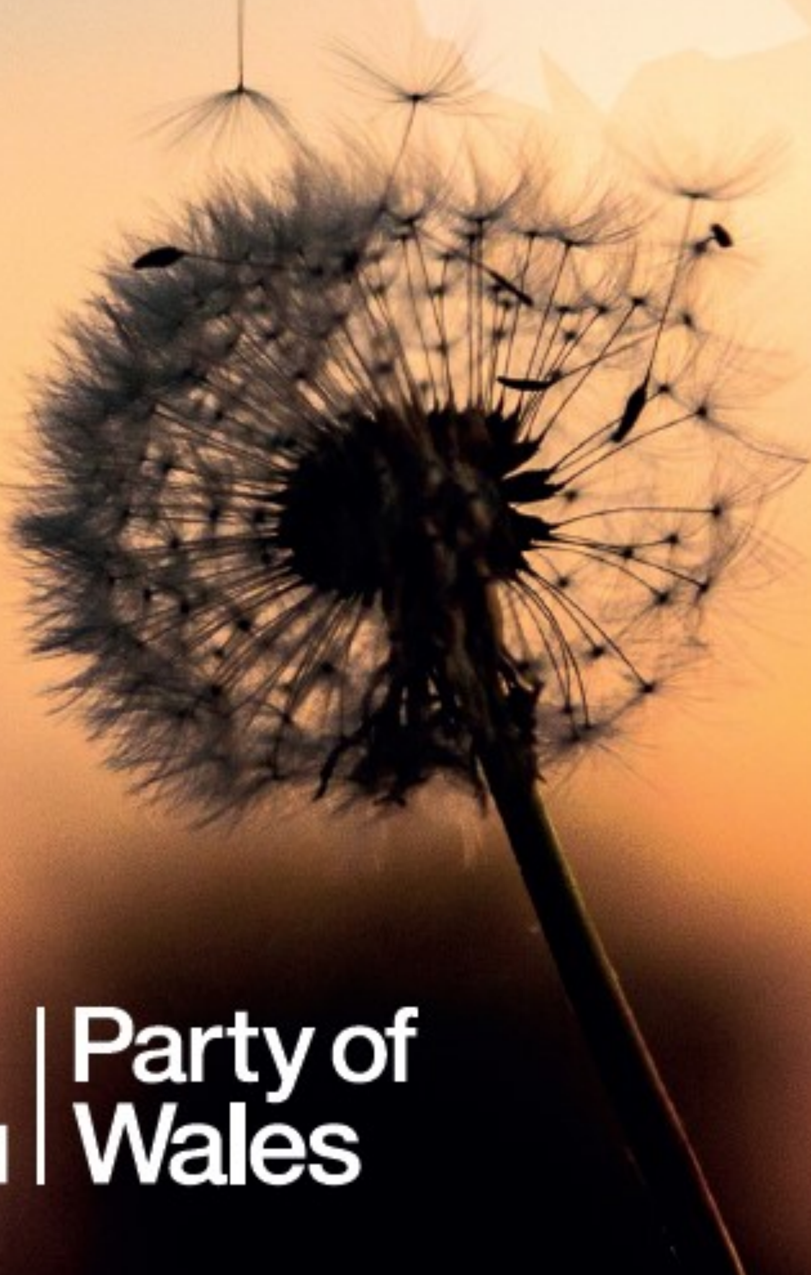
Not a Penny Less:

Plaid Cymru's Response to the UK Shared Prosperity Fund Consultation



Plaid Cymru | Party of Wales

Foreword

The Vote Leave campaign promised that Wales wouldn't lose a penny if we left the European Union. In fact they said there would be a Brexit dividend. Plaid Cymru is determined to ensure their claims are upheld.

Wales currently receives £245 million more a year from the European Union than it pays in. Between 2014 and 2020, Wales will have received over £2 billion from the European Union through European Structural Funds. These funds are designed to reduce regional inequalities by helping to support people into work and training, youth employment, research and innovation, connectivity and urban development.

In the short term, the British Government has pledged to guarantee funding in the 2014-20 budget framework until its closure, even in the event of the UK crashing out of the EU without a deal.

In the longer term, the 2017 Conservative manifesto stated "We will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations."

We were promised a consultation on the future of the UK Shared Prosperity Fund, the new body responsible for allocating funding post-Brexit on a UK wide basis, before the end of 2018. The British Government, however, is yet to publish any details. Furthermore, this body sits within the Ministry for Housing, Communities and Local Government, which is a department for England-only matters. The complete lack of information and forward planning on this essential funding stream is alarming.

In the absence of any proposals from the British Government on the design and implementation of the UK Shared Prosperity Fund, Plaid Cymru has commissioned a report exploring our preferred funding model. This report is designed to act as our official response to the UK Shared Prosperity Fund Consultation. While the form this fund takes is crucial for us to hold Vote Leave to account on their promises and to begin to reduce regional inequalities across the UK, it should only make up one small part of the future funding model we envisage for a New Wales.

Ben Lake MP **Rhun ap Iorwerth AM**

Executive Summary and Recommendations

- European Structural Funds are an important investment in skills and infrastructure in Wales. However, on their own they are not sufficient to transform the Welsh economy, as shown in the past twenty years. The replacement of the European Structural Funds with the UK Shared Prosperity Fund is an opportunity for much more substantial investment that could be genuinely transformational and reduce inequality between communities. This would involve a far greater sum of funding from the UK Government than that currently provided by the European Union and match funding.

- Whatever decisions are made regarding the UK Shared Prosperity Fund, Wales should not receive a penny less under new arrangements than if the 2014-2020 European Union arrangements for the structural funds continued, with an uplift to recognise inflation and population increase, so that this sum remains the same per person in real terms. This sum would be around £2.5bn across the seven year period from 2021 to 2027.

- Decisions regarding future funding arrangements need to be made quickly so that there should be no gap in funding and help to ensure a smooth transition and reduce disruption in the delivery of projects on the ground.

- The Wales element of the UK Shared Prosperity Fund should be managed in Wales, not at a UK level, respecting the devolution settlement under guidelines which provide maximum flexibility to meet Welsh needs.

- The funds made available for the Wales element of the UK Shared Prosperity fund should be pre-allocated, rather than using a competitive bidding process.

- Any increase in the amount of funding available for the UK Shared Prosperity Fund above its current level (now or in the future) should reflect the current funding situation in which Wales receives 22% of the European structural funds.

- The UK Shared Prosperity Fund should be a multi-annual funding programme to allow long-term planning and funding security and to avoid short-term electoral cycle or evaluation considerations.

- The UK Shared Prosperity Fund should continue to be accounted for on a separate basis than Welsh Government core spending in order to show the added value of the SPF to Wales

- Existing arrangements for the Managing Authority for European regulations in Wales, in WEFO, should be reviewed to ensure that they deliver the new funds as effectively as possible so that they have the greatest impact.

- Programme funding within Wales should continue to meet the goals of European structural funds including streams relating to employability and regional economic development, whilst also ensuring synergy with Welsh Government policy and expenditure, and meeting legislation regarding sustainability such as the Well-being of Future Generations Wales Act. A strong overlap exists between the aims of the UK Shared Prosperity Fund and the European Regional Development Funds, in particular.

1. Introduction

On 23 June 2016, the United Kingdom voted to leave the European Union.

As a European Union member state, the United Kingdom contributed towards the European Union's Multi-annual Financial Framework (MFF), the budgeting process for which 2014-2020 is the currently relevant timescale.

The allocation of monies under the MFF involved distribution of funds back to European Union member states under a range of programmes.

Following publication of reports by Jill Evans MEP, and from the Wales Governance Centre, amongst others, it is now widely agreed that, per head of population, Wales receives greater funding from the European Union than it contributes.

This paper examines the proposed replacement of the European structural funds in Wales – the European Social Funds and the European Regional Development Funds – within a United Kingdom framework, on the assumption that the UK leaves the European Union and Wales is therefore no longer eligible for European Union funding.

2. History of the European Social Funds (ESF) and European Regional Development Funds (ERDF)

The European Union has a variety of accessible funds, including the Common Agricultural Policy, European Structural Funds, Interreg, Erasmus+ and Horizon 2020 amongst others. Some of these funds are pre-allocated according to member states or their regions meeting specific criterion, while others are allocated on the basis of a competitive bidding process.

This paper concentrates on two pre-allocated funds referred to as the European Structural Funds, which include the European Regional Development Fund and the European Social Fund.

Collectively, the European Structural Funds are the second largest of the European Union programmes, after the Common Agricultural Policy.

The European Regional Development Fund (ERDF) was founded in 1975. The ERDF website explains its aim as being "to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions." The ERDF has an explicit goal. Investment is focused in specific thematic areas and allocated according to the regional GDP compared to the EU28 average. In the 2014-2020 MFF, funding was allocated according to whether a region was designated as 'less developed', with a GDP of 75% of the EU average, 'transitional' regions with a GDP between 75% and 90% of the EU average, and 'more developed' regions, with a GDP of more than 90% of the EU average.

The European Social Fund (ESF) is accessed by all EU regions. According to their website, "The ESF invests in people, with a focus on improving employment and education opportunities across the European Union. It also aims to improve the situation of the most vulnerable people at risk of poverty." The ESF invests in human capital, through increasing employability, promoting education and skills as well as social inclusion and combating poverty, amongst other goals.

The EU's current Multi-annual Financial Framework (MFF) lasts from 2014 until 2020. The UK Government have confirmed that funding promises allocated under the European Structural Funds will be honoured until the end of this period.

The final allocations of 10.8 bn Euros for UK nations and regions under the 2014-2020 MFF were determined in April 2014 by Vince Cable MP, the then UK Secretary of State for Business, Innovation and Skills.

Of these monies, 6,937.2m Euros was allocated to England, 894.6m was allocated to Scotland, 2,412.5m Euros to Wales, 513.4m Euros to Northern Ireland and 10.4m Euros to Gibraltar. 22.3% of the UK's European Structural Funds were allocated to Wales in this period.

Within Wales, 2,005.9m Euros (83%) were allocated to the West Wales and Valleys Nuts2 area, which had a GDP of below 75% of the EU28 average, designated a less developed area and therefore eligible for the highest rates of EU support, and 406.6m (17%) Euros to the East Wales Nuts2 area, whose GDP was above 90% of the EU28 average at the time of calculation, and therefore designated a more developed area.

The West Wales and the Valleys Nuts2 area includes fifteen of Wales' twenty-two local authorities (Bridgend, Blaenau Gwent, Caerphilly, Carmarthenshire, Ceredigion, Conwy, Denbighshire, Gwynedd, Isle of Anglesey, Merthyr Tydfil, Neath Port Talbot, Pembrokeshire, Rhondda Cynon-Taff, Swansea, Torfaen), whilst the East Wales Nuts2 area includes the remaining seven (Cardiff, Flintshire, Monmouthshire, Newport, Powys, Vale of Glamorgan, Wrexham)

The value of this funding was estimated to be around £2.01bn, based on a conservative exchange rate of £1: 1.20 Euro when used to determine programme spend. However, following a drop in the value of the pound against the Euro, this has been restated as £1: 1.17 Euro, which means an investment of just below £2.07bn.

European structural funds are provided on the expectation of match funding. The European element is anticipated to be 60% of the available spending and match funding providing a further 40%.

Welsh Government, which has responsibility for regional development in Wales, was the responsible body in Wales for distribution of these funds. This responsibility is managed by the Wales European Funding Office (WEFO). The role of WEFO will be discussed in greater detail later within this paper.

3. What is the UK Shared Prosperity Fund (SPF)

During, and following, the referendum campaign, questions were raised about the future of the funds currently received from the European Union.

The Conservative Party election manifesto in the 2017 UK General Election pledged that they would create “a United Kingdom Shared Prosperity Fund, taken from money coming back to the UK as we leave the EU, to reduce inequalities between communities across our four nations.”

Aspects of the European Structural Funds were criticised in the manifesto, specifically that they were expensive to administer and poorly targeted, although no significant evidence was provided to substantiate these claims.

The manifesto goes on to say: “We will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. The money that is spent will help deliver sustainable, inclusive growth based on our modern industrial strategy. We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most.”

The UK Shared Prosperity Fund was referred to within the UK Government’s Industrial Strategy White Paper, launched in November 2017, and a UK position paper on the future of cohesion policy, published by the Department for Business, Energy and Industrial Strategy in April 2018.

The Minister for Housing, Communities and Local Government, James Brokenshire, made a Written Statement to both Houses before recess on July 24th 2018 in which he confirmed that the principal aims of the UK SPF include to “tackle inequalities between communities by raising productivity, especially in those parts of our country whose economies are furthest behind”.

He added that this would be a simplified, integrated fund and that "the (UK) Government will of course respect the devolution settlements in Scotland, Wales and Northern Ireland and will engage the devolved administrations to ensure the fund works for places across the UK." The statement made reference to strengthening Local Enterprise Partnerships (LEPs) in England, and the development of Local Industrial Strategies across England by 2020.

This Minister's portfolio and executive functions are almost all related to England, and, in the case of Wales, are devolved to Welsh Ministers. Concerns have been raised that it would be inappropriate for the Minister to take responsibility for devolved functions through overall control of the UK SPF. In particular, the Minister makes reference to discussing with devolved administrations how Local Industrial Strategies could work in devolved administrations – perhaps indicative of an attitude that 'Westminster knows best'.

The UK Government pledged to consult with the public on the UK SPF in 2018, but the consultation document has not yet been published (as at date of publication). The July 2018 statement says that the operation and priorities of the UK SPF will be announced as part of the 2019 Spending Review. The delay in holding this consultation has raised fears that decisions will not be made or agreed in a timely manner. Recognising that the current arrangements will largely conclude at the end of next year (2020), it is now an urgent matter that future arrangements are determined quickly so that preparations for new funding principles, governance and implementation can take place without causing disruption to providers on the ground.

The recent announcement of a £1.6bn Stronger Towns Fund has led to concerns that this might subsume and replace the proposed Shared Prosperity Fund, but, in response to a question from Lord Wigley in the House of Lords on 5th March, 2019, it was stated by Lord Bourne of Aberystwyth that 'this is quite separate from the UK Shared Prosperity Fund'.

Plaid Cymru has long called for a rebalancing of the UK economy through the allocation of resources on the basis of need, rather than population-based allocations. Plaid Cymru has regularly pointed to the difference on economic development investment from the European Union, which deliberately and publicly targets funding towards regions with lower economic performance, with the UK, which has no formal public position on regional economic development and whose commitment to funding Wales is through the Barnett Formula, which allocates funding to Wales on the basis of a population-based formula based on the increase or decrease in funding for governmental departments in Westminster and a comparison of which responsibilities are devolved to Welsh Ministers.

The recognition that the SPF will aim to reduce inequality between communities is welcomed, but the implementation of this approach within UK Government policy requires substantial investment at a far greater scale than the European structural funds and, within that context, the expectation is that the SPF is a first step in that direction, rather than being expected to lead to a substantial rebalancing to reduce inequalities between communities on its own.

4. How should the SPF be distributed

Investigations into how the UK Shared Prosperity Fund could be constituted have been held by the All Party Parliamentary Group for Post-Brexit Funding for Nations, Regions and Local Areas and by the National Assembly for Wales Finance Committee amongst others.

These calls for evidence have led to a range of papers being published on the potential replacement for European Union Structural Funds and their implementation (including Institute for Fiscal Studies, Joseph Rowntree Foundation, the Bevan Foundation, Welsh Local Government Association and the Industrial Communities Alliance).

The evidence provided has shown that a broad consensus has been reached in Wales on a series of issues, including:

- The need to respect the devolution settlement through giving responsibility for the implementation of the Shared Prosperity Fund in Wales to the Welsh Government
- The need for a multi-year funding framework, similar to the seven year timescale provided by the European Union. This provides long-term funding security independent of the political and electoral

cycles, and reduces the uncertainties of short-term project funding and the possible adoption of short-termist approaches to meet outcomes as part of a continuous funding application cycle.

- Support of a pre-allocation process for funding rather than a competitive bid process. This allows certainty of funding rather than pitting regions, sectors or institutions against each other in a wasteful process that may favour those already best placed to bid as opposed to those who require support.

This consensus essentially recommends a continuation of the present funding and governance structures in the Welsh context, rather than substantive change. Given the uncertainties regarding economic performance in a post-Brexit era, adopting a safety first approach in shifting from the existing European Union guided investment framework appears sensible.

As recommended by the APPG for Post-Brexit Funding, the SPF should be given a branding which reflects the local management of the fund. In the case of Wales, this should be SPF Wales (Cronfa Ffyniant Cymru in Welsh).

5. How are the current European funds managed in Wales?

The Welsh European Funding Office (WEFO) is the Managing Authority for the expenditure of the European Structural Funds in Wales. They are responsible for four overarching projects – the European Social Funds in East Wales, and in West Wales and the Valleys, and for the European Regional Development Funds in East Wales, and in West Wales and the Valleys. For funding and accounting purposes these programmes remain separate.

As previously outlined, programmes within the ESF and ERDF are intended to meet different needs within the European framework. WEFO include elements of pre-application testing and guidance to ensure that programmes are eligible, by meeting the relevant criteria – in general terms investing in individual employability through the ESF and infrastructure improvements through the ERDF.

Around 190 projects were agreed by WEFO in 2018.

6. How are current programmes monitored in Wales?

WEFO's activities are overseen by the Programme Management Committee, who meet several times a year to monitor the effective delivery of the European Structural Funds and also the European Agricultural Fund for Rural Development. In 2018, the Programme Management Committee met twice and was chaired by Julie Morgan AM. The most recent meeting, at the time of writing, took place in January 2019 and was chaired by Huw Irranca-Davies AM.

The Programme Management Committee includes 27 members from different sectors within Wales. Six of the members were appointed through a public application process, while representatives also come from local government, business and enterprise, the third sector, education, environment, departments within Welsh Government, farming, UK Government, local action groups and equality and non-discrimination bodies. Plaid Cymru Councillor Dyfrig Siencyn represents the Welsh Local Government Association on the Programme Management Committee.

European level advisors and senior WEFO staff attend meetings to report on progress against programme KPIs, share information and best practice.

7. Is the current system working?

WEFO was strongly criticised by the National Assembly for Wales Finance Committee in 2012 following an inquiry into the performance of the European Structural Funds 2007-2013, and many of their recommendations were agreed, at least in principle, by Alun Davies AM, the then-Deputy Minister with responsibility for European funds.

Recommendations made by the committee at that time included an improvement in co-ordination and oversight of projects to avoid duplication, improvements in procurement advice and reductions in staff turnover.

In conducting a report on Managing the Impact of Brexit upon Structural Funds, published in August 2018, the Wales Audit Office (WAO) reported favourably upon the current performance of WEFO. The report focused on the then-threat that there would be a need to draw down spending from the current 2014-2020 round of European funding at a faster rate in the case that no withdrawal agreement was reached.

WAO reports in its summary that WEFO has maintained robust checks and balances despite the intention to increase the pace of project approvals and spending ahead of Brexit, that WEFO has strengthened its approach to approving projects and only commits to those which meet strict criteria and match its strategic priorities and that WEFO has robust checks to ensure that projects can only claim funding if they can show they have complied with all eligibility and delivery requirements. They also say that there are clear arrangements in place for monitoring and reporting progress with the overall programme.

8. What programme management risks exist?

Although the WAO report was not a full review of WEFO's organisation, it did raise some potential issues which they face. The report says that WEFO operates on the assumption of 190 FTE members of staff, although they have frequently operated at 11%-16% below capacity in recent years. A lower than anticipated staffing is not unusual within this sector at present due to shortages in appropriately qualified staff and the impact of public sector recruitment and pay constraints. However, this remains a potential risk going forward for any system implemented to monitor the Shared Prosperity Fund.

Other programme management risks have included currency fluctuations between payments in Euros and the value in Sterling, and the timescale for completing expenditure claims in the close-down phase of a project.

The amount of funding for the Wales Structural Funds was made in Euros, rather than pounds sterling, and a recent restatement of the assumed currency rate from £1: 1.20 Euro to £1: 1.17 Euro increases available project funding compared with the original estimate. Prior to the referendum, the actual rate was less favourable and may have negatively impacted upon programmes. The statement of the Shared Prosperity Fund in pounds sterling will remove the currency fluctuation risk in future.

The available time for claiming expenditure in arrears has been a traditional risk, albeit one less likely to be the case in this round of European funding because expenditure has been brought forward as a result of Brexit. In the past, the European level funding bodies have allowed WEFO, as the Welsh Managing Authority, to claim funding up to three years after the end date of the projects being delivered, so-called 'n+3' funding, allowing additional flexibility in the legacy phase, giving more time for programmes to close down and finalise their claims. The situation regarding the conclusion of the 2014-2020 funding round is unusual, but this 'n+3' procedure should be adopted when the future Managing Authority of the Welsh elements of the UK Shared Prosperity Fund receives funding from the relevant UK Government department.

The WAO evidence suggests that WEFO are competent in their field of programme management of European funding. Future structures will depend upon the extent to which the UK Shared Prosperity Funds in Wales are considered to be stand-alone funding or integrated within the Welsh Block Grant.

9. How should future funding be audited?

A key element of European funding, particularly ERDF, is the additionality which it brings to Wales as project funding above Welsh Government expenditure. Capturing the value of this additionality is important to show impact and change. However, the European Structural Funds represent a relatively small amount of Welsh Government public expenditure over the lifetime of the grant, and an even lower amount compared to Welsh total GDP. It is therefore easy to simultaneously overstate the importance of European funding to the Welsh economy whilst being aware that the direction of the funding over its three rounds have created a level of dependency in particular sectors and geographical areas which have benefited from the investment, and that withdrawal of this funding would have substantial negative effect upon the Welsh economy.

If future funding under the Shared Prosperity Fund continue to reflect additional investment in Wales' economically deprived areas, rather than be absorbed within core investment in Welsh Government priorities, then programme management structures and evaluation will be required to reflect to ensure that investment has been made in the correct areas with the greatest impact upon economic activity – above and beyond ordinary programme monitoring.

Unlike ERDF funding in particular which had a cliff-edge date in which Welsh economic data, and especially that of West Wales and the Valleys, was compared with other NUTS2 regions across the European Union, the Shared Prosperity Fund may prove to be of continuing support to Wales – unless substantial economic transformation takes place to increase the economy in comparison with London and the south-east of England.

WEFO's experience and expertise suggests that, for at least the first period of Shared Prosperity Funding in Wales, structures similar to those currently in place should be maintained. Available evidence suggests that WEFO has the necessary expertise and experience to manage change to what should be a comparatively simplified system, providing that the UK Government does not replace European Union requirements with a similar level of bureaucracy. The effectiveness of these arrangements should then be reviewed by Welsh Government and relevant National Assembly committees in advance of the conclusion of the Shared Prosperity Fund's first round of funding, as part of the overall project evaluation.

However, that does not mean that there should not be a process that reviews WEFO's operations (and its name) in the change from European Structural Funding to the Shared Prosperity Fund.

A review should take place on the effectiveness of challenge and leadership by the Programme Management Committee, and the size and membership of the committee. The review should consider to what extent the role of the Programme Management Committee is to provide scrutiny and monitoring of the Fund and how much influence it should have over targets and impact, particularly in the set-up phase of the new Fund.

Recent years have seen the development of City Regions and Growth Deals in which local government structures have undertaken greater responsibility for economic development in their regions of Wales. These, and the local authorities which underpin them, should be part of the decision making process for the Shared Prosperity Fund, utilising local expertise to deliver better results. The existing role of the Programme Management Committee in reviewing programmes associated with the Common Agricultural Policy are outside the scope of this paper, but should be considered when decisions are made regarding the future direction and implementation of CAP.

In the absence of European regulations which determine eligibility for programme spend, and an assumption of greater flexibility from UK Government in the Shared Prosperity Fund, there will be a need for clarity on what will or will not be funded. Welsh Government should consult on an easily understood mission statement outlining the purpose of the SPF in Wales, similar to the statements by the European Union which explain the purpose of the ERDF and ESF, as well as consulting on how they will establish regulations, define project goals and how legislation, such as the requirements of the Well-being of Future Generations (Wales) 2015 Act, will be implemented.

Broadening the use of the SPF compared with EU Structural Funds will allow a wider impact, better in line with Welsh Government policy, rather than requiring applications to align with both Welsh Government and EU policy priorities. However, it is important that this additional funding is used to create additional value within policy areas rather than replace existing funding programmes within the Welsh Government budget. The SPF should therefore retain a separate budget line within spending, rather than become integrated into core funding where spend would be less easily identifiable.

It is important to consider that inequality between communities is not just an economic impact, although that is something which can often be more easily measured or more visible. The replacement of European Structural Funds with the UK Shared Prosperity Fund means that there will be an assumption that they will simply cover the same ground, when inequality has multiple meanings. The effective integration of the Well-being of Future Generations (Wales) Act 2015 is therefore crucial in ensuring that non-economic factors are considered in both the decision making process and evaluation of schemes and, indeed, the Fund itself.

Criticisms of European Union funding application processes, evaluation and outcomes are common across member states and the recently announced draft proposals for the 2021-2027 Multi-annual financial framework include simplification of regulations for the ERDF and the emergence of an ESF+ programme, intended to provide greater flexibility by reducing the administrative burden and merging existing funds and programmes.

It would be anticipated that the SPF in Wales would follow a similar trajectory in becoming more streamlined so that decisions can be made quickly and administration and evaluation become more agile. Evaluation needs to consider the impact and outcomes of the project without being burdensome, and how the project contributes to overall policy outcomes of the SPF.

In the absence of the restrictions relating to the overarching European funding programmes, the seemingly artificial distinctions between regional economic development and individual and community employment opportunities should be removed, although the need for investment in both will remain.

As part of UK and Welsh Government policy, the recently founded City regions and Growth Deal areas in Wales mostly straddle the existing borders between the West Wales and the Valleys region and the East Wales region.

Although there will be no requirement for the maintenance of the West Wales and the Valleys and East Wales regions, which are, in many senses, artificial, it is important that the positive impact funding continues to be felt in those less economically developed areas.

Therefore, while there will be no need to maintain these boundaries, an element of the monitoring of future funding will be to ensure that this funding remains in addition to other potential support within the former West Wales and the Valleys region, rather than a displacement; and also that funding was not being funneled into economically central areas under the pretext of job creation for residents of more economically peripheral parts of Wales.

Much of the West Wales and the Valleys Nuts2 region include the Arfor local authority areas (Ynys Môn, Gwynedd, Ceredigion and Carmarthenshire) which recent Welsh Government budgets have supported as part of a Welsh language economic development.

It makes sense that these functions are strengthened in Arfor, creating a distinct Welsh language regional economic development area that can counterbalance external population flows. The positive development of Welsh language economic development should be a consideration when making decision regarding projects and how they can support Welsh language communities within these local authorities in particular. This should be considered in the set-up of the Shared Prosperity Fund in Wales and local authorities should be utilised to ensure that their knowledge is captured.

10. Who should benefit from the Shared Prosperity Fund in Wales?

In developing the new Shared Prosperity Fund in Wales, the Welsh Government and the Programme Management Committee must consider the broader eco-structure of funding. Amongst criticisms of previous funding rounds has been that the beneficiaries have predominantly been within the public sector in one form or another, perhaps displacing other funding rather than generating new initiatives.

The effectiveness of using intermediaries, such as the Welsh Council for Voluntary Action and the Development Bank of Wales, to support the third sector and private sector businesses to access funding, should be reviewed to consider whether funding is reaching its intended targets. The WAO report in August 2018 suggests that greater transparency on funding requirements and calls for interest have increased awareness in recent years outside the public sector. However, in the context of the wider economy, increasing entrepreneurship and economic activity, questions remain about whether the best possible outcomes are being achieved and whether the involvement and capacity of the Welsh economy has yet been maximized.

It is currently unclear what funding will be available to higher education in Wales. Higher education institutions have previously benefited from European Structural Funds (the majority of Wales' universities are located in the West Wales and the Valleys region) and also from EU-wide funding such as Horizon 2020. Discussions are continuing regarding eligibility for UK universities within EU-wide programmes following 2020. It is likely that higher education will again be key players in the Shared Prosperity Fund in terms of regional economic development and that both higher education and further education will be important in terms of developing skills, including apprenticeships, that will benefit local economies. Involvement by educational institutions and the return on investment to local communities should be monitored to ensure that Wales benefits from their location and access to grant funding. There are particular concerns that Welsh universities have benefitted to lesser than expected amount under the competitive bidding process for Horizon 2020, receiving only 2.1% of UK total grant, at Sept 2018.

It is important for the programme development to link alongside existing Welsh Government priorities to ensure that there is a synergy between the two. This is where it is important for WEFO and the Programme Management Committee to account for and challenge potential displacement activities that should be funded directly by Welsh Government or intermediaries. Applications should show both how they are aligned with Welsh Government objectives but also show why the Shared Prosperity Fund is the most appropriate funding vehicle. The need for committing project funding to ensure expenditure should not be allowed to overshadow displacement of core spending, as this would fail the 'additionality' test that should be applied.

11. How much should the SPF be in Wales

At the time of writing, the UK Government has not yet announced the total funding envelope for the UK Shared Prosperity Fund.

In the 2014-2020 MFF, Wales received 2.4 bn Euros, or 22.3% of the allocated EU structural funds, with the West Wales and the Valleys region alone receiving 18.6% of the total.

The West Wales and the Valleys region, which receives the majority of this funding, qualified for this European funding as a result of its low GDP, in order to better invest and improve its economic performance. The intention is for more intensive growth in this region to catch-up with other nations and regions of the UK.

Allocating funding across the UK upon an equal basis would reduce opportunities for this catch-up to occur and if structural difficulties, including geography and lack of agglomeration opportunities, have led to this economic situation, then receiving similar levels of funding would lead to a further deterioration, relative to competitor regions. This is an additional concern in the context of new income tax arrangements for Wales where payments from the Welsh Government to the Treasury will be determined on the basis of growth in receipts within the rest of the UK. A reduction in comparative funding to Wales and subsequent impact upon the Welsh economy have the potential to penalise the Welsh Government, on the basis of a UK Government funding decision.

For consistency, and in order to meet the political expectations raised by the Leave campaign during the referendum, it therefore follows that Wales should continue to receive 22.3% of the overall SPF and that 18.6% of the total SPF should be allocated to areas within the current West Wales and the Valleys Nuts2 region.

The use of GDP as the sole indicator for qualification for the highest levels of ERDF funding created 'cliff-edge' in which funding was at risk of being discontinued as a result of either regulation changes agreed across European Union member states, e.g. a change in the eligibility criterion, or the GDP reaching the relevant targets, and therefore being withdrawn. In essence, this creates a double bind in which success in improving GDP may be penalised through the removal or reduction of funding.

This may be the case if counterfactual research from the Conference for Peripheral Maritime Regions were correct. Their work suggests that the UK as a whole would receive 13bn Euro from European Structural Funds were it to remain members of the European Union, and due to threshold changes, East Wales would be demoted from a 'more developed' area to a 'transitional' area. However, their research also suggests that the overall economic picture across the UK is more generally unfavourable with the EU average GDP than prior to allocation of the 2014-2020 funding. In these new circumstances, the CPMR believe that up to five UK regions may qualify for the highest level of support and it may be that, in this counterfactual scenario, Wales would not receive as much funding as at present.

Concerns about longevity and allocation of funding can be alleviated through the Shared Prosperity Fund by removing the 'cliff-edge' through a more graduated tapering of funding or by confirming that the Welsh allocation will remain consistent in future, with increases according to inflation and population.

In the political and economic context in which the UK Shared Prosperity Fund has been developed, Wales should continue to receive at the very least the same funding as before, increased by inflation and per capita.

12. Conclusion

During the 2016 referendum on leaving the European Union, members of the Leave campaign pledged that Wales would not receive a penny less if the UK were to leave the EU.

In political terms, the SPF is held accountable for promises made about the terms on which Wales and the UK would leave the European Union. As a replacement for the European Structural Funds, The UK SPF must make good on this promise that Wales should not lose out financially as a result of leaving the EU.

Noting currency fluctuations, the amount of money provided to Wales should remain constant in real terms at the very minimum, on a per capita basis. As we are still midway through the period, a final figure cannot yet be given but on the basis of inflation and population increase (4% for the decade between 2007 and 2017), we estimated this to be in the region of £2.5bn for the seven year period 2021 to 2027, compared with £2.07bn in the restated Euro exchange rate for 2014 to 2020.

The European Structural Funds are an important part of public spending in Wales and any loss or reduction in spending would have substantially negative impacts upon employment and opportunities for economic improvement in Wales. However, the total spending on European Structural Funds remains small within the context of Welsh or UK Government spending and within the GDP of the wider economy. If Brexit leads to a negative impact upon the wider economy, then this may outweigh any benefits of the Shared Prosperity Fund.

Dr Ian Johnson