



Industrial Communities Alliance Wales

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

Welsh Government Finance Committee: Post-EU Funding Arrangements Inquiry

1. The Industrial Communities Alliance is a local authority network representing former coal and steel communities with a focus on securing their economic regeneration following the collapse of the traditional employment base. Here in Wales, its membership is drawn primarily from the Valleys, and given that they have been prime beneficiaries of EU funding over many years the Alliance has a particular interest in post-EU funding arrangements. We welcome, therefore, the opportunity to contribute to the Committee's timely inquiry.
2. The Alliance's starting point is that the overall post-Brexit funding envelope should be no less than the EU's Structural Funds' allocation for 2014-2020. During this period, Wales received more per person than any other part of the UK, with average total ERDF/ESF spend approaching £375m per annum. However, the Alliance would argue that this should be substantially increased given the significant and widening prosperity gap between many parts of Wales and other regions of the UK.
3. The Westminster Government's ambitious leveling-up agenda would also suggest that a step change in funding is necessary if the strategy is to transform the economic well-being of areas such as the Valleys. However, whilst the recently published UKSPF Prospectus acknowledges that cumulative forces have widened geographical disparities in the UK over time, and that without policy action, they will continue to do so, it is not proposing any additional funding beyond matching the previous EU allocations. In short, the ambition is not matched by the level of resources necessary to bring about the economic transformation of the Valleys. In this respect, the Committee will be familiar with the fact that many parts of South Wales fall significantly short of the average prosperity and productivity levels evident in the rest of the UK.
4. As set out at Spending Review 2021 and the UKSPF Prospectus, the Government has confirmed that the UKSPF is worth £2.6 billion over the next three years although it will not reach the £1.5bn per annum previously allocated through the EU's Structural Funds until 2024/25. Funding across the UK in the first 2 years will be £0.4bn and £0.7bn respectively. Given the Government's manifesto's pledge that the Fund will "at a minimum match the size of EU Funds in each nation" the expectation was that Wales would receive at least £375m per annum but

this will not now be achieved until 2024/25. As result, Wales will be some £700m worse off over the period 2020-23 when compared to what it would have received from the Structural Funds. Given that on average Wales received nearly five times as much per head from EU funds, when compared to the rest of the UK, the shortfall will have a significant impact on investment plans at a time when many local economies are facing increasing pressures In the aftermath of the pandemic and Brexit.

4. Apart from the overall shortfall in funding, and the impact that this will have on regeneration activity, there are a number of other concerns arising from the announcements to date. Firstly, certainty and multi-annual programmes are central requirements for effective delivery of meaningful regeneration strategies. However, notwithstanding the overall commitment to achieving £1.5bn per annum by 2024/25, the Alliance has considerable concerns over the short timescale of the present funding and in particular the lag between commitments and spending, especially for the period beyond 2024/25. In this respect, the Government needs to address how it will ramp up spending to a 'steady state' in order to avoid the potential drop-off in spending beyond the funding committed through to 2024/25. The 2024/25 time frame is also inconsistent with the 2030 delivery horizon set out in the Levelling Up White Paper. At the very least therefore, the Government should commit to a 7 year fully funded programme based on a minimum allocation of £375m per annum for Wales.
5. On a related issue, the Alliance also has concerns that the short timescale set out in the UKSPF prospectus could be very challenging for large scale capital projects given their associated lead times and delivery profiles. As a result, the regime may favour smaller scale projects, which may not represent value for money or deliver the necessary long-term sustainable benefits. In this respect the Alliance is concerned that the experience gained from the 2021 Community Renewal Fund, which was intended to inform the design of the UKSPF, should not be used as a template for rolling out the substantive initiative. The CRF's tight application and delivery times and the dominance of revenue projects with little if any strategic fit were widely criticised and, most significantly, the bid and decision criteria were set in Westminster, effectively marginalising the Welsh Government's role in the process. This concern is considered in more detail in the context of the strategic delivery of the UKSPF.
6. A third area of concern is that the £2.6bn UKSPF envelope includes a significant allocation for the Multiply initiative, effectively top slicing approximately 20% of the available funding for a Westminster driven initiative. In Wales, this amounts to approximately £100m and it would appear to have been imposed without proper regard to existing adult numeracy initiatives in Wales and more widely the terms of the devolution settlement. As a result, there is a risk of duplication and fragmentation as well as the loss of locally determined priorities, which

happens to be one of the cornerstones of the Government's delivery strategy.

7. The Welsh Government and its local authority partners have a long history of partnership working with mutually agreed priorities. Effective and meaningful partnerships are essential for prioritising funding and ensuring that resources are targeted to those communities and areas with the greatest needs. Alliance Wales is strongly of the view that the Welsh Government is best placed to determine Wales' regional priorities working with its local authority partners and others via the appropriate regional groupings, such as the City and Regional Growth Deals, to prioritise and deliver the mutually agreed investment programmes. The proposed allocation of UKSPF funds to individual local authorities and the expectation that these will then be pooled to underpin a regional investment plan is largely consistent with this approach with one exception, namely a recognised and meaningful role for the Welsh Government.
8. Whilst the UKSPF Prospectus states that the Government wants to work with the Welsh Government (and the WLGA) to support work across the four existing regional geographies, it falls short of offering an explicit account of the nature of this relationship. In this respect, the Alliance has serious concerns over the conflicting narratives emerging from the Government on the exact role of the Welsh Government in shaping and delivering the levelling up agenda and the underlying UKSPF. In short, it would appear that the centralisation of the UKSPF and levelling up agenda in Westminster is resulting in the marginalisation of the Welsh Government in the decision making process and prioritisation of funding. It also raises serious questions with regard to scrutiny and accountability. A recent House of Commons Library Research Briefing on the UKSPF (30/3/22) leaves no doubt about the direction of travel:

'At several points in the design of the Shared Prosperity Fund, it has been clear that the Fund is intended to be controlled primarily by the UK Government. This means that although the devolved administrations did not technically lose any legal powers, they will no longer be formally involved in making decisions over where the funding goes. The only new powers that have been introduced in law for allocating the new funding – those in Part 6 of the United Kingdom Internal Market Act 2020 – apply to the UK Government, and not the devolved administrations. The Government has said that the devolved administrations "will be invited to play a role in the development and delivery of local investment plans so they will still have some influence, albeit informally.'

9. Furthermore, the recent Levelling White Paper reveals that the Government will be using its recently acquired powers to spend money on devolved matters. In response to this, the Committee will be aware that Wales' Minister for Economy has stated that *"the unconstitutional*

Internal Market Act is being used to override democratic devolution by stopping decisions about Wales being taken in Wales". The Institute of Welsh Affairs echoes these sentiments, stating that *'The Levelling Up Paper cannot move beyond the ideology of parliamentary sovereignty and over-centralisation is baked into every sentence, of every paragraph, of every page.'* At the same time, the Alliance is aware that the Wales' Office is seeking a more visible role in the overall process, and there are concerns that the resulting tensions between it and the Welsh Government will undermine the delivery and effectiveness of the UKSPF and related initiatives.

10. Taking the UKSPF in the wider context of the levelling up agenda, the Alliance's overwhelming conclusion is that whilst the Government does not lack ambition, there is little evidence of its preparedness to recognise the role of the Welsh Government in delivering a shared vision, let alone making the necessary resources available over a sustained period of time for its realisation. Indeed, there remains a clear disconnect between Government's own recognition and assessment of the nature and scale of the transformation required to close the economic gap between Wales and other parts of the UK, and the policy response set out in the UKSPF prospectus and Levelling Up White Paper.

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The Industrial Communities Alliance is the all-party association of local authorities in the industrial areas of England, Scotland and Wales. The Alliance was formed in 2007 by the merger of longer-standing associations dating back to the 1980s. Its role is to deliver funding and policies to enable economic, social and environmental renewal in the cities, towns and communities covered by its member authorities. Its local authority membership in Wales comprises: 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.