



Industrial Communities Alliance Wales

The all-party association campaigning on behalf of local authorities
in the industrial areas of England, Scotland and Wales

Senedd Cymru
Pwyllgor yr Economi, Masnach a Materion Gwledig
Cyllid datblygu rhanbarthol wedi'r UE
RDF12
Ymateb gan: Industrial Communities Alliance Wales

Welsh Parliament
Economy, Trade, and Rural Affairs Committee
Post-EU regional development funding
Evidence from: Industrial Communities Alliance Wales

Economy, Trade and Rural Affairs Committee: Consultation on Post-EU regional development funding

A submission from the Industrial Communities Alliance Wales

April 2023

1. The Industrial Communities Alliance is the all-party association of local authorities representing older industrial areas across England, Scotland and Wales. The Alliance focus is on securing their economic regeneration following the collapse of the traditional employment base.
2. Here in Wales, our membership is drawn primarily from the Valleys¹, and given that our member communities have been amongst the prime beneficiaries of EU funding over many years the Alliance has a particular interest in post-EU funding arrangements. In the period, 2014-2020 Wales received more per person than any other part of the UK in respect of its Structural Funds' allocations, with average total ERDF/ESF allocation of around £300m a year.
3. While Alliance Wales member authorities have taken great benefit from EU Structural funds from their experiences, they recognise that the allocation of funds and the processes put in place to deliver and monitor the funds could have been improved. Similarly, Alliance Wales member authorities, while welcoming the UK Shared Prosperity Fund, remain cautious about some aspects of the mechanisms in place for UKSPF allocation and delivery, as they were with EU Structural Funds.
4. Based on their experiences therefore our member authorities in Wales have a strong interest in the scale, shape and delivery processes being put in place for the post-Brexit replacement funds. We welcome, therefore, the opportunity to contribute to the Committee's timely inquiry.
5. The EU Structural Funds have, over many years, been pivotal in enabling the Welsh Government, local authorities, and others to make significant investments in strategic economic development initiatives covering, amongst other things, infrastructure, skills, business support, and employment opportunities to disadvantaged communities.
6. In addition, EU funds have been mobilised by beneficiaries in Wales to support innovation, research and development and institutional capacity-building notably in the higher education sector as well as stimulating key strategic sectors and clusters. Through this investment, the Welsh Government estimates that around 250,000 jobs have been supported or created by Structural Funds investments

¹ Blaenau Gwent CBC, Torfaen CBC, Caerphilly CBC, Merthyr Tydfil CBC, Neath Port Talbot CBC, Rhondda Cynon Taf CBC, Bridgend CBC, Carmarthenshire CC and Powys CC.

aligned with the strategic priorities established by the Welsh government in partnership with the EU, local authorities and other partners from the public, private and not-for-profit sectors.

7. At the same time the intangible economic development benefits gained from the EU approach to programmed regional economic development should not be ignored. For example:-
 - the Structural Funds priorities and programmes have provided Alliance member authorities with multi-annual programmes that are central to effective delivery of regeneration strategies.
 - the necessity, under the Structural Funds strategic frameworks, to build effective and meaningful partnerships have allowed local authorities and others to ensure that resources are targeted to communities and sectors with the greatest needs and opportunities.
8. The evidence shows that the industrial communities that are represented by the Alliance in Wales are still lagging behind despite EU Structural Funds. Clearly therefore there remains a need for long term targeted investment for the poorest regions of Wales to avoid the further widening of the economic gap.
9. Treasury figures show that when EU legacy funding finally drops out of the picture in 2024-25, the total UKSPF builds up to £1.5bn a year, which roughly matches (allowing for inflation) the previous EU funding.
10. Under EU funding we would already have had certainty for a period further ahead than that offered by the UKSPF because while the annual amount to be provided under the UK Shared Prosperity Fund ramps up to match EU funding eventually, the funding term set out so far is significantly shorter than the EU equivalent. What was intended to be a three-year programme now really runs for only two-and-a-bit years. If we regard £1.5bn as the average annual value of the UK total EU Structural Funds that have been lost, a seven-year programme EU funding would have been worth £10.5bn, rather than the £2.6bn over 3 years that is currently confirmed.
11. The Alliance also note that the £2.6bn UKSPF allocation for the UK is subject to a significant 'top-sliced' allocation for the Multiply initiative, taking approximately 20% of the available funding for a single initiative and arguably duplicating rather than complementing existing Welsh Government commitments.
12. For Alliance members in Wales and indeed in common with Alliance members across other parts of the UK, the lesson of post-EU funding so far, confirms the extent of the challenge and pressures that local authorities face to develop and then deliver strategic projects that support regional economic development within a three-year timescale (or even shorter in the case of CRF projects).
13. Delays in the UK government's approving of investment plans and a lack of clarity regarding timescales has already had a negative impact on the likelihood of successfully delivering UKSPF and Levelling Up Fund projects and is likely to continue to do so unless adjustments and flexibilities are introduced. In particular, the short timescales available for preparing and submitting bids for the CRF and Levelling Up Fund, and in preparing Investment Plans for the UKSPF, have placed considerable burdens on already hard-pressed professional staff at local authorities.
14. In addition, the timescale available for commitment of funding when a bid has been successful has been impractical especially where significant capital expenditures are required. In such circumstances, there could be a risk that sub-optimal spending decisions are made in order to avoid foregoing the investment 'window'. This would not only represent a risk to value of money but also to transparency and rigour in the investment of public funds.
15. The allocation of the UKSPF to individual local authorities, while welcomed in some respects, does inevitably reduce the scope for targeting of investment and support on strategic projects particularly when compared with allocation of EU funds to the two sub-regions (West Wales & the Valleys and

East Wales). While the discretion under UKSPF is in the hands of local authorities rather than the devolved governments allowing some local flexibility, Alliance member authorities realise that strategic investments are needed that will target large swathes of the population requiring similar specific supports.

16. Alliance members authorities are also concerned that where UKSPF favours a local authority level approach compared to a more regional level approach business and voluntary sector organisations in their areas are presented with difficulties in developing support for specific groups. There therefore remains a need for a programme of strategic priorities that ensures investments that are complementary and can be made across a wider than purely local area.
17. Alliance Wales has also noted that in the design of the allocation formula used for the UKSPF within Wales the inclusion of the Multiple Index of Deprivation was only conceded by UK government at almost the last moment and then only after pressure from the Welsh Government.
18. The late inclusion of the Index of Deprivation has been identified as flawed, not least by the Institute of Fiscal Studies. The IFS show that differences in the population of authorities were not considered when the WIMD element of the formula was applied. This has resulted in penalising local authorities with large populations even where their levels of deprivation are similar to levels in smaller, neighbouring authorities including in the Valleys of South Wales.
19. It is therefore essential that local authorities work in partnership and prioritise projects and investments that can gain maximum impact even where the benefits are spread across authority boundaries. Moving forward Alliance Wales members would hope to see flexibility by the UK Government in a number of areas of the UKSPF including a restricted role for competitive bidding. Local authorities in Wales are already comfortable in working within strategic partnerships such as the Growth Deal groupings, consequently an insistence on competitive bidding would undermine to a very substantial extent the gains that EU funding has brought to allow strategic, capital and cross boundary investments to be made.
20. Alliance Wales is therefore strongly of the view that local authority partners should be encouraged to work together and with others via regional groupings, such as the City and Regional Growth Deals and emerging Corporate Joint Committees (CJCs), to deliver mutually agreed strategic investment programmes.
21. Alliance Wales is obviously aware of the ongoing dispute between the UK Government and the Welsh Government regarding the extent of engagement and consultation or lack of it between the two levels of government, their officials, and Ministers on the subject of the UK SPF. Vaughan Gething MS, the Minister for Economy has in a number of communications noted the lack of engagement and suggested that the UK Government has, in designing the UKSPF, ignored the devolved administrations and the regional investment framework involved local authorities and other partners that has developed through the years of EU Structural Fund delivery.
22. Whether the evident and very public disaffection between governments and Ministers is simply a matter of a lack of communication and respect or is a purposeful undermining of the devolution settlement is for others to debate. Alliance Wales is however of the view that it would be beneficial for Wales, and for our member authorities, if the Welsh Government was fully engaged alongside local authorities and others in determining the strategic and operational priorities for the use of the UKSPF in Wales.
23. The Alliance GB-wide has been monitoring, analysing, and engaging with UK Government Ministers and officials as well as the devolved administrations in Cardiff and Edinburgh as the UKSPF has emerged ever since the 2016 referendum on EU membership.

24. The challenges that have arisen for local authority members of the Alliance include those highlighted earlier in this submission arising from the lack of strategic multi-partner frameworks to underpin investment plans; the difficulty of delivering large scale investments that cut across local authority borders; and the weakness of annual or 3-year spending programmes. These challenges had not been tangible where EU Structural Funds were concerned but have reappeared within the realm of the UKSPF.
25. We have also been looking ahead to the UK Government's intention to streamline levelling up funding, including possibly the UKSPF. This would have consequences for Wales and specifically for our member authorities, as well as elsewhere across the UK.
26. After consideration and discussion, the Alliance has reached the conclusion that:
- The UKSPF needs to be maintained as a separate funding stream. This would visibly honour the political commitment to replace EU funding and facilitate the continuing strong targeting of less prosperous local economies. In this context, it is pertinent to note that, on a per capita basis, the UKSPF allocation to Wales is twenty times greater than to South East England.
 - There should nevertheless be reforms in a second tranche of the UKSPF. In particular the funding duration in the first tranche is far too short and there needs to be the provision for spending on capital projects in particular to roll on beyond the end of the Spending Review period, as was the case with EU funding.
 - If, as part of a drive to streamline funding, it proves impossible to maintain a separate identity for the UKSPF, the way to carry forward as many benefits as possible would be to establish a 'minimum guarantee' under which all parts of the UK would receive no less than they would have received if the UKSPF had continued to operate as separate funding stream.