WLGA CONSULTATION RESPONSE:

Inquiry by the Senedd's Economy, Trade and Rural Affairs Committee: Post-EU Regional Development Funding

21 April 2023

INTRODUCTION

1. The Welsh Local Government Association (WLGA) is a politically led cross party organisation that seeks to give local government a strong voice at a national level. The Association represent the interests of local government and promotes local democracy in Wales. The 22 councils in Wales are all members of the WLGA and the 3 fire and rescue authorities and 3 national park authorities are associate members.

2. WLGA believes that the ideas that change people's lives, happen locally. Communities are at their best when they feel connected to their council through local democracy. By championing, facilitating, and achieving these connections, we can build a vibrant local democracy that allows communities to thrive.

3. The main aim of the Association is to promote, protect, support and develop democratic local government and the interests of councils in Wales. This means:
    - Promoting the role and prominence of councillors and council leaders
    - Ensuring maximum local discretion in legislation or statutory guidance
    - Championing and securing long-term and sustainable funding for councils
    - Promoting sector-led improvement
    - Encouraging a vibrant local democracy, promoting greater diversity
    - Supporting councils to effectively manage their workforce.

General Points and comments

4. WLGA welcomes the opportunity to respond to this Economy, Trade and Rural Affairs Committee review of post-EU regional development funding inquiry. Recognition of local government's central role in facilitating and supporting development and community revival has been welcomed. However, there have also been a number of challenges associated with Shared Prosperity Funding:

- short timescales
- organisational capacity
- restricted funding opportunities for some sectors (e.g. Further and Higher Education)
- lack of clarity over what should replace the previous EU funding for rural development
- and the autonomy given to Councils to manage the process. Although autonomy is often cited as a key strength of shared prosperity funding, the lack of clarity around the level of discretion permitted is causing some concern in those tasked with managing the fund.

5. Each of the questions raised is now considered below.

Q1 How effective were EU Structural Funds at transforming the Welsh economy?

6. It is argued that EU Structural Funds were not and could not be, in and of themselves, transformative of the Welsh Economy. Wales benefited from around £2.1bn of EU funds (ERDF and ESF) over the period 2014-20, or on average c£300m p.a. in each of the seven years. The annual GVA of Wales over that period was c£63bn. Therefore, in crude terms, EU funding represented less than 0.005% of GVA in any one year. In fact, there are many other variables that have an impact on the finances of Wales, such as the funding settlement from UK Government and private investment. However, the EU funding did accelerate the implementation of a range of capital and revenue projects that support economic development.

7. It is also contended that the delivery structure of EU funding stunted local delivery capacity to varying extents. For example, one council area in Wales benefitted from over £150m under Convergence / RDP (2007-2013) and around £53m from the ESI Programme (2014-2020). However, over this period the focus shifted towards a central Welsh Government delivery model.

8. It was estimated that 2,000 jobs were created in that council area under the Convergence Programme, which is a significant amount and would have contributed greatly, at the time, to the economy. The sustainability of those additional jobs will now, though, be a key issue in that area and across all of Wales.

Q2: How will the funding that Wales receives from the Shared Prosperity Fund and the tail-off of remaining EU Structural Funds compare to the level of funding that Wales received through Structural Funds while the UK was a member of the EU and any potential funding that could have been received through the next Structural Funds programme?

9. A comparison of the UK Community Renewal Fund and the UK Shared Prosperity Fund to the funding received by Wales when the UK was a member state of the EU was provided by the Minister for Finance and Local Government in a Written Statement on 4 May 2022: [Written Statement: Loss of funding to Wales as a result of the UK Government's arrangements for replacement EU funding (4 May 2022) | GOV.WALES] .

10. Essentially, Welsh Government believe there was a significant shortfall of funding to Wales when EU replacement funding was implemented; a total of £243m loss in rural funding and a £772m shortfall in EU structural funds adding up to just more than £1bn. This shortfall does not take into account the additional losses of funding from Wales's access to a number of other EU funding programmes, including Erasmus, Horizon and European Territorial Co-operation which have not been fully replaced by the UK Government.

11. The UK Government, however, includes the tail end of EU programme funding when comparing the levels of previous ERDF and ESF with current funding levels. On that basis, it argues that Wales is receiving an equivalent amount overall. The differing positions of UK and Welsh Government therefore reflect their different methods of calculation. However, what is clear is that under a new 2021-27 EU programme Wales would have had certainty of funding over a seven-year period. With the replacement funding there is currently no certainty beyond March 2025.

Q3 Which elements of the two funds have worked well so far, and which have been less effective? What lessons could be learnt from this for the future to maximise the impact of the funds?

12. The long-term certainty of EU funding (over seven years plus three to finish off projects) was a major advantage. The switch to shorter term funding under SPF and LUF inevitably impacts on the type of schemes that can be supported. The bureaucracy associated with EU funding (bidding, progress reporting, monitoring and evaluating, auditing etc) was a substantial burden, however. Also, projects had to align with criteria or 'measures', which could lead to project content being 'bent' to achieve eligibility.

13. The autonomy given to Councils by SPF is both a blessing and a curse. A blessing because it allows Councils to identify the type and level of need whilst being able to determine suitable solutions in the localities that they know best (against an extensive list of available interventions). Monitoring and reporting on the process is less onerous thus less resource intensive than European funding regimes. However, it is also a curse in that the light-touch approach in terms of monitoring spend and activity under SPF is causing unintended anxiety and uncertainty. Councils have become accustomed to monitoring imposed by the European Commission and enforced by WEFO but with SPF don't have prescriptive administrative processes. One concern, despite assurances, is whether additional reporting requirements will be introduced at a later stage, requiring retrospective and time-consuming gathering of information.

14. It is unfortunate that the flexibility afforded to Councils to manage the spend locally did not extend to managing the monies allocated between the investment priorities in line with local need or between the different years of the fund. The four lead authorities are having to deal with uncertainty over the carry-over of unspent monies from 2022/23 into 2023/24 as well as not receiving grant determination letters for 2023/24 until 'credible plans' they have to submit in May have been assessed. That means that releasing funding to projects is 'at risk' until such time as confirmation of UK Government funding is received. Regional Investment Plans (RIPs) that had to be submitted before project details were known had to identify in broad terms how much would be spent on projects under the three main

headings: 'communities and place'; 'local businesses'; and 'people and skills'. Whilst there is scope for some variance from the RIP, much will depend on the line (and the time) taken by UK Government in dealing with requests for virements.

15. Regional planning for local delivery is considered a potential benefit of SPF. It enables cross-border approaches to service delivery, shared learning and resources where appropriate. It has been a source of frustration, though, that this approach was not adopted in other parts of the UK which means some of the challenges faced in regional working are unique to Wales. Lead authorities in each of the four regions of Wales have been faced with additional burdens of managing funding at a regional level and establishing financial and delivery agreements with the constituent councils. In England where in most cases the money goes directly to the individual authority (except for example in Combined Authority areas) they have not had this added complication.

16. For Wales, too, the publication by UK Government of an allocation for each council area within the regional total has, however, made regional working more problematic as each area understandably wants to ensure it fully uses 'its share' locally.

17. There is a view, though, that SPF offers clearer opportunities for smaller, community based and third sector organisations who may not have had been able to access funding under previous arrangements where there was greater focus on large scale, strategic projects.

18. Both Levelling-up and Shared Prosperity Funding are beset with the challenges of incredibly short timescales for delivery. Lack of capacity in Councils to co-ordinate the ongoing processes relating to SPF funding has seen a requirement for staff recruitment (with some funding provided as part of the allocation for this purpose). Attracting the right level of staff for short-term contracts to deliver the scheme has proved challenging. In order to develop, produce and submit detailed bids into the Levelling-Up fund, Councils relied heavily on external consultants, which created an additional financial burden onto already stretched public services, with no guarantee of success. The uncertainty around the format of Levelling-up round 3 is an ongoing concern. In Round 2 no authority that was successful in Round 1 was awarded any funding. This caused annoyance at those councils who invested time and money enhancing or developing bids that were unsuccessful in Round 1.

Q4 To what extent are the funds successfully identifying and supporting the communities and areas of Wales that are in greatest need? How does the geographical spread of the Shared Prosperity Fund and Levelling Up Fund compare to Structural Funds?

19. The needs based allocations under EU funding saw a considerably higher level of funding go the 'West Wales and the Valleys'. The formula used for allocating SPF did include an element of deprivation[1] (drawing in part on the Wales Index of Multiple Deprivation, WIMD, but not with the level of weighting requested by Welsh Government).

[1] 40% was based on population, 30% on a composite index of need and 30% based on WIMD.

The WIMD element of the formula took no account of differences in population. Therefore, two areas with the same level of deprivation receive the same amount from this element of the formula irrespective of their population size.

20. Levelling up has been allocated on a competitive basis. However, the nature of the projects will be crucial in determining the extent to which they genuinely address need in the area.

21. It is too early to say with any confidence that the funding has or has not been successful in supporting communities. As the first year of SPF was lost almost entirely by delays in establishing the process, and most regions have not yet allocated the bulk of their year 2 funding there is no evidence base on which to determine any outcomes to date.

22. Two rounds of Levelling-Up funding have been allocated, yet there are 5 Local Authority areas in Wales who have not received any funding via this arrangement so there are funding gaps. Also, there is a lack of clarity around whether round 3 will be a competitive process or, possibly, allocated directly to those who have not yet received funding. If every area gets some funding it raises questions as to how far it is really 'levelling up'. However, as stated above, much depends on the actual project content in each area and the extent to which tackling need is central to it.

23. The needs of rural areas have not been clearly recognised under the new funding arrangements. Previously, there was funding for rural development under the EU Rural Development Programme for Wales. A range of community-led local development projects and the LEADER programme made funding available to local groups in rural areas, providing socio-economic support for the communities. Under new arrangements rural development funding has 'fallen between two stools'. UK Government belatedly suggested that provision is made from SPF allocations, whilst Welsh Government has focused available funds on Programme for Government priorities, including environmental measures.

Q5. What types of interventions are being delivered and designed through the Shared Prosperity Fund, and to what extent do these differ from those delivered through Structural Funds?

24. The full list of interventions that can be delivered by the UK Shared Prosperity Fund is set out in the UKSPF Prospectus published by the UK Government.
    The interventions planned for each region of Wales are outlined in the Regional Investment Plans developed and published in 2022. In some areas of Wales not all of the interventions listed by the UK Government are being implemented, including (but not limited to): funding for sports facilities, support for digital infrastructure, grants for export and international business events.

25. Overall, interventions have been designed in response to the findings of Local Investment Plans developed at local authority level and are a response to identified needs. Conversely, the Structural Funds dictated the priorities for funding from the top down and were arguably a stage removed from what was needed on the ground in order to grow the economy.

Q6. How helpful are the processes and timescales set by the UK Government for the funds in supporting local authorities and regions to achieve their intended outcomes?

26. The processes are working well as the UK Government has recognised that each LA has its own checks and can be trusted to develop and deliver funding programmes without endless process and scrutiny. This light touch approach means that authorities can concentrate on effective delivery. On the other hand, the timescales are extremely challenging as they are so tight.

27. Lead authorities in Wales are responsible for reporting for the whole region, in the South East this consists of 10 local Authority areas. Sufficient time to collate monitoring information from the various areas and collate them into a cohesive report has not been factored into the timescales set by UK Government.

28. The fact that all spend has to be made by the end of March 2025 condenses the period available to commit expenditure. In order to be in a position to close the programme on time, projects effectively will have to be completed by around December 2025. WLGA and the lead authorities have lobbied for project closure to be undertaken in 2025/26 but there has been no movement on this to date.

Q7. How effectively are the different levels of governance in Wales working together in relation to these funds?

29. SPF governance is working in an efficient and effective way. In one local area a Regeneration Partnership has been formed that can turn around decisions on projects in under 8 weeks. In extreme cases, it sometimes took 3 years to get a decision on a proposal under the Structural Funds in Wales.

30. There isn't a specific role for the Welsh Government in this process. In the main Councils correspond directly with the UK Government's Wales and UK Levelling Up Teams. WLGA has been working with UK Government and the lead authorities whilst also keeping in touch with policy leads within the Welsh Government. This has been with a view to helping achieve alignment of projects and expenditure on respective economic development activities.

Q8. What challenges and opportunities do these funding streams provide for organisations who received Structural Funds?

31. Regional planning and local delivery to meet needs in the community have presented more opportunities for community-based initiatives, third sector organisations and small to medium sized enterprises to apply for grants to support delivery.

32. It was often extremely difficult for local authorities to access Structural Funds under the last funding Programme, so the management arrangements for these new funds have been welcomed by councils. SPF has allowed councils to be directly responsible in the decision making at a local level, ensuring that specific needs can be addressed and not bound by the priorities of the European Commission and how WEFO interpret them.

33. As noted above, one of the challenges has been to work to the timescales involved, against a background of uncertainty over financial provisions (e.g. carry-over permissions) and monitoring requirements.

34. Bodies such as in the FE and HE sectors that used to benefit substantially from structural funds face some of the greatest challenges. The more localised nature of the new funding means the types of bids they made previously for EU funding are less appropriate. The more limited level of funding available also means they will need to look to other UK Government funding sources, such as for research and innovation programmes.

Q9. How is the Multiply programme developing across different parts of Wales? What are the potential barriers and opportunities in relation to delivering this programme?

35. Wales has received an allocation for Multiply proportionate to its overall SPF allocation. Given that Wales receives a high share of SPF reflecting its previous share of EU funding, this has resulted in a high per capita level of support being available.

36. Nonetheless, Multiply has been developing across Wales, albeit slowly. In a number of places partnerships have been formed between the local authority Education Department and local further education providers to look at innovative approaches to adult numeracy from targeting parents to community training. Many Councils have issued an open call for Multiply strategic projects to come forward.

37. The recent change to allow unspent year 1 Multiply monies to transfer into year 2 and the People and Skills investment priority has eased a bit of the pressure to ensure a full spend. However, there are concerns that the Year 3 monies won't be spent in full by the end of the programme as the third year sees the highest proportion of the funding allocated.

38. The determination of the Treasury to implement an adult numeracy programme, despite the complexity of doing so, highlighted in all four regional investment plans, is an additional barrier to progress. Investment plans list several challenges multiply will face during implementation in Wales, namely:
    - a shortage of numeracy tutors to develop and deliver the training.
    - recruitment of learners due to the stigma attached to the lack of basic skills,
    - the complex interaction between Multiply and existing Welsh Government support, and
    - The focus on numeracy alone is unlikely to address the full needs of learners, who will often also lack basic literacy and digital skills.

39. There is also risk associated with developing a large delivery structure that is wholly dependent on SPF monies, with no certainty of funding availability beyond March 2025.

40. Many of the funding applications received relate to the Communities and Place Investment Priority, yet there are currently no opportunities to transfer funding across from Multiply to support this demand.