Welsh Parliament
Economy, Trade and Rural Affairs Committee

Post-EU regional development funding

September 2023

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About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddEconomy

Current Committee membership:

Committee Chair:
Paul Davies MS
Welsh Conservatives

Hefin David MS
Welsh Labour

Luke Fletcher MS
Plaid Cymru

Samuel Kurtz MS
Welsh Conservatives

Vikki Howells MS
Welsh Labour

Buffy Williams MS
Welsh Labour

The following Member was also a member of the Committee during this inquiry.

Sarah Murphy MS
Welsh Labour

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Chair's foreword

When the UK was a member, the M4 was the most economically unequal road in the EU. It connects West Wales and the Valleys, whose GDP per capita was roughly 70% of the EU average, and London, where 'inner London West' had a GDP per capita well over 600% of the EU average. Over several rounds of funding, the EU invested in Wales, particularly in West Wales and the Valleys, with an ambition to close that gap.

The UK Government was elected on a platform of 'Levelling Up' which is to "end geographical inequality" across the UK "by improving economic dynamism and innovation to drive growth across the entire country." To support this aim, the UK Government introduced the Shared Prosperity Fund. The fund replaces EU funding, however UK Ministers are keen to stress that it is not a direct successor or replacement.

Improving Wales' economy, especially increasing economic opportunities in lower-income areas, is a priority that everyone can agree on. The Shared Prosperity Fund can be a cornerstone of this aim; however, there have been several teething issues with the first round of funding.

We heard strong evidence supporting a shift towards local delivery – empowering communities to address local issues through their local authority. However, this approach was not perfect, with organisations working across council borders facing significant challenges. Additionally, there seems to be room for Wales-wide coordination that could be enhanced by greater Welsh Government involvement in the fund.

It is disappointing that the most notable aspect of the launch of the Shared Prosperity Fund for most people in Wales will have been the disagreement between the UK Government and the Welsh Government regarding the amount of funding Wales will receive. This report presents 24 recommendations, largely focusing on the fund's design. Many of these recommendations highlight collaboration and cooperation among all levels of government to ensure a unified approach to funding and to support organisations applying for funding from multiple local authorities.

The Shared Prosperity Fund will never be the sole solution to regional economic inequality. However, for it to be a cornerstone in that important aim, lessons must be learnt from the rollout of this first round of funding. I hope that the recommendations in this report are embraced by the UK and Welsh Governments, and that they become the foundation for a successful second and subsequent rounds of shared prosperity funding.

Paul Davies MS
Chair

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1. Background

At its meeting on 16 February, the Committee agreed to hold an inquiry into post-EU regional development funding. This followed a Senedd Finance Committee report on post-EU funding arrangements in October 2022. That report concluded that the UK and Welsh governments were "not considering how the new funding proposed for Wales compares to the funding received while the UK was a member of the EU, in the same way."

1. On 1 January 2021, the Trade and Co-operation Agreement (TCA) took effect and established the UK's future relationship with the EU. As part of the TCA, the UK will not access future rounds of EU structural funding programmes. Using powers from the UK Internal Market Act 2020, the UK Government has developed new UK-wide funding schemes, including:

- The UK Community Renewal Fund (the pilot for the Shared Prosperity Fund);
- The UK Shared Prosperity Fund;
- The Levelling Up Fund.

2. The Committee's inquiry focused on the UK Shared Prosperity Fund and the Levelling Up Fund, rather than other funding streams such as agricultural funding and Horizon Europe.

The Shared Prosperity Fund

3. The Shared Prosperity Fund (SPF) is the UK Government's replacement for EU Structural Funds. It will invest in communities and place; supporting businesses; and people and skills. The 2021 Autumn Budget and Spending Review confirmed that the SPF will be worth £2.6 billion over three years from 2022 to 2025. This includes a ring-fenced amount for the UK-wide adult numeracy programme, Multiply.

4. The UK Government published its prospectus for the fund in April 2022. A methodological note accompanying this confirmed that Wales will receive £585 million over this period - £89 million in 2022-23, £153 million in 2023-24 and £343 million in 2024-25.

5. The fund is being delivered regionally in Wales, using the same areas as the four City and Growth Deals. There is a lead authority in each area – Ceredigion for mid Wales, Gwynedd for north Wales, Rhondda Cynon Taf (RCT) for south east Wales, and Swansea for south west Wales. The lead authority will "receive an area's allocation to manage, including assessing and approving applications, processing payments and day-to-day monitoring". Other local authorities within the region can also take lead responsibility for a particular programme or intervention.

6. The UK Government announced that it had approved the investment plans for all areas in the UK on 5 December 2022. Having an investment plan approved by the UK Government was a requirement to be able to access SPF funding. Local areas have started to implement their plans over recent months.

The Levelling Up Fund

7. The Levelling Up Fund (LUF) is a competitive fund that will run until 2024-25, where local authorities bid to deliver "infrastructure that improves everyday life". It was first outlined as England-only at the Spending Review 2020 (November 2020), and subsequently widened to cover the whole of the UK. The second round of the fund, for which successful projects were announced in January 2023, focussed on transport projects, cultural investment and regeneration and town centre investments.

8. Each local authority can submit one bid for the fund's investment priorities per constituency wholly or partially within their boundaries, and can also submit one transport bid. For the second round of funding, any successful bids a local authority had in the first round of bidding were subtracted from the number of bids they were able to submit.

9. Different local authorities have been prioritised at different levels for the fund according to an Index of Priority Place.[1] This was updated for the second round of funding, in which 19 of the 22 Welsh local authorities were in the priority 1

[1] https://www.gov.uk/government/publications/levelling-up-fund-round-2-updates-to-the-index-of-priority-places

category (the highest priority), with Flintshire and the Isle of Anglesey in priority category 2 and Monmouthshire in priority category 3.

10. Projects receiving funding from the first round of the fund were announced in October 2021. In Wales, £121.4 million funding was awarded to projects in Carmarthenshire, Ceredigion, Pembrokeshire, Powys, Rhondda Cynon Taf and Wrexham. Projects receiving funding from the second round of the fund were announced in January 2023. In Wales, £208.2 million funding was awarded to projects in Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Conwy, Denbighshire, Gwynedd, Isle of Anglesey, Neath Port Talbot, Swansea and Torfaen.

11. The UK Government has also confirmed there will be a further round of the LUF, although timescales are not yet known.

Parliamentary scrutiny of new funding arrangements

12. Committees in the House of Commons, the Scottish Parliament and the Senedd have heard evidence on the initial experiences of organisations operating the fund. The Senedd's Finance Committee undertook an inquiry[2] which reported in October 2022, and subsequently heard evidence around the difficulties local authorities were having with short timescales to spend their 2022-23 funding allocations.[3]

13. Similarly, the House of Commons' Levelling Up, Housing and Communities Committee[4] has heard from English local authorities that, while there is less bureaucracy than with Structural Funds, there are concerns that funding is provided one financial year at a time. In addition, this Committee has heard that when you have a short timescale to spend money it "goes to what is deliverable, not necessarily the right things". The Committee reported on the levelling up funds in May 2023[5], concluding that while it had not been able to come to a conclusion on whether the funding provided through the Shared Prosperity Fund was a sufficient replacement for Structural Funds, all of the evidence it received said it was not.[6] It also called for longer-term funding for the SPF.

14. In February 2022, the Scottish Parliament's Finance and Public Administration Committee took evidence from the Secretary of State for Levelling

[2] https://business.senedd.wales/mgIssueHistoryHome.aspx?IId=38881
[3] https://record.senedd.wales/Committee/13176#A77090
[4] https://committees.parliament.uk/oralevidence/11952/pdf/
[5] Levelling Up, Housing and Communities Committee, Funding for levelling up
[6] Ibid.

Up, Housing and Communities on replacing Structural Funds in Scotland[7], following this up by asking for written submissions in early 2023. It has been in discussions with the Secretary of State for Levelling Up, Housing and Communities to take oral evidence from him.[8]

15. On 6 January 2023, the Welsh Minister for Economy wrote[9] to this Committee outlining some concerns around operational matters relating to the SPF:

- As the regional investment plans were approved in December 2022, this gives four months to spend 2022-23 allocations from the fund. The Minister expressed the view that, due to this, projects which can spend quickly will be prioritised over those which spend strategically;
- The lack of a multi-annual grant is "raising a high degree of preventable uncertainty for local authorities and other Welsh partners and is putting jobs and projects at risk"; and
- In his view, universities, colleges, business and the third sector have been "shut out of directly accessing SPF and LUF funds leaving many of these sectors now reporting redundancies and the closure of vital schemes".

16. The Welsh Affairs Select Committee has held two evidence sessions with universities about research funding in May and June 2023, with a particular focus on the replacement of the money from Structural Funds.[10]

Inquiry Terms of Reference

17. Following completion of the Finance Committee's inquiry, this Committee agreed to seek views on the following:

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

[7] https://www.parliament.scot/chamber-and-committees/committees/current-and-previous-committees/session-6-finance-and-public-administration-committee/business-items/replacing-eu-structural-funds-in-scotland

[8] https://www.parliament.scot/-/media/files/committees/finance-and-public-administration-committee/correspondence/2023/eufunds_sosluhctoconvener23june23.pdf
[9]https://business.senedd.wales/documents/s132762/UK%20Levelling%20Up%20and%20Shared%20Prosperity%20Funds.pdf

[10] https://committees.parliament.uk/work/7405/university-research-funding/

- 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;
- 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;
- What types of intervention are being delivered through the Shared Prosperity Fund, and to what extent do these differ from Structural Funds interventions;
- 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;
- 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;
- How effectively the different levels of governance in Wales are working together in relation to these funds;
- The challenges and opportunities these funding streams provide for bodies such as businesses, colleges, universities and voluntary sector organisations who received Structural Funds; and
- 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.

Evidence-gathering and engagement

18. An open call for evidence ran from 23 March 2023 to 21 April 2023 – 27 responses were received. A list of written evidence is at Annex 2. The Committee also ran an engagement survey welcoming views from organisations with lived experience of Post-EU regional development funding streams. The survey ran until 15 May 2023 and a summary of findings has been taken into account in this report and is available alongside it on the Committee's website.

19. A list of oral evidence sessions is at Annex 1. Panel sessions were held with academics and think tanks, local authorities, funding beneficiaries and Welsh Government. The Secretary of State for Levelling Up, Housing and Communities was invited to give oral evidence in March, but instead the Minister for Levelling Up (Minister for Levelling Up), Dehenna Davison MP, replied to the Committee in May offering written evidence, which was received on 13 June. All inquiry correspondence is listed in Annex 1.

2. Impact of EU Structural Funds on Wales

20. The Welsh Local Government Association (WLGA) stated that “EU Structural Funds were not and could not be, in and of themselves, transformative of the Welsh Economy.”[11] Cardiff Metropolitan University argued that Germany spent around £71 billion per year from 1990-2014 to close gaps between East and West Germany, and even a sum of money of this size has narrowed the productivity gap rather than closing it entirely. Therefore, as Structural Funds were not available at this scale, they couldn’t transform the Welsh economy.[12]

21. On the positive side, the WLGA argued that the funds accelerated implementation of a range of capital and revenue projects to support economic development, however also said that the delivery structure “stunted local delivery capacity to varying extents.”[13]

22. The WLGA gave the example of a Welsh local authority that received over £200 million in EU funds over the 2007-13 and 2014-20 rounds. Over 2,000 jobs were created in this area under the Convergence Programme, which will have significantly contributed to the local economy, however “the sustainability of those additional jobs will now, though, be a key issue in that area and across all of Wales”.

23. A number of organisations set out positive examples of projects within their local area or sector, and also negative aspects associated with EU funding that they felt hindered progress.

24. RCT County Borough Council said that the local area benefitted considerably from EU Structural Funds investment.[14] It cited regeneration of town centres; the restoration of Ponty Lido; investment in business space at two brownfield sites; and programmes to support employment and skills development as examples of successful projects.

25. Universities Wales highlighted a selection of research and innovation projects that were successful in accessing support from the 2014-20 round of Structural Funds, including a world-leading brain research centre, innovation campuses and the centre for compound semiconductors.[15]

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[11] Written evidence – RDF 05
[12] Written evidence – RDF 23
[13] Written evidence – RDF 05
[14] Written evidence – RDF 06
[15] Written evidence – RDF 13

26. The Federation of Small Businesses Wales (FSB Wales) stated that EU funding played a particularly important role around supporting scale-up firms looking to further their aspirations for growth. However, they also commented that small business engagement and signposting of available EU funding support for access to finance was not always working as effectively as it should.[16]

27. Colleges Wales noted that Structural Funds made a significant contribution to apprenticeships in Wales, however they also noted that the level of bureaucracy involved in accessing funding meant that there were sometimes challenges in directing funding to areas of the economy that most needed it.[17]

28. The Wales Council for Voluntary Action (WCVA) said that Structural Funds "had a substantial impact on the voluntary sector in Wales and subsequently on underrepresented individuals and communities that the sector supports".[18]

29. The Institute of Welsh Affairs (IWA) said that it is "up for debate" as to whether Structural Funds transformed the Welsh economy.[19] It said that there has been a mixed picture: while the funds enabled the Welsh Government to intervene in parts of Wales experiencing economic challenges, Wales still performs less well than other parts of the UK on a number of economic indicators:

> *"Wales' widespread economic challenges remain. ESI [European Structural and Investment Funds] did not solve these, nor is it likely that its UK replacement funds will in the short to medium term. The solution requires both fundamental fiscal reform in the short to medium term and constitutional reform in the longer term."*[20]

30. The Development Bank of Wales noted that Structural Funds were an important source of capital for the bank and provided an opportunity to test the concept of a government-owned development bank. The returns from loans to businesses provided through Structural Funds will allow the bank to re-invest in Welsh businesses. They said that the amount of funding was never going to be enough to transform the economy, but that Structural Funds have "made major inroads into creating the conditions where the Welsh economy can grow".[21]

[16] Written evidence – RDF 07
[17] Written evidence – RDF 11
[18] Written evidence – RDF 16
[19] Written evidence – RDF 25
[20] Written evidence – RDF 25
[21] Written evidence – RDF 14

Committee view

31. This was not an inquiry into the success or otherwise of previous EU funding programmes in addressing deep-rooted economic issues. However, those who responded to questions about the impact of EU Structural Funds identified some clear benefits derived from them. In developing replacement funding it is vital to listen to the views and experience of the beneficiaries of Structural Funds in Wales, to heed the lessons learnt from previous funding rounds and so avoid repeating any past mistakes.

3. Amount of funding received by Wales

32. The quantum of funding awarded to Wales in the Shared Prosperity Fund has been a key area of disagreement between the Welsh and UK Governments. The UK Government made a commitment[22] to match the funding Wales had previously received though the European Regional Development Fund and the European Social Fund (ERDF and ESF) with the funding from the Shared Prosperity Fund.

33. This is an area that has previously been explored by the Senedd's Finance Committee in their 2022 inquiry into Post EU Funding arrangements.[23] In their response to the Finance Committee's report, the Secretary of State for Wales and the Secretary of State for Levelling Up, Housing and Communities stated "We reaffirm our view that we are fulfilling our commitment to at least match the funding that Wales received through the European Social Fund and the European Regional Development Fund".[24]

34. However the Welsh Government maintain that this is not the case. In his paper to the Committee the Minister for Economy stated the approach to allocating the SPF means Wales will be £772 million worse off between January 2021 and March 2025 than would have been the case had Wales continued to receive Structural Funds.[25] The Minister explained how Welsh Government had arrived at these figures, saying "at the end of the multi-year budget settlement, that final year will be roughly equivalent to the moneys that were going in former EU structural funds. The difficulty is that it's been building up to that period of time, and that means we've had less money in each of the proceeding years." He went on to say "when you have a new structural funds envelope from the European Union, you don't net that off against previous amounts and you're able to access those funds from the start of the period." The Minister suggested "if the UK Government really were, over the whole period, going to make sure that we didn't lose out, then, actually, they'd have to top up the money so it's more than the equivalent amount in later years, but there's no plan to do that."[26]

[22] https://www.gov.uk/government/publications/uk-shared-prosperity-fund-allocations-methodology/uk-shared-prosperity-fund-allocations-methodology-note
[23] https://senedd.wales/media/qx1l5zfd/cr-ld15380-e.pdf
[24] https://business.senedd.wales/documents/s131593/Letter%20from%20the%20Secretary%20of%20State%20for%20Wales%20and%20Secretary%20of%20State%20for%20Levelling%20Up%20Housing%20and%20Co.pdf
[25] https://business.senedd.wales/documents/s136999/Evidence%20paper%20-%20Welsh%20Government.pdf
[26] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 11

35. Professor Steve Fothergill told Members that both Governments were right "because they're talking about rather different things".[27] In his written evidence Professor Fothergill explained that:

> *"The UK Government's figures refer to spending in each financial year, and it is correct that by 2024-25, when the still substantial legacy EU spending finally drops out of the picture, UKSPF funding of £1.5bn for the UK as a whole will broad match in real terms the annual average EU funding (ERDF and ESF) over the last spending round."*[28]

36. However he explained that the Welsh Government's position was also correct as:

> *"The UK Government has put £2.6 billion on the table for the UK as a whole for three financial years—as I say, ramping up to the £1.5 billion in the final financial year. If we had stayed as an EU member, then we probably, in the UK as a whole, would have had an allocation of around about £10.5 billion, over a seven-year period. So, we'd be in a position now to begin to commit money that would be getting spent, not just in the next financial year, but right the way through to 2027."*[29]

37. He summed this up by saying:

> *"It's a very odd situation to be in, to say that both parties are right in all of this, but they are, because they're looking at rather different things. One's looking at actual spending in financial years, and, in that sense, the UK Government is correct; the Welsh Government is looking at financial commitments, which is a different measure, and Vaughan Gething is correct on that front."*[30]

38. Members received a range of evidence supporting each government's position on the quantum of funding. The Institute of Fiscal Studies (IFS) said if the SPF "were to work like the EU schemes, with many years between when the funding was allocated and when it was actually spent, I think the devolved governments would be correct. But the intention with the UKSPF is that the

[27] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 10
[28] Written evidence – RDF 03
[29] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 12
[30] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 13

amounts listed for each year are what will actually be spent in that year. In this case I think the UK government's position is more reasonable."[31]

39. However the IWA said "The figures do indeed suggest that Wales is set to miss out on over £1 billion of funding from the transition from EU funding to Shared Prosperity Funding".[32] In their oral evidence the IWA highlighted that this disagreement underlines flaws with the roll out of replacement funding. The IWA told Members "the fact that it's disputed, not only by Welsh Government, but also other devolved Governments … shows one of the fundamental problems with the way that the SPF and the levelling-up fund have been rolled out to date. There's a lack of collaboration and a lack of a clear, agreed level of funding that both areas of Government can agree on."[33]

40. Most Wales-based organisations the Committee heard from agreed with the Welsh Government position that Wales had not received the same level of funding under the SPF as it would have under EU funding. However this position tended to be based on the Welsh Government written statement regarding the quantum of funding.

41. The Bevan Foundation pointed out that "The only information available to the Bevan Foundation is that published by the Welsh and UK Governments, which reach conflicting conclusions."[34] However they went on to raise concerns about the effect of this disagreement:

> *"We are concerned that inter-governmental disputes are detracting from the bigger question of whether the current policy responses to and investment in West Wales and the Valleys are adequate to the scale of need. We have long held that both governments have not sufficiently addressed the circumstances of these places and see no change in approach."* [35]

Committee view

42. The Committee heard a range of views about whether the amount of post-EU regional development funding matched what Wales would have received from EU structural funds. The Committee was interested in Professor Fothergill's analysis stating there was merit in the position taken by both sides, however

[31] Written evidence – RDF 21
[32] Written evidence – RDF 25
[33] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 17
[34] Written evidence – RDF 25
[35] Written evidence – RDF 25

Members could not come to a settled position as to which side had a stronger argument.

43. The Committee agreed with the IWA that the disagreement around the quantum of funding highlighted an issue with the roll out of the SPF. Whilst the quantum of funding is a very important aspect of the programme it is also important that the effectiveness of the SPF is considered, and any lessons on the operation of this first round of funding should be learnt. Members are concerned that this disagreement could overshadow those important discussions.

Recommendation 1. Before any future post-EU regional development funding round is announced the UK Government and the Welsh Government should attempt to agree a common position on the timing of its rollout and quantum of funding.

4. Targeting of funding

44. The formula for allocating the Shared Prosperity Fund is considerably different from the previous formula for allocation of EU economic development funding. In Wales funds were allocated by local authority with 40% of allocation according to population, 30% according to the Community Renewal Fund prioritisation of places index (CRF) and 30% according to the Welsh Index of Multiple Deprivation.[36]

45. The WLGA raised concerns about the interplay between these weightings, saying "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."[37]

46. The IFS said the weighting of the SPF meant:

> *"two areas with the same levels of deprivation receive the same total funding from this element of the funding formula, irrespective of how big their populations are. This contrasts with the approach taken for the share allocated using the broader index of economic need, where two areas the same levels of assessed need receive the same funding per person.*
>
> *"This matters because the population of different council areas in Wales varies substantially: the population of Cardiff was estimated to be over 6 times as large of that of Merthyr Tydfil as of mid-2020 (the population figures used elsewhere in the UKSPF allocation formulas). Rhondda Cynon Taff gets just 21% as much funding per person (£44) between 2022-23 and 2024-25 from the deprivation element of the formula as Merthyr Tydfil (£208) despite being only a little bit less deprived, because its population is 4 four times larger."*[38]

47. Professor Steve Fothergill illustrated this, saying "The calculations that the Institute for Fiscal Studies have done do indicate that this has led to a net shift of funding to the small deprived authorities. I think Blaenau and Merthyr are the big winners. The losers: Neath Port Talbot, RCT. Cardiff, I think, has also lost out. It's a few millions that have gone, perhaps, where it ought not to have gone with a

[36] https://www.gov.uk/government/publications/uk-shared-prosperity-fund-allocations-methodology/uk-shared-prosperity-fund-allocations-methodology-note
[37] Written evidence – RDF 05
[38] Written evidence – RDF 21

better formula." He told Members "I think it would have been much better done by looking, for example, not at the ranking of local authorities from best to worst, but at the absolute numbers of population in the most deprived, say, 20 per cent of wards in Wales in each local authority, and then you would have not got this bias towards the very smallest authorities."[39]

48. Members also heard that the new formula had refocused funding away from the previously heavily prioritised EU region of West Wales and the Valleys to East Wales. The IFS's analysis said "Whereas West Wales and the Valleys received 83% of EU funding (and almost three times as much per person) as East Wales under the EU funding, it will receive 73% (and 1.6 times as much per person) under the UKSPF."[40]

49. Members heard a variety of evidence on the reprioritisation. For example Pembrokeshire County Council said they were disappointed "that the UKSPF has had the effect of moving resources from the relatively more deprived West Wales and the Valleys to East Wales".[41] Mark Norris from RCT County Borough Council said that "the change that was made to the formula means that areas that previously didn't have funding now get funding, so obviously it comes from those areas that were previously targeted as the places of need. I know the indices of multiple deprivation were not initially going to be put into the formula at all, but were, late on in the process, brought in, but not in the same way that they were used in the past. So, it still means that those places—. For instance, in RCT we have 17 of the top-100 areas of multiple deprivation—lower super output areas—and our allocation is going to be lower than it was previously."[42]

50. Councillor Rob Stewart of Swansea Council elaborated on this, telling Members there "is a real inconsistency in terms of what was promised and what was announced and what is actually happening in the reality of the allocation." He went on to explain that Swansea Council "will have a shared prosperity allocation £4.1 million less than we would have had under the old EU formula, because the need element has been reduced. That is a choice."[43]

51. However the FSB Wales saw this approach as a positive, saying "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

[39] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 32
[40] Written evidence – RDF 21
[41] Written evidence – RDF 09
[42] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 155
[43] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 159

access to potential funding. This provides opportunity to recapitalise rural Wales that was exempt from previous funding, and the regeneration of previously exempt towns."[44]

52. The Minister for Economy told the Committee that the Welsh Government would have liked a system of allocation based on the Welsh Index of Multiple Deprivation. The Minister explained "The reason why we proposed using the Welsh index of multiple deprivation is it's well understood, it's regularly updated with data that matches and makes sense for Wales, and it covers the whole country. It includes a whole range of factors, socioeconomic, and it also includes access to services. So, there is a factor that deals with how easy it is for you in terms of where you live to get access to those services."[45]

53. Regarding the system chosen by the UK Government the Minister said "The UK Government were really clear that they wanted to have a factor that was just about population. So it doesn't matter about the need, it was just about population, and that shifted money away. Now, that then means that you are already taking need out of the equation for at least some of the formula. When you then say, 'Actually, the needs-based chunk of the formula will reduce even further', what you are actually doing is taking money away from communities that have the greatest level of need. And I don't see how that's justifiable"[46]

54. In a letter to the Committee, the Minister for Levelling Up said "The funding methodology for UKSPF has been adapted specifically to the needs of Wales based on conversations held with the Welsh Government during the development phase of the fund. The methodology utilises Wales-specific data including the Welsh Index of Multiple Deprivation. We are content that the resulting allocations for UKSPF are fair and strike an appropriate balance between need and population to proportionately support areas across the whole of Wales."[47]

Committee view

55. Members strongly support the need to prioritise additional funding, such as the SPF fund, to areas of greatest need. However Members share the concerns of stakeholders that the current funding formula does not prioritise as well as it could. The Committee is particularly concerned about the way population levels

[44] Written evidence – RDF 07
[45] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 32
[46] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 37
[47] Letter from Dehenna Davison MP, Parliamentary-Under Secretary of State for Levelling Up

are reflected in the funding formula. The next round of SPF funding must take account of the population size of deprived areas.

Recommendation 2. The UK Government should ensure that the next round of SPF funding takes account of the population size of deprived areas in Wales.

5. Design and implementation of funds

56. The UK Government opted to work directly with local authorities to deliver the Shared Prosperity Fund (SPF) across Great Britain, using the powers it gained through the UK Internal Market Act 2020, with a different approach taken in Northern Ireland. Local authorities in Wales are working together to deliver the fund across four regions – North Wales, Mid Wales, South West Wales and South East Wales. These are the same regions that are in place for the four City and Growth Deals in Wales.[48]

57. There are four local authorities leading on the SPF within their region – Ceredigion, Gwynedd, RCT and Swansea. The latest position in each region is that:

- North Wales – over 130 projects have passed the first stage of the application process, and have been invited to submit a detailed stage 2 application. The current position is that most final decisions and funding awards will be completed by the end of July 2023, although timescales will vary for each local authority.[49]

- Mid Wales – there have been two open calls for organisations to submit applications for funding. The first covered communities and place, and feasibility studies for supporting local business,[50] while the second covered supporting local business and the Multiply programme. [51]

- South West Wales – there are six region-wide anchor projects which cover employability; supporting communities; rural; transforming the county; culture and tourism; and supporting business.[52] A number of calls for funding within these six themes are open for applications, with others set to follow. There is also an open call for projects that address aspects of the Regional Investment Plan that are not being addressed through the anchor projects, as well as a skills open call and an open call for the Multiply programme.[53]

- South East Wales – there have been a number of open calls for funding run by each of the 10 local authorities within the region. Projects have

[48] Department for Levelling Up, Housing and Communities, Shared Prosperity Fund – Guidance: Delivery geographies
[49] Ambition North Wales, Shared Prosperity Fund: North Wales
[50] Powys County Council, First Call for Applications
[51] Powys County Council, Second Call for Applications
[52] Swansea Council, Shared Prosperity Fund – anchor projects
[53] Swansea Council, Shared Prosperity Fund - open call information

started to be awarded funding in some areas, for example Rhondda Cynon Taf[54] and Caerphilly.[55]

The local approach to the fund

58. The UK Government previously explained that it decided to work directly with local authorities as it believes the most successful projects are those delivered as a result of "local communities identifying projects that are important to them and coming up with solutions".[56] In a letter to the Committee the Minister for Levelling Up said "the new funding landscape is markedly different and provides enhanced benefits for local leaders to decide on the best combination of interventions in addressing local and regional needs".[57]

59. While local authorities are working together on a regional basis to deliver the SPF in Wales, in practice individual local authorities are making their own decisions within the framework of the regional investment plans. While this is less of a challenge for mid Wales, where there are two local authorities working together, it is presenting difficulties in larger regions. Councillor Dyfrig Siencyn, Leader of Gwynedd Council, told us that:

> *"One thing I would like to draw attention to, of course, is that each local authority makes its own individual decisions, which makes it very difficult, potentially, in some circumstances, to get an agreement to implement regional plans, so, that is a weakness in the system, but I'm sure that can be overcome."*[58]

60. Councillor Mark Norris, Cabinet Member for Development and Prosperity at RCT County Borough Council, highlighted that in his region, which has 10 local authorities, it has taken a lot of time to get agreement on the regional plan and working on a regional basis.[59]

61. The WLGA said in their written evidence that:

> *"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*

[54] Rhondda Cynon Taff County Borough Council, 73 Projects Approved for Share of UK Government's Shared Prosperity Fund and more Community Grants Announced
[55] Caerphilly County Borough Council, Successful local business supported by the UK Shared Prosperity Fund
[56] Welsh Affairs Select Committee, 27 May 2021, Q50
[57] Letter from Dehenna Davison MP, Minister for Levelling Up
[58] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 185
[59] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 193

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.

"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."[60]

62. Local authorities were pleased with their increased role in delivering economic development within their local area. The WLGA said that "Recognition of local government's central role in facilitating and supporting development and community revival has been welcomed." Councillor Rob Stewart, told the Committee:

"…we really do welcome the ability to have a bottom-up approach in terms of local control with regional collaboration—definitely an improvement—and it does allow us to focus on those priorities that we, as the local authorities, and working with our third sector partners and others, have more intelligence about in terms of the local knowledge of what our communities need."[61]

63. However, the Committee heard from a wide range of representatives, including those from local authorities, that an exclusively local approach to allocated funds had caused a number of difficulties. Chapter 6 of our report

[60] Written evidence – RDF05 7.Local authorities were pleased by their increased role in delivering economic development within their local area. The WLGA said that "Recognition of local government's central role in facilitating and supporting development and community revival has been welcomed." They felt that the way that Structural Funds had been managed in Wales had "stunted local delivery capacity to varying extents".
8.In evidence to the Committee, Councillor Rob Stewart, Leader of Swansea Council, said that:
[61] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 203

explores the challenges facing the higher education sector as a result of issues around research and innovation in more detail.

64. Organisations looking to deliver regional or Wales-wide projects are struggling to access the SPF due to the criteria in place. Universities Wales said that this could impact upon the effectiveness of the fund:

> *I think we have missed a really big opportunity to think about not just local delivery, but local impact. Sometimes you'll get better impact across a wider range of areas through a more joined-up approach, and that could give us better economy of scale, so better value for money. We've got some projects in higher education where that could be the case. And, if we're delivering to beneficiaries, if we're delivering to SMEs, then if you've got that kind of strategic approach, some bits can be funded through SPF, but you've got a project that can also be delivered in other areas and services that can be provided in other areas, potentially through other routes of funding.*[62]

65. Chwarae Teg said that an exclusively place-based approach to regional development "risks communities of people who share common barriers to full participation in labour market and society, regardless of their geography, missing out on interventions simply because of where they live".[63]

66. Professor Steve Fothergill said that the SPF "…doesn't provide mechanisms for those cross-internal-border organisations to engage very well. It also rather turns its back on and doesn't integrate what's done locally very well with the things that the Welsh Government is already doing."[64] This point was also made by the FSB Wales:

> *"We're really concerned about a lack of overarching structure. Having delivery at that local authority level creates a situation where there's not much cohesion. Previously, at the Welsh Government level, regional and national projects were being supported, whereas this ability to achieve wider aims seems to be lost a bit with this kind of delivery. We really feel like there's an opportunity here to learn from previous EU funding. We just don't want to see money being spent in isolation, without a holistic view of the outcomes of what we're trying to achieve*

[62] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 26
[63] Written evidence – RDF15
[64] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 115

and how that aligns with wider economic development and Government policy."[65]

67. Councillor Rob Stewart highlighted the impact this is having on organisations such as further education colleges and universities:

"So, it's a different challenge for our university and for our third sector educational funders to tap into that programme. They therefore fall between two stools in that respect. We now have new arrangements. Where they used to bid into a fund, they're now not able to do so in the same way…

"The UK Government have not done a like-for-like replacement in terms of the EU funds that were there previously, and that means that there are difficulties for universities and further education establishments within the new arrangements. We're trying to work through as productively and co-operatively as we can in terms of the local arrangements, but we don't set the criteria—that's the issue here."[66]

68. Colleges Wales stated that:

"…there's a greater need for regional and national working across Wales. That seems to be the main ingredient that we've lost, almost, through how these funds have been administered. But, still, the opportunity does sit upon us. Things could still change, but, unfortunately, time is passing now and a lot of projects have happened through, obviously, the local authority level, rather than, perhaps, the commissioning arrangement that was in place previously."[67]

69. Cwmpas suggested that if funding had been made available solely to be delivered at regional level 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

[65] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 35
[66] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 240
[67] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 33

> *areas such as social businesses, SMEs or the foundational economy."*[68]

70. The WCVA suggested that there is a need for greater consideration of what works best at a Wales-wide, regional or local level:

> *"Local authorities have a central, important role to play in the levelling-up agenda and with SPF, and some of the delivery, absolutely, should be done in a model similar to what's being delivered at the moment. But there should have been much more of a broader conversation with Welsh Government and other stakeholders to identify the best level for activity—whether it's national, regional or local—to occur…*
>
> *"it's about all of those people coming round the table and saying, 'These are the range of interventions that we want to make to deliver the outcome that we want, which is a more prosperous and equal Wales. These are the interventions we need to achieve that. Who are the right people to have round the table then to deliver those interventions, whether that's the voluntary sector, higher education, FE, private sector, public sector? Let's work out who is best to deliver."*[69]

71. Onward made a similar point on the need for delivery at different levels, they highlighted that different aspects of regional development should be delivered at different levels:

> *"I think the really important thing with the shared prosperity fund, and the range of different areas that it looks at, is that elements of it will be more appropriate for different scales. So, interventions on skills are probably going to be at the area of a functional economic geography, which might be above a particular local authority. If it's on a more community regeneration or revitalisation element, that might be hyperlocal, even below the level of the local authority. But there are a range of organisations that need to play a role at the neighbourhood, town, local authority, Wales level, and therefore all of those organisations should play a role."*[70]

[68] Written evidence – RDF22
[69] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 120
[70] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraphs 122 and 130

72. The Welsh Government's written evidence to the inquiry argued that the approach taken to the SPF did not learn the lessons of early Structural Funds programmes in Wales, stating that:

> *"The design of the SPF lends itself to smaller, short-term localised projects similar to the approach taken to the 2000-2006 EU Structural Funds programmes. Lessons learned following independent evaluation led to larger, more strategic projects being supported in the 2007-2013 and 2014-2020 programmes to create greater economic impact and legacy."*[71]

73. The written evidence provided by the Minister for Levelling Up says that it is too early to come to conclusions on the impact of the funds for different organisations or sectors, as many calls for funding are still open. The Minister stated:

> *"Organisations and sectors that were large beneficiaries of EU Structural Funds will need to consider how they adapt to the new funding landscape. This includes recognising that the UKSPF has a different focus, with an emphasis being placed on the strategic fit of project ideas to local priorities whilst aligning to the overarching aim of the fund to support pride in place and increase life chances."*[72]

74. While the Committee heard views from organisations such as the WCVA[73] that there is less of an administrative burden for small projects within one local authority area than there were under Structural Funds, Members also heard about the barriers to applying for funding that projects which want to operate across more than one local authority area have faced. Colleges Wales felt that "a different layer of bureaucracy" has been created for organisations applying for funds in some parts of Wales as a result of the need to apply to a number of different local authorities for regional projects.[74]

75. The WCVA gave a practical example of the challenges they had faced when trying to set up a regional project across the 6 local authorities in north Wales:

> *"We've put in an application to north Wales through the open call; that was some months ago. Four local authorities we've still not heard from. One has said 'no', one has said 'yes'. So, we*

[71] Economy, Trade and Rural Affairs Committee, 8 June 2023, Evidence paper – Welsh Government
[72] Letter from Dehenna Davison MP, Minister for Levelling Up
[73] Written evidence – RDF16
[74] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 33

> *come to this; we're trying to put a regional plan together, but we've got six local authorities all viewing it through their own lens, against their own budgets, which are hugely different. So, it's become really difficult to actually achieve that regional work, despite some of the best efforts that are going on, especially in the north, in this space."*[75]

76. This is not just the case for larger organisations. PLANED, a community based development charity based in Pembrokeshire who work with communities across south west Wales, set out their concerns:

> *"Although each Local Authority promotes and controls the funds available at a county level, there is no promotion of regional opportunities in the wider sense genuinely, to enable cross border working and collaboration on sectors and deliverables which are demonstrably already delivered on a regional footprint. Therefore, some community led organisations such as PLANED, will in theory have to amend three separate but relatable bids to three different county funding pots, to retain parity of opportunity for those communities."*[76]

77. Chwarae Teg said that, of the four regions in Wales, two have taken a regional approach to bidding, meaning that "there are approximately 18 different ways in which to bid for the SPF". They said this has caused capacity challenges for organisations bidding for funds, and has been exacerbated by differing processes for applying for support across different areas.[77]

78. The Committee heard similar themes in its engagement work, with participants describing the situation as follows:

> *"Very disjointed and confusing - hard to get information and see the bigger picture when each LA is doing their own thing. Lack of guidance hindering the process."*
>
> *"Engaging with 22 local authorities in Wales all of whom may decide to do things very differently, is very resource intensive."*

[75] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 95
[76] Written evidence – RDF02
[77] Written evidence – RDF15

> *"The approach to the funding has been different in every county, with no standardisation for applications by the sector. It is a very sad state of affairs where we have gone from good partnership working and a fair and open approach for application to the current picture."*

79. The FSB Wales also told Members about the impact that different administrative processes in different areas was having on SMEs, who:

> *"…don't know if they're going to be able to access that funding in different regions. They don't know if that's even going to be available for them. That is not a way to engage small businesses in the process, or make sure we're supporting what is 99.4 per cent of enterprises in Wales.*
>
> *"The timescales vary across all the local authorities on when they want bids in. So, this makes it really difficult for SMEs who operate across regions as well, to try and navigate very different processes."*[78]

Role of Welsh Government

80. Central to discussions around how the fund should be designed and delivered in Wales is what, if any, role the Welsh Government should play.

81. Since the early development of the SPF, there has been a difference of opinion between the Welsh and UK governments around the level of engagement that has taken place.

82. The Minister for Economy told the Committee that the Welsh Government had no meaningful role in deciding how the SPF should be delivered. He said that the Welsh Government had written to the UK Government to request meetings on the SPF, and had raised the fund in other Ministerial meetings.[79] The Minister stated that:

> *"…the engagement only took place in a two-week window. It took place in a two-week window with both officials and, finally, direct ministerial engagement. It was Neil O'Brien at the time. And so it was a very, very short window."*[80]

[78] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraphs 101-102
[79] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 50
[80] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 32

83. The House of Commons' Levelling Up, Housing and Communities Select Committee heard that all of the devolved administrations were dissatisfied with the level of engagement that had taken place with the UK Government in developing levelling up funds. That Committee concluded that:

> *"Where the DLUHC is seeking to provide funding in [policy] areas that are generally understood to be devolved, it is critical that the Department works hand in glove with the Devolved Governments. As such, through good communication and close collaboration, the Department should ensure the distribution of funding reflects the knowledge, expertise, and preferences of the Devolved Governments so far as it compatible with the purpose and objectives of the funding, whilst acknowledging the provisions under the UK Internal Markets Act. We recommend that in future the DLUHC ensures there is ongoing and more detailed engagement with the Devolved Governments at a level deemed sufficient by Wales, Northern Ireland, and Scotland to allow for emerging challenges to be addressed in a timely and efficient manner."*[81]

84. The UK Government takes a different view, with the then Secretary of State for Wales telling the Senedd's Finance Committee in June 2022 that the UK Government had "been talking about SPF with Welsh Government for as long as I've been Secretary of State".[82]

85. During the Committee's inquiry, all witnesses who provided oral evidence called for the Welsh Government to be allowed to play a role in the SPF going forward, although there were different views on what that could look like in practice.

86. The Minister for Levelling Up's written evidence said that:

> *"The UK Government remains committed to building an effective working relationship with the Welsh Government in supporting local government to deliver the two funds (UKSPF and LUF) as well as wider opportunities, such as the Community Ownership Fund and the two new Freeports being created in Wales."*[83]

[81] Levelling Up, Housing and Communities Committee, Funding for Levelling Up
[82] Finance Committee, 30 June 2022, paragraph 433
[83] Letter from Dehenna Davison MP, Minister for Levelling Up

87. A number of respondents wanted to see a greater role for the Welsh Government, working alongside the UK Government to deliver the SPF.

88. The FSB Wales called for a balance between a highly centralised and hyperlocal model:

> *"…is there some sort of model we could use that isn't hyper-localised or highly centralised? I think that's exactly right. But we have always said we do believe that Welsh Government should be involved in the shared prosperity fund, and there are a number of issues arising from them not being involved, such as that lack of overarching structure I've touched on earlier. We're also worried about that weakening of institutions and regional structures that are working really well here in Wales, such as Business Wales. We don't want to see those great supports for small businesses weakened."*[84]

89. Professor Steve Fothergill and Onward both called for a compromise between central and local government. Professor Fothergill stated that the detail of how the fund operates should be fleshed out in Wales, with a greater role for the Welsh Government than currently. He felt this was "common sense", and that it is "clearly wrong" to bypass the Welsh Government.[85]

90. The four lead local authority representatives who gave oral evidence to the Committee all told us they wanted to see the Welsh Government involved in the SPF. Councillor James Gibson-Watt of Powys County Council told the Committee that it was not a good idea to cut the Welsh Government out of the SPF,[86] while Councillor Rob Stewart, from Swansea Council, highlighted the good working relationships that have developed through the development of City and Growth Deals, and suggested these should have been used for the SPF.[87] Councillor Mark Norris, from RCT, said that the Welsh Government could play a role in guiding the regions and helping to avoid duplication.[88]

91. The IWA gave the example of freeports as a case where the UK and Welsh governments had worked together positively. They said both governments having

[84] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 128
[85] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 118
[86] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 250
[87] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 261
[88] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 195

a unifying economic strategy was good for Wales, and that "if they're both speaking the same language, then it's Wales that benefits".[89]

92. The IWA's written evidence called for a formal role for the devolved governments, and suggested an arms-length body for Wales:

> *"…any future regional development funding in the UK to incorporate a formal role for the UK's devolved governments. Doing so would be a recognition of their important role in aligning policy priorities, recognising their democratic mandates and relationships with key regional actors. Given the political sensitivity of the issue, this could be achieved through an arm's length body, modelled on the now defunct Welsh European Funding Office, that brings together representatives of the two governments, as well as local authorities, business and civil society partners. This body could work to create shared strategic priorities to inform project bids, allocate funding and commission appropriate monitoring and evaluation processes."*[90]

93. The IWA also argued that the UK Government's approach "seeks to bypass the governance structures that have been constituted through the democratic process and which are scrutinised by the Senedd".[91] They had "serious concerns about what this means for accountability in terms of the scrutiny that should be undertaken by parliaments".[92]

94. Colleges Wales said they would "lean towards Welsh Government being heavily involved with the process", as where this is the case you can have consistency at an all-Wales level where this is needed.[93]

95. Others felt that the main role should be played by the Welsh Government. Universities Wales stated that:

> *"…we've had a position since late 2016 that the Welsh Government was the appropriate vehicle for any future funds; that view hasn't changed. The key issue is that Welsh Government touches all stakeholders who should be delivering in this space and should be able to deliver impact. I mean, just*

[89] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 118
[90] Written evidence – RDF25
[91] Written evidence – RDF25
[92] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 137
[93] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 139

going back to part of the previous question, and whether they can deliver in small enough chunks to multiple beneficiaries, I mean, you're asking an awful lot of local authorities to do that on their own without using other stakeholders who are also well positioned to do that."[94]

96. Councillor Dyfrig Siencyn of Gwynedd Council expressed a similar view:

"Personally, I don't think that there should be a role at all for Westminster in economic development in Wales, and that all of this work should be done by the Welsh Government. That's my opinion, so we will see what comes of that."[95]

97. The Minister for Economy told the Committee about his preferred approach to delivering the SPF in Wales, stating that:

"I think you'd need to have some overarching approach. And given that we're not in the EU, that would come from a UK Government of any form. But the decision making that we previously undertook and the detail of that, I think, should still be here, and that should work in partnership with our regions and our partners. That's what we've set out in the regional investment framework. So, we want to make sure that we still understand what that approach looks like, how we work with partners, and how this place is still able to properly and effectively scrutinise what we're doing."[96]

98. The Minister also said that he expected to engage with the UK Government on the design of broad themes that SPF money could be spent on, but that under the devolution settlement the Welsh Government should have the ability to design and deliver the SPF in Wales.[97]

99. The Committee also heard from a number of witnesses about the negative impacts of the Welsh Government not being included in the arrangements for the SPF, particularly around potential duplication of efforts. The FSB Wales expressed their concerns around duplication of business support:

"…many similar applications [are] likely to come in across Wales and that duplication in awarding these similar applications

[94] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 258
[95] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 258
[96] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 126
[97] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraphs 130 and 132

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."[98]

100. The WCVA raised potential duplication in skills policy, noting that:

"A variety of employability services are delivered by the Welsh Government, the DWP and the local authorities, and the fragmented implementation of the UKSPF could result in a whole range of new local interventions that are not integrated and coordinated with other existing provision."[99]

101. The Minister for Economy said that the Welsh Government is working with local authorities to try to avoid duplication. He said this had been effective up to a point, but:

"…the difficulty is when they're [local authorities] then required to nevertheless put in bids against a short time frame against a list of areas, and the areas are narrow and they include skills. It's very hard if you're running a local authority to say, 'We're not going to do anything in that area', because you also know that money has come out of the skills pot because of the way that the funds have bypassed the Welsh Government."[100]

102. Chapter 7 of this report explores concerns about potential duplication resulting from the Multiply programme in more detail.

Timescales to establish and deliver the fund

103. While local authorities were happy with their increased role in delivering the fund, all of those who gave evidence were critical of the timescales set by the UK Government for submitting investment plans and for delivering the fund.

104. Councillor Rob Stewart of Swansea Council summarised the concerns raised by local authorities, stating that:

[98] Written evidence – RUF07
[99] Written evidence – RUF16
[100] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 58

"...we were handed an almost impossible task of money coming late, lack of clarity around how you can spend it, lack of clarity about how you can allocate it, and then potentially being criticised at the end. So, I come back to the same point: let's be sensible about this. We were offered a three-year programme; let's give people three years to deliver it."[101]

105. We heard similar concerns from local government representative bodies in England and Scotland. The Local Government Association (LGA) told us that:

"The delays in the approval of investment plans, the initial restrictions on in-year spending and the short-term nature of the fund have created a challenge for lead authorities to use the funding in a long term, innovative manner and maximise the use of the fund to leverage other public and private funding streams."[102]

106. The Convention of Scottish Local Authorities (COSLA) described the timescales for submitting investment plans as "almost impossible" for Scottish local authorities due to the Scottish elections in May 2022, with some authorities requiring extensions to the deadline for submission. They also said that the delay in the UK Government approving investment plans meant that there would be a "rush now to deliver over a shorter period of time".[103]

107. Councillor Dyfrig Siencyn of Gwynedd Council highlighted the impacts that shorter timescales can have on the types of project that can be funded under the SPF in Wales, noting that:

"Time is running out, and we have about 18 months to spend this money. It will need to be spent by the end of 2024 in order to apply by March 2025. So, that limits the projects that we can put forward, to be honest. There are excellent plans, as my colleague mentioned. We can't implement them, because we won't be able to spend the money in time, so that is a very significant limitation."[104]

[101] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 275
[102] Written evidence – RDF27
[103] Written evidence – RDF19
[104] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 183

108. The WCVA commented that, in its view, the issues around timescales of delivery and the length of funding will create considerable difficulties in delivering the aims of the SPF. They stated that:

> *"…we are broadly supportive of the strategic and policy direction of the UKSPF, however, the operational implementation, especially the timescales of delivery and the current end date of the funding means that, in our view, the stated aims of the UKSPF are not achievable."*[105]

109. In their evidence session with the Committee the WCVA expanded on this:

> *"We're talking about dealing with deep-rooted, long-standing issues here of disparity and inequality, and the voluntary sector projects that we're going to see coming out of UK SPF are probably going to be measured in months, in terms of actual delivery. We all know that that's not really going to make a difference, in terms of what we want to see and what the policy context of levelling up really sets out."*[106]

110. Concerns were expressed by organisations including RCT County Borough Council[107] and the Industrial Communities Alliance Wales[108] that shorter timescales reduce the ability to develop and fund transformational programmes. The IWA said:

> *"We are already seeing a real difference from ESI, with programmes not now announced several years in advance of commencement. This makes it difficult for partners or recipients to plan in advance or coordinate across different areas, and it means that 'shovel ready' projects may be prioritised over more strategically important, longer term projects. This could have significant consequences for Wales' transition to a net zero economy amongst other things, as difficult decisions and longer term investment need to be made to encourage and give confidence to accompanying private sector investment."*[109]

[105] Written evidence – RDF16
[106] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 39
[107] Written evidence – RDF06
[108] Written evidence – RDF12
[109] Written evidence – RDF25

111. Professor Steve Fothergill also raised this issue. He asserted that having a three-year funding programme, rather than a longer-term approach, negatively impacts the results and value for money that can be obtained from the SPF:

> *"It's certainly true that, in London, the department for levelling up, or at least their officials, recognise that they're getting poor quality results on the ground because of the very short timescale of the shared prosperity fund. I think, at some levels in the Treasury, that's also recognised, I've got to say. But the Treasury is wedded to certain rules. They like to control how much is spent in each financial year, and they don't like to commit money beyond the end of spending review periods, which are typically three years, or at the very, very most four years. The present one is a three-year one, running until March 2025. We'd expect a new spending review probably at the back end of next year. We've got to break down that mindset in the Treasury. They've got to understand that if they really want value for money, they've got to start being more flexible in terms of the duration of the spending programmes that they run."*[110]

112. Participants in the Committee's engagement work highlighted some of the impacts that this has had on their organisations:

> *"It has felt very rushed. Detail has been slow to emerge and planning was expected and submission time lines were very tight."*
>
> *"Longer term EU funding did allow that to be retained and promoted, but with the promotion now of funding which is 12-18months at most, it does not positively promote the retention of skills as staff need security more long term."*

113. The written evidence provided by the UK Government accepted that some local authorities had difficulties with the timescales provided:

> *"It has been acknowledged that some local authorities found certain timescales challenging, and DLUHC officials are in regular contact with the WLGA and local authorities to support them to achieve the intended outcomes of all Levelling Up funding opportunities available to Wales...*

[110] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 95

> *"DLUHC has provided extensive financial support to Welsh local authorities in helping them to deliver both the UKSPF and the LUF. This includes £125,000 capacity funding to each local authority in Wales at the outset of the LUF, a total £130,000 in capacity funding to local authorities successful in round two of fund, and a further £40,000 to each lead local authority to support the development of their UKSPF Investment Plans."*[111]

Local authorities' administration of the fund

114. Some organisations told us that local authorities are prioritising their own projects before other organisations are given a chance to access funds. Colleges Wales felt this was a particular problem in south-east Wales:

> *"…current progress in South East Wales has resulted in a continuation of local authority led projects, some of which were funded through ESF and are getting first priority on the use of SPF, and this has diminished the opportunity for FE, HE and third sector to seek replacement funding or new funds to continue previous or deliver new projects."*[112]

115. Colleges Wales expanded on this in oral evidence, stating:

> *"…from a south-east Wales perspective, I think most local authorities have looked internally first, in terms of the opportunity to continue or extend projects. From Cardiff and Vale's perspective, we've had really good engagement with both local authorities over the last 12 months or so, but, ultimately, it comes down to decisions of how those budgets are allocated at a local authority level. And some have come out with a sort of open-call opportunity locally; others haven't yet, because, I suppose, they're not sure of exactly what gap they may have in terms of how much funding they're not able to commit to through their own local authority before seeking external partners to deliver."*[113]

116. Cardiff University expressed similar concerns:

[111] Letter from Dehenna Davison MP, Minister for Levelling Up
[112] Written evidence – RDF11
[113] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 97

"Local Authorities in the Cardiff Capital Region (CCR) are facing severe budget constraints. This creates a culture of protectionism over the SPF allocation as a means to cover not just the lost ESF, but also cuts to budgets more generally, and they are therefore prioritising projects more locally."[114]

117. Similar concerns were also raised by individuals and organisations participating in engagement work, with respondents stating that:

> *"Very obviously in some areas the funding has been used to prop up local government shortfalls and none has come out for open bidding by the third sector."*
>
> *"Post Brexit, all funding has gone to local authorities and, given the state of their finances, very little of it has been offered out to the voluntary sector as grants or as partnership projects."*

Support for local authorities to deliver the fund

118. The Committee heard from a number of organisations that their officials had good relationships with UK Government counterparts.

119. Monmouthshire County Council described UK Government officials as "very supportive" and said they had good lines of communication,[115] while Councillor Dyfrig Siencyn said that Gwynedd Council has "developed a relationship that is quite good with UK Government officials".[116]

120. Colleges Wales said in their written evidence that:

"We have held regular and useful conversations with the colleagues in the UK Government Wales Office and the Department for Levelling Up. We found that facilitating this relationship has proved useful, particularly for those members who have found communicating at a regional and local level more challenging, as it acts as a forum for colleges to share their experiences, voice concerns, and provide feedback in real time as the programme develops."[117]

[114] Written evidence – RDF24
[115] Written evidence – RDF17
[116] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 257
[117] Written evidence – RDF11

121. However, the local government representative organisations for both England and Wales also set out a number of instances where they felt they did not have sufficient support, information or guidance from the UK Government, which has had negative impacts on the delivery of the SPF.

122. The Local Government Association (LGA) set out a number of these instances:

> *"In January 2023, Ministers confirmed that lead authorities could roll over funding between years if there is a "credible plan". Had this been known at the development of the investment plan phase (April 2022 - 1 August 2023), many lead authorities would have made different decisions.*
>
> *"Grant determination letters for 2023/24 will not be received until the credible plans have been assessed (expected in May 2023), meaning many lead authorities will be in the position of spending UKSPF at risk. Some lead authorities have tried to mitigate this risk, such as running grants programmes where funding can be released once DLUHC has confirmed their funding.*
>
> *"Government provided limited detail of the evaluation strategy, which has left lead authorities in the position of having to commission projects without knowing what evaluation processes would be needed."*[118]

123. Looking specifically at Wales, the WLGA said that, while the lighter touch approach allows local authorities to concentrate on delivery, this is a "blessing and a curse", noting 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."*[119]

[118] Written evidence – RDF27
[119] Written evidence – RDF05

124. Pembrokeshire County Council described the flexibility in place as "liberating but worrisome", noting that "we have already been inundated with questions asking for instructions on matters on which the UKSPF offers no guidance".[120]

125. Councillor Rob Stewart, of Swansea Council, expanded on this in oral evidence:

> *…in that respect, we are carrying a lot of risk at the moment. So, that flexibility does manifest itself in a risk in two ways really, one in terms of the points we've made previously about not having all of the information before proceeding to design the processes and then provide the calls to action.*[121]

126. He also noted that "we didn't have the information in terms of the terms and conditions, or the necessary criteria around that, which meant that we had to proceed at risk in terms of issuing money out to projects, or going towards the calls for action".[122]

Additionality

127. Members heard some concern about the loss of 'additionality' with the SPF which had been a core part of the EUs regional development funding. Councillor James Gibson-Watt told Members "The loss of additionality is another issue. There is no additionality condition in the shared prosperity funding. It can be used to substitute for funding that would otherwise just be normal core funding used by public authorities. I think that's a real mistake. I think there should have to be additionality for this sort of project, and that was one of the strengths of European funding, that you had to both match fund it and it had to be additional to what you would otherwise normally be expected to do. That condition did make a huge difference."[123]

128. The concerns around a lack of additionality were also raised in the Committee's engagement work. One respondent said "[it's] Very obviously in some areas the funding has been used to prop up local government shortfalls and none has come out for open bidding by the third sector."

[120] Written evidence – RDF09
[121] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 207
[122] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 177
[123] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 164

Committee View

129. While local authorities and regions are at a relatively early stage of delivering the fund, there are a number of areas where there is consensus between many of the organisations we have received evidence from on what is working well, and areas where changes or improvement are required. Lessons can be learnt from the delivery of the fund to date, and should be applied to future funding after 2025. In setting out our conclusions and recommendations, we are mindful of the considerable efforts made by local authorities to get the SPF up and running in their local area, and would like to record our recognition of this.

130. While the Committee recognises that there is merit in delivering some aspects of the SPF locally, Members heard evidence of problems faced in relation to projects that are delivered over a wider area than a single local authority. Evaluations of previous EU funding schemes have found that these can have considerable strategic and economic benefits. These challenges have not been fully worked through during the development of the SPF, and have led to unintended consequences such as the creation of a "different layer of bureaucracy" highlighted by Colleges Wales. For example, we heard of organisations wanting to work across more than one geographical area being required to submit multiple bids, often needing to meet different eligibility criteria across different areas.

131. The Committee has heard evidence from a wide range of organisations that the UK Government working directly with local authorities on the SPF, and its decision not to include the Welsh Government in its delivery, has contributed to issues such as potential duplication, difficulties in delivering projects across larger geographies than a single local authority area, and lack of accountability to the Senedd for funding spent in Wales. Stakeholders believe that the absence of any Welsh Government-level coordination in the development or delivery of SPF has had a negative impact, and they should have a clear role in post-2025 funding. This should be part of wider work to review whether interventions in particular areas within the SPF are best delivered at a local, regional or devolved nation level.

132. The lack of time available for local authorities to prepare investment plans has impacted upon their ability to plan and deliver maximum impact from the funding available. Members heard that this has been exacerbated by delays to getting the programme up and running, which has resulted in delivery of a three-year programme being squeezed into 18 months. The shorter time period compared to Structural Funds was also raised as an issue, with widespread concern that it will limit the ability to develop transformational projects, and lead to poorer results and a lack of value for money. The post-2025 funding programme should facilitate stronger strategic planning, coordination, co-production and partnership working and resourcing, to deliver longer-term 'value added' economic regeneration projects with the greatest regional development potential.

133. The Committee was pleased to hear that UK Government and local authority officials have built up good working relationships, and that local authorities have broadly welcomed that they have flexibility to deliver the SPF. However, there were also concerns expressed that guidance has been provided late, and that there is a lack of clarity around monitoring and reporting requirements. These issues will potentially have a disproportionate impact on local authorities in devolved nations, who have less experience of working directly with the UK Government than their counterparts in England.

134. Additionality was also an important element of EU Structural Funds and Members feel it may be beneficial to revisit this requirement in the design of the new funds.

Recommendation 3. The UK Government should consider how the Welsh Government could aid in the delivery and design of the next round of the Shared Prosperity Fund.

Recommendation 4. The Welsh and UK governments should undertake a review of whether the different elements of the Shared Prosperity Fund should be delivered at local, regional or all-Wales level, based on what works best.

Recommendation 5. The UK Government should evaluate the regional approach to delivering the Shared Prosperity Fund in Wales. This should consider how the approach of local authorities making individual decisions within a regional framework meets the needs of organisations seeking funding, and also whether this approach places a greater burden in monitoring and evaluation than single local authorities in England face.

Recommendation 6. The UK Government, working with the Welsh Government, should establish a Wales-wide body to support regional co-ordination in delivering the Shared Prosperity Fund.

Recommendation 7. The UK Government should prioritise working with local authorities to ensure that interventions funded and delivered through the Shared Prosperity Fund do not duplicate those already in place. The UK Government should include the Welsh Government in this work.

Recommendation 8. The UK Government should agree a longer funding period for the Shared Prosperity Fund funding rounds after 2025. This agreement should be made with input from the Welsh Government and should build in sufficient time for funders, and those involved in projects, to plan and deliver programmes and projects that deliver maximum benefits.

Recommendation 9. The UK Government should ensure that its evaluation of the Shared Prosperity Fund has sufficient focus on the experience of Wales-based organisations, and that it undertakes and publishes a lessons-learnt exercise as part of its evaluation strategy.

Recommendation 10. Given the concerns raised by some organisations that local authorities in some parts of Wales are prioritising their own projects for SPF funding, the UK Government should look into this further and take any action necessary to ensure that all organisations are given a chance to benefit from this funding.

Recommendation 11. The UK Government should review its approach to guidance on the Shared Prosperity Fund to ensure maximum clarity for local authorities, taking into account that Welsh local authorities will have less experience of working directly with it than English authorities.

Recommendation 12. The UK and Welsh Governments should consider revisiting requirements around additionality for any future economic development funding streams.

6. Project sustainability, recruitment and retention

135. Members heard evidence that the shorter period of time to spend funds offered by the SPF was causing issues around project sustainability, particularly from a staffing perspective. Councillor Mark Norris told Members "…not so much for councils, but for those bodies in the third sector, charities or businesses who are applying for the grants. That short time frame of two years makes it very difficult, firstly, to attract in any staff who are experienced to do those jobs, to make it a worthwhile job to take on, but also to skill up new staff to do those jobs going forward, because once they're skilled up, it's probably coming to the end of the programme."[124]

136. WCVA echoed these concerns saying "Although funding is confirmed until March 2025, projects need to be completed by the end of December 2024, to allow time for the closure of the programme. This means that project delivery will likely be no longer than 18 months. As a result of this, we foresee difficulties in the recruitment of project staff for short-term temporary roles. This short-term nature of the UKSPF is in sharp contrast with the multi-annual funding cycles of the Structural Funds, which provided stability and enabled projects to be funded for much longer." [125]

137. The WCVA also highlighted the potential impact of the end of Structural Funds on people's jobs, citing the job losses at their own organisation and noting that:

> *"23,000 people that were being supported by a project that was joined up with Welsh Government activity and Department for Work and Pensions activity, was an ecosystem that worked and was understood, and so we could pass people from the very furthest away from the labour market into activity like…FE and DWP activity, that has all now gone. That infrastructure and that ability to deliver at scale has meant that the WCVA has lost around about 25 members of staff who've been doing that for 20 years to enable that work to happen in our communities."* [126]

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[124] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraph 229
[125] Written evidence – RDF 16
[126] Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 45

138. Participants in the Committee's engagement work were also very concerned about the impact of funding on staff in the third sector and their work. Respondents said:

> *"The gap between the end of EU funding and the start of SPF funding has already seen a loss of experience and expertise within the third sector"*
>
> *"There has been a lack of stability since the end of EU funding, several staff members could not have their contracts extended as a result. The egregious lack of information and inability to stick to proposed timetables is laughable. The effects on end users will be felt for years to come."*

139. Some of the most severe impacts on jobs and projects are likely to be seen in the university sector. Universities Wales told us that "As a result of the loss of ESIF funding, over 1,000 highly-skilled jobs in Welsh universities are at risk. We risk losing significant research talent and capacity across Wales without sufficient replacement funding, which the UK SPF does not provide."[127]

140. Universities Wales have called for £70 million bridging funding from the UK Government to provide capacity to "make longer-term strategic decisions about whether and how to continue to sustain individual research projects, rather than letting them fall off the cliff edge as ESIF comes to an end". In oral evidence, Universities Wales said "We're still awaiting a response on that and we're working with Universities UK on that. Obviously, there will be other areas of the UK that are similarly in need of bridging funding."[128]

141. Wales TUC and the University and Colleges Union Cymru (UCU Cymru) set out specific risks to jobs in the university sector in a joint letter to the Committee. They noted that "At least 60 projects and 1000 jobs at risk across Wales. Most of those affected are working on non-permanent contracts; many have been working this way for more than a decade, but loss of structural funds means that these work-streams will end." They went on to say that "Given the historical purpose of structural funding, the impact will likely fall in strategic areas such as advanced manufacturing, energy systems, net zero, and health technology. Jeopardy to Wales is thus doubly perverse." They highlighted their "principal observation is that these harms are occurring in the present. Notwithstanding the anxiety and uncertainty experienced by research staff, damage done to the wider

[127] Written evidence – RDF 13
[128] Written evidence – RDF 13

Welsh research ecology presages atrophy in strategic disciplines and knowledge gathering areas – the bedrocks of the knowledge economy.”[129]

142. Wales TUC and UCU Cymru suggested:

> *“As an immediate measure, we propose an urgent 6-way meeting between the Universities, their governing bodies, UCU Cymru, HEFCW, Welsh and Westminster governments to establish urgent bridging funding for the scientists and related staff who will lose their jobs this year as a result of withdrawal of structural funds.”*[130]

143. The Minister for Economy echoed some of these concerns. In his evidence paper the Minister discussed the narrowing of scope for funding and the shortened timeframe for spend:

> *“around £380m of the 2014-2020 EU programmes was invested in Research & Innovation (R&I). This is not an eligible investment area meaning that multi-million pound R&I investments supporting business and academia collaborations for growth have no prospect of successor funding from the SPF. This is resulting in reports by a range of sectors of significant levels of job losses and the closure of key projects in areas including decarbonisation, renewable energy and industrial skills.”*

144. The Minister described a need for the rest of the UK to catch up with London and the South East’s Research and Development spending. He told the Committee:

> *“Welsh universities have not accessed UK-wide funds as successfully as other parts of the UK. There's broadly an imbalance between London and the south-east of England, and a couple of universities in Scotland that do very well, and the rest of the UK that hasn't done anything like as well. So, when DLUHC said that they had an ambition to level up by a large percentage the amount of research funding that goes into other parts of the UK, the thing is that it's starting from such a low base that it doesn't get us to anything like parity. So, the design of the UK Government is also a challenge here.*

[129] Letter from Trades Union Congress (TUC) Wales
[130] Letter from Trades Union Congress (TUC) Wales

> *You've got the levelling-up department, who don't control what's happening on the research, development and innovation budget."* [131]

145. The Minister for Levelling Up highlighted that the SPF is not a direct copy of EU funds and as such the funding landscape and project would change: The Minister said::

> *"By its nature we expect a different mix of interventions and projects to come forward which are in line with the terms of the fund and importantly reflect local needs and priorities agreed by local leaders. Organisations and sectors that were large beneficiaries of EU Structural Funds will need to consider how they adapt to the new funding landscape. This includes recognising that the UKSPF has a different focus, with an emphasis being placed on the strategic fit of project ideas to local priorities whilst aligning to the overarching aim of the fund to support pride in place and increase life chances."*[132]

Committee view

146. Members share concerns about the potential for job losses and the need to support the voluntary, higher and further education sectors' adjustment to the new funding landscape. Given the mix of devolved and non-devolved responsibilities, the UK Government should work with the Welsh Government to address this situation, both in the short and longer-term.

147. Both governments must maximise the level of research and innovation spending in Wales, given the UK Government's mission in its Levelling Up White Paper, and the Welsh Government's concern stated in its Innovation Strategy that there will be "less money…and Wales will have less control over it". Members would like the UK and Welsh Governments to set out the work done so far to work towards this, and their plans to engage and work together to drive this forward.

Recommendation 13. The UK Government and Welsh Government should communicate how they are engaging and working together to maximise Wales's share of research and innovation spending outside London and south east England.

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[131] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 72
[132] Letter from Dehenna Davison MP, Parliamentary-Under Secretary of State for Levelling Up

Recommendation 14. The UK Government and Welsh Government should commit to the 6-way meeting with the Universities, their governing bodies, UCU Cymru and HEFCW, to discuss bridging funding for the scientists and related staff who will lose their jobs this year as a result of withdrawal of structural funds, as proposed by Wales TUC and UCU Cymru.

Recommendation 15. The UK Government should work collaboratively with the Welsh Government to develop a longer-term plan to safeguard research and innovation in the Welsh Higher Education sector.

7. The Multiply programme

148. The SPF includes an element of funding to the Multiply programme. UK Government guidance on Multiply in Scotland, Wales and Northern Ireland, published in August 2022, states:

> *"Multiply is a new up to £559 million programme to help transform the lives of adults across the UK, by improving their functional numeracy skills through free personal tutoring, digital training, and flexible courses. Multiply provision should complement but not duplicate existing provision".*[133]

149. Local authorities have set out a range of concerns with the Multiply programme. The WLGA noted a high level of per-capita support for the Multiply Programme in Wales, saying that the programme had been developing, albeit slowly.[134] RCT Council welcomed the level of investment, but said "the scale of the challenge to increase capacity to deliver the programme cannot be underestimated."[135] Pembrokeshire County Council told Members the scheme was making a slow start and was currently underbid.

150. The WLGA raised concerns about local authorities' ability to spend the full amount of Multiply funding allocated in 2024-25. Recent changes to allow unspent year 1 Multiply monies to transfer into year 2 and the People and Skills investment priority had eased a bit of the pressure to ensure a full spend. However, there were still concerns that Year 3 monies would not be spent in full by the end of the programme, as the third year sees the highest proportion of the funding allocated.

151. Councillor Andrew Morgan, Leader of RCT County Borough Council and WLGA Leader, said:

> *"Clarification regarding the ability to adopt flexibility in the use of the Multiply funding has been an ongoing issue. Some flexibility has now been applied to the Year 1 underspend, but restrictions still apply to the Years 2 and 3 allocations where the funding is ringfenced for the sole use of Multiply. Without*

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[133] https://www.gov.uk/government/publications/uk-shared-prosperity-fund-prospectus/multiply-in-scotland-wales-and-northern-ireland
[134] RDF 05
[135] RDF 06

> *ongoing flexibility, full spend within the limited programme period is challenging."*[136]

152. Councillor Morgan's letter noted that these were common challenges faced by each of the four Welsh regions and "at all times and in collaboration with the WLGA we have conveyed consistent messages to UK Government."

153. Along with Pembrokeshire County Council, the WLGA identified a number of challenges to implementing Multiply, including:

- Risks associated with developing a large delivery structure that is dependent on SPF funding with no guarantee this will be available after March 2025;
- A shortage of numeracy tutors to develop and deliver the training;
- Difficulties recruiting learners due to the stigma attached to having a 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.

154. The Minister for Economy said that the Multiply programme was an encroachment into a devolved area and that UK Government is denying Wales the opportunity to fund Wales-wide schemes with this money.[137]

> *"I think the Multiply programme is a significant problem. It's a deliberate transgression into a plainly devolved area, and I don't think it's going to deliver significant benefits to citizens in Wales. It cuts across and competes with our own essential skills and adult community learning provision. It's been beset by delays in funding and decision making. Money has been held back because the UK Government have recognised that the decision was made so late they can't spend the money usefully this year…"*[138]

155. The point around solely focussing on numeracy was also made by the IFS. It suggested that spending seven times as much money per person on numeracy

[136] Letter from Councillor Morgan, RCT County Borough Council
[137] Economy, Trade and Rural Affairs Committee, 8 June 2023 – Written evidence paper
[138] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 77

skills than in England is highly unlikely to be the best way to address lower levels of employment, productivity and earnings, as levels of numeracy in England and Wales are similar.[139] The IFS said that better engagement with the Welsh Government could have led to less ringfencing of Multiply within Wales, so that funding was instead spent on other economic development policies.

156. Unnecessary duplication was identified as a key concern. The Minister's evidence paper stated:

> *"Adult numeracy is devolved and Multiply operates in direct competition with Adult Community Learning provision, which is already available in Wales. It also risks duplication with the well-established Essential Skills Wales programme. This will mean that learners in Wales face a confused and complicated range of options."*[140]

157. In oral evidence the Minister added:

> *"It's poorly designed, poorly thought through. It's unnecessary duplication. And if the UK Government had bothered to talk to us, we could have done something that could have worked in this area with what we're already doing, and to add to it."*[141]

158. Colleges Wales evidence paper stated:

> *"There is a concerning lack of joined up thinking in the way the Multiply programme is developing across Wales and even across regions. With each local authority area planning differently, for example some local authorities are going through procurement processes whilst others are operating grant funding projects, there is significant risk of duplication of both effort and funding. Already in one local authority , the overall budget for Multiply has been reduced by more than 20% with further funding at risk because no delivery has happened in year one."*[142]

159. Colleges Wales told the Committee:

[139] Written evidence – RDF 21
[140] Economy, Trade and Rural Affairs Committee, 8 June 2023, Item 4 – Evidence Paper – Welsh Government
[141] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 77
[142] Written evidence – RDF 11

> *"I appreciate there has been some virement of moneys recently from Multiply into people and skills, but it's still a substantial pot of money. It's a Welsh Government policy area, as we know; it needs to be complemented with other interventions. But that's a prime example where there could be a common, consistent approach to strategic, national projects….And if you think that the Welsh FE budget for part-time adult education is around £60 million per year, and we're talking about just over £100 million, talking on adult numeracy alone, it's a massive opportunity, huge potential, but needs to be joined up and done in a way whereby we collaborate with one another and share best practice and work across. It's not just FE involved in this; obviously, third sector, the adult community learning partnerships—."*[143]

160. These views on how Multiply was operating were echoed from outside Wales too. The Convention of Scottish Local Authorities (COSLA) said that it has been impractical for Scottish local authorities to spend funding to date, as the funding awarded through Multiply is the same in 2022-23 as in following financial years. COSLA also noted that the design of Multiply limits the flexibility of local authorities.[144]

161. The Committee asked the Minister what could be done to address the concerns about Multiply. The Minister considered that putting in a multi-annual delivery mechanism would have been "low-hanging fruit" to give some certainty. He also noted that the online platform that was supposed to act as an 'open door' to the programme had been put on hold. He reiterated the point about a lack of engagement from UK Government, saying that to date he had been unsuccessful in securing a meeting with the Minister for Levelling Up to discuss the matter.

162. The Committee sought evidence from a UK Government Minister on how the Multiply programme was developing across different parts of Wales; what was working well with this programme, and what challenges organisations were facing in achieving its objectives. The response from the Parliamentary-Under Secretary of State for Levelling Up referred to DLUHC's agreement to more flexibility with the funding allocated to the Multiply programme.[145] However this decision does not address all the issues raised by the Committee's inquiry around devolution, duplication and coordination. The response on Multiply said:

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143 Economy, Trade and Rural Affairs Committee, 17 May 2023, Paragraph 145
144 Written evidence – RDF 19
145 Economy, Trade and Rural Affairs Committee, 21 June 2023, Paper to note, Item 2.5

> *"As is the case with all UKSPF interventions, the delivery of Multiply in Wales will not be uniform with projects reflecting local contexts based on decisions made by local authorities and their partners. DLUHC officials regularly discuss Multiply with local authorities and will continue to work closely with them and the WLGA on the delivery of Multiply.*
>
> *UK Ministers recently announced increased flexibility for lead local authorities in Wales to reprofile elements of their Multiply allocation to support wider People and Skills interventions. The decision has been welcomed by local authorities in Wales."*[146]

Committee view

163. Local authorities' concerns about their ability to spend their allocations within the allotted time frames raise a risk of poor outcomes for this fund. Members welcome the UK Government's flexibility; however, they are concerned that there may be a need for further flexibility to ensure the best value for money.

164. The Multiply programme has been suggested by Colleges Wales as a "prime example" of where there should be a common and consistent approach across Wales. Welsh Government also raised concerns that their lack of involvement in Multiply has led to potential for duplication with existing Welsh Government skills interventions. Members are disappointed there has not been greater engagement from the UK Government to the Welsh Government on the strategic approach to delivering this programme. It is important that any successor scheme fully addresses this issue.

165. The Multiply programme approach of focussing solely on numeracy has been questioned by local authorities, who believe that greater focus on literacy and digital skills alongside numeracy would help to address the full needs of learners in greatest need of support. We would like the Welsh and UK governments to consider including these areas in any post-2025 scheme.

Recommendation 16. The UK Government should consider Welsh local authorities' concerns around some of the requirements for Multiply funding, and take any actions which would ensure best value for money committed on this project. This could include allowing additional time for local authorities to spend their allocation.

[146] Economy, Trade and Rural Affairs Committee, 21 June 2023, Item 2.5

Recommendation 17. Given that the multiply programme operates in a devolved space, the UK Government should involve Welsh Government in the development of any successor programme.

Recommendation 18. Given the concerns raised by local authorities, the UK Government should consider whether any successor fund to Multiply should also focus on literacy and digital skills to maximise impact to those who would benefit most from the scheme. The Welsh Government should be consulted as part of these considerations.

Recommendation 19. The UK government should work with Welsh Government and local authorities and colleges to identify and address any incidences of duplication resulting from the Multiply programme.

8. The Levelling-up Fund

166. The Levelling-up Fund (LUF) replaces the England Towns Fund. It was announced at the UK Spending Review in November 2020 as an England measure from which the Welsh Government would receive a Barnett consequential.[147] However, in February 2021, the UK Government confirmed it would deliver the LUF on a UK-wide basis with no prior consultation or communication. The Welsh Government has had no role in its development or delivery. The Minister for Economy's written evidence stated that:

> *"The Levelling-Up Fund (LUF) is another example of the UK Government using the UK Internal Market Act financial assistance powers to take spending decisions directly in devolved areas bypassing the Welsh Government and Senedd."*

167. The UK Government announced the successful second round projects on 19 January 2023, having been due to make the announcement in Autumn 2022. This delay has put extra delivery pressures on local authorities and exposed projects to rising inflation. The WLGA stated that both "Levelling-up and Shared Prosperity Funding are beset with the challenges of incredibly short timescales for delivery", and that the tight timescales for bidding for the Levelling Up Fund led councils to rely heavily on external consultants, creating an additional financial burden with no guarantee of success.[148]

168. .A third and final round of LUF funding is expected in 2024 although it is likely to be significantly smaller than the first two rounds, given that around £1bn remains UK-wide from the total three-year LUF funding allocation of £4.8bn. LUF projects are expected to close in December 2024 with funding having to be completed by 31 March 2025 (barring exceptional circumstances).

169. A competitive bidding process is resource intensive for local authorities, and so evaluating the success of such a fund lends itself to a cost-benefit analysis. As set out in chapter 1 of this report, in the first round of funding £121.4m was awarded to 6 local authorities, and £172m worth of Welsh bids were unsuccessful. In the second round, £208.2m was awarded to 11 local authorities, with £582m in bids not being successful. The WLGA questioned the extent of 'levelling up' from

[147] When additional public expenditure is planned in England, the corresponding additions which are made to the devolved administrations' funding allocations are referred to as "Barnett consequentials".
[148] Written evidence – RDF 05

the funding, and the resource intensive nature of the bidding process for local authorities.

170. The Minister for Economy also pointed out the disconnect between the LUF and other funding levers to bring about change in a strategic way:

> *"The levelling-up funds are discrete bids that don't appear to be connected to a wider whole. There's value in doing some of those, but if you're interested in strategic improvement, then, actually, that's not the way to deliver it."*[149]

171. The Minister's view was that delivered in a different way, the fund could make more of a difference, regardless of the local political leadership, noting that the same point had been made by the House of Commons Select Committee:

> *"I think you'll find that the levelling-up fund will deliver something that people will look at and say, 'That made a difference.' The challenge is, if you'd used those funds in a more strategic way with a longer time frame, would they have made more difference? I think the answer to that is 'yes'."*[150]

172. Highlighting that five local authorities had received nothing from LUF - Flintshire, the Vale of Glamorgan, Monmouthshire, Newport and Merthyr Tydfil – the Minister said:

> *"….if you look at need, you'd find it very hard to say that something called a levelling-up fund, that is supposed to address need, does not provide resource into Merthyr. You could make cases for all of the other local authorities as well in terms of the town of Barry, parts of Monmouthshire, and…there will be communities who say, 'Actually, there's a challenge here that you'd want to try to address', but, actually, they've not got anything, and it definitely cuts across the ability to make strategic choices. It's an undoubted barrier. And don't take my word for it; there's a cross-party group of MPs with a majority who are supporting the current Government who say that this has been a problem as well."*[151]

173. The IWA criticised the Levelling Up Fund as "repackaged and rebadged" funds that local authorities should have had access to as capital investment in

[149] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 54
[150] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 91
[151] Economy, Trade and Rural Affairs Committee, 8 June 2023, Paragraph 96

infrastructure, but instead had to bid for competitively, which they said did not serve the best interests of Wales.

> *"When you look at Wales's budget overall, most of the funding that Welsh Government have available to them when they talk about economic development, which is within devolved competency, is all predisposed to service delivery, whether that's healthcare, whether that's public services more widely, and that, actually, the EU funding was a real big top-up that enabled Welsh Government to do transformative economic projects, because it was able to deliver that on an all-Wales basis. It helped to establish Wales as an economic region in and of itself within wider Europe. So, you had projects that worked on a pan-Wales basis, whether that was higher education, or whether that was infrastructure spend that crossed council lines. Each of those aren't going to be delivered under the levelling-up fund because it's down at local council level."*[152]

Committee view

174. The evidence received raises questions about the fairness and efficiency of the competitive funding process, particularly for smaller local authorities with less capacity to resource the bidding process. The Committee welcomes the Minister for Levelling Up's comments that the UK Government is looking to move away from competitive funds as it recognises "how burdensome they can be for local authorities", and believes that any successor to the current Levelling Up Fund should be allocated to areas based on need.

175. The Committee has heard from local authority representatives that the ongoing uncertainty around the third round of the Levelling Up Fund is a concern, given the need to spend funds by March 2025, and would like the UK Government to clarify the timescales for this. The Committee also notes concerns raised in a number of quarters about the barriers to strategic decision-making as a result of Welsh Government having no role at all in the process of developing this funding programme.

Recommendation 20. If the Levelling Up Fund continues after 2025, it should not be delivered through competitive bidding, and funding should be allocated to those areas in greatest need.

[152] Economy, Trade and Rural Affairs Committee, 4 May 2023, Paragraphs 39-40

Recommendation 21. If the Levelling Up Fund continues after March 2025, or is streamlined into a wider fund, the Welsh Government should have a greater role in its development and agreeing how it is administered.

Recommendation 22. The UK Government should provide clarity on when Round 3 of the Levelling Up Fund will open as soon as possible.

9. Future funding beyond 2025

176. The inquiry considered the issue of streamlining funding in future, and the possibility of pulling everything together into a 'superfund' or keeping SPF separate from other funding streams. Despite the merits of minimising bureaucracy, there was concern that Wales might lose out badly if funds are not kept separate. Professor Steve Fothergill set out several arguments as to why the SPF should continue as a separate funding stream:

- It would "visibly honour" the UK Government's commitment to replace EU Structural Funds;
- It is the only one of the levelling up funds to be allocated via formula, rather than by competitive bidding or invitation to apply;
- The allocation of the SPF strongly targets less prosperous areas. The per capita allocation to Wales is 20 times that awarded to South East England. None of the other levelling up funds target this strongly; and
- Many of the UK Government's levelling up funds are England-only, and so it is hard to see how the SPF could be merged into them in a way that works for the devolved nations.

177. Professor Fothergill also argued that annual funding for the SPF should be increased from 2025 to take inflation into account, perhaps by around 20%, and that the UK Government will need to commit a further £3.5 billion in funding by 2027-28 to match the level of funds provided through Structural Funds.

178. The Convention of Scottish Local Authorities[153] (COSLA) wants post-2025 funding to have a long-term, multi-annual framework, and has called for a partnership approach between the Scottish and UK governments that allows funding from both governments to be combined in strategic programmes. It wants UK Government funding streams to be simplified, and to be allocated to local authorities rather than requiring bidding.

179. The WCVA[154] said that a key lesson is that planning for post-2025 funding must start sooner than for the current funding period, a point also made by Chwarae Teg[155]. The WCVA say that "the majority of the first year of the funding period had to be spent on developing and approving regional investment plans

[153] Written evidence – RDF 19
[154] Written evidence – RDF 16
[155] Written evidence – RDF 15

and setting up local and regional structures and processes". This should, in the WCVA's view, have been completed before the launch of the fund to deliver a smoother transition.

180. Chwarae Teg believes that lessons also need to be learnt from the challenges third sector organisations have faced from the SPF and that "additional lead in times for funding regimes is needed to ensure that both the third sector and those administering the fund can make a success of any regime to replace EU Structural Funds".[156]

181. Findings from the Committee's engagement work identified the potential for stronger collaboration at a local authority level as an important future aim:

> *"Done well, it could provide an opportunity for some longer term changes in the way the LA works with the community and the voluntary sector that would be beneficial in terms of empowering community action and the positive outcomes this creates - in terms of wellbeing, agency, prevention, social values etc."*
>
> *"The fund (SPF) offers an opportunity to start conversations with Local Authorities, and hopefully build lasting relationships at that level, as well as develop new partnerships and delivery offers for our young people, in more areas across Wales."*

182. Some respondents also felt the new funding streams offer more potential to pilot new projects:

> *"It allows for new project proposals to be tested as pilots, and evidence to be gathered through the delivery and engagement of communities, for larger potential future longer term funding, as well as other projects potentially becoming self-sustaining financially."*

Committee view

183. The Committee notes the warning from Professor Fothergill, Professor of regional economic development at Sheffield Hallam University, about the potential of Wales losing out with future post-EU regional development funding, and the strong arguments in favour of keeping the SPF separate from other funds. On balance, and in the absence of strong arguments to the contrary, the

[156] Written evidence – RDF 15

Committee feels that going forward a separate, but reformed, SPF fund would be a better approach.

Recommendation 23. The UK Government should continue to operate a separate, but reformed, Shared Prosperity Fund after the current fund ends in March 2025.

Recommendation 24. The UK Government should clarify its intentions for the Levelling Up Fund and Shared Prosperity Fund post-2025 as soon as possible.

Annex 1: List of oral evidence sessions.

The following witnesses provided oral evidence to the committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed on the Committee's website.

Date	Name and Organisation
4 May 2023	**Professor Steve Fothergill,** Centre for Regional Economic and Social Research, Sheffield Hallam University **Adam Hawksbee, Deputy Director,** Onward Joe Rossiter, Policy and External Affairs Manager, Institute of Welsh Affairs **Councillor James Gibson-Watt, Leader,** Powys County Council **Councillor Mark Norris, Cabinet Member for Development and Prosperity,** Rhondda Cynon Taf County Borough Council **Councillor Dyfrig Siencyn, Leader,** Cyngor Gwynedd **Councillor Rob Stewart, Leader,** Swansea Council
17 May 2023	**James Scorey, Vice Principal,** Cardiff and Vale College (Representing Colleges Wales) **Kiera Marshall, Deputy Head of Policy (Wales),** Federation of Small Businesses **Amanda Wilkinson, Director,** Universities Wales **Matthew Brown, Director of Delivery and Development,** Wales Council for Voluntary Action
8 June 2023	**Vaughan Gething MS, Minister for Economy,** Welsh Government **Duncan Hamer, Director of Operations – Business & Regions,** Welsh Government

Date	Name and Organisation
	Aine Gawthorpe, Deputy Director, Industrial Transformation and Foundational Economy, Welsh Government **Peter Ryland, Chief Executive, Welsh European Funding Office,** Welsh Government

Annex 2: List of written evidence

The following people and organisations provided written evidence to the Committee. All Consultation responses and additional written information can be viewed on the Committee's website.

Reference	Organisation
RDF 01	Onward
RDF 02	PLANED
RDF 03	Professor Steve Fothergill
RDF 04	Gwent Association of Voluntary Organisations (GAVO)
RDF 05	Welsh Local Government Association (WLGA)
RDF 06	Rhondda Cynon Taf County Borough Council
RDF 07	Federation of Small Businesses (FSB) Wales
RDF 08	Higher Education Funding Council for Wales (HEFCW)
RDF 09	Pembrokeshire County Council
RDF 10	Swansea University
RDF 11	Colleges Wales
RDF 12	Industrial Communities Alliance Wales
RDF 13	Universities Wales
RDF 14	Development Bank of Wales
RDF 15	Chwarae Teg
RDF 16	Wales Council for Voluntary Action (WCVA)
RDF 17	Monmouthshire County Council
RDF 18	Farmers' Union of Wales
RDF 19	The Convention of Scottish Local Authorities (COSLA)
RDF 20	The Association for Consultancy and Engineering (ACE)
RDF 21	Institute for Fiscal Studies (IFS)
RDF 22	Cwmpas

Reference	Organisation
RDF 23	Cardiff Metropolitan University
RDF 24	Cardiff University
RDF 25	Institute of Welsh Affairs (IWA)
RDF 26	Bevan Foundation
RDF 27	Local Government Association

Additional Information

Title	Date
Letter from Trades Union Congress (TUC) Wales	16 June 2023
Letter from Dehenna Davison MP, Parliamentary-Under Secretary of State for Levelling Up	13 June 2023
Letter from the Chair to Trades Union Congress (TUC) Wales	19 May 2023
Letter from the Chair to University and College Union (UCU) Wales	19 May 2023
Letter from the Chair to UNISON Wales	19 May 2023
Letter from Councillor Morgan, Rhondda Cynon Taf County Borough Council	15 May 2023
Letter from the Chair of the Legislation, Justice and Constitution Committee	12 May 2023
Letter from the Chair to Councillor Andrew Morgan, Leader of Rhondda Cynon Taf County Borough Council	9 May 2023
Letter from the Chair to the Minister for Levelling Up, UK Government	11 May 2023
Letter from the Chair to the Secretary of State for Levelling Up, Housing and Communities, and Minister for Intergovernmental Relations	2 March 2023