Cwmpas response to Economy, Trade and Rural Affairs Committee inquiry

Post-EU regional development funding

- **How effective were EU Structural Funds at transforming the Welsh economy?**

The extent to which EU structural funds would have been able to transform the Welsh economy on their own is hard to account for. They were one element of investment into Wales, and part of a much wider and more complex system of economic development and governance. However, it is clear that individual projects funded and facilitated through this funding mechanism had a significant impact on the Welsh economy, and embedding principles of social enterprise.

Our projects funded by European Structural Funds have been successful in growing the social business sector in Wales. Social Business Wales is funded by the European Regional Development Fund and Welsh Government. It is delivered by Cwmpas and is part of the Business Wales service.

Research mapping the social enterprise sector in Wales in 2022 has shown that the sector is going from strength to strength with high levels of new entrepreneurial activity. There are now approximately 2,828 businesses in the sector, an increase of 66% from 2016 (1,698). In 2022, a quarter of businesses surveyed are 'start ups' that have been trading for 2 years or less.

Total turnover for the sector is calculated as £4.8bn, an increase of 102% from 2016 (£2.37bn), and total employment for the sector is calculated as 65,299, an increase of 60% from 2016 (40,800).

This would not have happened without the support provided by Structural Funds through programmes such as Social Business Wales. Specialist business support for these enterprises has been identified by the businesses themselves as being crucial to their growth. Survey data shows that clients receiving support from this service rated it very highly. The support has helped grow these businesses, created hundreds of good quality jobs and safeguarded many others.

An independent evaluation of Social Business Wales highlighted an "ongoing need for specialised support for the social business sector, recognising the multi-stakeholder environments and specific legal, constitutional and financial arrangements that have wide-reaching implications for the successful operational of social businesses". The key benefit of specialist support is that advisors have a specific understanding of the characteristics of social enterprises – that they are multi-stakeholder, have a triple bottom line, differing legal structures and alternative funding options. This specialist support has been available to social businesses at all stages of the business cycle, from support to nascent entrepreneurs to established firms who are seeking to grow. As well as being responsive to the demands of social businesses, this service has been proactive, building new markets and developing social enterprises in response to market needs.

- **Which elements of the two new funds have worked well so far, and which have been less effective. What lessons could be learnt for the future to maximise the impact of the funds.**

SPF funding allows for Local Authorities in each region (South East, South West, Mid and North Wales), to work together to deliver regional strategies and interventions. However, at this point, the onus seems to have been placed on local delivery defined by each individual local authority. Whilst this is understandable, it has the potential to create a very fractured map of support over a number of different themes across the geography of Wales. For instance, two neighbouring Local Authorities could prioritise business support and business funding differently, with businesses in one Local Authority able to receive business support but not funding and vice versa in another local authority.

If sums had been made available to solely be distributed at a regional level (ie Welsh Government or City Region), then it would have been possible to design much more strategic interventions that could have addressed common issues across each of the regions. Where we have heard a regional approach is being taken with some local authorities (primarily in South East Wales to date) the themes are limited to specific sectors and miss the opportunity of delivering strategic interventions in areas such as social businesses, SMEs or the foundational economy.

This delivery model also has the potential to create 22 different audit and monitoring mechanisms, increasing the resources required to manage these processes and creating inconsistencies. In addition, the decision to move distribution away from the Welsh European Funding Office which had 20 years' experience of decision making, evaluation and auditing, coupled with regional consultation and local delivery of projects, means a huge loss of knowledge and expertise.

There is also a capacity issue within local authorities across Wales in managing a large competitive process of fund distribution. Since 2010 resources have been lost from local authorities across Wales, with many having to focus resources on their on their statutory duties, for example many local authorities across Wales lost, or now have a much-reduced economic development function. As a result of the Shared Prosperity Funding Programme local authorities have now had to build up additional resources. We are now in to the second year of the SPF Programme but as far as we are aware no funding awards have been made to third parties. Expressions of interest and applications have been submitted but many local authorities have been overwhelmed by the number of applications that they need to consider and process.

- **Whether the funds are successfully identifying and supporting the communities and areas of Wales that are in greatest need, and how the geographical spread of funding compares to Structural Funds.**

Previously there was a basic but clear logic to the distribution of Structural Funds, West Wales and the Valleys received a greater amount of investment than East Wales because its average GDP was lower. It is less clear how the current distribution of funds specifically supports those communities in greatest need.

- **The extent to which the processes and timescales set by the UK Government for the funds support local authorities and regions to achieve their intended outcomes.**

SPF has been designed as a three-year programme of support with financial interventions ramped from a low level in year 1 to its highest level in year 3. The delivery timescales commenced in April 2022 even though there was no means in place to implement any delivery apart from on an 'at-risk' basis. Delays in confirming allocations and procedures to the local authorities now mean it is unlikely that any money will be available for project delivery (external to the local authorities) before September 2023 – effectively losing a whole 16 months of potential delivery. In fact, the way in which the funding has been scaled means that there will only be one year in which peak delivery can be achieved (year 3) – this means existing projects will need to scale up in year 3 or new projects/interventions will need to be created that will then only have 12 months to deliver against their targets. Add to this the fact that the funding will work on an annualised basis where, as we currently understand it, unused funding will not be rolled forward into the next financial year and it becomes apparent that developing and implementing interventions that will have a real impact in the targeted areas will be difficult.

This inevitably raises the question of what happens at the end of March 2025. Currently, there is no successor funding in place, so we are faced with the likelihood of projects and interventions being rushed into delivery stages with a maximum of 15 to 18 months of actual delivery time and no plan in place for succession or sustainability. For some delivery this may suffice but in comparison to ERDF funding which worked on 5-year delivery tranches (often with extensions) it is likely to limit the long-term impact that can be achieved. The same issues that are facing organisations around the end of CRF funding and the end of ERDF/ESF funding (succession, sustainability, inability to deliver, redundancy) are almost certain to be replicated at the end of SPF funding.

- **The challenges and opportunities these funding streams provide for bodies such as businesses, colleges, universities and voluntary sector organisations who received Structural Funds.**

The loss of structural funds means that Cwmpas is going through a challenging period, like many similar organisations in Wales. We are delighted that Social Business Wales is continuing through dedicated funding from the Welsh Government for specialist support for the social enterprise sector. This will now be delivered via a consortium with key partners in the Social Enterprise Stakeholder Group (WCVA, DTA Wales, UnLtd and Social Firms Wales). Unfortunately, however, this is at a significantly reduced level of funding, and difficult decisions have needed to be made. For example, we have lost the market development function within Social Business Wales that would be crucial to developing the impact of the sector at a time when it is most needed.

At the same time, the need to pursue alternative funding options, including but not limited to the new post-EU funding streams, has seen Cwmpas innovate and expand its services and impact. We are developing new relationships with key stakeholders across Wales to ensure that our specialist support is maintained and developed in each region of the country. This, of course, comes at a cost, with resources and capacity needing to be directed towards finding and managing short-term contracts, rather than front-line specialist support to the sector.