



# The Local Growth Fund

## Response to the ETRA Committee report (February 2026)

31/03/2026

On 23 February 2026, the Economy, Trade and Rural Affairs Committee published a report following its Local Growth Fund inquiry.

The report includes seven recommendations. This is the Welsh Government's response to those recommendations.

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# 1. Introduction

The Welsh Government thanks the ETRA Committee for its inquiry on the Local Growth Fund (LGF) and welcomes its report and recommendations.

Following confirmation of decision-making over this post-EU funding returning to the Welsh Government in October, we have worked with our partners to develop an [Investment Plan for Wales](#). We have identified two core objectives for the LGF based on key challenges and opportunities for the Welsh economy and labour market:

- Helping businesses and employees to increase productivity, creating better jobs and raising wages.
- Reducing economic inequalities, such as by targeting support where levels of economic inactivity are highest.

These objectives and our delivery approach were subject to a public consultation during November and December. They were based on an analysis of socio-economic evidence, lessons learned from previous funding programmes, the 2020 Regional Investment Framework, and recommendations from the OECD, Senedd Committees and independent reports.

We are grateful to all partners who gave evidence to the Committee's inquiry and contributed to our public consultation. The insights provided have helped inform our [Investment Plan](#) and delivery approach for the LGF in Wales.

Our Investment Plan has now been published on the [Welsh Government website](#) following agreement with the UK Government.

## 2. Responses to the ETRA recommendations

### Recommendation 1

The Welsh and UK governments should use the Memorandum of Understanding they are currently developing in relation to the LGF to clarify the role of the UK Government in reviewing annual progress in relation to the fund, and that this will not affect the Welsh Government's decision-making role. The Memorandum of Understanding should also outline that primary accountability for delivery of the fund is to the Senedd

**Response:** This recommendation is directed towards the UK Government and the Welsh Government. The Welsh Government accepts its part in the recommendation.

The [Memorandum of Understanding](#) (MoU) clarifies the details of the agreement we reached with the UK Government last year to return decision-making to the Welsh Government for this Fund.

The LGF will operate across the UK in line with an overarching framework. Within this broad framework, the Welsh Government has been working with our partners to develop a Wales Investment Plan identifying our specific priorities and designing governance arrangements in Wales. Our [Investment Plan](#) notes a light-touch annual review to take place reflecting similar arrangements to the relationship we had with the European Commission for EU Structural Funds, but with greater flexibility.

The Welsh Government will be the Accounting Officer for the LGF in Wales. Funding will be provided to the Welsh Government by the UK Government via annual budget transfers.

In line with our role as Accounting Officer for this Fund in Wales, Welsh Ministers will be accountable to the Senedd for LGF delivery and performance. This is reiterated in the MoU.

The approach is similar to how we work with the UK Government on other programmes which operate across the UK, where MoUs are in place and published. The MoU for the LGF in Wales has been published on the [Welsh Government website](#) in line with our commitment to the Senedd.

### Financial implications

None. These will be drawn from existing programme budgets.

### Recommendation 2

The Welsh Government should continue pressing the UK Government to amend the split between capital and revenue in favour of increased revenue spending at the start of the LGF, in order to deliver a better transition

**Response:** The Welsh Government accepts this recommendation.

Increasing productivity is a key long-term challenge for Wales and the LGF in Wales seeks to address this issue, working alongside other capital and revenue funding programmes such as the City and Growth Deals, Investment Zones, and Freeports.

While capital investment remains critical to dealing with productivity challenges over the long term, we have consistently pressed the UK Government for greater revenue flexibility, reflecting feedback from Welsh partners and through our public consultation.

The UK Government has maintained its position on a 70:30 capital / revenue split, but we will continue to make the case for greater flexibility to the approach.

In the meantime, to minimise the impact of the transition between the Shared Prosperity Fund (SPF) and the LGF in Wales as far as practical we have taken our own steps which are noted in our response to recommendation 3 below.

### **Financial implications**

None. These will be drawn from existing programme budgets.

### **Recommendation 3**

Given that the UK Government does not currently intend to move on the capital-revenue split of the funding, the Welsh Government should set out the specific steps it is taking to work with local authorities to minimise job losses, resulting from the move from the SPF to the LGF and to retain economic development expertise, skills and institutional memory

**Response:** The Welsh Government accepts this recommendation.

We have agreed a transition year for 2026–27 for local government, which will use existing SPF structures and allocation approach to help safeguard key capacity and key projects as far as possible where they align with the aims of the Local Growth Fund. This is not an extension to the SPF, but an opportunity to manage the transition between the two different programmes over the course of the next six to twelve months.

This approach means the same four regional leads in local government responsible for the SPF will design regional plans and approve projects during 2026-2027, and it directly responds to requests from local government in Wales. In parallel, we will work with partners to identify critical skills at risk and support redeployment into LGF-aligned roles.

Our approach to allocating available funding in the transition year directly aligns with emerging plans being put in place by the SPF regional leads in local government. Our [Investment Plan](#) aims to match regional plans, providing flexibility for local government to prioritise those areas most important for transition.

The approach we have taken demonstrates the effectiveness of our partnership approach in Wales, in particular our close working with the WLGA and local government. It also contrasts with England and Scotland, where a clean break between the SPF and LGF is taking effect with many regions receiving no successor funding at all and no transition arrangements being put in place.

We confirmed our intentions for transition in our consultation and in a letter to each of the SPF regional lead local authorities last December to help planning, avoid unnecessary redundancies, maintain capacity, and enable key projects to continue. We have worked closely with local government throughout and responded positively to requests which have been made within our power.

In addition to the above:

- The Cabinet Secretary for Housing and Local Government wrote to Leaders in February to highlight the additional budget flexibilities the Welsh Government has made available to local government.
- We have highlighted guidance on the flexible use of capital receipts direction issued by Welsh Ministers in 2025 which can enable capitalisation of some costs.
- Our 2026-27 local government budget settlement provides £6.56 billion in core revenue funding and Non Domestic Rates – a 4.5 per cent (£282m) increase on a like for like basis that ensures every local authority receives more than 4 per cent. This is a substantial uplift that represents a real terms boost that can help manage pressures.

The UK Government has also provided a six-month SPF deadline extension to local government to help them complete SPF activity and stage their transition more effectively.

### **Financial implications**

None. These will be drawn from existing programme budgets.

### **Recommendation 4**

The Welsh Government should work with partners to take on the creative thinking challenge around what the funding could be spent on and ensure good capital investments in equipment, premises and sites can be made. However, overall goal of LGF

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spending must be to drive social and economic growth via sustainable economic development

**Response:** The Welsh Government accepts this recommendation.

There is a clear relationship between capital investment and raising economic productivity and growth which is a key objective for the LGF in Wales. Our investment priorities offer our partners capital opportunities to help businesses to grow, develop strategic sites, increase research, development and innovation (RD&I), and support regional transport and energy infrastructure.

We will work with each region to ensure they have the flexibility to shape their own evidence-based portfolios of projects to reflect their specific opportunities and challenges, including targeting investment towards areas of most need.

Where there are opportunities for capital investment in transport, energy or strategic sites, we will support the use of existing, evidence-based plans and strategies.

For example, the Corporate Joint Committees (CJCs) were established to support the delivery of specific functions at a regional scale where it makes sense to do so alongside providing a basis to rationalise regional governance.

We have aligned economic development, transport and land use planning in the CJCs to provide the opportunity for local authorities to pool resources and consider and capitalise on the interdependencies between these functions. The CJCs' regional transport plans identify priority investments to 2030. Strategic Development Plans are also in development by CJCs to set out land use priorities. In addition, regional energy plans and strategies have been agreed which may help with pipelines.

The Welsh Government will also bring together the regions, investors and key delivery partners to discuss coordination across key policy areas and to develop proposals for pan-Wales or cross-regional coordination. This pan-Wales and cross-regional coordination can help develop innovative options, share expertise, and help bring forward proposals.

### **Financial implications**

None. These will be drawn from existing programme budgets.

### **Recommendation 5**

The Welsh Government should develop a suite of outcome-focussed targets for the fund, based on clear, measurable Key Performance Indicators. It should also develop a robust framework for measuring progress

**Response:** The Welsh Government accepts this recommendation.

The Investment Plan for Wales includes a core set of UK-wide indicators developed by the UK Government for the LGF. This will allow for comparability across the UK and the potential for evaluation activity and comparative analysis. The Welsh Government will build on the headline UK indicators to develop a more detailed monitoring and evaluation framework tailored to Welsh priorities of increasing productivity and tackling economic inequalities.

Our monitoring and evaluation framework for Wales will establish clear, outcome focused indicators, underpinned by a defined theory of change, which enables national oversight over the three-year funding period. We will work with regions to ensure their monitoring arrangements align to ensure consistency, accountability and robust evaluation across Wales.

### **Financial implications**

None. These will be drawn from existing programme budgets.

### **Recommendation 6**

The Committee has serious concerns about CJs' ability to deliver the LGF. This is due to our previous work uncovering major shortcomings in some CJs' delivery of other economic development programmes. The Welsh Government must strongly consider any alternative models to using CJs for regional delivery that are suggested in the public consultation. As the CJs are yet to prove their ability to deliver economic programmes in a way that tackles economic deprivation, if the Welsh Government does use them as the delivery vehicle for regional elements of the fund, CJs will need additional supervision and direction to ensure that they develop approaches that focus on developing areas of deprivation, not focussing on 'easy wins'. As part of this, the Welsh Government must ensure their performance can be monitored effectively through regularly assessing their progress against tangible, measurable outcomes

**Response:** The Welsh Government accepts this recommendation in part.

We maintain the value of CJs to underpin and strengthen regional collaboration and the opportunity they provide for local authorities to work collectively for the benefit of their communities and regions. Their alignment of economic development, transport and land use planning provide the opportunity for local authorities to capitalise on the interdependencies between these functions. CJs also provide a coherent, consistent and democratically led and controlled framework for regional collaboration providing a corporate body able to employ staff and hold budgets to support cost-effective and efficient delivery of services.

This is fundamental to enabling our regional approach for the LGF following the transition year to maximise economic impact. Their statutory functions also directly align with our

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LGF objectives that underpin growth and provide opportunities for greater joined-up working.

CJCs – with appropriate support – offer the opportunity to rationalise an increasingly complex economic development landscape at the regional level in Wales. Separate planning and governance structures can mean opportunities to join-up investments, avoid duplication, and increase efficiencies are lost.

We have already seen CJCs make progress against their respective functions.

All regions have had their five-year Regional Transport Plans approved. Progress on Strategic Development Plans is also underway, and Delivery Agreements (DA) have been agreed for South East Wales and North Wales. The South West Wales CJC has consulted on a draft DA with the final DA awaited. The South East Wales and North Wales regions have transferred their city or growth deal governance arrangements into their respective CJCs, while the South West Wales region is in the process of doing so. This will help ensure investment objectives are consistent with other relevant regional strategic planning to fully realise investment opportunities.

In terms of monitoring their effectiveness we continue to regularly engage with CJCs, Local Authorities and the WLGA while respecting CJCs are independent corporate bodies. As independent corporate bodies they are also subject to audit by Audit Wales.

We continue to work with CJCs to understand what more we can do to support them in developing their capacity and capability, recognising that one size does not fit all and that each of them are in a different place in terms of their development. This includes recognising the need for CJCs to have funding to ensure they have capacity and capability to deliver against their strategic outcomes. Regions also need to be innovative in the way they share resources and contribute to improving capacity and capability.

We will invest £200,000 from the LGF for each CJC to help address these issues and support planning and development during the 2026-27 transition year. This is on top of the £2m in 2025-26 to develop CJC capacity and governance arrangements, deliver on Regional Transport Plans and to progress Strategic Development Plans responding to the challenges raised by CJCs themselves.

We are also seeking to address any governance burdens that may be impacting on the functioning of CJCs. We have commissioned a Governance Review of CJCs that will conclude by the end of this Senedd which aims to identify proportionate, streamlined arrangements that free up member/officer time. It will be for the next Senedd to take forward the outcomes of the review.

Regional plans for the LGF will be developed by CJCs during the transition year and the Welsh Government will publish guidance on the associated requirements. This will include the key issues raised by the Committee to ensure funding is suitably prioritised and

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targeted to areas of need, as well as a clear set of expectations around monitoring and progress towards outcomes.

### **Financial implications**

The £200,000 per CJC support in 2026-27 will be met from the overall LGF funding allocation dependent on receipt of UK Government funding.

### **Recommendation 7**

When developing its approach to funding allocations, the Welsh Government must ensure funding is directed to where need is most acute, and should give a clear indication to those delivering funds that this is expected of them. The Welsh Index of Multiple Deprivation should play a key role in the methodology for allocating funding at a regional level, as should ensuring that allocations support rural areas of deprivation. The Index should also be used to help track progress and outcomes of LGF investments

**Response:** The Welsh Government accepts this recommendation.

We sought views in our consultation on a needs-based funding formula to allocate the LGF across Wales.

As our response to recommendation 3 refers, we will use the SPF allocation methodology for the transition year (2026–2027) to support local government as much as possible. The SPF allocation methodology developed by the UK Government includes the Welsh Index of Multiple Deprivation (WIMD), representing an element of need.

For the remaining years of the LGF (i.e. 2027–2028 and 2028–2029), the strongest weighting to be given to the WIMD. This provides an opportunity for the LGF to help fill gaps within each region and invest in areas with catch-up potential or where competitive investment is less likely to flow.

Our formula also includes productivity levels to reflect gaps, and rurality to reflect the additional challenges rural areas face, such as lack of agglomeration, dispersed populations and peripherality.

We will require plans to be developed by the regions (both the transition plans by SPF regional leads and the regional growth plans by CJs) to demonstrate how geographical areas, including those identified by the WIMD, within each region are being targeted or supported to address specific investment needs or where gaps are evident.

### **Financial implications**

None. This will be drawn from existing programme budgets.