.

Andrew Carter: I am Andrew Carter, Chief Executive of the Centre for Cities and a Deputy Director of What Works Centre for Local Economic Growth.

Professor Fothergill: I am Steve Fothergill. I am a professor at Sheffield Hallam University in the Centre for Regional Economic and Social Research, but I have a second role as well, which is of some relevance. I am National Director of the Industrial Communities Alliance, which represents local authorities in Britain's older industrial areas.

Chair: Including in Wales?

Professor Fothergill: Including in Wales, yes.

Chair: That is helpful to know.

Professor Jones-Evans: I am Dylan Jones-Evans. I am Professor of Entrepreneurship at the University of South Wales and Assistant Pro-Vice Chancellor for Enterprise.

Q2 **Chair:** Brilliant, thank you very much. We have a very distinguished panel. Could I start by asking a very broad question? Given that Wales seems to lag at the bottom, or close to the bottom, of almost all the economic league tables I look at, is it fair to conclude that European structural investment funds have not been an effective policy tool for levelling up poor parts of Wales? Could I put that straight to Steve and then open it up to the other members of the panel?

Professor Fothergill: I think you always have to ask the question, "What would have happened in the absence of?" The proper measure of the impact of any public sector intervention, including European funds, is the comparison between what actually happened and what would have happened. Of course, it is not easy to identify exactly what would have happened in the absence of an intervention like EU funding, but it is worth bearing in mind—I am sure this is very familiar to several of your members—that the entire economic base, the old historical economic base of many communities in Wales, for example in the Valleys, has been almost completely eliminated. The coal industry has gone. The steel industry has gone in the Valleys, although it is still there in Port Talbot, of course, and one or two other places. Even a lot of manufacturing brought in in the immediate post-war years has disappeared. There is a fair case for saying the statistics for Wales would have been a lot worse in the absence of European funding.

Andrew Carter: I agree with Steve in a sense. We have to think about the counterfactual, but I would also say we probably expect too much of any one individual policy initiative, whether it is the shared prosperity fund, as it will be, or local economic growth initiative, and so on. Thinking about the broader macro effects that are influencing places in Wales is much more important, and thinking about the totality of the business environment, the skills system, and the extent to which it is producing what we need. I think there is an optimism bias, which we all suffer from, that we need to be mindful of when we begin then to think about what it is that we want the shared prosperity fund to do. It does seem to suggest that targeting and being specific gives us a better than even chance of positive results.

My final point would be there are bits of Wales that are doing marginally better than other bits of Wales. Wales is obviously a country of 3 million, but you can see bits, particularly but not exclusively in the south, where there are improvements to economic prosperity and the people are benefiting from some of that growth as well. We probably need a bit of disaggregation when we think about Wales in the way that we do that in every other place.

Jan Zeber: The only thing I would add to that is that this highlights, perhaps, the inadequacy of how the success of these programmes is evaluated.

The kind of records that are being kept by the Welsh Government relate to the take-up of the programme, so how many jobs are created, how many people have new qualifications, how many participants and so on, but it perhaps struggles with measuring how these programmes impact on the Welsh economy, as you highlighted. Perhaps going forward with the design of the shared prosperity fund, it is important that we think about how we do not measure intermediate outcomes but the outcomes that we want to see.

Professor Jones-Evans: If you are looking in the wider context, you mention the levelling up, which is one of the aims of the current UK Government, in that both since 2000 and then since 2009, when we were at the top of the recession, coming out of it, London and the south-east of England accounted for 40% of economic growth in the UK. Then you look at the figures that we have had in terms of GVA per head, and Steve’s point is well made. Where would we have been without them?

Because in west Wales and the Valleys GDP per head, or GVA per head, has kept roughly the same since 2000-18; there has been no growth. But when you look at places like east Wales, where we expect the powerhouse to be, Cardiff is one of the few regions that has grown. The other, believe it or not, is Conwy and Denbighshire. If you look at all the regions since 2000-18, it is those two that have grown. Places like Wrexham and Flintshire have declined in GVA per head, despite having the powerhouse that you have in Deeside and on the Wrexham industrial estate. The same for Monmouthshire and Newport. You would expect Monmouthshire, one of the richest counties in Wales, to have grown and it has not.

If you look at that simple figure, the fact that west Wales and the Valleys have stood still, whereas east Wales has declined—and, in fact, most of the rest of the UK has declined relative to the whole UK because of the impact of London—then those particular funds, whether they have been spent in the right way, have certainly kept the GVA per head at a level over those 18 years.

Q3 **Chair:** Can I pick up on the theme that I think Steve and Andrew highlighted about not expecting too much of the funds? My understanding is that the EU's objective behind this money was to close economic gaps between regions—to essentially ensure and help regions to converge. Does that mean that when we think about the new shared prosperity fund we should be looking at other objectives, or is that still the lodestar that should guide the design of these?

Professor Fothergill: I think that it is certainly wrong to think that there is a single silver bullet that solves the problems of any region. You really have to work on quite a broad front to deliver lasting benefits. It is actually the joint impact of several things being done simultaneously that usually develops something successful.

In the context of the European funds—and the shared prosperity fund perhaps is potentially a major part of this jigsaw—it has to pursue more than one single objective in terms of actions anyway. To deliver substantial development in any location, you need land and property for development. You need investment and support for businesses. You need investment in skills for local people. You need connectivity. All of that has to happen, and that is very ambitious for a single fund. Potentially, the shared prosperity fund could contribute a significant part of the jigsaw on each of those fronts. It is not everything, but it will help a great deal.

Andrew Carter: I have a couple of quick thoughts. In terms of the way we should think about it, we should think about the SPF, or whatever it is, as a complement to other bigger macro interventions that we make. I will give you an example. It seems to me now we have got to the position where the local growth fund or its equivalent EU structural funds have essentially substituted on the skills and education front for a poorly performing skills and education system. In a sense, they are having to do the heavy lifting that the broader system is not doing in terms of providing individuals with both foundational and intermediate skills to make them reasonably competitive in the labour market. The SPF is never going to address the fundamental weaknesses, so complement rather than substitute is my first point.

The second thing is I do think we have to be slightly more focused on absolute improvements as well as relative improvements. We want to know whether Wales, in absolute terms, is more prosperous tomorrow compared with Wales today. Then we might need to worry about how London is getting on, but those two things you need to think about. Sometimes, you will see relative inequality increase, even if your absolute performance is improving. You are just not improving as rapidly as London and, to be honest with you, it is very hard to imagine a current situation where London is going to be expanding less rapidly than Wales, or certainly parts of Wales. So, that is my second point, absolute rather than relative.

My third issue is the allocation process historically has been based on place characteristics—obviously the people in that place, but I do think when we move forward we need to be more mindful of thinking about improvements that we can make to people, irrespective of what happens to that person, as well as the place itself. That is just a recognition that ultimately policy interventions are trying to improve the lot of people wherever they may live and wherever they may work and whatever they do. I think there is a little bit of a bias in the sense that compositional change tells us a little bit about how the area looks the same, but we know that the people within it change to a degree—some have moved on and some have been replaced by others. Having more focus on the person as well as the place I think is probably one of the issues that we need to think more carefully about in the future iterations.

Professor Jones-Evans: If you look at the area that I have been researching, which is new businesses and the state of entrepreneurship, the two key indicators within the current programme for 2014-20 are the number of businesses assisted—of course, a lot of European funding has substituted and complemented Welsh Government funding for business support—and, obviously, the number of new businesses created. If you look at that, about 8,500 businesses have been assisted, which basically accounts for about 3% of all new firms in Wales. If you think about it that way, the impact is quite low in terms of the business support, even though, as we know, business support by Welsh Government has been cut. Even the amount of funding that comes in has not really made up for the largesse that was shown from 2000-07 and 2007-13 in terms of the funding that went to support businesses.

Secondly, in terms of the number of new businesses, roughly 2,500 businesses have been created, which over that period, 2014-19, accounts for only 4%. Again, 96% of all new businesses in Wales have not been supported by European structural funding. This point about it being the panacea for all the economic ills of Wales is probably slightly misguided.

Jan Zeber: I have two brief points. First, to agree with Andrew's point, London is successful by any measure, globally an extremely successful city. That is not a bad thing for other places in the UK. It means that regional inequality statistics, as measured by economic activity, will always be skewed, but that does not necessarily indicate that these programmes aimed at reducing that are not working.

The other quick point is that I do think that regional GDP, GVA, those indicators of regional economic activity, are by and large still the right indicators to focus on when you are designing those programmes.

Q4 **Ben Lake:** The management of European structural funds has come under a fair bit of criticism over the years. I am interested to know whether you think that is a fair assessment or not.

Professor Fothergill: I am certainly not a hands-on manager of the European funds. In fact, I am not sure any of us here in front of you are hands-on managers of the money. A general impression is that, to be honest, they have been a bit of a bureaucratic nightmare. There are so many players with their hands on the tiller. The European Union has its preferred objectives, and the UK Government stitches up another active programme that it agrees with the European Union and then it is passed down to Wales, and the Welsh Government have a view on what should be done, right down to all the local players. It is a bit of a mess in terms of management.

One of the obvious things that follows from what I have just said, of course, is that the European Union will not be involved in the shared prosperity fund. At a stroke, you do simplify the management of funds by removing one of the big players. I am sure in detail those who really manage the funds would have a much clearer sense about just what can be done to make the whole thing a little bit simpler.

Professor Jones-Evans: I have been involved in managing European funding, and it is challenging if you are trying to constantly be innovative. We used to say, "Would the Sicilian European funding office have the same approach as the Welsh European funding office?" Probably not. I think there has always been a fear that due to state aid regulations—I am sure Steve will say more about this later—Wales would have to pay back funding if we did something even so slightly incorrect.

I think the wider picture here is not necessarily about the management but the strategy itself. Because we are now in our third round of European funding, one of the things the Committee may want to look at is whether anything has really changed in terms of projects being brought forward. Myself and a colleague of mine, Professor Gill Bristow from Cardiff University, did a review of innovation programmes under the first programme, the objective 1 funds, between 2000 and 2007. What we found was that there was not enough focus on commercialisation. To an extent, my worry has always been—I work in a university—that European structural funding has substituted for other types of funding, not only from research councils. We did a paper about four or five years ago comparing Scottish universities with Welsh universities in terms of where they access research. What we found was that because there is not that much accessibility to European structural funding in Scotland, the focus of Scottish universities was very much on going for Horizon 2020, the old framework programmes, whereas in Wales the focus was very much on the other side, which was to try to get European structural funding because it felt it was easier to get it. That may, over time, have created a misbalance in terms of the level of research and development funding that has been attracted by universities in Wales. As we know, it is still relatively low compared to the rest of the UK. Therefore, I suppose one of the challenges we have in Wales is whether we focus on that.

The evidence I was looking at over the weekend in terms of the current programme suggests that, yet again, most of the funding is going into the university sector, which is fine, but the fact is there is no point in developing research and development if you do not have the absorptive capacity to develop that into the marketplace. If you look at some of the results that have come out, they are very poor. For example, only 39 out of a target of nearly 700 companies have actually commercialised their products. Only €7.2 million of private sector investment out of a forecast of €121 million has been committed. It is worth looking at.

There may be a lag in some of these programmes, but even so, we are now five years into the programme and there is that concern, as I have seen in other programmes, the first two, that essentially the money is not reaching those companies that can really make a difference to the economy of Wales.

Q5 **Robin Millar:** On this point specifically, Dylan, I am fascinated by what you have said. I will flip it around to make sure that I have understood it. What I have heard from friends and colleagues in north Wales is that, effectively, state funding and the kind of funding that comes through the European grants has actually become an essential part of the business modelling now of new businesses. Is that, in effect, what you are saying?

Professor Jones-Evans: For new businesses?

Robin Millar: Yes, for new businesses, for start-up businesses, they are saying, "This is becoming an important part of all my pre-planning, how I ramp up growth, and so on, and I am looking now."

Professor Jones-Evans: I would not say that. Certainly, one of the challenges you have is that the only game in town in terms of equity funding in Wales, particularly north Wales, is the Development Bank of Wales. Most of its funding has come through European funding but also now through Welsh Government. I might make this point later. To be fair, they have been enormously successful about getting that money out of the door. The challenge there, I think, is that there is only really one source for that, which is the Development Bank, and it is made up of different funding elements.

You could say that is the case, but I am going back to my previous point. Essentially, if you look at the target, and the Welsh European Funding Office is quite tight on the targets, only 3% of new businesses have been generated over the last four or five years by European funding, so the vast majority are not. Those may be the 3% of businesses that will grow and create jobs, but I do not think the evidence is there to show that.

Andrew Carter: Just to add to that, I think it is an important point where we are beginning to think about, then, the role of the fund in the public sector, crudely, relative to the private sector. The evidence we have, at least when you look at the good quality evidence in relation to the Regional Selective Assistance programme, which people like Steve will know very, very well, it was demonstrably clear in the findings, which are robust to high grades of quality, that the co-financing element is critical to the success of the intervention. You have to think about how much of public, crudely, versus how much of private. The RSA had a kind of sliding scale of intervention from the public up through to 35%, but it is based on this principle of co-financing, where the firm itself, or the recipient, whoever it is, is essentially putting some of their own skin into the game. That does seem to make a difference in the sense that a 10% increase in some of the interventions that we see in the RSA have noticeable effects on employment or unemployment.

The co-financing question is really critical, and part of that, then, is about the co-design of the scheme, so that it is not just a public scheme orientated fund, it is designed often alongside and in collaboration with the ultimate recipients, while controlling for vested interests and all of that. It is a good point.

Q6 **Dr Jamie Wallis:** Professor Jones-Evans, you talked about commercialisation. Is it a fair criticism of the structural funds that businesses find engagement difficult and the bureaucracy involved sometimes makes accessing those funds, even match funding, too difficult for start-ups and SMEs in particular?

Professor Jones-Evans: I think the bureaucracy, and this has been the case since day one, could have been made easier for particularly small businesses to access some of this funding. Not only that, once you get the funding, it is the reporting structure that you have afterwards—onerous would be too kind a word. If you think that your average small business spends probably about a day a week on red tape and admin already, then this burden is put on them when they are normally reporting monthly or quarterly, not only to Welsh Government but in some cases also directly to the funder.

If we are going to have a new system, it is this balance, I think. It is the fear of fraud, to an extent, versus making it flexible. It is that flexibility versus that fear of fraud. That is what Government always worry about because, in the end, they would have to pay it back if a company was to misuse European structural funding. At the same time, you need to have that flexibility so more organisations do not perhaps think it is going to be difficult so, therefore, I am not going to apply for European funding regardless of the amount of money I get, and I have heard that several times, even from some of the fastest growing companies in Wales.

Q7 **Geraint Davies:** I think Steve Fothergill mentioned that we should assess the effectiveness of convergence funding in the context of, first, certainly, industrial decline in terms of coal mining, steel, et cetera, and also in the context of the 2008 financial crash and how we do relative to that. Looking ahead, we have a new phase where 60% of trade is to the EU versus 44% in the UK. We are going to have an HS2 link-up that will enable people to get to Manchester in about an hour instead of two hours and to Swansea in three hours. In that context, we face as well new challenges and I wonder, therefore, how you feel that the new criteria for the shared prosperity fund should be similar or different to the current. The current criteria is very much projected against poverty levels in Valleys, west Wales, including Swansea and the like, and about building prosperity and added value, and I am happy with that. I am just wondering, given the new challenges we face, what should be the new criteria, or do you think we should have continuity?

Professor Fothergill: I think there is a lot of merit in continuity in terms of objectives. The basic idea of trying to raise the economic performance of the less prosperous parts of the United Kingdom, including the less prosperous parts of Wales, seems to be eminently sensible. What should probably change is just the practicalities of how we go about delivering that because we can make a fresh start outside the EU. We can simplify things in terms of bureaucracy. We can have a lot more flexibility once we are free of some of the constraints of the EU.

That is less of an issue, I have to say, in west Wales and the Valleys at present because the shopping list of measures available to a less prosperous region—that is an EU term—such as west Wales and the Valleys is quite wide. You do not have the constraint. In east Wales, the shopping list of measures that you have been able to undertake with EU funding is really quite limited. Now, without the constraint of the EU, it should in theory be possible to do things that are appropriate in that location rather than simply doing things that you are allowed to do under the rules from Brussels.

Q8 **Geraint Davies:** Can I just ask a supplementary on this? If it is the case that there are less tightly defined shopping lists and we have more flexibility—in a real example, I represent Swansea; we have a Swansea City Deal going forward; there is a plan for more integrated connectivity in a Swansea metro and faster rail to try to build all this together—do you feel that this might be an opportunity to tailor something to what is actually happening on the ground rather than a separate shopping list? Is that what you are saying?

Professor Fothergill: Absolutely. Looking from the outside, it has been talked about as the Cardiff City metro scheme, but I know there are aspirations to take it out and include the Swansea City region as well.

That seems to me to be strategic investment for the whole of south Wales that makes a lot of sense but is also going to cost a lot of money. In south Wales, it might be sensible to put substantial amounts of the shared prosperity fund into that particular scheme. Now, that is a response to the opportunities and needs in the wider south Wales area. If you go to north-east England or central Scotland, the priorities will probably be somewhat different. Yes, this is the sort of flexibility that I think we have the opportunity to develop now the UK is going to be doing its own thing.

Q9 **Geraint Davies:** Can I ask Andrew a similar question? How shall we define the shared prosperity fund versus the convergence funding? Following the last point, should the strategic investment in rail infrastructure, for instance, be a completely separate thing, as it is with HS2, and the shared prosperity fund be on top to facilitate connectivity rather than used for something that should have been paid for anyway?

Andrew Carter: I think you have answered your own question in terms of the second point. I would be hugely sceptical of any large economic effects for a Swansea-based metro, but that is a different conversation we could have at a different time.

Notwithstanding that, I would see it as a complement and outside the envelope of the SPF. I think the SPF in part would benefit from quite a narrow focus, in a sense, on issues in relation to skills, particularly skills at the lower end of the skills spectrum. If you think about Wales, it has a significant proportion of its adult workforce, or at least its adult population, that have no qualifications whatsoever. We know that is bad for the place. We know that is bad for the person. I would want to see an allocative process that recognises that issue and begins to target some of the investment into those particular issues at the lower end of the skills spectrum.

However—and this is not just relevant to Wales, there are other places that also suffer from this—Wales in a sense has problems and challenges on the demand side of the economy, the demand for the labour, the demand for the skills. This is Dylan's space. When we think about the second allocative process, we need to think about the types of interventions that give us a better than even chance of boosting productivity and/or employment growth in the firm base. We have some inclination as to what some of those interventions may be.

You are trying to work on both sides of the equation: first, providing a better supply of labour, particularly at the lower end, good for people, good for places; and trying to address demand weaknesses in the economy where we do not have enough firms that are growing rapidly and we certainly do not have enough firms—the point you were making earlier on—exporting.

If I give a generalised critique of firm-orientated interventions of structural funds, we have not been particularly discerning at targeting firms that are trying to export outside their locality. We tend to do an awful lot of business support and business interventions on essentially localised firms, and that is almost 100% displacement. Peter is robbing Paul very directly, so we need to be much more focused on whether we can intervene in interventions and/or firms that might or are currently exporting but could do even more. I say exporting—I mean outside their locality; other parts of Britain is fine, other parts of the world is fantastic. You begin to think about those kinds of interventions that I would begin to give SPF.

Q10 **Geraint Davies:** What interventions? Dylan Jones-Evans mentioned that there was not enough commercialisation and market connectivity, I guess. I wonder whether it is partly because Wales is not that connected by rail, as I mentioned already. Obviously, we have low GVA. A lot of the engines of growth, the universities, the connectivity with their nearest market of Europe is going to be undermined, so how should this new fund be targeted? Should it be more rather than less than the aggregate that was given before, given the new challenges we face?

Professor Jones-Evans: Just very quickly on that point, I think a lot of it is that we do not have enough business intelligence about the business community in Wales. We rely very much on ONS statistics, which does not really give us the granularity we need to understand, for example, the exporting capabilities and capacities of different companies.

I have been working with the Cardiff Capital Region on developing an entrepreneurship productivity growth strategy, which focuses very much on this. We looked at the data that was available on different sizes of companies, and for this I extrapolated that data for the whole of Wales. I will just give you one example. I am just posing this because this is a statistics question why this is the case, but it is worrying that policymakers are not really looking at it. We have approximately 2,200 medium-sized companies in Wales, according to the official statistics, those that employ between 50 and 249 people. The real challenge about that is that if we compare it to medium-sized companies across the UK, they have about two-thirds of the employment per firm of a medium-sized company across the UK and about 50% of the turnover per firm. That has come out. We came out with this data I have just extrapolated for the whole of Wales.

Let us look at that in the bigger context. If we were to set a target for the shared prosperity fund or the Welsh Government or the UK Government together, that would create—if they were at 100%; I am not saying they are going to get there—70,000 additional jobs and £14 billion of additional turnover into those businesses every year. It is going to be somewhere along that scale, but as yet—and I have been involved in studying this—not one programme has looked at this very small number of companies that can make a massive difference to the Welsh economy. Not one programme has said, "What can we do with the medium-sized sector?" I am not saying it is going to work but, with respect, I think we need to look at the business community and respond to how we can help them grow over the future.

Q11 **Geraint Davies:** What are you saying specifically we should provide in this shared prosperity fund to help firms to grow? What are you saying?

Professor Jones-Evans: I am basically saying that we should be putting in at two levels. I would argue that what we need to focus on, which has never been the focus to an extent of European structural funding, is all about productivity more than anything else. Skills, innovation, enterprise, competitiveness, yes; but if you look for that key issue of productivity—and Wales is still the least productive part of the UK—then that has to be, in my view, the focus. In doing that, you have to raise basically the productivity of companies but focus on those that you can raise quite quickly.

Q12 **Geraint Davies:** Finally, if you connect Bristol and Cardiff and Swansea, there are 3 million people there in that region. I know we talk about Wales all the time, and it is the same as Leeds and Manchester. The connectivity between Leeds and Manchester is something like six trains an hour; it is one train for us. Steve Fothergill, given what has been said already, do you think the shared prosperity fund should be looking also at the connectivity with Bristol as a way of seeing that as the engine and going from there, or do you think it should be focused on relative poverty in Wales?

Professor Fothergill: Let's take that one specifically first. I would be sceptical that growing Bristol could really solve the problems of Swansea or the Valleys or, indeed, Newport even.

Geraint Davies: Connecting, yes.

Professor Fothergill: Even if you have a high-speed rail link, and it is not bad at present, I have to say, from Cardiff at least to Bristol Parkway. No, I think the distances involved are too great. The solution to the problems in Swansea and in the Valleys and so on probably need to be much more local. That is not to say that the total solution to the problems of the Valleys have to be in the Valleys. There is a growing relationship with the cities on the coast, and that is why the investment in local transport networks is so important.

Could I just take the opportunity to jump back a stage in this argument and comment on something that Andrew said about investment in skills? I will be brief. I do not want to criticise investment in skills, but we should not fall into the trap of blaming the problems of large parts of Wales on a low skills base in Wales, because I think in doing so we are mixing cause and effect. What happens in any less prosperous economy is that the people with skills move elsewhere where there are good jobs to go to. The kids who do well at school go to university elsewhere, and then they never come back. As much as anything, the low proportion of high-skilled people, the high proportion of adults with no formal qualifications at all in the Valleys, for example, is a reflection of what has happened to the economy over the years as much as a constraint on growing the economy moving forward.

Chair: Forgive me, Steve, we have so much to get through, so we will bring in Beth Winter.

Q13 **Beth Winter:** I just wanted to pick up on Steve's point about flexibility. I have lived and worked in Cynon Valley, which has benefited hugely from EU funding. One of the biggest criticisms that we have had is who determines the measures on which the outcomes are successful or not and what measures are used. A lot of the ones that I have been involved with have been looking at what are classed as soft qualitative measures and outcomes, whereas the EU funds tend to focus on quantitative GVA productivity. I think we are missing a trick potentially. I suppose this is a question about what outcomes we should be focusing on and how we are measuring those. I think there is a job of work to be done looking at that moving forward to ensure that we are achieving what we and the people who live in these communities want and deserve as well.

Professor Fothergill: Broadly, I have a lot of confidence in the people of Cynon Valley to define for themselves what they regard as a success. I am sure, beyond the grand indicators of GVA or GDP per head, there are many other subsidiary indicators that you might wish to look at, particularly if you are targeting measures that address particular issues. Empowering the local players to define their own programmes, to define their own objectives, to define their own criteria of success, is important in a new, reorganised shared prosperity fund.

Andrew Carter: I would agree with that for certain, but as part of that process I would want to be able to understand clearly the evidence base that those people in that locality are using to inform the interventions that they are ultimately going to introduce. They may say, "We have a problem in our community that is about X and Y. We want to address X and Y", whatever X and Y is. Whoever it is that is ultimately responsible for the cash and the allocation process, I think it is fair and right to say, "Okay, so X and Y is the issue for you. To what extent are you using the evidence base as it exists"—and it is patchy and all the rest of it, imperfect—"to inform the interventions that you are then going to make to address X and Y?" I would be critical of many policymakers in that particular juncture, which is, "We have identified X. We are going to do Y." When you say, "Why are you going to do Y?" "That feels like the right thing to do". Where are you using evidence to inform the intervention, not the problem identification? This is where we get to on some of these things: best intentions are not necessarily the good guide for good, strong policy implementation. We need to be mindful of that. There are two points there that we really need to be clear on when we get into this kind of thing, and that goes across a number of different policy fields or policy domains.

Q14 **Virginia Crosbie:** I have two questions. I just want to follow up on that. Dylan, you mentioned that not many firms are assisted and the bureaucracy. Can you put any colour on the data that you do have in terms of entrepreneurs and businesses liaising with tertiary institutions or universities, actually asking for help? I am trying to get an idea as to the culture. My second question relates to the Government not providing any specifics regarding state aid rules relating to the shared prosperity fund. To what extent do you see that these rules might restrict both the UK Government and the Welsh Government?

Professor Jones-Evans: I will address the first one. My eminent colleague here has written far more than me on state aid and is somebody that certainly the UK Government should listen to about this. Anyway, I will start with that.

Yes, I think one of the challenges you have again is that if you look at the Higher Education Business and Community Interaction Survey—HEBCIS, for want of a better word—our interaction with businesses in terms of consulting and contract research is quite low. I think one of the challenges there is potentially coming back to what I was saying before. Universities to an extent have been largely dependent on European funding for undertaking not necessarily commercialisation but more of the development/innovation part of the RDI process. They have been dependent far more on that than going out to the companies. I do not have the statistics to hand, but if you look very carefully, it is very low compared to what we should do. I think in the south-east Wales region, it is about 180 businesses that have interacted with the three universities in terms of contract research and consultancy, which when you think there are 120,000-odd businesses in the Cardiff Capital Region, it is a very small number. That I think is quite important because if we are going to reach those targets that we see with this current fund, never mind what happens afterwards, in terms of innovation driving productivity in companies, then those businesses must be engaged with, and they must engage to an extent with the research base.

That is the other issue, I think, that needs to be addressed, and I remember raising this with the Chair, when he was the Secretary of State for Wales, about the role of Innovate UK. Of course, at the moment, research and innovation funding is not devolved: it is still done at a UK level. We have to bid into UK pots for this. Despite the best intentions of Innovate UK, one of the issues that you have is that there are really not enough bodies on the ground working with Welsh businesses to access this funding.

I think the point was made: where do we go post-European funding? It cannot be just about the shared prosperity fund. Other funds must come in line to ensure this levelling up. Rather than just having this, what about the funds that Innovate UK has? Another perfect example is the British Business Bank. I spent three years of my life creating the Development Bank of Wales, and one of the biggest issues there was that the British Business Bank to an extent had not engaged with Wales.

The fact that the majority of equity funding, venture capital funding, is in the south-east of England does not mean that you keep on funding it if you are the British Business Bank. If you want to level up, not only in Wales but in places like the north-east, Northern Ireland and even the south-west of England, then there has to be a more interventionist approach by the British Business Bank, which is there to address market failure, not to support venture capital and equity organisations in the south-east of England who have access to plenty of money anyway. As they say, they will not travel more than an hour from their offices to meet a company—that is the old adage—so they will turn back at Swindon before they even think about getting to south Wales, never mind north Wales.

Professor Fothergill: These are two rather separate debates about the future of regional economic policy beyond Brexit that do have a point of contact but they are not quite the same. There is, yes, what replaces the European funds, but there is also what, if anything, replaces the EU state aid rules. They interact, in that a small part, but it is only a small part, of what was the European structural funds—what will become the shared prosperity fund—has been spent as state aid, which is public sector support directly to private sector businesses. A lot of what is spent as state aid in the United Kingdom, including in Wales, is not actually European money at present, it is UK Government money, it is Welsh Government money.

The big question that will have to be resolved in the coming year is the extent to which the United Kingdom outside of the EU is living within or close to future EU state aid rules. The positions of the European Commission and the UK Government are some distance apart at present, and it is very unclear as to what the settlement will be. Obviously, if we really are truly disconnecting ourselves from EU state aid rules, then we will have the flexibility to do a great deal more, if we have the political willingness to do a great deal more.

The UK has not been a great spender on state aid if you compare us with other European countries and, in particular, our spending on state aid to promote regional economic development has been very low indeed. We rank way behind France and Germany. Germany spends seven or eight times as much as we do per head and France about four times as much per head, on regional economic development measures. This is direct financial support. Help for investment in a business in Wales, that sort of activity: we do not do very much of it. We might have the freedom to do a great deal more. Whether we have the political willingness, we will just have to see.

Q15 **Simon Baynes:** What do you think is the appropriate amount of funding for Wales and how do you think it should be calculated?

Professor Fothergill: Let us be clear what the present commitment is. In the Conservative manifesto for the recent general election, the Conservative Party promised that the funding to the nations of the UK will be not less than the money that they receive at present from the EU. That begs the question straight away: does that figure adjust for inflation? To keep the sum the same in real terms, it would need something like a 12.5% increase on the financial amount that was allocated for the 2014-20 period. It would be a cut in real terms if it was simply the same amount in cash terms that was allocated to each of the four nations.

Andrew Carter: The exact number is very difficult to discern, but I think there is a common consensus among those of us who think about and talk about the allocations that we would expect and want the pot to be bigger than it currently is. Several institutions, mine included but others, have settled—and I am not going to defend this in a deeply scientific way—around the £4 billion mark on day one. A new scheme comes in, as Steve was saying; if you add it all in, it is £2.5 billion, there or thereabouts, currently. You would roll that forward and introduce local growth, and you get to about £4 billion on an annual basis. So, you think about £4 billion. That seems to me to be something you can play with. The pot is bigger.

The other point, which has been touched on earlier on, is the allocation process then between England, Scotland, Northern Ireland and Wales. In proportionate terms, Wales does relatively well out of the current spend. With a bigger pot, the actual money coming into Wales would be similarly consistent to what it currently is but, as a proportion of the overall SPF, because some parts of England are now poorer than they were in the past, you would see the proportion probably come down over time. You have to think about those sorts of things.

The pot gets bigger. Wales gets more, but as a share of the overall pot, it probably gets a smaller piece than it currently gets, partly because England is poorer than it was, and also because Wales has disproportionately benefited from the funding regime because of its circumstances and conditions. However, don't ask me why. We can have a conversation about why it is four. You might say, "Why not five?" Someone else might say, "Why not three?" We can have that. It is where you are going to settle, but it is the recognition that this is an important set of interventions that need to be given reasonable amounts of cash associated with them. I would also extend the period out from six/seven years through to 10, with a five-year break based on performance. That is our thinking around that, which is emerging over time.

Q16 **Simon Baynes:** That is very helpful. It is a very specific answer, which is much appreciated. Just to bear in mind in what you have said and the others might say, the second part of the question is how it should be calculated. It is not just the figure but the means by which you come to the figure.

Andrew Carter: Very crudely, we would have two metrics. I have talked about these already. We would have a metric that is essentially the proportion of the adult population with no qualifications at all. That is my one metric. There are other metrics you can use. That is my labour market, employment participation, person-based metric.

Then I would have a corresponding metric, essentially on the other side of the equation, which is a measure of productivity. You could do productivity GVA per worker, you could do GVA per hour worked and so on, but, essentially, you are looking at two of those sides. Crudely, where you are underperforming on both of those points, lots of people with no skills and poor productivity, you are likely to have more. If you think about London, no productivity problems at all. Productivity is well above the average, but it does have no skills problems in terms of labour market participation. Wales suffers, like other parts of England; it is in that bottom left quadrant, which is it has a reasonable amount of people with no skills and its GDP per head, GVA per worker as such, is also below the average. You would then, through a formula, get slightly more than other places, or you would get more then, and we can debate the metrics.

Professor Fothergill: Could I just say, though, I think the commitment in the Conservative manifesto rather pre-empts all those fine calculations in the context of Wales. Those calculations matter enormously within England now.

Q17 **Chair:** For those of us who cannot recall the Conservative Party manifesto, why don't you just remind us?

Professor Fothergill: It is that each of the nations will get the same amount from the shared prosperity fund as they get at present, not less than the amount that they get at present. Even if there were some fancy statistical calculations undertaken that said Wales should get half of what it gets now, which I am sure would not be the case, that is rather pre-empted by the manifesto commitment, if the Government stick to the manifesto commitment. That is not to invalidate what Andrew was saying about the internal allocations, particularly within England. The internal allocations within Wales are a different matter, which you may wish to come to in a moment.

Professor Jones-Evans: Can I just add very briefly, going back to my previous point, that I think it would be slightly odd just to look at the shared prosperity fund as the only way that the UK Government can support economic development in Wales, regardless of it being devolved or not. Obviously, there are issues over state aid, which could be regionally focused, for example. The classic one would be R and D tax credits. If we are so low in terms of R and D in the private sector in Wales, we could have an enhancement of that post leaving the EU. Rather than doing it at the current rate, it could be double to attract more research and development.

Going back to the point about areas such as Innovate UK—and I am sure this does not apply to Wales alone—most of the funding is spent in the so-called golden triangle of East Anglia, the south-east and London. In terms of research and innovation funding, that is fine. They have excellent universities. They have excellent companies working with those universities, but you are never going to level up if you continue. You can keep that level, but you need to look at additional funding. It is about rather than having just one pot, what collectively could or should Wales have. There could be—and I am sure you will have a discussion about this—the potential Barnettisation of large infrastructure projects that are not directly being built in Wales, for example, and whether that should have an effect going forward.

Professor Fothergill: I have one final comment on this. Above all, in the interests of Wales, I think the shared prosperity fund must not go through the Barnett formula. Wales will lose out massively if that is the case.

Q18 **Simon Baynes:** Jan, did you want to comment on it?

Jan Zeber: Yes, I have one quick thing to add. This touches on this issue that it basically depends what you want the SPF to be. Do we want it to be a quasi-German equalisation payment, where we say our country is unequal so that is the aim, and we give broad flexibility to actors on the ground to spend it pretty much as they like because we do not have broader objectives? Or is it more of a creature of industrial strategy, if you like: we have specific objectives, we have timelines, and if they are not working, then we are going to pull the funding or reallocate it? If it is the former, then we can talk about calculations, as Andrew was saying, pegged to regional inequality, GVA, and so on, but if it is the latter, then it is about the quality of the projects that are being proposed. This will differ from project to project.

Q19 **Simon Baynes:** The next question is: how could the current system used by the EU for calculating regional needs be improved? I speak as a Member of Parliament for Clwyd South in north Wales, where there is a perception, as you would expect, that the north of the country is less well served by the current system. I think this point has been touched on once or twice in the comments hitherto, but it does provide an opportunity to rethink the regional needs, some of which have shifted over time.

Professor Fothergill: Looking ahead, of course, what the EU thinks and what the EU rules are for allocating money within Wales should be something of an irrelevance. What matters is the priorities, surely, of the Welsh Government. Indeed, that division of Wales into two NUTS regions, west Wales and the Valleys and east Wales, becomes something of an irrelevance looking ahead to the shared prosperity fund. There will be a pot of money, one would assume, which will be available to Wales. There is then quite a debate to be had about how it is allocated within Wales, and that twofold division is no longer necessarily the starting point. It does not have to be. It is about who decides; how much of this is driven from Westminster and how much is driven from Cardiff.

Q20 **Simon Baynes:** In a sense, you are saying yes, it could be improved, to answer the question?

Professor Fothergill: It need not be what it has been. It is very crude to divide a geographically large country such as Wales into two units and, to be honest, the boundaries of the two units were rather convoluted. They were drawn to satisfy certain statistical criteria, and Wales has been very well served by that division, I have to say, but it does not really make sense. Wales has probably had a great deal more money in total from the EU because the split was an east/west split rather than simply a north/south split. I do not think you would have had any part of Wales qualifying for less developed region status if you had had a rather different geography.

From here on, it is a different game and there may not necessarily be hard and fast geographical divisions within Wales. It may be that the Welsh Government might say, "We will run certain things at a pan-Wales level and we will run certain other things at a very localised level". These are the issues to be thrashed out further down the line, and perhaps not entirely for the UK Government to interfere in.

Professor Jones-Evans: Another point is just about this GVA per head, which obviously was developed for the first round and has not changed. What has happened is that Swansea has actually grown beyond that, beyond the threshold at which they should qualify. Of course, as part of west Wales and the Valleys, they are still part of that, whereas Powys, believe it or not, is at now less than 60% of GVA per head. That has other effects. We talked about state aid. You get the highest level of state aid for supporting businesses if you are in the less developed regions as compared to being in other parts. Powys has been disadvantaged to an extent for nearly 20 years and, despite that, you are still getting quite strong manufacturing companies around places like Welshpool, but you probably would have had more if you had had that higher level of state aid available to attract those companies in the first place. It is just an accident of geography, but I would not want to see it repeated again. Whether it is being nuanced over the whole of Wales, I think we can be a bit better at drawing up the criteria in the future.

Q21 **Rob Roberts:** I had what I thought would be a relatively painless question but, given some of the things that I have heard, it may not be so. I am interested in something that Dylan said earlier on, that many areas, including my area of Flintshire and Wrexham, have gone down and particularly how west Wales and the Valleys have stood still, despite being one of only two less developed regions. The allocation of funding clearly does not work properly. I would like to start with Jan because I am aware that the Policy Exchange has previously taken a position of wanting the UK Government to be very heavily involved in this. I am sure Steve will jump on it shortly, but how would using Barnett as a means of allocating the shared prosperity fund impact things in Wales generally?

Jan Zeber: The first thing to say is that you do not have to necessarily use Barnett as the means of allocating the fund. This would be up to the UK Government how to divide it. You could use Barnett if you were to say, "We will set up the fund in areas in England and then, however much we spend, we will use Barnett to essentially calculate the amount we spend in Scotland, Wales and Northern Ireland, and then we will give that money to Cardiff, Edinburgh and Stormont". But it does not have to be like that. We would be, for example, in favour of a system where the UK Government take on the role of the EU in this sense and then work directly with, for example, local authorities, actors on the ground, to administer it. That, essentially, would bypass that problem, I think.

Professor Fothergill: Let's get the arithmetic straight on this. The Barnett formula would give Wales about 5% or 6% of the total pot of this fund. At present, Wales gets 23% or 24% of all of the UK's funds coming from the EU to support regional economic development. Wales would lose out massively, it is as crude as that.

Rob Roberts: I like simple. Simple answers are good, and I completely agree.

Andrew Carter: That is entirely right and I am not going to challenge it. The only caveat I would add is it is the proportion within a growing pot. What you really ought to care about at the end of the day is hard cash. Are you getting £10, controlling for inflation, £11 or £12? If other places are getting more, then you need to be mindful of that, but in an environment where you are getting today £10 and inflation adjusted you are getting £12 tomorrow, we must not lose sight of that point. Let's not only say, "We are getting 20% or 25%, now we are only getting 16%, that is awful and terrible". I am not suggesting that anybody said that, but this is often where we get to, rather than actual cash in the bank or in the pot to be spent.

Professor Fothergill: Yes, let me just amplify on this. There are three English sub-regions that have slipped into the same statistical category as is now occupied by west Wales and the Valleys. At the moment it is just west Wales and the Valleys and Cornwall. South Yorkshire, Tees Valley and Durham, and Lincolnshire are now in the same boat. It is possible that if the UK Government put enough money into the total pot to compensate those English regions for the money that they would have got if we had remained in the European Union, then the overall pot will be bigger. There may be no reduction in the money that comes to Wales, but as a share of the total pot, as Andrew is saying, it will decline a little bit.

Q22 **Dr Jamie Wallis:** What role could or should competitive bidding play in the SPF? How could that sit alongside a pre-allocation of funds for Wales?

Andrew Carter: Competitive bidding in many respects acts as a kind of proxy for quality. It is a way that Government allocate money. The question becomes not so much whether we allocate through a competitive process but the way in which we can guarantee good use of evidence, as I have talked about in previous answers, in terms of the interventions proposed and a firm commitment to evaluation.

In the model I would have, it would be an allocative process based on whatever metrics you want to use. There would be a pot of money on the table for Wales and for Scotland and for parts of England and, as part of the process of that money becoming real, in a sense a commitment to the evidence base as it is, and to evaluating impact as it is, and a genuine commitment to that essentially unlocks the cash. That would be my preferred approach.

If the commitment to those two other things is not forthcoming, then I think it is right and proper to adjust and then to have a challenge for quality and impact. That comes, often imperfectly, through a competitive process. If we commit upfront to doing what we best possibly can in terms of the evidence base as is, and a commitment to evaluate what the impact is and then to review and amend practice as appropriate, then an allocative process based on whatever measures we want is an entirely appropriate way to go.

Transforming Cities Fund in the UK, in England at least, is a model to think about. Essentially, that is the model that they have adopted. The metro mayors, as they were, were told they were going to get cash. It was on the table, no questions asked. You did not have to bid for it. "Here is your money based on a per capita basis. What you need to tell us and show us and engage with us is how you are going to make good use of that money, and we can work together on that kind of thing." If we are in that process, then the TCF is the way to go. It would be my approach.

Professor Fothergill: Can I give you my spin on that? I think it is important to differentiate between defining the overall amount available to any given part of the United Kingdom and the overall financial envelope for Wales, where I think that is best not determined by competitive bidding. Indeed, I think the Government, if they stick to the manifesto commitment, are not saying the amount Wales gets will be determined by competitive bidding. But then we have always had an element of competitive bidding for the European funds. Individual projects have had to bid in, and they have had to convince the administrators of the national pots of money that their projects are good. They do not get these as of right. They have to demonstrate that they represent value for money. Yes, competition at one level, but hard-edged financial allocations at another level. Does that make sense?

Dr Jamie Wallis: Yes, thank you.

Professor Jones-Evans: What has been interesting with the development particularly of the city regions and the Growth Deals in Wales is that there is now a private sector element that has come in between the funders and Government. To an extent, they, particularly in the Cardiff Capital Region—I cannot speak for the other regions—are shaping the strategies for taking forward the region over the next 25 years. The real question there is not about the structure you put into place but who makes the final decisions. That is going to be a particular challenge because, as I say, in Wales economic development is devolved, and I am sure that the Ministers in Wales would have something quite strong to say about any of those powers being taken away from them. At the same time, they are all full partners. The Welsh Government are a full partner in both Growth Deals and both City Deals. Therefore, it is about how you manage that process going forward.

It is interesting, though. We have seen that the Welsh Government will adopt UK Government policies but may implement them differently. When the enterprise zones were set up between 2010 and 2015, in England that was a wholly competitive process. In Wales, the Welsh Government chose what the actual enterprise zones would focus on and where they would be based. Again, there may be a divergence of strategies when it comes to this.

Q23 **Dr Jamie Wallis:** I have one follow-up question. One of the things about City Deals—and I am glad you mentioned it—that I have been particularly impressed with is the sense of ambition and entrepreneurial spirit that we have seen from local areas. That is coming from someone who represents Bridgend, which is pretty much equidistant between Cardiff and Swansea. I think it has been suggested that perhaps what Wales needs is a little bit more of that entrepreneurial spirit and that competition, so how can we incorporate that in a fruitful way into a competitive bidding process within the pre-allocation of Wales?

Professor Jones-Evans: Again, it is coming back to how you have seen the process evolve. One of the biggest criticisms to an extent of the first programme, the Objective 1, 2006 programme, was there were too many projects. But then, as we moved away, the big players, Welsh Government, universities, organisations like the Wales Council for Voluntary Action, et cetera, when they took bigger projects and started to manage those projects, then you lost that local relevance of many of those projects. I think the real challenge for the shared prosperity fund is how you develop projects of a particular scale that can have national, regional and local relevance. That may be impossible but, going back to the point about the people of Cynon Valley, they have a view as to how they want that funding to be spent. In the end, it is their funding as taxpayers both in Wales and the UK, and it is about balancing what they feel is important for the communities versus some of the evidence that we have about what should be happening in Wales and the wider economy.

Andrew Carter: From the experiences at least, if you look at some of those places through the deal process, particularly the devo deals in parts of England, this is always a balance, but it is a combination of, first, the autonomy. In a sense, the places feel like they have more autonomy to get on and do the thing. Secondly, there is a flexibility to do that. They feel like they are able to address and tackle issues that they have identified and it matters to them and there is an argument. Thirdly, and I think this is important, there is a degree of skin in the game politically and financially. Unsurprisingly, incentives matter, so when you introduce skin in the game to politicians and to those who are making decisions on the ground, they act somewhat differently than if they are spending someone else's money. If they are expending their own political capital or their own financial capital, they take a slightly more considered approach as to the kind of schemes that they get involved in, rather than essentially spending someone else's money where you can be slightly more relaxed about whether that is going to pay off. There is always a balance between that, but there is a combination, I think.

You would want to be able to get into the space where the SPF is offering some degree of autonomy, some degree of flexibility, and requiring a degree of skin in the game. You want places that are on the receiving end of the money or potential project to have some skin, political and financial, in the game, which we kind of have but we need to be more deliberate about that.

Q24 **Tonia Antoniazzi:** I am going to go off-piste. I am concerned because I know that the Welsh Government, Jeremy Miles and Rebecca Evans—she is the Finance Minister—have launched their consultation lately on a future scheme. However, when they tell me that there has not been any meaningful engagement from the UK Government on the future of how the shared prosperity fund is going to be allocated, that rings real alarm bells for me. Would you have a comment to make on where Welsh Government sits at the moment?

Professor Fothergill: Let's be absolutely clear. There is remarkably little that is settled in the public domain at the moment about the shared prosperity fund. There are the two statements in the Conservative manifesto, one of which I have referred to already about not less than they would have got under the EU funding scheme. That is for the devolved nations. There is also a commitment in there to spend £500 million a year on training, which I take to mean £500 million a year, by the way, though it does not exactly say that. £500 million over a long period of time would not be very much.

There is a further commitment buried deep on a Conservative Party website that says that the scheme will come into effect on 1 April next year, which of course makes sense in terms of UK budgetary cycles, but we will not be able to make any new commitments of European money—because it is still there, it is still flowing at present—beyond December this year. There will be a hiatus, but in truth we can probably live with that.

Everything else is up for grabs, and there has been a full-blown consultation that has been promised on the fund, which was originally supposed to be initiated, the Government said, before the end of 2018.

The events of last year in Parliament rather derailed that, but one of my colleagues was in Downing Street shortly before the general election and was told by an official there that issuing the consultation would be a first-week task for a re-elected Government. Well, I think we are three months past the general election now. It may be that the Budget tomorrow will announce the consultation—a fair chance of that. Only once the UK Government have played their hand will we properly be able to engage in a debate about many of the details. It has been dragging on something rotten.

Q25 **Robin Millar:** Thank you very much. It has been absolutely fascinating, the evidence that you have been giving this morning.

I guess what I am looking at is three different things and they are all linked: the function of what we want to achieve through any funding; the form that it takes, how it is delivered; and then the actual quantum itself. All three of those are linked. We cannot separate one from the next, even though there is a temptation to run straight down to the, "How much money is in it?" We have to think about those other things.

My questions are drilling into how it works and the delivery, because the questions I would like to ask you are around the role of UK Government in the administration and delivery of that funding, accepting this is not European money any more—this is money coming from the UK Government, which is coming from taxpayers. At one end, you could arguably say, "We will just give a tax break to everybody", £125 a year or whatever it would be to every resident in Wales, and re-distribute it that way, but that is clearly not the case. How, then, do you see a UK Government/Welsh Government partnership developing in the administration of this, partly to Tonia's point about what the concerns are around clarity?

In particular, I have two areas there. One is that Wales does not exist in isolation. It is part of the United Kingdom and, therefore, who gives consideration to that wider impact in the administration of funding across the UK and globally even? The second is slightly more technical, the Cantillon effect, this idea that proximity is important to money. In fact, if you look at the distribution of funding in the UK, you could argue that Cornwall, Wales, Scotland and Northern Ireland are at the extremities and they do, indeed, suffer for that. What do you think is the importance of a UK Government role in mitigating a Cantillon effect out of Cardiff?

Professor Fothergill: I have spent enough time in the Welsh Assembly on this issue over the last couple of years to be very aware that it will not play well with the Welsh Government if the UK Government try to be heavy-handed and take over responsibility or the dominant role in defining where this money goes and what it is spent on in Wales. That is not to say that there might not be a case for setting some broad objectives at UK level and, of course, it would be good if those broad objectives were agreed and shared not just by the UK Government but also by the devolved Administrations. I would be fearful, if I was a UK

Government Minister, of trying to tread too much on the toes of the devolved Administrations. I think there will be a backlash.

Andrew Carter: I would say, as we have said, in a sense this is UK taxpayers' money. It is not Welsh taxpayers' money, this is UK taxpayers' money. Some of it, obviously, is coming from Welsh taxpayers. At the very simple level, the UK Government's responsibility and role is to hold those that make decisions with that money to account, which is just representative of the integrity of the Government as the tax taker and tax spender within the UK.

The decisions, then, that are made at the Wales level through the Government and beyond—because I think we do really need to think about how that money gets played into a more appropriate economic geography than currently is the case—I would fully expect and be encouraging the Welsh Government to be thinking very carefully about the Cardiff City region as, not the only, but an economic geography upon which some of this money would be marshalled through. We can think about the geography as it applies from an economic perspective in other parts of Wales as well. There is a clarity of that. The degree to which the UK Government want to express what they think the priority should be I think would be a conversation and a collaboration, as it often can be, if not always.

At the very base level, the UK Government are to hold to account those that spend UK taxpayers' money, and this would be the instance where they would do that. The delivery, the allocation, how it is spent, the Welsh Assembly I think would be instrumental in that but, as I said, we need to think very carefully below that—this is the point, I think, of the question—that money is allocated into economic geographies that give us more than an even chance of having some positive effect.

Professor Jones-Evans: Obviously, the default position would be that the UK Government take over the role of the European Commission in terms of the accountability for that funding by, obviously, the Welsh—would you call it the Welsh-UK Funding Office or the British Funding Office? I am not too sure, but that is the default position.

Obviously, as Andrew mentioned, now we have the other level. I call it regional in Wales; people outside call it sub-regional, but in Wales it is regional. We have four mechanisms in place now for developing more regionally focused economic development strategies. The question is whether you can achieve a true partnership there between UK Government, Welsh Government, local authorities, the private sector, universities, and any other actor that wants to play, to be honest with you. What I have seen, and I think the point was made here, is that there has been a level of ambition within all four Growth Deals/City Deals in Wales that we have not seen to an extent with any of the European structural funding beyond the very first iteration in 2000. It has been basically, "Let's spend the money and do the same thing", and we know what Einstein said about that.

It is really important here that we consider the right structure that brings all the right actors in, because I would hate to lose the momentum that has certainly been created both in the Cardiff City region and the Swansea Bay City region, North Wales Growth Deal and the Mid Wales Growth Deal that can actually include everybody. That inclusivity is critical because I think a lot of companies and organisations have felt that the process has become exclusive just to Welsh Government and its stakeholders.

Jan Zeber: Can I just add one more thing? As Andrew says, it is UK taxpayers' money and I would not necessarily be afraid of changes to the role that the Welsh Government take. To again echo Andrew's point, this is an opportunity to do things at the level of functional economic regions, and that does not always fall neatly within the political boundaries. Sometimes Cardiff might have politically as much to do with Bristol as it does with Bridgend, or Wrexham has as much to do with Merseyside as it does with the rest of north Wales. This is an opportunity for the UK Government to step into the shoes of the European Commission but then to work with local authorities or consortiums with local authorities, anyone at that functional economic region, to deliver those projects.

They also could be a tool of intra-Union cohesion, if you like. We are all familiar with the branding delivered by ERDF and so on. I do not see why anything that is delivered as part of SPF should not be branded delivered as part of the UK Government's shared prosperity fund in association with whatever actor.

Q26 **Robin Millar:** To a certain extent, Professor Jones-Evans, you have pre-empted my final question, and that is to do with the actual mechanism of delivery. As I understand from what you are saying, and for the sake of time I will just reflect back to you, to bring in the new actors, to draw in additional funds, to channel the ambition, to ensure inclusivity and to make sure that we have that cross-border UK connectivity, should we be considering the Growth Deals and the City Deals mechanisms as in place?

Professor Jones-Evans: Potentially.

Andrew Carter: Yes, I think they should be given material consideration, in a sense, and if we choose not to go down that route, we need to be very explicit as to why we are not doing that.

Robin Millar: Professor Fothergill is thinking.

Professor Fothergill: I think these are matters that the Welsh Government need to think carefully about, the detailed management and implementation and engagement of partners and engagement of structures within Wales. In the devolved world, I think the UK Government should tread very carefully in being prescriptive in the context of Wales.

Robin Millar: The only thing I would reflect back, then, is that we have another evidence session, I believe, in April in Cardiff with the Welsh Government, and these are things that I look forward to picking up with them at that time.

Q27 **Geraint Davies:** I just want to ask in particular Professor Fothergill whether he shares my concern that we could move, essentially, from a system whereby Wales is given extra money directed at poverty, for increasing prosperity, to one whereby we get a smaller share of the overall fund that is controlled by the UK and some of the money that goes to Wales is withdrawn from the block grant to Wales, so overall it is not extra money, it does not go to the places with greatest need, and in the round it is not so good for Wales.

Professor Fothergill: We fought a battle way back in the 1990s to make sure that the European money was genuinely additional to the regions, and we won that battle. That is why at present the EU funds are managed outside the Barnett formula. To avoid the situation of giving with one hand and taking back with the other, we have to keep this new fund, the shared prosperity fund, managed outside of normal mainstream funding. The scale of the funds that we are talking about would justify that separate treatment, but if you are genuine about targeting need, you have to plough extra resources into the less prosperous parts of the country such as Wales, and this is the mechanism.

Chair: Panel, thank you very much. You have been incredibly generous with your time and your expertise. I thought it was a fascinating session, and I am really grateful for your contributions.

Q28