

Welsh Affairs Committee: Inquiry into Wales and the Shared Prosperity Fund

Evidence from The Learned Society of Wales / Cymdeithas Ddysgedig Cymru

The Learned Society of Wales is the national scholarly academy. Our Fellowship brings together over 560 distinguished experts from across all academic fields and beyond. We use this collective knowledge to promote research, inspire learning, and provide independent policy advice.

The Society welcomes the opportunity to respond to the Welsh Affairs Committee Inquiry on Wales and the Shared Prosperity Fund, as it builds on our ongoing work. We have an overarching interest in post-Brexit funding arrangements, but especially their implications for higher education and research. We have previously provided expert opinions on this matter to the National Assembly for Wales, Welsh Government and UK Government.

1. How effective have existing arrangements for the management of European Structural Funds been?

- 1.1. The EU's opinion is that the Welsh management of Structural Funds has been exemplary. This refers to the way that projects have been justified and the way that accounts have been kept subsequently so the administration has been first class.
- 1.2. Whether the allocation of the funds has been optimal from an economic development point of view is harder to assess. The Objective 2 areas receiving the bulk of the funds remain relatively poor and have seen little catch-up with other parts of the UK. It is a moot point whether the sums involved could have been expected to do more.

2. What impact have Structural Funds had on the Welsh economy?

- 2.1. Some recipients such as the universities have clearly benefitted. The mix of Structural Funds and other EU support to infrastructure as well as to research has had a demonstrable impact on the quality and quantity of research output in Wales after 2015. Indeed, Structural Funds have been of particular importance to research and development in Wales in comparison to any other nation or region of the UK.
- 2.2. In the period 2014-2020, Wales received €338 million in such support from the European Regional Development Fund (ERDF). The per capita contribution in Wales was €125 – five times the UK average of €23 and more than eight times the figure for England at €15 per capita. Such funding has been important for the private sector as well as for universities.
- 2.3. The Sêr Cymru programme is an example of a scheme that is unlikely to have existed without Structural Funds. Aimed at strengthening the capacity of Wales's leading research groups via talent attraction and training, it has been co-funded by Welsh Government, higher education institutions, and a combination of EU funding from ERDF and Horizon 2020. In 2017, the scheme was highlighted in the *UK Industrial Strategy: Building a Britain for the Future*.
- 2.4. Welsh agriculture has benefitted from the CAP, even if its administrative burden was disliked. In most other areas the Committee will have details of the new infrastructure and training schemes funded by the EU. But despite EU conditionality, and perhaps in part because of changing criteria,

there is a lack of accurate data on impact. What is clear is that national economic output has not increased significantly. Nor have regional inequalities, especially in the most deprived areas, been much ameliorated and Wales still lacks skills. But any analysis lacks a scientific control against which accurately to compare the effect of the EU intervention, and therefore to indicate that the outcomes would have been noticeably worse without the aid.

- 2.5. Clearly improving the infrastructure into, and through, areas outside the M4 corridor makes areas of Wales considerably more accessible and therefore more attractive for industrial and commercial investment. The Heads of the Valleys improvement project, converting a three-lane road into a dual carriageway is nearing completion (with the Gilwern to Brynmawr section under construction). £79 million of EU Structural funds has been invested with the specific intention of attracting investment away from the M4 corridor and stimulating the economies in the traditionally underdeveloped areas of Wales. Such projects will have long-term sustained benefits.

3. What lessons should be drawn from previous rounds of the European Structural Funds in Wales?

- 3.1. We need a sharper focus on boosting skills, productivity and wages with an emphasis on investment, innovation and research in order to create critical mass in scientists, more 'intelligent' SMEs, and individual industries. The benefits of capital investment are not always immediately apparent to the populations of the areas in which investment has occurred, especially if there is no long-term legacy in jobs and the development of skills.
- 3.2. Arguably WEFO, the body within the Welsh Government administering the funds, did not have the benefit of a cogent economic strategy into which it could fit its efforts. Projects were sought from localities, judged and implemented on a piecemeal basis. It is possible that a coherent strategy could have focused or concentrated efforts to have greater effect. On the other hand, the diversity of the projects no doubt reduced the risk of misallocation. This is relevant to the Shared Prosperity Fund. The UK Government's desire to have a role in the administration of the fund and, perhaps, to use competitive methods for allocating funds will militate against a more strategic approach. It is doubtful if this would be beneficial.

4. 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?

- 4.1. Overall to fulfil what HMG has promised – better to distribute wealth across the United Kingdom, to devolve economic decision-making much more effectively and use funding to promote economic development which is more community inspired. For Wales the aim should be to overcome the fundamental problems inherited from the past and bring Welsh GDP much closer to the UK average. To do so Wales requires a much-needed improvement in the poor overall levels of investment in research, development and innovation as part of a modern competitive economy with a skilled workforce focusing on environmental quality, social wellbeing, smart/sustainable industry operating in an environment which encourages investment and entrepreneurship.
- 4.2. To date, Wales has failed to extract sufficient benefit from the particular characteristics of the nation and the benefits of being a small nation, capable of being an exemplar in many ways. Examples are the Well-being of Future Generations Act and the potential to develop the strategy of One Health, which brings together the common interests of human, plant and animal health with environmental and social factors. The interdependence of food, health and environmental security has to be recognised in strategic economic planning.

4.3. The challenge will be to harness local/regional knowledge of requirements and meld local initiative with a strategic vision. This has not been achieved hitherto but there is an awareness of that fact and the challenge is to build on that awareness.

5. What level of funding should Wales receive, and how should this be calculated moving forward?

5.1. The demise of traditional industries has had an obvious deleterious impact on the Welsh economy, leaving parts of Wales amongst the poorest in Western Europe. This situation is being exacerbated by the consequences of Brexit, and will be further damaged by the consequences of COVID-19. Over the period 2014-20, Wales was the largest beneficiary of EU funding within the UK. So future funding needs to replace EU sources and, with additional expenditure from HMG, more effectively tackle the disparities and deprivation within Wales and help put the Welsh economy on a sustainable competitive basis. The Shared Prosperity Fund should, like the European Structural Funds, be allocated on a needs basis – in contrast to the Barnett formula which is just a numerical calculation which disadvantages Wales.

6. Should funding be ring-fenced on a nation or regional basis or should the fund be open to competitive tendering?

6.1. In principle, allocations from the Shared Prosperity Fund should respect devolution and pass to the Welsh Government for it to allocate within Wales according to its priorities. There may be need for special arrangements for decisions on cross-border Wales/England projects. Competitive tendering has little relevance to the need to fund fundamental social and economic problems in Wales. In the case of research funding where competition based on excellence determines allocations, experience has identified the need to take some account of place, partly in order to build up capacity. Similarly, Welsh upland sheep farming with all its constraints does not lend itself to competitive funding.

7. 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?

7.1. The time scale should permit strategic planning over a realistic period of at least 3 years. The Learned Society recently coproduced an ‘explainer’ report with the British Academy, the Royal Society of Edinburgh and the Royal Irish Academy. This analyses the contribution of EU funds to UK research and innovation and underlines the advantage of the certainty of being able to plan over 7 years.

The explainer is being sent separately to the Committee and can be downloaded here:

www.learnedsociety.wales/our-publications/esif-uk-research

7.2. Funding for the Shared Prosperity Fund should come from the British Government, reflect the needs of Wales and as a minimum replace that which has been provided by the EU, recalling that monies will be made available as the UK net contribution to the EU budget will not be paid. The priorities for using these monies as well as their administration should be the responsibility of the Welsh Government, accountable to the National Assembly for Wales. It will also be important to see rapid decision-making within Wales.

7.3. One essential element of the Shared Prosperity Fund must be an ability to make multi-year allocations enabling projects to draw down funds as and when required. That was a crucial feature of ERDF funds that made longer-term planning and sensible project development

possible. If the Fund falls under annual expenditure limits of the DEL sort, its effectiveness will be much diminished.

8. What role could, or should, local government and, where applicable, city or growth deals play in relation to the fund?

- 8.1. Fundamental to economic development is the involvement of strong political leadership at both national and regional/city level. Essential is a capacity to take the necessary decisions speedily and where the regulatory/institutional framework underpins and supports the policies in place. Communities should be able to contribute to the shaping of economic and social policies. There are already some attractive hubs in Wales, e.g. Swansea University's science and innovation campus, Bangor University's Science Park, and Aberystwyth University's Innovation and Environmental Campus.
- 8.2. The Welsh Government is aware of the need to fully engage local and regional authorities in planning for economic development. It has commissioned a study from the OECD to look at multi-level governance structures to determine the best way to achieve genuine "co-production" of development plans while ensuring clear lines of democratic responsibility are maintained. The OECD report is due to be completed this year.

9. Are there any implications for state aid rules?

- 9.1. Brexit means that the UK will be free of EU state aid rules after the transition period has expired. But it will need to comply with any relevant provisions agreed in the UK's future agreement with the European Union, and relevant provisions of WTO rules and any international agreements entered into by HMG. Additionally, there will presumably be a requirement for disbursing state aid within the UK which should favour aid to overcome regional disparities, encourage environmental quality and combatting climate change and promoting sustainable economic development; the overall aim to make the UK more equal and areas like Wales more competitive.

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Further information on the Society's work is available at www.learnedsociety.wales