

INTRODUCTION

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales; and the three national park authorities, the three fire and rescue authorities, and four police authorities are associate members.
2. It seeks to provide representation to local authorities within an emerging policy framework that satisfies the key priorities of our members and delivers a broad range of services that add value to Welsh Local Government and the communities they serve.
3. We welcome the opportunity to respond to the All-Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas.
4. The WLGA is proactively engaged and communicates regularly with its members on issues pertaining to Brexit, including replacement EU funding and implications for regional & rural policy. Our response takes into account the collective views of local government across Wales, as individual Local Authorities in some cases, and as part of wider Regional Partnerships in others.
5. This response builds on the principles and arguments previously outlined in some of the Associations' responses to date on future regional policy and replacement EU funding.^{i ii}
6. It also builds upon the response to this Inquiry submitted by the Local Government Association and the principles outlined in its recent discussion paperⁱⁱⁱ – providing a further detailed view on particular issues and concerns from a Welsh Local Government perspective.

Key Messages

7. The UK currently has access to a broad range of EU funding instruments that supports national, regional and local economic development. These range from programmes that are managed at a UK and Devolved Administration level with a ring-fenced allocation (e.g. ERDF, ESF, RDP, EMFF, Interreg Ireland-Wales) – and those programmes that are managed at an EU level that are competitively accessed by UK organisations (e.g. Horizon 2020, Connecting Europe, COSME, Erasmus, Interreg as well as the European Investment Bank etc.).
8. The WLGA have previously arguedⁱⁱ the importance of maintaining continued access to those EU-managed competitive funds, to encourage trans-national co-operation in research & innovation (Horizon 2020), business development (COSME), territorial co-operation (Interreg) and so on, and the fate of which is subject to the ongoing negotiations as to our future relationship with the EU. It is now critical that future funding arrangements are agreed urgently, so that there is no disruption in funding availability beyond the current funding programmes.
9. Notwithstanding the funding gap that we collectively seek to replace domestically once we leave the EU, we will also be leaving the EU's policy frameworks that have strongly influenced the UK policy context for the past 40 years. In those years, much has evolved domestically (divergence of regional approaches/policy & the evolving role of regional economic actors and institutions following devolution), leading to a "patchwork quilt" of fragmented funding streams centralised in departments silos in Whitehall and/or Cardiff Bay.
10. Post-Brexit, there will be a "policy void" in the form of a place-based, integrated regional development policy (that was appropriately resourced) that provided a relatively stable framework that mandated partnership working across all levels of Government and across sectors. Across the UK's four nations, domestic economic policy has diverged, to better accommodate the needs and opportunities of their regional economies – leading to differing institutional capacities & capabilities. In Wales, our policy and governance structures are evolving to reflect the regionally-focussed approaches galvanised through the two City Deals in Cardiff and Swansea, and developing Growth Deals in North Wales and in Mid Wales. This provides a platform to further evolve - and the Welsh Government's recent policy update reflects this strengthened approach and commitment to a regionally-focused model of economic development^{iv}.
11. It is clear that a debate around future post-Brexit funding cannot be undertaken in isolation without considering the wider policy and fiscal arrangements in the UK and with the devolved nations. The Welsh Government has outlined its position clearly in its paper on UK fiscal and funding reform post-Brexit – and the WLGA is in full support of these principles^v.

12. In our view, there is no underlying conflict between the UK Government's desire to have an overarching UK-wide regional policy with the aim of rebalancing the UK economy, and the development of regionally-specific approaches and interventions that are relevant and appropriate to deliver sustainable and inclusive growth. Indeed, within the current framework of EU Cohesion Policy delivering the Structural Funds, Wales has its own chapter and separate programmes to better serve the unique challenges and opportunities of the Welsh economy.
13. All delivery is local. Local Government in Wales is playing a central role in evolving regional partnership approaches focussed on the design and delivery of City & Growth Deals – collaborating in the strategic planning and co-ordination of economic development activity with potential to look at land-use planning, transport & skills. This place-based approach around a functional economic area provides the necessary focus for a combination of efforts from partners, across sectors and across levels of Government, planned and co-designed in partnership – to achieve relevant and successful economic outcomes. It also means working together in a smarter, more cohesive way, making the best use of resources and investment across sectors and levels of Government. Stronger regional economies are the cornerstones of a strong national economy – and it is only through the continued spirit of co-operation and genuine partnership working that significant, structural change can be achieved.
14. It is critical that our future approach to economic planning and investment adheres to the principles of partnership and co-design – across all levels of Government. For too long, across the UK we have undertaken economic development across Departmental and Sectoral silos, fragmenting our collective efforts and resources. Local Government in Wales is taking the initiative, driving regional collaborations - across Government and across sectors; reflecting the realities of their regional economies whilst reflecting the local needs and opportunities of the communities they serve.
15. The structures and the will from Local Government and regional stakeholders is there. We now have an opportunity - to strengthen our collective ability to better target taxpayer's money on the needs of people and places to deal with both the challenges and opportunities of the future.

Question 1: What would be an appropriate annual budget for the new UK Shared Prosperity Fund?

16. During the 2014-20 period, the UK and the Devolved Nations are set to receive a total of €10.5 billion from the EU Structural and Investment Funds (allocation)^{vi}. EU Cohesion and EU Rural Policy put in place a framework to ensure funding levels were appropriate for the scale of interventions required to realise the ambition. In Wales, this has reflected in higher funding levels in recognition of the need to reduce the gulf in our comparative economic performance with economically stronger regions both across the EU and within the UK.
17. Promises were made to the electorate during the EU Referendum that communities would not be worse off financially due to Brexit. Any future funding model therefore should ensure a minimum budget that is commensurate with the levels of funding that Wales currently receives (and would have received should we have remained in the EU). As outlined in the Welsh Government's Paper on Funding & Fiscal Reform after Brexit – it needs to be part of a wider discussion on funding and fiscal reform ^v.
18. The LGA makes a strong case for continued levels of funding for regional development that is commensurate with current levels of EU funding, as the EU and its regions will continue to fund regional policy after the UK has left the bloc – potentially putting UK regions at a great disadvantage ⁱⁱⁱ.

Question 2: Should there be a multi-annual financial allocation, and if so why and for how long?

19. One of the main benefits of EU funding is the multi-annual programming approach, with a 7-year funding allocation to spent over a 10-year period (N+3). This stability afforded the planning certainty necessary for stakeholders and economic actors to work in partnership to tailor localised responses to tackle long-standing structural economic weakness.
20. This multi-year certainty is also a key function of the locally-led partnerships centred around functional regional economic footprints of the Welsh City and Growth Deals – and in our view,

a key aspect to any future approach. Whilst recognising the challenges of signing-up to agreements that involve any periods longer than that of a traditional governmental cycle i.e. 5 years, a long term approach to future regional investment is required if we are to deliver the changes to the Welsh Economy that are required in order to increase productivity and deliver long term sustainable economic growth across all parts of Wales.

Question 3: Would it be appropriate to roll in other budget lines (e.g. the Local Growth Fund in England) into the UK Shared Prosperity Fund?

21. An integrated approach is essential if we are to make best use of resources at both a UK and Welsh level. A fully-integrated approach would see the consolidation of appropriate resources at both a UK and Welsh level – that would see full financial integration that is devolved to the relevant level in line with devolved competences.
22. From a Local Government perspective in Wales we would like to see that go further; aligning with the evolving models of regional partnership working along the footprints of the City and Growth Deals. Corresponding with the fiscal and legislative devolution asks, to better target public funding to address the needs and opportunities of people and places within identified functional economic areas.

Allocation across the country

Question 4: How should the UK Shared Prosperity Fund be divided up between the four nations of the UK?

23. The little detail published on the fund so far is clear of its intention to “reduce the inequalities between communities across our four nations”. It is therefore clear to us there needs to be a fair and transparent mechanism that will require the input from both the UK Government and the Devolved Administrations and implies the need for reformed funding and fiscal arrangements – as outlined in the Welsh Government’s paper on this issue ^v.

Question 5: Would rolling forward the existing shares going to England, Scotland, Wales and Northern Ireland be a sensible way forward?

24. Politically, this may be the only option in the short term – as the promises made during the referendum indicated that no region or devolved nation would “lose out” in funding terms due to the vote.
25. Towards the longer term – there would be an opportunity to work on a fair and transparent funding model as part of a substantive and comprehensive regional policy approach to re-balance the UK economy ^v.

Question 6: Should the allocations within the devolved nations be an entirely devolved matter?

26. We are clear that economic development is a devolved competence in Wales - this should be fully respected by the UK Government.
27. The Welsh Government’s latest policy approach to economic development in Wales recognises the need for regional balance to address specific regional and local requirements. This aligns with the City & Growth Deals footprint, based around functional economic areas.
28. Governance and policy approaches across the 4 nations are divergent. A new regional policy approach to re-balance the UK economy, whilst having and overarching UK-wide context and framework – should be able to respond and align completely to the individual policy and governance landscapes of the 4 nations.
29. It should also be noted that the implications and extent of impact upon different regions and their economies are currently unclear. However, what is certain is that any change to the status quo, regardless of the scale of impact on certain sectors – will impact different localities differently. A robust regional policy approach therefore needs to be adequately able to respond to these demands, whatever they may be, wherever they may be.

Question 7: In England, should the funding to local areas be allocated by an appropriate formula, and if so what are the best statistical measures?

30. N/A

Question 8: Is there any role for competitive bidding between areas for funding?

31. In our view, competitive bidding between areas would not be compatible with the aim of the Fund to rebalance the UK economy - as the institutional capacity and economic opportunity of bidding areas will inevitably have a direct bearing on the success of bids on a competitive basis.
32. Combined with an agreed fair and transparent funding formula across the four nations, there can be competitive elements within ring-fenced allocations – to ensure the quality and scrutiny of interventions is to a high standard. Indeed, this is the basic selection principle of current EU funding – competitive funding within an agreed area-based allocation.

Question 9: In England, should sub-regions (e.g. LEP areas, combined authorities) be the basis for financial allocations, as with EU funding at present?

33. The LGA, as part of their response refer to the concept of “Functional Economic Areas”, following a funding distribution geography similar to the current ESIF programme – cutting across various policy & governance footprints such as it is, Combined Authorities etc.
34. Although the question specifically refers to England – we feel it is important to highlight here that the position in Wales is different. At a regional level, Wales has an emerging governance landscape – that is again different to the current ESIF allocation footprint (West Wales & the Valleys & East Wales).
35. The basis for financial allocations should be fair and transparent – that appropriately reflects the economic challenges of the 4 nations and their regional economies.

Activities to be supported

Question 10: As with present-day EU funding, should economic development and convergence remain the primary objectives of the new Fund?

36. Convergence has been a key pillar of EU regional development policy over the years. Notwithstanding the funding gap that communities across the UK face after Brexit, it is the policy gap that promoted economic convergence between better and less performing areas. If the intended aim of the fund is to rebalance the UK economy, then by its very definition, convergence in economic terms will be a central theme to the funds’ objectives.
37. As a tool to achieve economic convergence, economic development in our view has to be the guiding principle in taking a place-based approach to target interventions in businesses, people & places.

Question 11: Are there activities beyond the scope of present-day EU funding that should be supported?

38. A strong criticism of EU Structural Funds is the relatively limited freedom to determine spending priorities. One such example is infrastructure spend on road and rail. In Wales, funding from the EU Structural Funds to spend on road/rail was restricted in monetary terms in the current programmes – and has not been commensurate with the ambition to address structural economic weaknesses.
39. Beyond activity, there are also models and funding approaches that could be explored that were not previously available due to geographical and programming limitations. These include the flexibility around programme boundaries and match funding eligibility, to better utilise a range of interventions rather than only those eligible for EU funding, and the utilisation of alternative funding models combining grant and recyclable loans, in order to maximise the benefits of investments. In a Welsh context, this will need to build on the experiences of the Development Bank for Wales and be part of the wider discussion on further fiscal and legislative devolution in the context of the evolving governance and institutional landscape of the City and Growth Deals.
40. A key priority should be the ability to lever in further private sector investment and participation than has traditionally been the case with EU funding. Private sector involvement and leadership in emerging regional partnership structures, led by Local Authorities provides a sound footing

for the strategic identification and co-ordination of such opportunities as part of a future regional policy approach.

Question 12: Should there be guarantees that specific activities supported at present by EU funding (e.g. ESF support for training) will continue to receive funding?

41. We are concerned that the current discourse around post-Brexit funding does not seem to adequately join-up policy and departmental discussions across both UK and Welsh Government. We are unaware of any discussions to date for any specific replacement funding for ESF and Rural Development for example. We would be strongly against the presumption of funding for capital-type activity without supporting revenue investment in skills & employment.
42. There needs to be a broad, comprehensive exercise across policy and funding arrangements to ensure that our future regional policy approach sufficiently addresses all aspects of economic development: supporting businesses, people and places. We have an opportunity to avoid the policy and funding silos of the past through an integrated approach targeted on place – better able to target capital and revenue on transformational – but inclusive growth.

Management

Question 13: As a UK fund, should the UK government set the broad guidelines for the priorities to be supported by the Shared Prosperity Fund?

43. We see no potential underlying conflict in the existence of broad UK-level guidelines and the ability of the devolved nations to determine the detail in partnership with their regional and local stakeholders. Indeed, this can be taken as the current approach with EU funds where broad guidelines are established at the EU level, with specific programmes and interventions developed in line with developed competences and the principle of subsidiarity.

Question 14: What role should the devolved administrations play in setting the broad guidelines?

44. The Devolved Administrations should play a full role in setting the broad guidelines with the UK Government. To ensure that they are fit for purpose, and responsive to the needs of all parts of the UK.
45. This should be formalised through an arrangement that ensures the full and active participation of the devolved nations from the start of the Fund design.

Question 15: How should the impact and desired outcomes of the Fund be defined and measured?

46. All delivery is local. This responsiveness to localities is a key factor in ensuring that the investments deliver the right interventions to have an impact. Different localities will have different needs, different barriers and market failure, different opportunities based on industrial or rural economic strengths. Different regions and areas across the UK will also have varying City and Growth Deals – focusing on large scale investments in varying aspects of their economies. The scale of both potential positive and negative implications from Brexit will affect different localities differently, dependent on their sector-mix.
47. Within a broad overall UK-wide framework for the fund, the Welsh Government in conjunction with the 4 regional partnerships should define the desired outcomes from the fund, based on the priorities identified within the regions.

Question 16: How can the promise that the Fund will be “cheap to administer, low in bureaucracy” best be delivered?

48. As outlined previously, UK and Welsh Government spending on economic development & regeneration activity is fragmented across a large number of funding streams and departments. All with their own management processes and delivery mechanisms. Local Government in Wales have to navigate a raft of funding mechanisms, all with differing timescales, limitations on capital/revenue, overly-prescribed funding criteria, and varying delivery and monitoring requirements.

49. We are clear. The first step to achieving simplification is to start at a policy-level, translating into a more simplified and joined up programming approach. Combining funding streams to a single investment pot, including both capital and revenue, underpinned by a regionally driven and focussed model of planning and determining investments. Simplification of operational guidance and procedures should then be a much more realistic proposition.
50. It should also be noted that Local Authorities are the driving force behind the evolving regional partnership models in Wales and are democratically accountable – providing leadership and accountability for strategic direction and outcomes, and thus well-placed to facilitate and manage future funding.
51. Form should then follow function in that the regulatory controls and processes in place for managing large investments at the regional level (i.e. Growth & City deals) would be robust enough for managing additional regional investment as part of integrated domestic funding without additional layers of bureaucracy.

Question 17: Where should local authorities fit into the management of the new Fund?

52. Local Government in Wales has a strong track record in both the delivery and management of EU and domestic funding across a broad range of interventions within the gamut of economic development. As the layer of government closest to the communities that they serve, they are well-placed to identify and respond to the challenges and opportunities of their local communities.
53. In Wales, Local Authorities play a key & central role in the evolving regional partnership structures. Whilst establishing and implementing the governance and management arrangements to deliver City & Growth Deals, they form part of an evolving approach in the strategic and collaborative approach to planning economic development activity that includes both Governments, Further & Higher Education, third sector and the private sector.
54. Going beyond the funding asks is the potential to look at fiscal and legislative devolution to these new regional arrangements, offering the strength of collective capability of a cross-government and cross-sector approach in economic development that could also include land-use planning, transport & skills.
55. We call for an integrated approach; offering new powers and responsibilities to the regions that would see the devolution of regional policy and growth-related funding that would ensure funds are best utilised to respond to the communities they serve.

Question 18: How should programmes and projects be monitored and evaluated?

56. With it being a UK-level fund, and regardless of its delivery approaches across devolved nations, we would envisage the requirement for a common monitoring framework that ensures a consistent approach. Similar in vein to the current approach with EU structural funds.
57. However, we would highlight again in Wales the evolving regional landscape in terms of the City and Growth Deals and the development of monitoring and evaluation frameworks that correlate with the investment. This needs to align. To ensure bureaucracy is retained to a minimum – there needs to be consistency and commonality. Currently, every programme or initiative – be it led by the EU, UK or Welsh Government all have their own monitoring and evaluation frameworks. Integrated funding approaches (as argued in our response to Q3) provides the opportunity for integrated Monitoring and Evaluation approaches.

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ⁱ <https://www.wlga.wales/SharedFiles/Download.aspx?pageid=62&mid=665&fileid=1530>

ⁱⁱ <https://www.wlga.wales/SharedFiles/Download.aspx?pageid=62&mid=665&fileid=1554>

ⁱⁱⁱ <https://www.local.gov.uk/topics/european-and-international/beyond-brexit-future-funding-currently-sourced-eu>

^{iv} <https://gov.wales/topics/businessandeconomy/economic-action-plan/?lang=en>

^v <https://beta.gov.wales/sites/default/files/2018-07/reforming-uk-funding-and-fiscal-arrangements-after-brexit.pdf>

^{vi} <https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7847>