

## **Preparations for Replacing EU Funding for Wales**

### **Inquiry by the Finance Committee of the National Assembly**

#### **Evidence Paper – Dr Grahame Guilford**

##### **Disclaimer**

The author is currently a member of the Programme Monitoring Committee for the 2014-2020 Structural Funds programme and has been involved in a range of other economic development work for Welsh Government and other Welsh public bodies. While those activities have, of course, informed the content of this paper, the views and opinions expressed are those of the author alone

##### **Summary**

1. At the end of the current Structural Funds (SF) period, Wales will have been in receipt of SF for more than 20 years. The reaction to the fact that SF may cease as a result of Brexit has therefore been predictable. The potential implications are complex, however, and so it is very important that Wales plans ahead for life after the “SF years”. I therefore welcome the Finance Committee’s inquiry and the opportunity to provide evidence to it
2. I think that there are people in Wales who will automatically assume that the non-availability of SF will have negative impacts, both economically and socially. I believe that this is a mistaken view and that it actually provides opportunities for Wales to develop a more bespoke and integrated approach to economic and social development which can still achieve significant impact even if levels of replacement funding are lower in absolute terms
3. This is because SF, for all the undoubted benefits they have brought to Wales, have inherent constraints in terms of where and how they can be applied. It has also proved more difficult than was probably expected originally to link the separate objectives and targets of the ERDF and ESF funding programmes to the Welsh Government’s strategic economic and social development plans in a way that would serve to maximise the synergistic potential of SF
4. 20 years of experience of a particular funding regime provides significant learning opportunities. What has worked well in Wales and what has not? How has the specific political climate in Wales affected our utilisation of SF? What does this mean for the way we should design our own approach to economic and social development now that we may have fewer constraints than before?
5. This paper will propose that the answers to those questions should be underpinned by four key principles:
  - Strategy – economic and social – top down, long term
  - Communication – integrated, inter departmental communication within Welsh Government and its partners to ensure decision making is consistent and informed by strategy
  - Demand driven – establishing economic priorities that then lead to appropriate support for business, skills and social development

- Synergy – all the public sector economic levers pulling in the same direction

## Background

6. In addition to my membership of the PMC, I have been involved in two reviews commissioned by Welsh Government (references 1,2) examining different aspects of the utilisation of European programmes and funding in Wales and how the impact of these could be maximised. The first review looked at lessons learned from the 2007-13 SF programme and how they could be usefully applied to increase the impact of the 2014-20 programme; the second looked more broadly at how Wales could derive greater benefit from its relationship with Europe by learning from best practice elsewhere and by more effectively integrating the use of SF with other EU programmes such as Horizon 2020, Interreg, Erasmus and so on. I believe that many of the conclusions and recommendations of those reviews may be relevant to the Committee's current enquiry
7. As part of my wider work with Welsh Government on economic development (reference 3), I had the opportunity to spend a large amount of time in Europe, particularly in Brussels, between 2013 and 2017 and was able to talk to a wide range of Commission officials and representatives from other EU members on their own experiences of SF. Those discussions were reported in detail in the second review referred to above and I have drawn on them in this paper

## Constraints and Lessons

8. The application of SF in Wales has clearly resulted in a number of benefits most obviously perhaps in infrastructure and HE expansion. However, that application has had to deal with a number of constraints which have arguably limited its impact. Some of these are inherent in the regulations underpinning SF, some have been exacerbated by the implementation policies we have used in Wales. These constraints and the reasons for them are discussed in greater detail in the reviews referred to above but, in summary, I believe there are six main areas in which they have manifested themselves
  - **Overestimation of impact** – The amounts of money available through SF since the initial Objective 1 programme have seemed very large which has perhaps led to over-optimistic views of what they could achieve in isolation. In fact SF has always represented relatively small single figure percentages of Wales' overall GDP and, as such, was only likely to achieve significant impact if used synergistically with other funding and initiatives
  - **Link to overarching economic development strategy** – To use the funds synergistically requires that their application is driven by an overarching understanding of key economic and social priorities and this has proved difficult to establish and maintain in Wales
  - **Eligibility criteria** – As pan-European funding programmes, the ERDF and ESF required the establishment of specific criteria to determine the

eligibility of individual projects for support. These funds are provided through different directorates in the Commission which means that using them synergistically, even where there is local agreement on priorities is not always straightforward

- **Geography** – In order to meet the overall eligibility criterion for SF support (GDP less than 75% of the EU average), Wales was divided into two regions which resulted in the more economically active areas, critical to the regeneration of the less economically active areas, being ineligible for the highest levels of investment
- **Scale** – The vast majority of SF investments in Wales have been at the sub 50m euro level and, in isolation, this scale of investment will often struggle to create critical mass. I heard from senior Commission officials in Brussels that they have observed this problem in the application of ERDF in particular across Europe
- **Risk Management** – The use of public funds to invest in economic regeneration and development is a risk based investment no different in principle to a private sector investment. The public sector has, however, felt an obligation to seek mechanisms to mitigate this risk. These mechanisms typically result in longer decision making cycles which can themselves then lead to additional risk.

## **Opportunities and Benefits**

9. As with much of the fallout from Brexit, the area of future funding for economic and social development in Wales is one where there are more questions than answers. While it is absolutely right for Welsh Government to consider the post-Brexit options, the number of different scenarios and their implications, make this a difficult task
10. My own view, therefore, is that Welsh Government should focus on the principles that will underpin a future funding structure and how that structure might be effectively integrated with its existing policy objectives rather than on the minutiae of alternative scenarios
11. I also believe that while maintenance of an external political position of “pound for pound” replacement may be understandable, internal planning should be based on an assumption that absolute values of available support funding are likely to be lower in the future than they are now
12. The important thing, therefore, is for Wales to ensure that it has more freedom to determine the administrative mechanisms it uses to manage the funding and that these are not pre-determined by the provider
13. The Welsh Government’s Economy Department has recently published its economic action plan “Prosperity for All”. This document provides a potential template for an administrative structure that could adapt to a variety of funding scenarios
14. It would be a mistake, however, to assume that responsibility lies solely with a small number of individual departments within Welsh Government. Our existing links with Europe, many of which may continue post-Brexit, involve the economy, education,

environment, social care, healthcare, culture, business and all the financial mechanisms that underpin those areas. All of these areas have their own impacts on ensuring “Prosperity for All” and it is essential, therefore, that Welsh Government takes a joined-up approach to future delivery with senior level inter-departmental contacts as a fundamental basis

15. These inter-departmental contacts can only be effective if they are informed by a consistent, top-down, view of Wales’ economic, educational and social priorities. Prioritisation in the real world means making hard choices, particularly where resources are constrained, and this can only be delivered from the senior levels of Government
16. Effective inter-departmental contacts, in the context of clear priorities, make synergies much easier to deliver. Synergies, in turn, can deliver the critical mass necessary for transformational change
17. Critical mass typically requires levels of investment well beyond what Government alone can provide. The role of Government and the public sector as a whole should therefore be an enabling role, creating the environment that facilitates private sector investment. Swansea University’s Bay campus or the Financial Services developments in Cardiff are obvious examples in which investments in the hundreds, rather than tens, of millions have been mobilised in areas where the geography is ideally suited to support additional leveraged investment. The City Deals in Cardiff and Swansea have the potential to be similarly successful if strategic thinking and the attraction of private investment are prioritised
18. This type of critical mass can then stimulate broader economic and social development through demand led educational, technical and vocational skills creation
19. Weaning ourselves off SF will not be straightforward in Wales but I believe it is not only achievable but can result in a more positive approach to economic and social development if we are prepared to take the long term strategic view

## References

1. Investing in Growth and Jobs: An Independent Review of Arrangements for Implementation of European Structural Funds Programmes 2014-2020, Dr Grahame Guilford, March 2013
2. Europe Matters to Wales: EU Policy and Funding Opportunities for Wales 2014-2020, Dr Grahame Guilford, Dr Hywel Ceri Jones and Gaynor Richards
3. Dr Grahame Guilford worked in business for 30 years in life science and healthcare sector in Wales. During that time, he worked closely with the WDA and subsequently Welsh Government in economic development. He chaired Welsh Government’s advisory panel in the Life Science sector and was a Board member of the Life Science Hub for the first four years of its existence. He has worked closely with the HE sector in Wales, notably with Cardiff and Swansea Universities, in developing their regional and national economic impacts. He chaired one of the Thematic Advisory groups during the Objective 1 period and has been a member of the PMC for the 2007-13 and 2014-20 programmes