Post-EU Regional Development Funding

Consultation Response: Economy, Trade, and Rural Affairs Committee

FSB Wales

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About FSB

FSB Wales is the authoritative voice of businesses in Wales. It campaigns for a better social, political, and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

SMEs form the overwhelming bulk of businesses in Wales. They are grounded and embedded in our communities and provide vital services and amenities, as well as jobs and prosperity. They form the foundation for local economic development and create value within our communities. However, Brexit has altered a number of funding structures for Welsh businesses and new post-EU funding streams presents a number of opportunities and challenges for SMEs with regard to business support.

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

We know that during the 2014-20 funding round, Wales received more than double the amount per person in EU Structural Funds than any of the other nations and regions of the UK. In this previous round, Wales was allocated over 8 times more in EU Structural Funds than the South East of England, €2.4 billion compared to €286 million. However, in terms of the SME economy specifically, evidence from the FSB Reformed Business Funding Report found that EU funding played a particularly important role around supporting scale-up firms looking to further their aspirations for further growth. Just under a quarter, 22.9% of Welsh SMEs have received support from European funding streams, primarily signposted through Businesses Wales or wider skills and business support. FSB also found in the Reformed Business Funding Report that 26% of small businesses in Wales had at some point applied for EU funding and business support. This financial support has been used to provide skills training, research, and development, and business development support. A significant proportion of the apprenticeships budget, a key support to SMEs and wider skills development in Wales, was also funded by the EU. FSB members reported that EU funding had a net positive impact on their business and local area, with only 15% of respondents suggesting that funds had no impact or a negative impact.

To highlight a specific stream within the fund that helped support the SME economy in Wales – a £157.5 million JEREMIE fund delivered finance to small businesses between 2009 and 2015. It was the first fund of its kind in the UK and its funding came from EU Structural funds, ERDF, and Welsh Government. The fund invested in microfinance, debt, and equality finance to support small businesses. Funding that is ringfenced for smaller businesses is particularly important of the Welsh economy where 99.4% of our enterprises are SMEs.

Members did highlight difficulties in applying for EU funding and some found that conditions attached to funding were overly restrictive. Our evidence suggests that small business engagement and signposting of available EU funding support for access to finance was not always working as effectively as it should.

However, it is also the case that the money has not had a transformative effect on the Welsh economy. In our 2022 report 'Building Businesses', we expressed the hope that changes to the structure provide an opportunity to create a less bureaucratic and better funding system that serves Wales – and SMEs in Wales' – needs. More regulatory burdens and shorter funding cycles tend to mean SMEs missing out as they have less capacity to engage. This can lead to the traditional criticism that EU funding led to 'nice shiny buildings' but not the incremental changes and support for SMEs that is needed to transform Wales' economy.

In changing the funding system, we need to learn from past mistakes and look to a focus on long-term economic development in Wales. This requires a system which is anchored and certain, brings to bear considerable central resources to regional development, provides for local knowledge and builds on institutional learning and networks already in play, builds capacity and capabilities, and on a shared mission toward economic development in Wales that sits outside short-term political agendas and electoral cycles.

Whether the funding that Wales will receive to 2024-25 through the Shared Prosperity Fund and the tail-off of remaining EU Structural Funds matches the level of funding that Wales received through Structural Funds while the UK was a member of the EU and any potential Structural Funds that would have been available through the next programme.

The total value of the Shared Prosperity Fund and whether it matches that of EU Structural Funds in Wales is dependent to an extent on how we count that support – in terms of grants whether we will count the tailing off of EU funds and whether they will be replaced post 2025, and whether UK Government will address the need for better SME access to finance also in Wales.

Developments thus far suggest a shortfall compared to the quantity of funding previously available. . FSB Wales has consistently stated our belief however that Wales should continue to be in receipt of funds of an equal or similar value post-Brexit. This believe is also supported by the majority (78%) of our membership in Wales. If funds of a similar value are not being made available to Wales, the Welsh economy stands to be much worse off.

From our interaction with members, and the Shared Prosperity Fund process, it is still relatively early to judge whether our individual members and wider sectors are receiving more or less than they were under previous funds.

However, there is a concern that less funding is being fed into the Welsh economy as a whole due to the lack of an additionality clause that appear in EU Structural Funds. Under the Structural Funds process, bids can be submitted which bid for money but without being matched. If a significant number of these bids are selected this will see the displacement of investment in Welsh economy overall as an unintended consequence of the Structural Fund, even if the value of the fund matches pre-Brexit funding.

Furthermore, even if the value of the pre- and post-Brexit funds match, the geographical movement of funding may mean that funding loss will be experienced acutely in certain areas like West Wales and the Valleys. That some more deprived areas in the Community Renewal Funds are not targeted and are seen as less of a priority than relatively better off areas is a concern, particularly as Wales is among the more deprived areas of the UK.

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.

While the bidding process for the Shared Prosperity Fund is allowing for good, new, innovative ideas to be considered, it is unclear in all cases whether bidders are always best-placed to deliver projects or support.

There are a number of issues with the delivery being at a local authority level only rather than via Welsh Government. There are different administration processes and awarding of funds being undertaken by different Local Authorities which provides inconsistency and uncertainty for SMEs. Depending on the outcome of the structural funds this may lead to unfairness for SMEs operating in different regions, creating a postcode lottery of businesses support.

Having delivery at the Local Authority level also creates a situation where there is little cohesion and overarching structure. Previously at Welsh Government level, regional and national projects could be supported through EU funding but due to bids being decided in separate local authorities the ability to achieve wider aims is lost. The bidding process is likely to encourage speculative applications - where bids are put in for the sake of it, to see what happens, rather than for the benefit of the wider economy and community, again creating this lack of structural use of the fund. There is also an issue arising where if a regional bid is put in, if one local authority does not approve it – this prevents it being delivered in the other local authority areas even if they wished to fund it.

There is also a loss of efficiency and economies of scale that can be otherwise be gained by delivering projects at this higher level rather than at a more localised level. FSB Wales has always made clear that the competition element, putting rivals against each other, is perhaps not the best way to get value for money. The competitive bidding process also seems to mitigate against Local Authorities working in partnership, which is something that should be encouraged to provide for scale.

The bidding process risks creating considerable duplication. As there are separate deliberation processes across different local authorities, which require significant contribution and resources from partners, this duplication puts a strain on the time and resources of experts to contribute to the process. FSB Wales are concerned that many similar applications likely to come in across Wales and that duplication in awarding these similar applications may not be the best value for money or the most efficient way of delivering these projects. For example, where sustainability or net-zero focussed initiatives provided under the Shared Prosperity Fund may clash with money already available through Development Bank of Wales Funding, or where the two together could add more value and be mutually reinforcing.

Finally, with previous EU funds we know that just over a quarter of our members had applied for funding and just under a quarter had received funding but from interaction with our members so far, there is a worry that smaller businesses are not being made aware of the new funding available. FSB Wales is concerned that raising awareness of the post-Brexit funds has not been sufficient enough, which risks leaving many smaller businesses here in Wales unaware of potential opportunities. There appears to be a lack of awareness among small businesses that this is happening at all, with low visibility of the Shared Prosperity Fund and the Levelling Up agenda in the small business community. This also which means it is harder to get consortia between businesses and/or with higher and further education.

What types of intervention are being delivered through the Shared Prosperity Fund, and to what extent do these differ from Structural Funds interventions.

FSB currently is not able to answer this question as it is still relatively early. We do not know the full impact of the Shared Prosperity Fund yet, and there is currently uncertainty as the which projects will be delivered. Where there are larger pots of funding being secured, for overarching projects, such as schemes for decarbonisation and sustainability for example, we also don't know whether these will be going between 10 businesses (£25,000 each) or 1000 businesses (£2500 each). We also don't know what the criteria will be for smaller businesses to access these separate pots, these criteria have the ability to make the funds more or less SME friendly. The progression of allocation of funds is something that needs to be closely monitored to understand what sectors, interventions, and businesses are involved.

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.

As already mentioned, one of the greatest positives coming from the current post-Brexit funding is that it is open to more Local Authorities than EU Structural Funds which means authorities previously exempt by Objective One or Convergence Funding criteria, now have access to potential funding. This provides opportunity to recapitalise rural Wales that was exempt from previous funding, and the regeneration of previously exempt towns. The Shared Prosperity Fund is also likely to deliver to delivery a postcode lottery of businesses support due to deliberation being made at the local authority level. We would like to see SMEs have access to innovative and sufficient funding to fulfil their needs and ambitions regardless of where they are geographically located in Wales.

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.

The processes and timescales set by the UK Government for these funds are not SME friendly and do not utilise a 'Think Small First Model' which understands the need for better engagement with smaller businesses and appropriate mechanisms. Without doing so these processes, as stand, cannot fully support SMEs in Wales to achieve their goals and ambitions**.** Post-Brexit funding streams should be learning from best practice in Wales by including a Think Small First model. This should help to ensure that SMEs are not being unfairly disadvantaged. Currently, the minimum application of £250,000 is too high a level of spend for many SMEs and excludes many from this funding. There is also a concern that the timescales are too tight for to convene and engage necessary coalitions of partners. Short timescales are particularly challenging for SMEs as they are likely to have reduced capacity, staff, and resources, especially in areas like administration. This makes meeting these deadlines more costly and challenging for them and disincentives smaller businesses from applying for the funding steams, which prevents them reaching their goals and UK and Welsh Government from reaching wider economic ambitions and truly supporting local economies.

A 'Think Small First' Model or Principle could take a number of forms, but may include policy such as:

- Ensuring impact assessments are made for businesses of smaller size where regulation and policy will likely have a disproportionate effect and provide mitigations accordingly
- Establishing frameworks, networks, and infrastructure that allows for information sharing, innovation, diffusion, and adoption
- Providing consistent and accessible information
- Cutting contracts into small enough pieces
- Reducing regulation for small businesses with less than 50 employees
- Providing suitable and equitable access to finance for small businesses

On top of this, a 'Fairness' Test' could be used to ensure equity and justice for smaller businesses during the transition to net zero. In planning and designing regulatory and policy frameworks, and in prioritising investment the following principles should be met:

- Fairness of Ambition – matching the reality of the challenge
- Fairness of Accountability – taking a coordinated approach with coherent and accountable governance
- Fairness of Delivery
- Fairness of Opportunity – ensuring businesses of all sizes, in all sectors, across every region and nation have access
- Fairness of Cost – ensuring policies are affordable and achievable

How effectively the different levels of governance in Wales are working together in relation to these funds.

There are dangers and risks for SMEs by UK Government bypassing Welsh Government in delivery of business support, and also in UK not using institutions and structures that have worked, retain trust between actors, are regionally-based and embedded in Wales. A comprehensive OECD report has noted importance of strong institutions, regional based capacity, to ensure effective joined up business support funding that works in the long-term and outside the electoral cycle. We concur with this assessment and urge that the system is shaped to accommodate expertise, local knowledge and institutional advantages that are in place in Wales. Similarly, we have previously expressed concern that Senedd members aren't engaged in the process in the way Members of Parliament are expected to participate.

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

From FSB Wales' interaction with the Shared Prosperity Fund process and our members so far, the key challenge for smaller businesses is that the processes are not SME-friendly. Post-Brexit funding streams should be learning from best practice in Wales and be designed with a Think Small First model in mind to ensure that our SMEs here in Wales are not being unfairly disadvantaged. For example, in North Wales there is a minimum application spend of £250,000.[1] This is not a realistic level of spend for many SMEs and excludes them from this funding unless local authorities or other organisations put in bids to disperse that funding further. From speaking to members and witnessing the process, the timescales are also tight. This is particularly hard for SMEs who have reduced capacity, staff, and resources – meeting these deadlines and quick turn arounds will be significantly more costly and challenging for them. It is a concern that because of these processes, local authorities, universities, and colleges will be able to apply but the disincentives for smaller businesses are significant.

There are some opportunities of these new funding steams however for smaller businesses in Wales. As mentioned already, small businesses in local authorities that were previously excluded from certain EU funding now have greater funding opportunities available to them. There is also an opportunity, at the discretion of different local authorities, to provide funding for projects and SMEs that would not have been granted under previous EU funds. Divergence between the projects selected by and approaches of different local authorities may allow them to learn from each other and to develop best practice and innovation.

How the Multiply programme is developing across different parts of Wales, and what are the potential barriers and opportunities in relation to delivering this programme.

No view.

[1] https://www.wrexham.gov.uk/SharedProsperityFund