



Shared Prosperity Fund

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SUMMARY

At present the United Kingdom (UK) receives money from the European Union (EU) so that it can invest in areas of the country that are considered under developed.

With the UK leaving the EU there has been concern as to what level of funding will be available and how it will be distributed.

Although in some minds leaving the EU may bring levels of uncertainty and anxiety, this time should be used to reevaluate the current system. There is no better time than now to encourage a fairer way to ensure that areas that are less developed in certain regions benefit from the new funding system.

This report will examine how the current system is leaving small towns in regions that do not qualify for funding behind and what the best way forward will be. In addition, we will examine how decision making on fund allocation should be taken away from the government in Cardiff and given to local authorities. Furthermore, we will be looking at the formula used to determine the funding Wales receives and what would be a better formula for the future, making sure the level of funding that Wales receives is maintained.



HOW EFFECTIVE HAVE EXISTING ARRANGEMENTS FOR THE MANAGEMENT OF EUROPEAN STRUCTURAL FUNDS BEEN?

OVERVIEW OF THE SYSTEM

When overviewing the system, one must look at the stark inequality of how it has proceeded up to now. One major part of the current funding system is how regions qualify for the funding, with regard to Wales, only certain parts of Wales have been allowed to receive structural funding, the main reason for this is that these areas have consistently qualified for funding as a “less developed area” Wales is considered to be one of Europe's poorest regions where GDP is less than 75%.

This has been the prerequisite for all access to funding in Wales, the problem with the allocation of funding is that the Welsh Government acts as judge and jury on the allocation of the funds. The existing arrangements have proven to be less than flexible and have left many parts of Wales including large areas such as Mid and North Wales without access to crucial funding.

Because of the inflexible nature of the system, funds fail to target the right areas, in some regions you may have a very deprived, smaller area but the region will fail to meet the requirements. Therefore, smaller areas inside more ‘wealthy’ regions are overlooked.

HOW WE VIEW THE EFFECTIVENESS OF THE CURRENT ARRANGEMENTS

The current arrangements for managing EU funding is outdated and has proven to be ineffective. Since 2000 Wales has received over £4 Billion from the EU with West Wales and the Valleys getting the lion's share of these structural funds.

The fact that these areas are still qualifying for these funds says more about how the fund has been used by the Welsh Government than how much has been given. The current arrangements have failed to provide for all Welsh people in all the regions.

There is very little accountability on how these funds are used, many projects qualify every time a new round of funding comes along without becoming self-sufficient, following the same formula will only result in more areas failing to get the funding they deserve and wasting millions of pounds of taxpayers money every year without ever seeing any real long-term benefits.

If this system worked, then we would see a fair distribution of funds, however this is not the case and so the system is constantly failing those who are in need.

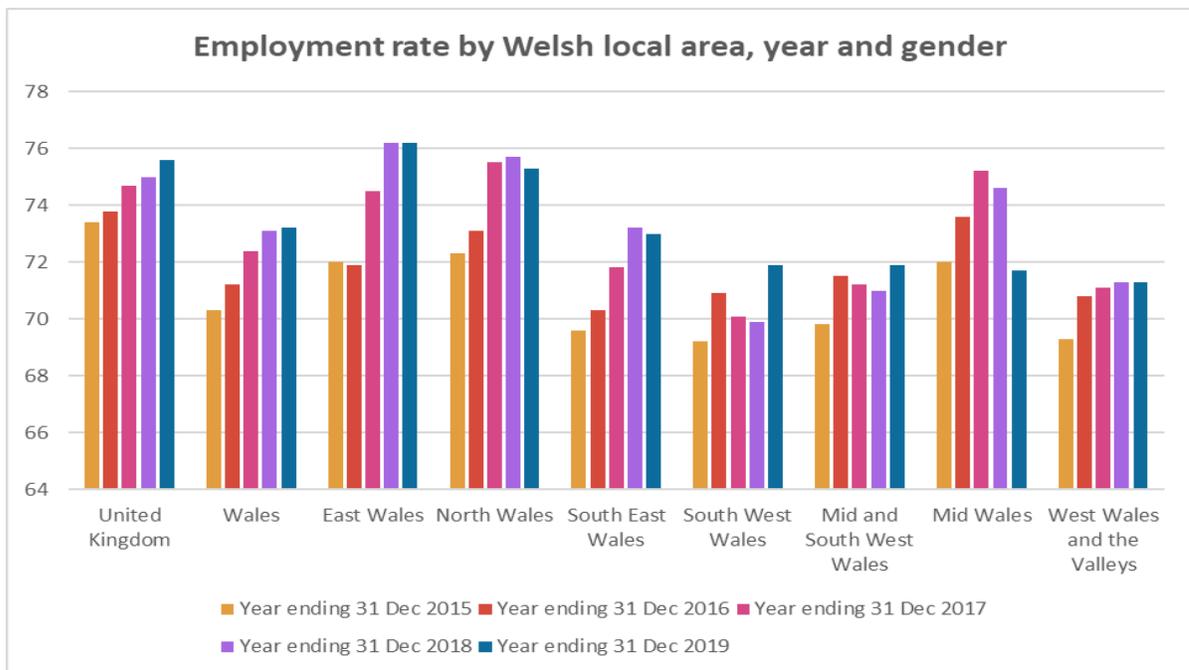
WHAT IMPACT HAVE STRUCTURAL FUNDS HAD ON THE WELSH ECONOMY?

A UK government review carried out between 2012 and 2014 suggested that funding provided by the structural fund was useful in countries and regions where this funding made up a significant proportion of GDP. In Wales (where this is not the case) it is much harder to see what the impact is, particularly due to a lack of reliable data and the difficulty of separating out the effects of other policies and general economic conditions.

West Wales and the Valleys remained a less developed region for the period 2014- 20, despite having been an objective one region in 2000-06 and a convergence region for 2007-13, its GDP per capita had fallen from 74.1% of the EU28 average in 2000 to 64% of the EU28 average in 2011.

Latest employment figures for December 2019 show West Wales and the Valleys on 71.3% slightly less than Mid Wales on 71.7 % although as the graph below shows West Wales and the Valleys follow the UK trend upwards year on year, Mid Wales is far more unpredictable and therefore likely to suffer when the economy is volatile.

The funding does not have any significant impact on the areas that it is provided to. We would expect that due to continued access to funding, West Wales and the Valleys would see a significant increase in employment mirroring those figures in neighbouring regions.



WHAT LESSONS SHOULD BE DRAWN FROM PREVIOUS ROUNDS OF EUROPEAN STRUCTURAL FUNDS IN WALES?

As mentioned previously particular areas of Wales have received more funding than others. The problem when assessing the main issues of the deliverance of the European Structural Fund on a regional basis is that it does not look deep enough in order to better understand the underlying problems.

Take North East Wales for example where there has been no allocation of funding. When there is a lack of investment in an area there is a marked increase in crime. If we were to take the towns of Flint with a population of 13,004, Holywell with a population of 6,070 and Mold with a population of 10,017, the town with the highest number of reported crimes in March 2020 as a percentage was Holywell with 1.8%, followed by Flint with 0.94% and then Mold with 0.85%. Out of the three towns Holywell is the least affluent and here we can see the evidence in the crime statistics. This example goes to show that when a region does not get funding because it may not qualify there are still underlying areas within that region that may benefit from funding. North East Wales is not the only area that does not get funding but has areas that are certainly not wealthy, Powys is another example where there is no funding available and yet in the southern parts of Powys, there are former industrialised areas that certainly could not be designated as affluent and would benefit from the funding.

With such fund allocations there is always an enormous amount of paperwork required. Having to navigate the bureaucratic maze in order to have the funds allocated takes up too much time and therefore does not allow the funding to be allocated in a timely fashion. By reducing the amount of red tape this will enable areas to benefit instead of stifling them. Whilst it is important to ensure that the funding is allocated correctly, a more constructive way of assessment can be delivered through risk and performance-based auditing.

Moving forward consideration needs to be given as to the use of the Barnett Formula. Under the current format the Barnett Formula calculates changes in funding year to year, the problem with this is that it does not show how the initial level of funding should be determined. A report by the Institute for Fiscal Studies commissioned by the Finance Committee of the Welsh Parliament goes on to say that the Barnett Formula would lead to a drop in the amount of funding per person. The alternative to the Barnett Formula that the report suggests is the use of an Indexed Per Capita formula (ICP). This would solve the issue mentioned previously in that the ICP formula would use local, regional or national level characteristics.



WHAT SHOULD BE THE PRIORITIES AND OBJECTIVES OF THE SHARED PROSPERITY FUND AND WHAT, IF ANY IMPROVEMENTS ARE NEEDED TO THE CURRENT EUROPEAN FUNDING SYSTEM?

PRIORITIES GOING FORWARD

We view the current arrangements as unfair and unbalanced for Wales's regions with only West Wales and the Valleys qualifying for this funding through the existing arrangements. We feel that the Shared Prosperity Fund replacement should be open to all of Wales, allowing every community to regenerate and reinvigorate their economies.

As part of the existing arrangement, it specifies that funds should be used on "improving the employability of young people" In Mid Wales we see many young people move out of the area due to a lack of opportunities to enter the job market. Here we see a prime example of where the funding should be allocated. It is important that the private sector is encouraged to invest in the local economy and create jobs and stimulate growth.

Mid Wales and North Wales would benefit greatly if they were eligible to apply for the fund, this would encourage local businesses and external partners to invest resulting in jobs for young people who would otherwise have to leave the area to find work, as seen all across Wales besides Cardiff.

The priority must be to specifically target areas and projects that have tangible and achievable aims which will qualify them for the funding. It is important that any funding is monitored independently in order to ensure that the applicants aims have been met.

IMPROVEMENTS NEEDED

The improvements needed are varied. The list below is in no way exhaustive.

- Oversight.
- Accountability.
- Value for money.
- Independent assessment.

WHAT LEVEL OF FUNDING SHOULD WALES RECEIVE AND HOW SHOULD THIS BE CALCULATED?

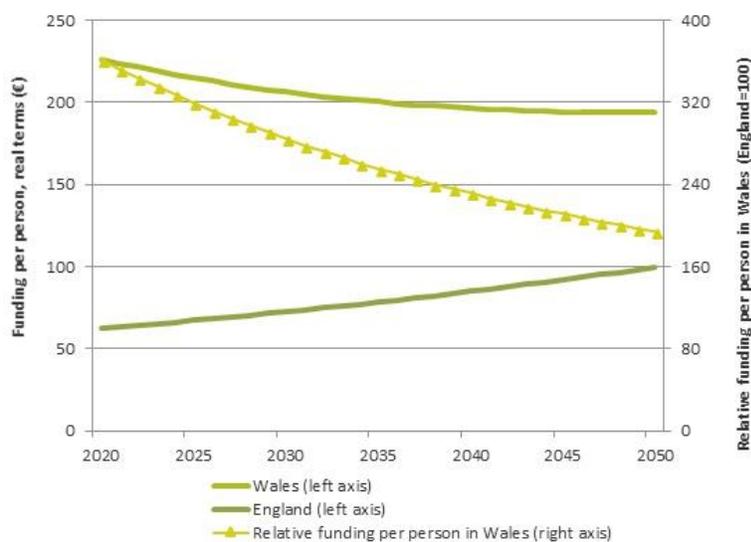
When a spending review is carried out, this is the time when the process should also be reviewed. Under the current system the Shared Prosperity Fund has been using the same process for a very long time. This process is unfair in that certain regions of Wales qualify for more funding than other regions. The current process of fund allocation does not consider that within those regions who may not qualify for funding, there are areas that would benefit from it.

The level of funding that Wales should receive should take into consideration population growth, variable economic conditions, devolved revenue streams, local, regional and national characteristics.

The Barnett formula is the system that is currently used. At the time when it was first introduced in the 1980s this system was ideal when calculating the funding that should be given. However, as time has gone on the Barnett formula has proved to be inflexible. The Barnett formula only allows for any change in funding based upon the cash change in England and their relative populations, it does not reflect anything about what the level of funding should be.

Because certain regions within Wales receive more money from the EU than England, approximately 3.5 times more, then over time there will be a squeeze in funding. This squeeze would come about due to the change in pounds-per-person being a smaller percentage change.

When reviewing the current system, it was assessed that eventually the change would fall from 3.5 times the English level to 2 times. On the graph below, we can see the fall.





What we now need to consider is, if the Barnett formula is not ideal moving forward, what should be used in its place? An alternative to the Barnett formula would be the Indexed Per Capita (IPC) formula.

The IPC formula would be simplistic, flexible, and account for population changes. As well as these advantages, the IPC formula would use local, regional or national level characteristics which would be fairer and not allow local areas to miss out on help when a region may not qualify for funding.

SHOULD FUNDING BE RING-FENCED ON A NATIONAL OR LOCAL BASIS OR SHOULD THE FUND BE OPEN TO COMPETITIVE TENDERING?

RING FENCING

The funds that have been given as part of the Shared Prosperity fund should be ring fenced in order to ensure that they are used for the correct purpose. The question is whether or not the funds should be ring fenced at national or local level?

With such a large amount of money readily available to be 'dipped' into in the event of a crisis, it would be important that the funding is protected from being used as a piggy bank. The ring fencing should be at local level and not national. In addition to protecting the fund through ring fencing it should be taken out of the hands of the politicians and managed by an independent body or by the County Council which is not answerable to the government of the day.

COMPETATIVE TENDERING

We believe that the fairest way forward for Wales is through competitive tendering, this is the best way to allocate funding going forward. This money should not be spent for the sake of it, taxpayers money needs to be spent correctly and every penny accounted for. A prime example of where funds have been mismanaged is the A465 Heads of the Valleys road scheme which is now facing delays and an overspend of £51 million.

Competitive tendering should be set out as follows:

- All tenders must be extensively advertised in a variety of media, to allow all interested parties an opportunity to bid for the project.
- All bids must be submitted by the deadline decided on by the client.
- The bid must include all the required and relevant details about the materials to be used, the expected cost of the project, etc. and ensuring that the costs are not liable for substantial increases during the term of the project.
- After the deadline has passed, all bids are evaluated by the client on the basis of a set of predetermined criteria such as price, quality and outcomes.
- The tendering process begins with an invitation to tender or a request for tender.
- It ends with the public evaluation process, following which one of the firms that submitted a bid wins the project or contract.



THE BENEFITS OF COMPETATIVE TENDERING

- Transparency in the market place: Tenders or bids are evaluated on the basis of certain predetermined criteria, such as price, quality and value for money. In simple terms, the firm offering the highest quality service at the lowest price point would win the contract. As most tender documents are opened and evaluated in a public process, we think that there remains little room for favouritism of any kind.
- Value for money: From the perspective of the Government, tenders offer the greatest value for the amount of money spent. This is because there is greater choice from a wide pool of potential applicants and the one that can produce the highest quality product or service at the lowest price is chosen. This allows the government to save money without having to compromise on quality. Tendering is, in our opinion, a cost-effective way in ensuring that the tax payers' money is spent correctly.
- Encourages competition: The process of tendering helps promote a competitive market. Potential contractors, firms or suppliers will get the chance to bid therefore ensuring that the process is fair and cost effective.

WHAT TIMESCALE SHOULD BE ADOPTED FOR EACH FUNDING ROUND?

HOW SHOULD RESPONSIBILITY FOR FUNDING AND ADMINISTERING THE FUND BE DIVIDED BETWEEN THE UK AND DEVOLVED GOVERNMENTS?

The timescales that should be adopted for each funding round should fall into the electoral cycle, which generally should be five years. Obviously, we have seen within the UK that during the last five years there have been three elections, 2015, 2017 and 2020. Just because there have been more elections than expected this should not have any bearing on the timescale of the funding round.

One of the greatest advantages of the Structural Fund is that it targets poorer areas, however the problem with having it only allocated to less affluent regions from a central source is that it does not consider local areas within regions that may benefit from funding. The responsibility of allocating funding needs to be taken at a local level independent of any political collaboration.

By allowing the decision-making process for the distribution of funding to be taken at a local level you are allowing decisions to be made based upon locality. In order to ensure that fair distribution of funds is guaranteed it is important to make sure that the local authority carries out public consultations in order to understand the diverse range of local needs.

What is interesting to see is that the UK government in their written statement, set out the intention to hold a public consultation on the way forward. This is something that the Welsh government in conjunction with local authorities should be encouraged to do. By carrying out the public consultation on the best way forward they will be able to understand that there are a variety of needs not only at regional level but also locally.

The problem with how the current system works is that there are many factors that are constrained by a national economic framework. This does not allow for any support for local policies. By making sure that funding decisions are made at a local instead of a national level you are ensuring that there is a new form of economic democracy which allows for greater urban development.

At present the Welsh government has managed the distribution of funding and has arguably wasted £900 million on various infrastructure project overspends over the past ten years. This money would have been better managed at local level where local projects would have been better assessed and the funds allocated correctly.

It is important to note that future access to the funds is simplified. Unfortunately, with the current system it has been noted that access to funding has been difficult. When the new funding system is developed it is important to note that the UK government must work with all the devolved nations in order to ensure that there is no drop-in funding, at the same time respecting the authority of the devolved administrations. However, whilst the UK government works towards making sure the devolved governments still have the power to administer the fund, this should not be an excuse for the Welsh government not to look at better and alternative ways in allocating the funds to all those areas of Wales that are in need.



In order to facilitate a fairer distribution of the funds, we believe the Westminster government should pass the fund directly to the County Councils in Wales or an independent body who will then pass the money onto the County Councils. It will be the County Council's responsibility to make sure that the local projects that need the funding receive it. However, it is important to ensure that accountability is maintained and we propose that every two years the County Councils or the independent body report back to the Welsh Parliament on how the fund has been spent.

Mainstream opinion is to just maintain the status quo, in that the money should be passed to the Welsh Parliament for them to distribute as they do with all devolved matters. This would be fine if the system wasn't broken, but as the system is broken, it is now time to change it for the better.



WHAT ROLE COULD, OR SHOULD LOCAL GOVERNMENT AND WHERE APPLICABLE CITY OR GROWTH DEALS PLAY IN RELATION TO THE FUND?

Local government should play a dual role alongside an independent panel when dealing with the fund.

It is extremely important to ensure that local government is included in making sure that the right areas get the funding it deserves. After all we most certainly would not want to see a repeat of the conflict between the Welsh Parliament and the then Labour government in 1999 – 2000 when the government in London refused to pass over the European Structural funds which Wales qualified for. We are lucky that this has not happened again, but what if the Welsh government refused to pass over the funds to the independent body or local authority? Measures must be put in place to make sure that this does not happen and that local authorities get the funding that they are eligible for. Having the funds managed by a local authority and an independent panel should ensure that local areas get the assistance they are entitled to.

City and Growth deals can help a city deliver local strategies, by involving City and Growth deals it encourages decentralization. We have consistently discussed that when distributing the fund, certain regions qualify for funding as opposed to other regions clearly demonstrating that local economic issues are not being considered. By allowing City or Growth deals to play a part in administering the funding we will see a fairer distribution. In addition, one of the purposes of the City and Growth deals is to give more flexibility to cities in the terms of employment, skills, investment, housing and transport which will inevitably lead to economic growth in that area.

When considering the introduction of the City and Growth deals, consideration must be given to how this will be integrated. If the Local Growth fund is added, the UK Shared Prosperity fund total budget needs to be £4bn a year.



ARE THERE ANY IMPLICATIONS FOR STATE AID RULES?

As things stand at the moment, the UK will have to adhere to EU state aid rules until trade talks have concluded and a trade agreement is in place. However, this may change.

In the event of a no deal happening at the end of the transition period, questions need to be asked as to what process would be used in facilitating state aid, what enforcement procedures would be used and who would have jurisdiction over any existing Commission decisions on state aid, also what would happen to any existing state aid appeals that are currently in front of the EU courts?

The main problem that lies with who the competent authority would be on state aid will all depend on whether the necessary secondary legislation that is required passes. In the event of a no deal Brexit, the EU's state aid regulations would need to be transposed into UK law. If this legislation passes then the Competition and Markets Authority (CMA) would be the competent authority. If, however the secondary legislation does not pass then questions would be raised as to whether the UK would have the authority to unilaterally approve state aid.

So, in conclusion there will be implications for state aid rules, however what they will be all depends on the outcome of the discussions being held during the transition period.



CONCLUSION

In conclusion we have identified that there are many opportunities for the new Structural Investment fund to be a much better successor:

- Fairer distribution of funding.
- Local community participation.
- Local Authority control of funding allocation.
- Need for a fairer formula for funding evaluation.
- Ring fencing at local level.
- Less waste.

We understand the importance of the shared prosperity fund for the people of Wales and we are happy to see that in a post Brexit Wales those underdeveloped areas will continue to receive the help that is much needed. But moving forward the distribution of funds needs to be allocated locally, that way all areas will benefit from much needed investment.

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