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Welsh Affairs Committee

Wales and the Shared Prosperity Fund: Priorities for the replacement of EU structural funding

Fourth Report of Session 2019–21

Report, together with formal minutes relating to the report

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Welsh Affairs Committee

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Summary

Wales has faced some deep-seated economic challenges for a number of decades, predominantly caused by a legacy of industrial decline, and GDP being consistently lower than the European average. In particular, due to sub-regional deprivation with average GDP per head below 75% of the EU average in West Wales and the valleys, it has qualified for European Structural and Investment (ESI) Funds, currently worth around £375m per year, four times the UK average per person, to support businesses, infrastructure, employment and skills. Most recently, as agreed by the EU, ESI funding has been re-purposed by the Welsh Government as part of its response to the challenges of the coronavirus pandemic, in addition to the funding received from the UK Government via Barnett consequentials.

However, after the end of the transition phase of the UK's exit from the European Union, the UK will no longer qualify for ESI funds. The UK Government announced as far back as 2017 that it intended to replace EU funding with a Shared Prosperity Fund (SPF), yet details remain scant on key aspects, including how much Wales will receive under the new arrangements, how it will be administered and to whom it will be targeted. With this in mind, we inquired into the effectiveness of European Structural Funds in Wales and priorities for the Shared Prosperity Fund, considering the impact of COVID-19 on the Welsh economic landscape.

We are disappointed that the UK Government appears to have made negligible progress in developing its replacement for ESI funding and that its repeated promises of a consultation have failed to materialise, demonstrating a lack of priority. The UK Government should urgently offer reassurance and provide a firm date for when substantive information about the shape of the Shared Prosperity Fund will be made available, including what it will look like, how it will be funded and how it will be administered. There should be consultation with all relevant stakeholders about their priorities for the fund in light of COVID-19 and a guarantee that there will be no cliff edge ending to current EU funding from January 2021. As ESI funds have been re-purposed to help the Welsh Government respond to the coronavirus, it is important that this work can continue beyond January and during the pandemic.

It is clear that while certain sectors in West Wales and the Valleys have benefitted from ESI funding, these fund have not been able, and were not expected on their own, to deliver a transformative change for the Welsh economy. Wales continues to qualify for EU Structural Funding and lags significantly behind other regions of the UK and EU.

The switch to the Shared Prosperity Fund is an opportunity to reset and re-evaluate Wales' economic priorities post-Brexit and post-COVID-19 and to develop a Shared Prosperity Fund that tackles the root causes of Wales' economic underperformance. Addressing the root causes of Wales' economic challenges, including productivity and skills, must be a core objective of the Shared Prosperity Fund. The funding pot should be needs-based and maintain at least the current size of funding in real terms. While funding should be based on a multi-annual basis, it should be reactive to the health of the economy as Wales, and the rest of the UK, seeks to recover from the COVID-19 pandemic.

Despite the positive feedback we have received about the performance of the Welsh European Funding Office in administering ESI funds, it is clear that for many respondents the current system of structural funding has been too centralised and overly bureaucratic. The development of the Shared Prosperity Fund represents an opportunity to implement a simpler administrative system.

There are considerable ambiguities about where power will lie in relation to the Shared Prosperity Fund, despite repeated assurances from UK Government that it would respect the devolution settlements of Wales, Scotland and Northern Ireland. It is unclear whether, as a result of the provisions in the Internal Market Bill, Whitehall plans to oversee the administration of the Fund directly, or if the financial assistance powers contained within the Bill are intended to operate separately to the Fund.

We acknowledge the differences of opinion on where power and responsibility should lie, however the UK Government would be ill-advised to lose or ignore the expertise that has been built up in Wales. We call for the UK Government to develop a memorandum of understanding with the devolved administrations and local government that will underpin the operation of the Shared Prosperity Fund. This should guarantee the principles of genuine joint working and partnership between all stakeholders, including the UK and Welsh Governments, local government and the third sector.

The UK's withdrawal from the European Union and the impact of the COVID-19 pandemic makes this an exceptional time, and opportunity, for the governments of the UK to design a more responsive and adaptable system of structural and regional funding.

1 Introduction

1. For several decades, Wales has faced a number of deep-seated economic challenges. A legacy of industrial decline, and sub-regional deprivation with an average GDP per head below 75% of the EU average in West Wales and the Valleys,[1] has led to Wales qualifying for European Structural and Investment (ESI) funding since 1989.[2] The funding, provided by the European Union but administered by the Welsh Government since 1999,[3] is designed to reduce economic disparities in the EU's regions by supporting businesses, infrastructure, employment and skills.[4]

2. The amount of ESI funding that Wales currently receives from the EU totals almost £2.7bn in the 2014–2020 funding period, or around £375m per year. ESI funding in Wales amounts to approximately four times the UK average per person.[5] West Wales and the Valleys received the highest level of EU Structural Funds available in each funding period for the past twenty years.[6]

3. The UK will no longer qualify for ESI funding after the transition phase of Brexit ends in January 2021. The UK Government announced as far back as 2017 that it intended to replace EU funding with a Shared Prosperity Fund (SPF).[7] However, details remain scant on key aspects including how much Wales will receive under the new arrangements, how it will be administered and to whom it will be targeted.

Our inquiry

4. On 5 March 2020, we launched our inquiry, Wales and the Shared Prosperity Fund, which considered the effectiveness of European Structural Funds in Wales and Welsh priorities for its replacement.

5. We took evidence to address the following terms of reference:

- How effective have existing arrangements for the management of European Structural Funds been?
- What impact have Structural Funds had on the Welsh economy?
- What lessons should be drawn from previous rounds of European Structural Funds in Wales?
- 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?
- What level of funding should Wales receive, and how should this be calculated moving forward?

1 Industrial Communities Alliance Wales (SPF0002)
2 Bevan Foundation (SPF0014)
3 Prior to devolution, structural funds were administered through the Wales European Programme Executive.
4 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
5 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
6 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
7 Conservative and Unionist Party, Forward Together: Our Plan for a Stronger Britain and a Prosperous Future (2017), p.35

- Should funding be ring-fenced on a nation or regional basis or should the fund be open to competitive tendering?
- What timescale should be adopted for each funding round?
- How should responsibility for funding and administering the fund be divided between UK and devolved governments? What role could, or should, local government and, where applicable, city or growth deals play in relation to the fund?
- Are there any implications for state aid rules?

6. Soon after our first oral evidence session, the UK, like many other parts of the world, went into lockdown as a result of the COVID-19 pandemic. Consequently, we took the rest of our evidence in writing.

7. In total we received more than 30 written evidence submissions. We would like to thank all our witnesses and stakeholder organisations who contributed to the inquiry, particularly in such an unprecedented and busy time.

8. As the Welsh Government notes in its evidence, since our inquiry began "the circumstances have changed beyond recognition"[8] and consequently, our recommendations now take into account the economic effects, thus far, of COVID-19. Our separate inquiry on the economic impact of COVID-19 found that much of the progress achieved in recent decades in raising employment levels in Wales risks being undone by the pandemic.[9] An effective replacement for EU funding should be an important aspect of a comprehensive post-COVID economic recovery strategy.

Our report

9. This report begins in Chapter 2 with a timeline of progress made, to date, by the UK Government in developing its proposals for the Shared Prosperity Fund, as well as providing the thoughts of stakeholders and organisations on the delays in providing details about the Fund. Chapter 3 then provides an assessment of current ESI funding in Wales, including its impact on the Welsh economy. Following this discussion, Chapter 4 assesses what we see, in a post-COVID world, as Wales' priorities for the Shared Prosperity Fund. Chapter 5 offers some concluding remarks on the opportunities offered by the Shared Prosperity Fund.

10. We will follow the Government's progress in developing a Shared Prosperity Fund closely and intend to examine any proposals that are put forward for the Fund by the UK Government.

8 Jeremy Miles MS, Welsh Government (SPF0012)
9 Welsh Affairs Committee, 3rd Report - The Welsh economy and Covid-19: Interim Report, 21 July 2020

2 The Shared Prosperity Fund: progress so far

11. The Shared Prosperity Fund (SPF) was first proposed by the Conservative Party in their 2017 General Election manifesto. According to the manifesto:

> We will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy. We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most.[10]

Since then, progress on developing, and consulting on, proposals for the SPF has been minimal and substantive information from Ministers has not been forthcoming. In this Chapter, we chart the timeline of progress on the SPF and the response from organisations across Wales. As this chapter notes, with less than three months to go until the transition phase ends, and with the added impact of COVID-19, most of the fundamental questions about the scope, scale and administration of the scheme remain.

Timeline

12. Table 1 illustrates the timeline of developments relating to the Shared Prosperity Fund between 2017 and September 2020:

Table 1: The Shared Prosperity Fund: A timeline

Date	
2017	The UK Government first committed to replacing ESI Funding through the Shared Prosperity Fund in 2017, with it being one of the pledges in the Conservatives' election manifesto.[11] In November 2017, it was subsequently referenced in the Industrial Strategy White Paper.[12]
July 2018	Then Secretary of State for Housing, Communities and Local Government, James Brokenshire, made a Written Statement setting out more details about the Fund. It gave some information on its objectives, including that it will simplify existing EU arrangements, that the SPF will respect the devolution settlements of Wales, Scotland and Northern Ireland and that a consultation would be held later that year.[13]
Rest of 2018	The UK Government continued to say that it would be consulting on the Fund later that year.[14]

10 Conservative and Unionist Party, Forward Together: Our Plan for a Stronger Britain and a Prosperous Future (2017), p.35
11 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
12 UK Government, Industrial Strategy: building a Britain fit for the future, 27 November 2017
13 UK Parliament, Local Growth: Written Statement - UIN HCWS927, 24 July 2018
14 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020

Date	
January 2019	Then Parliamentary Under-Secretary of State for Ministry of Housing, Communities and Local Government, Jake Berry, implied that the ongoing delay affecting the consultation had arisen due to Government contingency planning for a no-deal Brexit.[15]
8 April 2019	Despite no formal consultation being announced, Jake Berry said that there had been engagement with "businesses, public bodies, higher education institutions, the voluntary and charity sector and rural partnership groups".[16] He added that this consisted of official level meetings that included organisations who benefit from structural funds "to aid policy development".[17] (The Minister later confirmed that there had been 25 of these engagement events across the UK, five of which were held in Wales (four in Cardiff and one in St Asaph)).[18]
Autumn 2019	It was anticipated that final decisions on the Fund's design would be taken during the full Spending Review planned to take place alongside the Autumn Budget in 2019.[19] However, this was postponed to 2020. The UK Government restated its commitment to the Shared Prosperity Fund in the Conservatives' election manifesto. It pledged that the new system would be "fairer and better tailored" to each nation, that tackling inequality, deprivation and skills would be a priority and that what they saw as "overly bureaucratic" EU funds would also be addressed.[20]
12 January 2020	Secretary of State for Wales, Simon Hart was reported as saying that details about the Shared Prosperity Fund would be set out within weeks rather than months. This followed criticism that there has been "a lack of meaningful engagement".[21]
15 January 2020	During Oral Questions, Simon Hart confirmed that he had been having conversations with Welsh Government Minister Jeremy Miles, that the SPF would not "drive a coach and horses through the devolution settlement" but that there would be a collaborative approach to ensure the money reaches the right places.[22]
5 March 2020	Welsh Affairs Committee launches its inquiry and publishes a call for evidence.
11 March 2020	A full Spending Review was launched at the 2020 Budget, and was set to conclude in July, with further plans due to be set out at that point.[23] However, due to the coronavirus pandemic, the Spending Review was then postponed again.[24]

15 UK Parliament, Shared Prosperity Fund: Written question – 212622, 30 January 2019
16 UK Parliament, UK Shared Prosperity Fund: Written question – 240520, 8 April 2019
17 UK Parliament, UK Shared Prosperity Fund: Written question – 240520, 8 April 2019
18 UK Parliament, UK Shared Prosperity Fund: Written question – 275181, 15 July 2019
19 UK Parliament, Shared Prosperity Fund: Written question – 214087, 4 February 2019
20 Conservative Party, Get Brexit Done Unleash Britain's Potential, 2019
21 BBC News, No breakdown of relations over Brexit, says Welsh Secretary, 12 January 2020
22 Hansard, Oral Questions to the Secretary of State for Wales, 15 January 2020
23 UK Government, Budget 2020, 11 March 2020
24 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020

Date	
6 April 2020	The Secretary of State for Wales wrote to the Committee stating that he was unable to give evidence to the inquiry due to COVID-19. He said that: "the Government's response to the public health emergency caused by the COVID-19 pandemic has led to a drastic restructuring and reprioritisation across Whitehall–and my Department is no exception to this. Therefore, I am regrettably unable to respond fully to your detailed queries at this time. Once the worst of this emergency has passed, we will, of course, re-engage with your Committee on this highly important matter. Please rest assured that the Government is wholeheartedly committed to the UK Shared Prosperity Fund".[25]
28 May 2020	In evidence to the Committee, the Secretary of State acknowledged that the impact of COVID-19 would make the Shared Prosperity Fund "an even hotter [topic] from here on in". In the same session he said he still expected it to be ready to go live from January 2021 and that discussions with the Welsh Government about where administrative competence would lie had still not been concluded.[26]
3 June 2020	A letter from then Local Growth Minister, Simon Clarke, to the Chair of the European Scrutiny Committee, Sir Bill Cash, confirmed that decisions about the design of the Fund will not take place until after the next cross-governmental Spending Review.[27]
5 June 2020	Due to the continued lack of clarity around the Government's plans for the Shared Prosperity Fund, the Chairs of the three devolved nation and HCLG committees wrote to Communities Secretary Robert Jenrick. The letter sought clarity on issues including: the timetable for bringing forward SPF proposals, whether the impact of COVID-19 will be reflected, the level of funding and what stakeholder engagement had been recently carried out.[28] The response, from then Minister Simon Clarke, failed to answer most questions and confirmed that no further detail would be given before the next Spending Review. However, it did re-iterate the Government's manifesto commitment that funding to Wales would at least match that currently provided by the EU and that Government officials were in the process of assessing the impact of coronavirus on regional economies.[29]

25 Letter from Secretary of State for Wales to Chair of the Welsh Affairs Committee, dated 6 April 2020
26 Q80; Q92 Q95;
27 Letter from the Minister for Regional Growth and Local Government to the Chair of the of the European Scrutiny Committee, dated 3 June 2020
28 Joint letter from Select Committee Chairs to Secretary of State for Housing, Communities and Local Government re the Shared Prosperity Fund, dated 5 June 2020
29 Letter from the Minister for Regional Growth and Local Government to the Chairs of the Housing Communities and Local Government, Scottish Affairs, Northern Ireland Affairs and Welsh Affairs Committees, dated 19 June 2020

Date	
9 September 2020	The United Kingdom Internal Market Bill was introduced to the House of Commons. The financial assistance powers would allow the UK Government to make payments (grants, loans and guarantees) across the UK in order to promote economic development, provide infrastructure, support culture and sport and support international and domestic education and training activities. Therefore, this legislation would allow the UK Government to spend money in devolved areas for the Shared Prosperity Fund.[30] The Welsh Government accused UK Ministers of "stealing powers" from devolved governments.[31]
10 September 2020	In evidence to the Committee, the Secretary of State said he was "as frustrated as anybody" at the pace of progress and that "all the commitments that have been made around UK Shared Prosperity still stand".[32]The Secretary of State did not rule out the possibility of a short term fix to bridge any possible gap in funding after ESI funds have ended.[33]

Reaction to the delay

13. Many of the evidence submissions we have received to this and to our Welsh economy and COVID-19 inquiries have criticised the continued delays and lack of information from UK ministers, especially as the end of EU funding approaches.[34] There is a feeling, among some organisations, that the continued uncertainty over the new Shared Prosperity Fund "is unhelpful for assisting […] businesses to plan for Brexit"[35] and we note the "feeling of frustration with UK government in some quarters".[36] There are fears that delays will create a gap between the transition from current EU funding and access to the future Shared Prosperity Fund.[37]

14. Recently some ESI funding has been repurposed by the Welsh Government as part of their economic response to the challenges of the coronavirus pandemic.[38] This is in addition to the funding received by the Welsh Government from the UK Government through Barnett consequentials, these consequentials are based on identifiable spending in England rather than on a needs basis.

15. When giving evidence to the Committee on 25 June 2020, Welsh Finance Minister Rebecca Evans MS criticised the level of dialogue with, and detail received from, UK ministers, describing it as "lamentable".[39] According to Ms Evans:

> There has been no sharing of information about plans on the Shared Prosperity Fund. We have done lots of work in Wales setting out what that fund might look like for the future. That work is even more relevant now because there were things in it that pointed towards the need for multiyear

30 Institute for Government, Internal Market Bill, 9 September 2020, accessed 19 September 2020
31 BBC News, Brexit: New Welsh spending powers set to go to the UK Government, 9 September 2020
32 Q113
33 Q173
34 ColegauCymru (SPF0006)
35 Wales Co-operative Centre (COV0048)
36 Swansea Bay City Deal (SPF0032)
37 Swansea Bay City Deal (SPF0032); Welsh Local Government Association (SPF0028);
38 Oral evidence: The Welsh economy and Covid-19, HC 324, 25 June 2020, Qq152–153
39 Q174

> funding agreements, for example. That kind of certainty would be really positive now as we move into the recovery phase. […] Even just sharing a draft or some principles or some early thinking would be helpful because at the moment the silence has been quite deafening on this.[40]

16. **Despite announcing the Shared Prosperity Fund more than three years ago, the Government appears to have made negligible progress in developing its replacement for European Structural and Investment funding. Its repeated promises of a consultation and of imminent announcements have failed to materialise, demonstrating a lack of priority. Although we acknowledge that the COVID-19 pandemic has forced Ministers to reprioritise and refocus their attention, this does not excuse the lack of progress as a significant amount of time had passed before the COVID outbreak became a factor.**

17. ***The UK Government must urgently work with the devolved governments of Wales, Scotland and Northern Ireland to agree priorities for the Shared Prosperity Fund and to co-create the details regarding how the Fund will work. It must provide evidence of progress being made in October ahead of finalising arrangements during November. At that point, the plans the UK Government has co-created with the devolved administrations must give full details of what the Fund will look like, how it will be funded and how it will be administered. The UK Government must guarantee that there will be no cliff edge ending to funding arrangements after the transition phase ends in January 2021, particularly as ESI funds have been used to assist the Welsh Government in responding to the economic challenges of coronavirus. It is important that this work can continue beyond January and throughout the pandemic.***

40 Q174

3 EU Structural Funding in Wales

18. In this Chapter, we examine the impact of the current system of structural funding in Wales. Detailed information about EU Structural and Investment (ESI) Funds in Wales is provided in the Annex at the end of this report.

Impact on the Welsh Economy

19. Previous studies looking at the impact of EU Structural funds have been inconclusive.[41] They have found that impact is hard to measure and that the evidence is mixed. A 2013 review by the UK Government suggested that because funding did not make up a significant proportion of GDP, as is the case in other EU member states, it was much harder to see the impact. This is largely due to a lack of reliable data and the difficulty of separating out the effects of other policies and economic conditions.[42]

20. The responses we received to our inquiry echo this conclusion. David Phillips and Alex Davenport, from the Institute for Fiscal Studies (IFS) have noted that "analysis of the impact of ESI funding in Wales specifically is limited".[43] Both they and Professor Steve Fothergill, of the Centre for Regional and Economic Social Research at Sheffield Hallam University, have emphasised the utility of counterfactual analysis (i.e. what would the impact been had Wales not received ESI funding?). While Phillips and Davenport suggest that such counterfactual analysis has been absent in the Welsh context, Professor Fothergill suggested that Wales would have been "a lot worse off" without the funding.[44]

21. Many of the witnesses and respondents to our inquiry have given their positive assessments of the impact of ESI funding in Wales. According to the Bevan Foundation, "successive rounds of European Structural Funds have made significant and longstanding contributions to Wales and the Welsh economy".[45] This has included tackling poverty and deprivation, regeneration, upgrading key transport facilities and infrastructure, as well as investment in skills, jobs, apprenticeships, business facilities and support for key sectors and industries.[46]

22. In his evidence, Welsh Government Minister for European Transition, Jeremy Miles MS, told us that:

> Since 2007, [ESI] investment has led to the creation of over 53,300 new jobs and 14,560 new businesses, funding or support for 28,800 businesses, 94,800 people helped into work and the achievement of over 320,400 new qualifications.[47]

23. While it may be difficult to attribute these figures solely to ESI spending, according to the Industrial Communities Alliance (ICA) Wales, these positive impacts have been "due

41 BIS and FCO, Cohesion policy: review of the balance of competences, 21 October 2013; Communities and Local Government Committee, European Regional Development Fund, Second Repot of Session 2012–13 (July 2012), HC 81
42 BIS and FCO, Cohesion policy: review of the balance of competences, 21 October 2013
43 Alex Davenport & David Phillips, Institute for Fiscal Studies (SPF0013)
44 Q2; Alex Davenport & David Phillips, Institute for Fiscal Studies (SPF0013)
45 Bevan Foundation (SPF0014)
46 Bevan Foundation (SPF0014)
47 Jeremy Miles MS, Welsh Government (SPF0012)

in no small part to the availability of EU funds".[48] The Federation of Small Businesses Wales (FSB) told us that the Welsh Government's ESI-funded business support service, Business Wales, has succeeded in creating a "significant number" of new businesses since its inception.[49] Meanwhile, the North Wales Economic Ambition Board stated that over 15,000 jobs have been created in their region as well as over 2,800 enterprises as a result of European funding.[50]

24. In addition to this, the ICA Wales said that ESI funds "have been crucial to the Welsh Government's apprenticeship initiative".[51] This, they added, has contributed "£233m over the course of the current programme towards the creation of 100,000 apprenticeships by the end of 2020, with £45m being allocated to projects aimed at supporting the long term unemployed back into work".[52]

25. It is clear that individual sectors of the Welsh economy have benefitted substantially. According to the Welsh Government's evidence, investment in infrastructure as a result of these funds has run into hundreds of millions of pounds.[53]

26. Welsh universities have received more than £280m of structural funds as lead partners in the current 2014–20 programme and over £500m since 2000.[54] According to Professor Colin Riordan, Vice-Chancellor at Cardiff University:

> All of this funding has been important in keeping Welsh universities competitive and in providing essential support for collaborative working with local, regional and Wales-wide business communities on translational research, knowledge exchange and innovation support and skills development. This support has been particularly vital in Wales due to the phasing out of knowledge exchange funding in Wales from 2014 and the lack of Higher Education Innovation Funding (HEIF) as compared to England.[55]

27. Research and Development (R&D) expenditure in Wales has more than doubled since 2001, with ESI funding supporting research at several universities.[56] According to the Welsh Government, R&D expenditure trails other UK nations and regions by "some way" and that European sources of R&D funding in Wales are "disproportionately important".[57]

28. In their evidence to our inquiry, ColegauCymru highlighted the positive impact ESI funds have had on further education by stating that the sector has benefitted from funding "to support businesses and communities, either through directly funded projects looking to upskill employed individuals" across Wales.[58]

29. We also heard of the value that ESI funds have had for third sector organisations in Wales. According to the Wales Council for Voluntary Action (WCVA), the third sector

48 Industrial Communities Alliance Wales (SPF0002)
49 Ben Cottam, Federation of Small Businesses Wales (SPF0011)
50 North Wales Economic Ambition Board (SPF0033)
51 Industrial Communities Alliance Wales (SPF0002)
52 Industrial Communities Alliance Wales (SPF0002)
53 Jeremy Miles MS, Welsh Government (SPF0012)
54 Universities Wales (SPF0005)
55 Professor Colin Riordan, Cardiff University (SPF0020)
56 Jeremy Miles MS, Welsh Government (SPF0012)
57 Professor Colin Riordan, Cardiff University (SPF0020)
58 ColegauCymru/ Colleges Wales (SPF0006)

in Wales received over £100million in funding under the 2007–2013 EU Structural funds programmes, which "supported 45 schemes […] helping 8,545 people into work and 21,825 people to gain qualifications, creating 405 enterprises and 720 (gross) jobs."[59]

30. There is also evidence that European funding has been beneficial for the arts and tourism in Wales, with the Arts Council of Wales claiming that these funds have had "a transformational impact in their communities".[60] The National Trust cited grants for tourism projects that "have created both direct and indirect sustained employment, training and other socio-economic benefits for persons living in deprived areas".[61]

Criticisms

31. However, there is also some scepticism about the extent to which EU Structural funding has had a transformational, or long-lasting, economic effect in Wales.[62] According to FSB Wales:

> The simple fact that Wales has continued to qualify for funding across almost 20 years suggests that in terms of its headline rationale, EU funding has been ineffective in helping Wales to 'converge' economically with Western Europe to the extent which had been anticipated.[63]

32. Similarly, as Professor Dylan Jones-Evans, from the University of South Wales, told us during his appearance before the Committee, "in west Wales and the Valleys GDP per head, or GVA per head, has kept roughly the same since 2000–18".[64] Indeed, despite his comments about the importance of ESI funding for Universities in Wales, Professor Riordan acknowledges, in his evidence to our inquiry, that "the arrangements have been limiting from a transformational point of view, i.e. where one hoped that ESIF would have helped to effect more tangible structural change".[65]

33. One reason for this lack of transformational change, the Bevan Foundation suggests, is 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 downturns. Recovery and re-orientation were always going to be a very significant undertaking.[66]

34. Comments in other evidence submissions reference expectations about the transformative capacity of the funds being too high,[67] that some types of support "will not result in instant wins"[68] and that funds "equate to a fraction of Wales' overall GDP".[69]

59 Wales Council for Voluntary Action (SPF0003)
60 Arts Council of Wales/ Wales Arts International (SPF0034)
61 National Trust (SPF0027)
62 Alex Davenport & David Phillips, Institute for Fiscal Studies (SPF0013)
63 Ben Cottam, Federation of Small Businesses Wales (SPF0011)
64 Q2
65 Professor Colin Riordan, Cardiff University (SPF0020)
66 Bevan Foundation (SPF0014)
67 Q2
68 Swansea Council (SPF0009)
69 Bevan Foundation (SPF0014)

35. There was also suggestion in evidence that there has been too much focus on outputs rather than outcomes and that a broader basket of indicators is needed.[70] Jan Zeber, of Policy Exchange, for example, suggested that the assessments made by the Welsh Government focus on metrics such as programme take-up and jobs created, but "perhaps struggles with measuring how these programmes impact on the Welsh economy".[71]

36. **We acknowledge the difficulties in assessing the impact of ESI funds in Wales, particularly in the absence of the counterfactual question of what would have happened without them. However, it is clear that while certain sectors, particularly higher education, the arts and charities have benefitted substantially, these fund have not been able, and were not expected on their own, to deliver a transformative change for the Welsh economy, as the policies of both the UK and the Welsh Government would also have played a pivotal role in determining the benefits to Wales, particularly those of the Welsh Government. Wales continues to qualify for EU Structural Funding and lags significantly behind other regions of the UK and EU.**

70 See for example: Ben Cottam, Federation of Small Businesses Wales (SPF0011); Planed (SPF0023);
71 Q2

4 Priorities for the Shared Prosperity Fund

37. In this Chapter, we examine possible key objectives for the Fund and the priorities for its design, including the size of Wales' allocation, the length of the funding period, the administration of funding and the role of local government and other interventions, such as City and Growth Deals.

Key objectives

38. The main EU structural funds were set up in the EU Treaties, and consequently their priorities and aims are in line with the priorities of the European Union, which may or may not have been aligned with the priorities of either Wales or the United Kingdom at the time. The objectives for the European Regional Development Fund are set out in article 176 of the Treaty on the Functioning of the European Union:

> The European Regional Development Fund is intended to help to redress the main regional imbalances in the Union through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions.[72]

39. As the UK Government replaces structural funds with the Shared Prosperity Fund, it can define its own priorities. In their 2019 manifesto, the Conservative Party described its objectives for the Shared Prosperity Fund as "tackling inequality and deprivation in each of our four nations".[73] It also said that the Fund would be used to "give disadvantaged people the skills they need to make a success of life".[74] However, as we have highlighted in the previous chapter, there has been little further detail about the specific aims and objectives of the Fund.

40. The evidence we received covered a broad range of possible objectives for the SPF. There appears to be a strong desire for it to address inequality and deprivation as the UK Government has pledged, and to build upon and extend beyond the objectives of ESI funding.[75] However, as was discussed in Chapter 2, there are calls for the SPF to focus more heavily on the root causes of economic disparities in Wales, rather than simply concentrating on the symptoms, such as unemployment.[76]

41. Professor Dylan Jones-Evans told us that, given Wales is "still the least productive part of the UK", productivity has to be priority.[77] He said:

> 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.[78]

72 European Union, Treaty on the Functioning of the European Union, 26 October 2012
73 Conservative and Unionist Party, Get Brexit Done Unleash Britain's Potential (2019), p.44
74 Conservative and Unionist Party, Get Brexit Done Unleash Britain's Potential (2019), p.37
75 Professor Colin Riordan, Cardiff University (SPF0020); Jeremy Miles MS, Welsh Government (SPF0012)
76 Wales Council for Voluntary Action (SPF0003); Professor Colin Riordan, Cardiff University (SPF0020)
77 Q11
78 Q11

Similarly, Growing Mid Wales said:

> The overall objectives of the Shared Prosperity Fund should be to decrease the current disparity in economic performance between different parts of the United Kingdom and increase productivity across the nation as a whole.[79]

42. A variety of organisations believe that the development of the Fund is an opportunity to develop a system more closely based on Wales' needs and to bring greater focus to, and support for, innovation, business development, jobs, connectivity, green initiatives, challenges faced by young people, health and wellbeing.[80] Professor Jones-Evans also suggested that impact could be improved if there was greater focus on commercialisation. "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", he said.[81]

43. Much of the evidence we received came at the height of the COVID-19 pandemic and many submissions sought to factor the pandemic into their priorities for the Shared Prosperity Fund. The Wales Council for Voluntary Action, for example, warned that:

> Covid-19 will have a significant effect on the economy of Wales but there will be a disproportionate effect on those communities already facing significant challenge following the years of austerity we have seen. These communities must not be left behind, and a holistic package of support must be put in place to assist all sectors, not just business.[82]

44. In its evidence to our inquiry, the Welsh Government has stated that the size, nature and purpose of the Shared Prosperity Fund (SPF) should now be considered in "light of the economic damage that COVID-19 has done, and will do".[83] The Secretary of State for Wales has also told us that the Fund will now "require even more thought than before".[84]

45. **The development of the Shared Prosperity Fund represents a unique opportunity to re-evaluate Wales' economic priorities in light of the economic fallout from the pandemic, to develop a funding system that better reflects Welsh needs, and which includes a broader set of tools to measure the impact of the Fund such as the impact on quality of life and well-being, as well as the effect on GVA. Addressing the root causes of Wales' economic challenges, including productivity and skills, must be a core objective of the Shared Prosperity Fund.**

46. ***We recommend that the UK and Welsh Governments use the development of the Shared Prosperity Fund as an opportunity to jointly reassess their economic development priorities, particularly in light of the economic damage caused by COVID-19. In designing the Shared Prosperity Fund, more thought should be given to how the Fund can bolster skills, productivity and wages, all of which will be essential if Wales is to narrow the GDP gap with the rest of the UK.***

79 Growing Mid Wales (SPF0019)
80 See for example: Creative Industries Federation (COV0075); RSPB and RSPB Cymru (SPF0029); What Next? Cymru (SPF0025); Industrial Communities Alliance Wales (SPF0002); The Learned Society of Wales (SPF0004); Jeremy Miles MS, Welsh Government (SPF0012); Planed (SPF0023) Q8
81 Q4
82 Wales Council for Voluntary Action (SPF0003)
83 Jeremy Miles MS, Welsh Government (SPF0012)
84 Q93

Size of the funding pot

47. In the 2014–20 funding period, the UK is set to receive around £15bn in funding or approximately £2.1bn per year.[85] Over the same time, Wales will receive almost four times as much ESI funding as the UK average per person, totalling around £375m per year or £2.7bn in total.[86] This equates to £295m in annual Structural Funds, £80m per year from the European Agricultural Fund for Rural Development and £2m per year from the European Maritime Fisheries Fund.[87] The funding Wales currently receives is explained in detail in an Annex at the end of this report.

48. The Conservative Party stated in its 2019 election manifesto that Wales would not lose out financially as a result of the transition from ESI funding to the Shared Prosperity Fund, and would provide "at a minimum" the current amount of funding.[88] The Welsh Government has regularly repeated its core priority for the SPF as "not a penny less, not a power lost".[89] We have sought, as time has passed and as the economic situation changes, to press the UK Government for reassurance on this point. In his most recent evidence to our Committee on 10 September 2020, the Secretary of State for Wales, told us that "all the commitments that have been made around UK Shared Prosperity still stand".[90]

49. Most of the evidence we received, either just prior to or during the COVID-19 pandemic, stresses the need for Wales to retain at least its current level of funding in real terms, as stated by Professor Fothergill.[91]

50. Andrew Carter, Chief Executive at the Centre for Cities, said he believed there is "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".[92] Responding in March 2020, he suggested a figure of £4bn per year from "day one",[93] although we acknowledge his comment that this is not "deeply scientific"[94] and the fact that the health of the Welsh economy has deteriorated significantly since due to COVID-19.

51. In terms of calculating the funding, there was almost universal opposition to the use of the Barnett Formula where it is widely acknowledged Wales would lose out massively.[95] Professor Fothergill gave the figures:

> 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.[96]

85 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
86 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
87 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
88 Conservative and Unionist Party, Get Brexit Done Unleash Britain's Potential (2019), p.44
89 Welsh Government, Welsh Government calls for commitment on Shared Prosperity Fund, 11 June 2019, accessed 15 September 2020; Jeremy Miles MS, Welsh Government (SPF0012)
90 Oral evidence: Responsibilities of the Secretary of State for Wales, HC96, 10 September, Q113
91 Q15
92 Q15
93 Q15
94 Q15
95 See for example: Welsh Local Government Association (SPF0028); Jeremy Miles MS, Welsh Government (SPF0012); Alex Davenport & David Phillips, Institute for Fiscal Studies (SPF0013); The Learned Society of Wales (SPF0004); National Trust (SPF0027); Wales Environment Link (SPF0030); Swansea Bay City Deal (SPF0032); Pembrokeshire County Council (SPF0024); RSPB and RSPB Cymru (SPF0029); Isle of Anglesey County Council (SPF0015); Industrial Communities Alliance Wales (SPF0002);
96 Q21

52. Instead, a needs-based mechanism was the most popular option, and we heard that Wales should not be "competing with other areas of the UK to receive this funding".[97] Alex Davenport and David Phillips, from the Institute for Fiscal Studies (IFS), provided some commentary around the current GDP measure. They also stated additional characteristics that could be used include deprivation (such as the Index of Multiple Deprivation), inequality measures (such as inequalities in earnings, or household incomes) and updated measures more suitable for UK or Welsh contexts, including different measures of population sparseness or geographical remoteness.[98]

53. Andrew Carter suggested that a formula could be based upon two main metrics. One would be a labour market metric "that is essentially the proportion of the adult population with no qualifications at all".[99] The second, he said, could be a measure of productivity, such GVA per worker. By using these measures, Wales would receive more, he argued.[100]

54. The Federation of Small Businesses Wales made similar comments. Their submission stated: "Whilst it is important to place GVA in its proper context and use other economic indicators, such as GVA per hour worked, household incomes, skill levels etc GVA still acts as a useful proxy for levels of economic efficiency".[101]

55. Also, we heard that funding should be allocated on a ring-fenced devolved nation (and English regions) basis, rather than using the East Wales/ West Wales and the Valleys regional divide.[102] ColegauCymru told us that reconsidering this approach would "ensure that projects can be designed based on local need" and that "areas of deprivation anywhere in Wales could benefit […] irrespective of geographic boundaries".[103]

56. In our terms of reference, we asked about the role of competitive bidding as a means of allocating funding in Wales. Again, there was strong agreement in the evidence that Wales' total allocation of funds should not be determined in this way. If it were, apart from Wales receiving less funding, money would be disproportionately allocated to Cardiff, major cities and universities, we were told.[104]

Length of the funding period

57. At present, there is a seven-year financial framework system used by the EU which means that areas have certainty over the amount of funding that they have at their disposal.[105] It has been suggested that a long period like this can be less flexible if circumstances suddenly change and it is worth noting that Spending Review periods in the UK have never previously been longer than four years.[106] Allocations of funding to Wales under

97 Wales Council for Voluntary Action (SPF0003)
98 Alex Davenport & David Phillips, Institute for Fiscal Studies (SPF0013)
99 Q16
100 Q16
101 Ben Cottam, Federation of Small Businesses Wales (SPF0011)
102 See for example: Bevan Foundation (SPF0014); Chwarae Teg (SPF0031); Growing Mid Wales (SPF0019); Universities Wales (SPF0005);
103 ColegauCymru/ Colleges Wales (SPF0006)
104 Welsh Local Government Association (SPF0028); Jeremy Miles MS, Welsh Government (SPF0012)
105 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
106 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020

the Shared Prosperity Fund, if done under a longer planning period as is currently the case, would need to be ring fenced to prevent them from changing when Government spending priorities change.[107]

58. Stakeholders across Wales who engaged with our inquiry were clear that the multi-year, long-term approach should continue.[108] Evidence submissions vary in exactly how long the planning period should be, ranging from three to 10 years, with different reasons for each. It is thought that if the funding period was to be at the upper end then projects cut across Government terms, removing the chance of projects being used as a political bargaining tool.[109] Also, as the Welsh Government pointed out, longer periods mean that schemes can tie into complementary Government projects.[110] The North Wales Economic Ambition Board told us that longer periods have helped ensure planning in terms of retaining expertise and match funding.[111]

59. **The UK Government has repeatedly committed to ensuring Wales does not lose out as a result of the switch from European Structural Funds to the Shared Prosperity Fund and the evidence overwhelmingly states that Wales should not end up worse off, particularly in light of COVID-19. A needs-based formula is required over a multi-year financial framework to allow a fair allocation and effective planning and delivery.**

60. ***In the current changing economic circumstances, we are unable to recommend a headline figure for Wales' allocation of the Shared Prosperity Fund. However, we call on the Government to honour its commitment to maintain at least the current levels of real-term funding and to carefully consider the arguments for increased spending. Given that the full effects of COVID-19 could be unknown for some time, it should monitor the current economic situation in Wales and adjust its allocation accordingly. Ministers should provide reassurance that multi-year funding will continue and work with the Welsh Government to give serious thought to the potential methods of calculating Wales' funding requirements. They should update us with their thinking on the size of the Fund and means of allocation as soon as possible.***

Administration of funding

Existing arrangements and effectiveness

61. ESI funds are administered jointly between the EU and nominated Managing Authorities in the Member States.[112] In Wales' case, this is the Welsh European Funding Office (WEFO) which has managed the funding for the past 20 years since devolution.[113] It is their responsibility to put together an operational programme, lay out their strategy and priorities and, once agreed with the European Commission, to distribute it.[114] They work alongside partners across Wales in local government, businesses, universities

107 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
108 See for example: Wales Council for Voluntary Action (SPF0003); Universities Wales (SPF0005); Jeremy Miles MS, Welsh Government (SPF0012); North Wales Economic Ambition Board (SPF0033)
109 See for example: Wales Council for Voluntary Action (SPF0003); The Learned Society of Wales (SPF0004); Arfon Consulting (SPF0017);
110 Jeremy Miles MS, Welsh Government (SPF0012)
111 North Wales Economic Ambition Board (SPF0033)
112 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
113 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
114 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020

and colleges, the third sector and other public bodies.[115] The Programme Monitoring Committee (PMC) is made up of representatives from a range of sectors and a number of public appointments and monitors the effective delivery and implementation of the funds throughout the programming period.[116]

62. We received evidence suggesting that WEFO has, for the most part, done a good job in administering EU funds and that the current programme (2014–20) is more strategic that had previously been the case.[117] For example, while ColegauCymru said that management arrangements have often been complex:

> The Welsh European Funding Office (WEFO) has generally been effective, rigorous and detailed, ensuring the funds are spent in an appropriate manner. WEFO have worked successfully with sponsors to ensure guidance, advice and support is available when needed, and administered the funding to ensure that outcomes and results are achieved for the benefit of the region.[118]

63. However, there has been some criticism about how centralised existing arrangements are. According to the All-Party Parliamentary Group (APPG) on Post-Brexit Funding for Nations, Regions and Local Areas, such criticism has come particularly from local authorities.[119] We also heard similar criticisms from third sector bodies, who reported feeling marginalised under the current arrangements and who suggested that they could play a more useful and active role in the design as well as delivery of projects.[120]

64. We also received evidence suggesting that the relatively short and often fixed project duration is insufficient to deliver all the benefits of projects.[121] The Welsh Government also stated that the fixed geographical areas, such as East Wales/ West Wales and the Valleys, used by the EU to allocate ESI funding has made it difficult to integrate activities across borders. "and maximise beneficial outcomes fairly across all parts of Wales".[122]

65. However, the biggest criticism about current arrangements relates to the issues of inaccessibility and bureaucracy which have come up repeatedly in the responses we received. These complaints often refer to the application process and audit obligations.[123] We were told that the reporting required to protect against fraud pushes up costs and that this can have a detrimental impact on outputs, resulting, in some instances, in beneficiaries 'walking away'.[124] We also heard that complexities in the awarding of funding can also lead to delays on the ground.[125]

66. In response, the Welsh Government has been clear that the bureaucratic arrangements for administering and distributing funding is not the choice of those managing and

115 Jeremy Miles MS, Welsh Government (SPF0012)
116 Bevan Foundation (SPF0014)
117 Industrial Communities Alliance Wales (SPF0002); The Learned Society of Wales (SPF0004)
118 The Learned Society of Wales (SPF0004)
119 Stephen Kinnock MP (SPF0001)
120 See for example: Wales Council for Voluntary Action (SPF0003); RSPB and RSPB Cymru (SPF0029)
121 National Trust (SPF0027)
122 Jeremy Miles MS, Welsh Government (SPF0012)
123 See for example: Qq4, 6; Alex Davenport & David Phillips, Institute for Fiscal Studies (SPF0013); Planed (SPF0023); Chwarae Teg (SPF0031)
124 See for example: ColegauCymru/ Colleges Wales (SPF0006); Swansea Council (SPF0009)
125 See for example: Arfon Consulting (SPF0017); Chwarae Teg (SPF0031)

delivering funds, but is instead driven by the requirements of the EU.[126] Their submission adds, "this is why we are aware of no evidence that the Welsh Government is more complex or bureaucratic as a managing authority than others across the UK or EU".[127]

67. **Despite the positive feedback we have received about the performance of the Welsh European Funding Office in administering ESI funds, it is clear that for many respondents the current system of structural funding has been too centralised and overly bureaucratic. The development of the Shared Prosperity Fund represents an opportunity to address these problems and establish a system of funding which is less administratively burdensome.**

68. ***If the Shared Prosperity Fund is to offer a more open and responsive system of funding, the UK Government and Welsh Governments should learn the lessons from how EU funds have been administered under the ESI schemes, including the criticisms we have heard about the current system's levels of accessibility and bureaucracy. In their plans for the Fund, the UK Government should explain how they intend to overcome these problems and detail the work they have undertaken to review the existing system of ESI funding.***

Administering the Shared Prosperity Fund

69. The administration of the Shared Prosperity Fund is probably one of the most debated aspects of the new arrangements post-Brexit. The UK Government has repeatedly committed to respecting the devolution settlements of Wales, Scotland and Northern Ireland,[128] with economic development being devolved to Cardiff Bay. As we highlighted earlier, the Welsh Government has called for "not a power lost"[129] and is keen to retain its current role administering the funds. However, there have also been comments from UK Ministers which suggest the possibility of some kind of role for Whitehall.[130]

70. The United Kingdom Internal Market Bill, currently before Parliament, contains provisions for new 'financial assistance powers' for UK Ministers.[131] If passed, it would give UK Ministers the power to spend funds anywhere in the UK, including in devolved policy areas, for the purposes of promoting economic development, providing infrastructure, supporting culture, sport and events as well as education and training activities.[132] It remains unclear how these powers relate to the SPF and whether they will be funded via money which had been earmarked by the Treasury for the Fund.[133]

71. Much of the evidence we received, prior to the publication of the Bill, emphasized the importance of respecting the devolution settlement and urged the suggested that the Welsh Government should not lose any of its current powers as a result of ESI funding

126 Jeremy Miles MS, Welsh Government (SPF0012)
127 Jeremy Miles MS, Welsh Government (SPF0012)
128 Hansard, Oral questions to the Secretary of State for Wales, 15 January 2020; Q172
129 Welsh Government, Welsh Government calls for commitment on Shared Prosperity Fund, 11 June 2019, accessed 15 September 2020; Jeremy Miles MS, Welsh Government (SPF0012)
130 Hansard, Oral questions to the Secretary of State for Wales, 15 January 2020
131 UK Parliament, Parliamentary Bills: United Kingdom Internal Market Bill, 9 September 2020, accessed 18 September 2020
132 Institute for Government, Internal Market Bill, 9 September 2020, accessed 19 September 2020
133 Oral evidence: Responsibilities of the Secretary of State for Wales, HC 96, 10 September, Qq108–115

being replaced by the SPF.[134] The Bevan Foundation, in particular, stressed that they felt the expertise at the Welsh European Funding Office and the Programme Monitoring Committee should not be lost, given that they work effectively with stakeholders across Wales already. According to the Bevan Foundation, "this knowledge will be an important tool to help ease the transition from EU derived investment to UK derived investment".[135] Evidence from Alex Davenport and David Phillips at the Institute for Fiscal Studies also pointed to research from which suggests that local discretion in the distribution of funding is associated with better outcomes.[136]

72. However, Jan Zeber from Policy Exchange suggested that, with the development of the SPF, there "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".[137]

73. **Despite repeated assurances from UK Government that it would respect the devolution settlements of Wales, Scotland and Northern Ireland, there are considerable ambiguities about where power will lie in relation to the Shared Prosperity Fund. It is unclear whether, as a result of the provisions in the Internal Market Bill, Whitehall plans to oversee the administration of the Fund directly, or if the financial assistance powers contained within the Bill are intended to operate separately to the Fund. In either event, we believe the UK Government would be ill-advised to lose or ignore the expertise that has been built up in the devolved administration's European Funding Offices.**

74. **There are differences of opinion as to where the precise balance of power and responsibility should lie for the oversight and administration of the Shared Prosperity Fund. However, whether the UK Government takes on a commissioning role for, or fully devolves the administration of, the Fund, the Shared Prosperity Fund should be built upon the principle of cooperation and partnership between the UK Government, the devolved administrations and local government.**

75. ***The UK Government should work with the devolved administrations and local government to develop a memorandum of understanding that will underpin the operation of the Shared Prosperity Fund, this memorandum should be built around a partnership approach and provide a guarantee of genuine joint working and engagement for all stakeholders, including the third sector.***

Role of local government and City and Growth Deals

76. The role of local authorities in the delivery of ESI funding projects, and the important role they can play in the Shared Prosperity Fund, has been emphasized by a number of

134 See for example: Stephen Kinnock MP (SPF0001); Industrial Communities Alliance Wales (SPF0002); Wales Council for Voluntary Action (SPF0003); Wales Co-operative Centre (SPF0010); Ben Cottam, Federation of Small Businesses Wales (SPF0011); Jeremy Miles MS, Welsh Government (SPF0012); Bevan Foundation (SPF0014); Aled Roberts, Welsh Language Commissioner (SPF0016);

135 Bevan Foundation (SPF0014)

136 Alex Davenport & David Phillips, Institute for Fiscal Studies (SPF0013)

137 Q25

respondents to our inquiry. Indeed, multiple submissions suggested that local authorities have a better understanding of the needs and issues within their communities, making them ideally suited to the delivery and monitoring of locally based projects.[138]

77. The Welsh Local Government Association, in particular, stated that local authorities bring "vital accountability to projects delivered at the local level" and that they "play a number of important co-ordinating roles that impact on the local economy".[139] The Bevan Foundation, meanwhile, said that they should form part of any broad partnership approach[140] and Planed, responded saying that the Shared Prosperity Fund should be informed and led by community organisations across Wales.[141]

78. The role of City and Growth Deals as potential stakeholders in the Fund was mentioned by a number of witnesses. According to Swansea Council, these deals have demonstrated local government's ability to develop and deliver regeneration programmes.[142] FSB Wales suggested that local government and City and Growth Deals could co-invest, helping complementary projects not funded by the Shared Prosperity Fund to proceed.[143]

79. However, we also received evidence which urged caution as to the potential involvement of City and Growth Deals.[144] Universities Wales warned that they should not be considered a replacement investment for any shortfall in funding through the loss of ESI funding.[145] Similar views were received from ColegauCymru and Andrew Carter from the Centre of Cities.[146]

80. As part of the Local Government and Elections Bill currently before the Senedd, the Welsh Government is seeking to establish Corporate Joint Committees (CJCs) to facilitate joint working between Welsh local authorities. Local authorities would be able to request the establishment of CJCs within the following functional areas: improving education, strategic planning for the development and use of land and the function of preparing a strategic development plan, transport, and economic development. CJCs will be able to employ people and hold funds.[147]

81. **Local authorities have played an important role in the delivery of ESI funding with their on-the-ground knowledge and expertise and the UK and Welsh Governments should seek to ensure that the Shared Prosperity Fund utilises their experience. While the full economic benefits of City and Growth Deals are yet to be seen, they offer a blueprint for collaborative working between the UK and devolved governments and local authorities from which lessons should be learned. We note that the Welsh Government has brought forward proposals which would enable local authorities to**

138 See for example: Swansea Council (SPF0009); Pembrokeshire County Council (SPF0024);); Isle of Anglesey County Council (SPF0015); Welsh Local Government Association (SPF0028); North Wales Economic Ambition Board (SPF0033)
139 Welsh Local Government Association (SPF0028)
140 Bevan Foundation (SPF0014)
141 Planed (SPF0023)
142 Swansea Council (SPF0009)
143 Ben Cottam, Federation of Small Businesses Wales (SPF0011)
144 Bevan Foundation (SPF0014)
145 Universities Wales (SPF0005)
146 See for example: Q3; Wales Council for Voluntary Action (SPF0003); ColegauCymru/ Colleges Wales (SPF0006);
147 Local Government and Elections (Wales) Bill

establish Corporate Joint Committees to facilitate joint working, including in areas covered by City and Growth deals. It would seem sensible for the Shared Prosperity Fund to be designed so that it could, in future, work with City and Growth deals.

82. ***As part of the Memorandum of Understanding that should underpin the Shared Prosperity Fund, the UK and Welsh Governments ought to give serious consideration to the role that local government in the delivery of the Fund. Both the UK and devolved administrations should seek to learn the lessons of how joint working has been facilitated by and through the City and Growth Deals, and how those lessons could be applied to the Shared Prosperity Fund. In designing the fund, Ministers should consider the opportunities for how these Deals might complement the new funding arrangements.***

5 Concluding remarks

83. **For the past twenty years, Wales has received more European Structural Funds than any other part of the UK in an attempt to bring the Welsh economy up to the EU average. This funding which is worth hundreds of millions of pounds each year is all the more important at a time when the COVID-19 pandemic has inflicted major economic damage.**

84. **However, with that funding due to taper off in less than three months' time, communication from Ministers, and substantive proposals for the Shared Prosperity Fund, have been conspicuous in their absence. For more than three years, we have witnessed a failure to properly engage with stakeholders, or Parliament. As a result, there is no clarity as to what the Shared Prosperity Fund will look like, how it will be administered, nor how it will be funded. This is unacceptable, and the UK Government must, as a priority, publish detailed proposals for how the Fund will operate.**

85. **The impact of EU funding is hard to measure, and it is quite possible that Wales would have been significantly worse off without it. However, this funding has not been a catalyst for a transformation in the fortunes of the Welsh economy.**

86. **The switch to the Shared Prosperity Fund is an opportunity to reset and re-evaluate Wales' economic priorities post-Brexit and post-COVID-19 and to develop a Shared Prosperity Fund that tackles the root causes of Wales' economic underperformance. The funding pot should be needs based and maintain at least the current size of funding in real terms. While funding should be based on a multi-annual basis, it should be reactive to the health of the economy as Wales, and the rest of the UK, seeks to recover from the COVID-19 pandemic.**

87. **Given the publication of the UK Government's Internal Market Bill, it is all the more urgent that clarity and detail is provided about the Shared Prosperity Fund. However designed, the expertise gained in administering structural funds should not be lost, and Ministers must embrace a partnership approach that draws upon the expertise and resources of the devolved administrations, local government and the third sector.**

88. **The UK's withdrawal from the European Union and the impact of the COVID-19 pandemic makes this an exceptional time, and opportunity, for the governments of the UK to design a more responsive and adaptable system of structural and regional funding. After three years of delay and lack of detail, it is not too late.**

Conclusions and recommendations

The Shared Prosperity Fund: progress so far

1. Despite announcing the Shared Prosperity Fund more than three years ago, the Government appears to have made negligible progress in developing its replacement for European Structural and Investment funding. Its repeated promises of a consultation and of imminent announcements have failed to materialise, demonstrating a lack of priority. Although we acknowledge that the COVID-19 pandemic has forced Ministers to reprioritise and refocus their attention, this does not excuse the lack of progress as a significant amount of time had passed before the COVID outbreak became a factor. (Paragraph 16)

2. *The UK Government must urgently work with the devolved governments of Wales, Scotland and Northern Ireland to agree priorities for the Shared Prosperity Fund and to co-create the details regarding how the Fund will work. It must provide evidence of progress being made in October ahead of finalising arrangements during November. At that point, the plans the UK Government has co-created with the devolved administrations must give full details of what the Fund will look like, how it will be funded and how it will be administered. The UK Government must guarantee that there will be no cliff edge ending to funding arrangements after the transition phase ends in January 2021, particularly as ESI funds have been used to assist the Welsh Government in responding to the economic challenges of coronavirus. It is important that this work can continue beyond January and throughout the pandemic.* (Paragraph 17)

EU Structural Funding in Wales

3. We acknowledge the difficulties in assessing the impact of ESI funds in Wales, particularly in the absence of the counterfactual question of what would have happened without them. However, it is clear that while certain sectors, particularly higher education, the arts and charities have benefitted substantially, these fund have not been able, and were not expected on their own, to deliver a transformative change for the Welsh economy, as the policies of both the UK and the Welsh Government would also have played a pivotal role in determining the benefits to Wales, particularly those of the Welsh Government. Wales continues to qualify for EU Structural Funding and lags significantly behind other regions of the UK and EU. (Paragraph 36)

Priorities for the Shared Prosperity Fund

4. The development of the Shared Prosperity Fund represents a unique opportunity to re-evaluate Wales' economic priorities in light of the economic fallout from the pandemic, to develop a funding system that better reflects Welsh needs, and which includes a broader set of tools to measure the impact of the Fund such as the impact on quality of life and well-being, as well as the effect on GVA. Addressing the root causes of Wales' economic challenges, including productivity and skills, must be a core objective of the Shared Prosperity Fund. (Paragraph 45)

5. *We recommend that the UK and Welsh Governments use the development of the Shared Prosperity Fund as an opportunity to jointly reassess their economic development priorities, particularly in light of the economic damage caused by COVID-19. In designing the Shared Prosperity Fund, more thought should be given to how the Fund can bolster skills, productivity and wages, all of which will be essential if Wales is to narrow the GDP gap with the rest of the UK.* (Paragraph 46)

6. The UK Government has repeatedly committed to ensuring Wales does not lose out as a result of the switch from European Structural Funds to the Shared Prosperity Fund and the evidence overwhelmingly states that Wales should not end up worse off, particularly in light of COVID-19. A needs-based formula is required over a multi-year financial framework to allow a fair allocation and effective planning and delivery. (Paragraph 59)

7. *In the current changing economic circumstances, we are unable to recommend a headline figure for Wales' allocation of the Shared Prosperity Fund. However, we call on the Government to honour its commitment to maintain at least the current levels of real-term funding and to carefully consider the arguments for increased spending. Given that the full effects of COVID-19 could be unknown for some time, it should monitor the current economic situation in Wales and adjust its allocation accordingly. Ministers should provide reassurance that multi-year funding will continue and work with the Welsh Government to give serious thought to the potential methods of calculating Wales' funding requirements. They should update us with their thinking on the size of the Fund and means of allocation as soon as possible.* (Paragraph 60)

8. Despite the positive feedback we have received about the performance of the Welsh European Funding Office in administering ESI funds, it is clear that for many respondents the current system of structural funding has been too centralised and overly bureaucratic. The development of the Shared Prosperity Fund represents an opportunity to address these problems and establish a system of funding which is less administratively burdensome. (Paragraph 67)

9. *If the Shared Prosperity Fund is to offer a more open and responsive system of funding, the UK Government and Welsh Governments should learn the lessons from how EU funds have been administered under the ESI schemes, including the criticisms we have heard about the current system's levels of accessibility and bureaucracy. In their plans for the Fund, the UK Government should explain how they intend to overcome these problems and detail the work they have undertaken to review the existing system of ESI funding.* (Paragraph 68)

10. Despite repeated assurances from UK Government that it would respect the devolution settlements of Wales, Scotland and Northern Ireland, there are considerable ambiguities about where power will lie in relation to the Shared Prosperity Fund. It is unclear whether, as a result of the provisions in the Internal Market Bill, Whitehall plans to oversee the administration of the Fund directly, or if the financial assistance powers contained within the Bill are intended to operate separately to the Fund. In either event, we believe the UK Government would be ill-advised to lose or ignore the expertise that has been built up in the devolved administration's European Funding Offices. (Paragraph 73)

11. There are differences of opinion as to where the precise balance of power and responsibility should lie for the oversight and administration of the Shared Prosperity Fund. However, whether the UK Government takes on a commissioning role for, or fully devolves the administration of, the Fund, the Shared Prosperity Fund should be built upon the principle of cooperation and partnership between the UK Government, the devolved administrations and local government. (Paragraph 74)

12. *The UK Government should work with the devolved administrations and local government to develop a memorandum of understanding that will underpin the operation of the Shared Prosperity Fund, this memorandum should be built around a partnership approach and provide a guarantee of genuine joint working and engagement for all stakeholders, including the third sector.* (Paragraph 75)

13. Local authorities have played an important role in the delivery of ESI funding with their on-the-ground knowledge and expertise and the UK and Welsh Governments should seek to ensure that the Shared Prosperity Fund utilises their experience. While the full economic benefits of City and Growth Deals are yet to be seen, they offer a blueprint for collaborative working between the UK and devolved governments and local authorities from which lessons should be learned. We note that the Welsh Government has brought forward proposals which would enable local authorities to establish Corporate Joint Committees to facilitate joint working, including in areas covered by City and Growth deals. It would seem sensible for the Shared Prosperity Fund to be designed so that it could, in future, work with City and Growth deals. (Paragraph 81)

14. *As part of the Memorandum of Understanding that should underpin the Shared Prosperity Fund, the UK and Welsh Governments ought to give serious consideration to the role that local government in the delivery of the Fund. Both the UK and devolved administrations should seek to learn the lessons of how joint working has been facilitated by and through the City and Growth Deals, and how those lessons could be applied to the Shared Prosperity Fund. In designing the fund, Ministers should consider the opportunities for how these Deals might complement the new funding arrangements.* (Paragraph 82)

Concluding remarks

15. For the past twenty years, Wales has received more European Structural Funds than any other part of the UK in an attempt to bring the Welsh economy up to the EU average. This funding which is worth hundreds of millions of pounds each year is all the more important at a time when the COVID-19 pandemic has inflicted major economic damage. (Paragraph 83)

16. However, with that funding due to taper off in less than three months' time, communication from Ministers, and substantive proposals for the Shared Prosperity Fund, have been conspicuous in their absence. For more than three years, we have witnessed a failure to properly engage with stakeholders, or Parliament. As a result, there is no clarity as to what the Shared Prosperity Fund will look like, how it will be administered, nor how it will be funded. This is unacceptable, and the UK Government must, as a priority, publish detailed proposals for how the Fund will operate. (Paragraph 84)

17. The impact of EU funding is hard to measure, and it is quite possible that Wales would have been significantly worse off without it. However, this funding has not been a catalyst for a transformation in the fortunes of the Welsh economy. (Paragraph 85)

18. The switch to the Shared Prosperity Fund is an opportunity to reset and re-evaluate Wales' economic priorities post-Brexit and post-COVID-19 and to develop a Shared Prosperity Fund that tackles the root causes of Wales' economic underperformance. The funding pot should be needs based and maintain at least the current size of funding in real terms. While funding should be based on a multi-annual basis, it should be reactive to the health of the economy as Wales, and the rest of the UK, seeks to recover from the COVID-19 pandemic. (Paragraph 86)

19. Given the publication of the UK Government's Internal Market Bill, it is all the more urgent that clarity and detail is provided about the Shared Prosperity Fund. However designed, the expertise gained in administering structural funds should not be lost, and Ministers must embrace a partnership approach that draws upon the expertise and resources of the devolved administrations, local government and the third sector. (Paragraph 87)

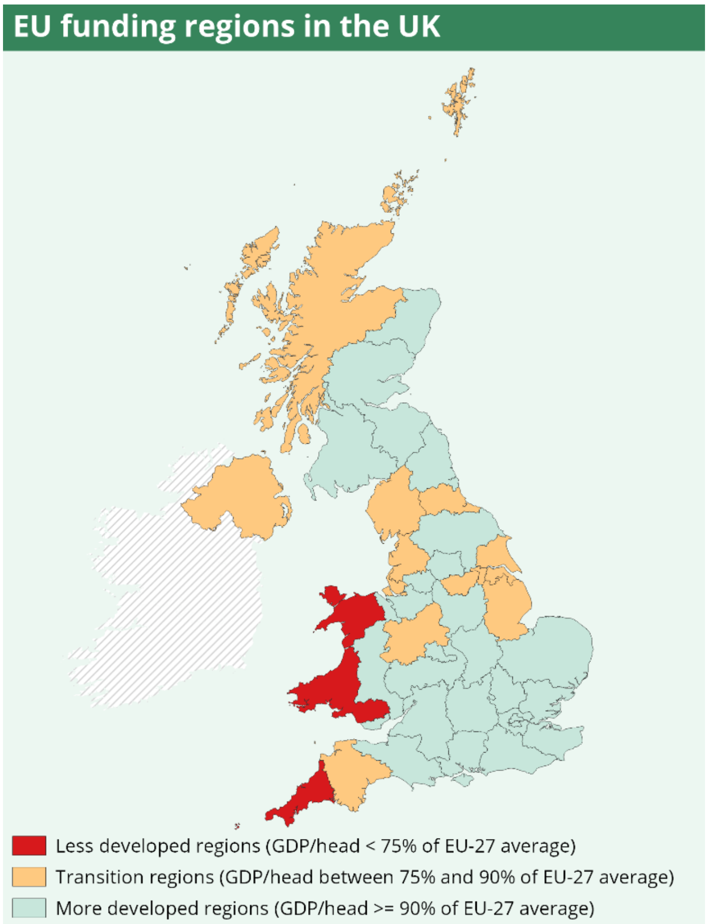
20. The UK's withdrawal from the European Union and the impact of the COVID-19 pandemic makes this an exceptional time, and opportunity, for the governments of the UK to design a more responsive and adaptable system of structural and regional funding. After three years of delay and lack of detail, it is not too late. (Paragraph 88)

Annex: Background to EU Structural and Investment Funding in Wales

The European Union provides several streams of funding to its Member States. One of these streams–the European Structural and Investment (ESI) funds–aims to reduce disparities in the level of development in the regions of the EU and to help less developed regions to catch up. The funds rely on match funding from the recipient member states.[148]

Regions within the EU are divided into three broad categories, based on their economic development (as measured by GDP per person). ESI funds are then allocated based on these classifications. Regions which are classified as less developed receive proportionally more funding; resulting in the different nations of the UK receiving different amounts.[149]

West Wales and the Valleys has been classified as an Objective 1 region, defined as a less developed region for the purposes of EU Structural Funds, as Gross Domestic Product (GDP) per head was less than 75% of the EU average. This region has received the highest level of EU Structural Funds that regions are eligible for in each of the funding rounds since 2000–06. East Wales is categorised as 'more developed'.[150]

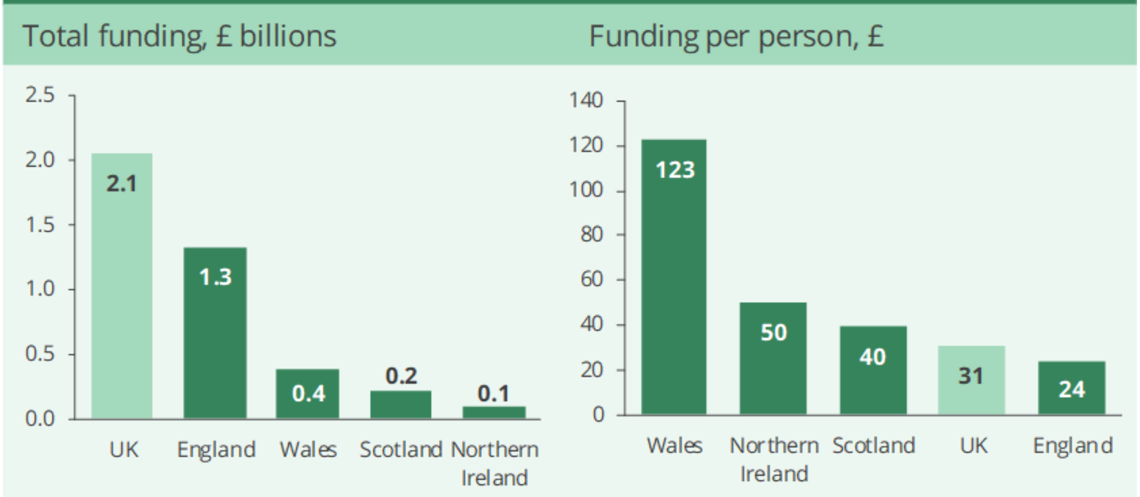


Source: House of Commons Library Briefing, May 2020

148 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
149 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
150 Senedd Cymru/ Welsh Parliament, The UK Shared Prosperity Fund: Research Briefing, January 2020, accessed 24 September 2020

In the current funding period (2014–2020), Wales will receive almost four times as much ESI funding as the UK average per person, totalling almost £2.7bn or over £375m per year. The UK as a whole the UK will receive around £15bn in funding or approximately £2.1bn per year.[151]

ESI funding across the UK, 2014-20 average per year



Source: European Commission, ESIF 2014–2020 Finances Planned Details, retrieved 5 May 2020; converted to sterling at May 2020 exchange rates

Within Wales and the rest of the UK, ESI funding comes via four funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Maritime and Fisheries Fund (EMFF) and the European Agricultural Fund for Rural Development (EAFRD). Of these, the ERDF and ESF are the largest, between them accounting for over 60% of ESI funding over the current 2014–20 programming period.[152]

The ERDF mainly focuses on support to small businesses and on research and innovation, with a smaller emphasis on moving towards a low carbon economy. The ESF is strongly focused on employment by getting people into the workforce or helping to improve their skills. They do this in a variety of ways, either by building networks between employers, local authorities and charities, or by working directly with disadvantaged or disabled people to help them move into work.[153]

151 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
152 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020
153 House of Commons Library Briefing, The UK Shared Prosperity Fund, 22 May 2020

A full breakdown of current ESI funding to Wales is as follows:

Structural funding to Wales € millions, 2014-20 framework period total	
East Wales - ERDF	
Enhancing access to and use and quality of information and communication technologies (ICT)	11.8
Enhancing the competitiveness of small and medium-sized enterprises (SMEs)	33.6
Strengthening research, technological development and innovation	113.2
Supporting the shift towards a low-carbon economy in all sectors	40.7
Technical Assistance	4.1
East Wales - ESF	
Enhancing institutional capacity of public authorities and stakeholders and efficient public administration	15.2
Investing in education, training and vocational training for skills and lifelong learning	102.0
Promoting social inclusion, combating poverty and any discrimination	32.1
Promoting sustainable and quality employment and supporting labour mobility	49.9
Technical Assistance	4.1
West Wales and The Valleys - ERDF	
Enhancing access to and use and quality of information and communication technologies (ICT)	55.7
Enhancing the competitiveness of small and medium-sized enterprises (SMEs)	168.1
Promoting sustainable and quality employment and supporting labour mobility	167.1
Promoting sustainable transport and removing bottlenecks in key network infrastructures	106.4
Strengthening research, technological development and innovation	341.8
Supporting the shift towards a low-carbon economy in all sectors	343.0
Technical Assistance	24.1
West Wales and the Valleys - ESF	
Enhancing institutional capacity of public authorities and stakeholders and efficient public administration	16.4
Investing in education, training and vocational training for skills and lifelong learning	428.3
Promoting social inclusion, combating poverty and any discrimination	187.8
Promoting sustainable and quality employment and supporting labour mobility	156.0
Technical Assistance	16.0
Wales - Rural Development	
Enhancing access to and use and quality of information and communication technologies (ICT)	0.9
Enhancing the competitiveness of small and medium-sized enterprises (SMEs)	72.7
Investing in education, training and vocational training for skills and lifelong learning	61.5
Preserving and protecting the environment and promoting resource efficiency	145.8
Promoting climate change adaptation, risk prevention and management	145.8
Promoting social inclusion, combating poverty and any discrimination	49.0
Promoting sustainable and quality employment and supporting labour mobility	7.8
Strengthening research, technological development and innovation	105.5
Supporting the shift towards a low-carbon economy in all sectors	36.9
Technical Assistance	25.8
Total	**3,068.9**

Source: House of Commons Library

The full list of projects currently being funded in Wales is available here.[154]

154 Welsh Government, EU Structural Funds programme 2014 to 2020: approved projects, 13 December 2019, accessed 24 September 2020

Formal minutes

Tuesday 29 September 2020

Virtual Meeting

Members present:

Rt Hon Stephen Crabb MP, in the Chair

Tonia Antoniazzi	Robin Millar
Simon Baynes	Rob Roberts
Virginia Crosbie	Dr Jamie Wallis
Geraint Davies	Beth Winter
Ben Lake	

Draft Report (*Wales and the Shared Prosperity Fund: Priorities for the replacement of EU structural funding*), proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 88 read and agreed to.

Annex agreed to.

Summary agreed to.

Resolved, That the Report be the Fourth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Thursday 1 October at 8.40am.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Tuesday 10 March 2020

Professor Dylan Jones-Evans OBE, Faculty of Business and Society, Professor, University of South Wales; **Jan Zeber**, Deputy Head of Economics and Prosperity, Policy Exchange; **Andrew Carter**, Chief Executive, Centre for Cities; **Professor Steve Fothergill**, Professor, Centre for Regional Economic and Social Research Q1–27

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

SPF numbers are generated by the evidence processing system and so may not be complete.

1 Arfon Consulting Ltd (Mr Alun Williams, Managing Director) (SPF0017)

2 Arts Council of Wales/Wales Arts International (SPF0034)

3 Bevan Foundation (SPF0014)

4 Cardiff University (Professor Colin Riordan, Vice-Chancellor) (SPF0020)

5 Chwarae Teg (SPF0031)

6 ColegauCymru / CollegesWales (SPF0006)

7 Comisiynydd y Gymraeg | Welsh Language Commissioner (Meinir Jones, Comisiynydd y Gymraeg | Welsh Language Commissioner) (SPF0016)

8 Drane, Ms Laura (SPF0025)

9 Federation of Small Businesses Wales (SPF0011)

10 Finance Committee, National Assembly for Wales (SPF0008)

11 Gould, Ms Rebecca (SPF0025)

12 Growing Mid Wales (Mrs Claire Miles, Mid Wales Regional Engagement Officer) (SPF0019)

13 Industrial Communities Alliance Wales (SPF0002)

14 Institute for Fiscal Studies (IFS) (Alex Davenport, Research Economist; David Phillips, Associate Director) (SPF0013)

15 Isle of Anglesey County Council (SPF0015)

16 Learned Society of Wales (SPF0004)

17 National Trust (SPF0027)

18 Natural Resources Wales (SPF0021)

19 North Wales Economic Ambition Board (SPF0033)

20 Pembrokeshire County Council (Mr Gwyn Evans, External Funding Manager / Brexit Lead Officer) (SPF0024)

21 PLANED (Mr Iwan Thomas, Chief Executive Officer) (SPF0023)

22 Public Health Wales (SPF0007)

23 Royal College of Nursing Wales (Ms Sarah Williamson, Policy and public affairs officer) (SPF0018)

24 RSPB and RSPB Cymru (SPF0029)

25 Scottish Parliament (Michelle Ballantyne MSP, Convenor - Economy, Jobs and Fair Work Committee) (SPF0022)

26 Stephen Kinnock MP (SPF0001)

27 Swansea Bay City Deal (Peter Austin, Business Engagement Manager) (SPF0032)

28 Swansea Council (SPF0009)

29 Universities Wales (SPF0005)

30 Wales Co-operative Centre (SPF0010)

31 Wales Council for Voluntary Action (SPF0003)

32 Wales Environment Link (SPF0030)

33 Welsh Government (Jeremy Miles, Counsel General and Minister for European Transition) (SPF0012)

34 Welsh Local Government Association (SPF0028)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2019–21

First Report	Pre-appointment hearing with the Government's preferred candidate for the Chair of S4C	HC 89
Second Report	Freeports and Wales	HC 205
Third Report	The Welsh economy and Covid-19: Interim Report	HC 324
First Special Report	The Armed Forces and Defence Industry in Wales: Government Response to the Committee's First Report of Session 2019	HC 97
Second Special Report	City Deals and Growth Deals in Wales: Government Response to the Committee's Second Report of Session 2019	HC146