PROMOTING WALES FOR INWARD INVESTMENT

Submission to the Welsh Affairs Committee inquiry

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Basis of the submission

The authors of this submission are the National (GB) and Wales Directors of the Industrial Communities Alliance, the all-party association of local authorities in the industrial areas of England, Scotland and Wales. In Wales, the ICA membership covers nine authorities, including all the main councils covering the Valleys. Both authors are also long-standing academics, most recently at Sheffield Hallam and Cardiff universities, with substantial experience of working on regional and local development.

The submission focuses on the Committee's question 'How can inward investment be leveraged so that it delivers and supports sustainable, local benefit and prosperity?' As the submission explains, there is a long history to the promotion of inward investment to Wales from which much can be learned, and there are presently major weaknesses in the package of support to investors that need to be addressed.

The context in Wales

We take it as given that substantial parts of Wales are in need of business investment and new jobs. Whilst official measures of unemployment are now low by historical standards, GVA per head lags well behind the UK average and much of Wales still suffers from exceptionally high levels of economic inactivity and dependency on welfare benefits.

A 2024 report, for example, found that in the former South Wales coalfield, which is home to around 750,000 people, there are only 46 employee jobs per 100 residents of working age and that 19 per cent of all adults of working age are out-of-work on benefits of one kind or another[1].

Addressing these economic and labour market difficulties requires action across a broad front. There is no single 'silver bullet' that will turn things around. Inward investment is an important part of the jigsaw in promoting growth and jobs in Wales and it helps foster a more prosperous environment in which local businesses can develop and grow.

[1] S Fothergill, T Gore and D Leather (2024) *The State of the Coalfields 2024*, CRESR, Sheffield Hallam University.

Inward investment

There can be a view, possibly more in Wales than elsewhere, that providing financial support to inward investors is not worthwhile because businesses take the money and after a few years then move on. In Wales this view is probably rooted in the experience of attracting manufacturing firms to the Valleys and M4 corridor that have not survived to the present day. Whilst it is true that over time many firms and factories do close in the normal course of business, a negative view of inward investment would be wrong.

In fact, taking the long view, supporting inward investment can be one of the key tools in promoting regional and local development and the UK has long experience in this regard. The formal evaluations of regional investment aid make this only too clear – from the classic study of regional policy in the 1960s and 70s[2] though to evaluations of regional investment incentives in the 1990s and 2000s[3], and more recently the evaluation of the Regional Growth Fund[4]. In short, regional investment aid does attract jobs to less prosperous parts of the country, and these jobs don't quickly disappear.

Regional investment aid: a brief history

Regional investment aid is the financial support that the public sector offers private sector investors in less prosperous parts of the country with the aim of creating or protecting jobs in these places. In most cases the support takes the form of a capital grant making up a proportion of a project's costs but in some cases it can be a loan at a discounted rate. Regional investment aid is a key tool – arguably *the* key tool – in attracting inward investment.

Wales has a long history of regional investment aid. Continuously from the early 1960s until 2020, large parts of Wales were designated as 'Assisted Areas' where investment aid was made available to firms. Initially it was the UK government that designated the Assisted Areas; more recently they were designated by the EU (with input from the UK government) under EU State Aid rules. The funding for investment aid came principally from the UK's Department for Business and latterly from the Welsh Government as well. The funds themselves have had a variety of names over the years – Regional Development Grants, Regional Selective Assistance, Regional Growth Fund etc.

The key with all regional investment aid is to fund only those projects that would not otherwise have gone ahead in the same place, on the same scale or on the same timescale – in other words to deliver genuinely additional investment. The UK has a great deal of experience in designing and running procedures that deliver this 'additionality' and minimise

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[2] B Moore, J Rhodes and P Tyler (1986) *The effects of government regional economic policy*, HMSO, London.
[3] M Hart, N Driffield, S Roper and K Mole (2008) *Evaluation of regional selective assistance (RSA) and selective finance for investment in England (SFIE)*, Department for Business, Enterprise and Regulatory Reform, London.
[4] Department for Business, Enterprise and Industrial Strategy (2022) *Regional Growth Fund Evaluation*, BEIS, London.

‘deadweight’ spending on projects that would anyway have gone ahead in the same form and location.

West Wales & the Valleys occupied a privileged position under the EU State Aid rules. In addition to the area’s eligibility for generous support from the EU Structural Funds, because of its low GDP per head (below 75 per cent of the EU average) until 2020 it was also placed in the highest category for allowable investment aid – only Cornwall and Tees Valley & Durham matched this eligibility in the UK. That meant that under the EU rules large firms (250+ employees worldwide) were eligible for grants of up to 30 per cent of the cost of a project, compared to just 10 per cent in other UK Assisted Areas and nothing at all in the more prosperous part of the country. Medium-sized firms (50-250 employees) were eligible for a further 10 per cent top-up, and small firms for a further 20 per cent.

Under the EU’s State Aid rules, West Wales & the Valleys could therefore offer a huge advantage to businesses over nearly all other parts of Britain. This was potentially invaluable in attracting inward investment. In truth, in recent years this advantage wasn’t exploited as much as might have been the case, mainly because of limited budgets. Nevertheless, utilising the area’s eligibility for high rates of investment aid was always an option that other places couldn’t match.

The impact of Brexit

Following Brexit, the EU State Aid rules that framed regional investment aid for nearly five decades no longer apply. The tragedy has been that the previous Conservative administration chose not to replace the EU rules on regional investment aid with its own UK system. Instead, the Conservative government chose to introduce a system of Subsidy Control that treats all parts of the UK equally.

Instead of the previous system of Assisted Areas, prioritising less prosperous areas and sending a clear signal to investors, the new system of Subsidy Control offers nothing extra in the Rhondda than in Richmond-on-Thames. Wales, especially its less prosperous areas, has lost a key tool to attract inward investment.

Under the Conservative government’s Subsidy Control regime there is still an emphasis on value for money and the avoidance of the deadweight that occurs when projects would have gone ahead anyway. But the discrimination in favour of less prosperous parts of the country has entirely disappeared. For the first time since the early 1960s, investments in the poorer parts of Wales are no longer eligible for higher rates of assistance. It was a deliberate political decision in Westminster, not an oversight, to not renew an Assisted Area map following the UK’s departure from the EU.

So what needs to be done?

The new Labour government in Westminster needs to revisit the Conservative's decision to dispense with Assisted Area status and higher levels of eligibility for investment aid in less prosperous parts of the country.

Labour presently doesn't have a policy on this issue – hardly surprising, perhaps, given that at first sight state aid rules and subsidy control can seem like a highly technical issue. But the principle is actually very simple – that firms should be given a clear signal that investment in the poorer parts of the country is more likely to attract financial support than investment in prosperous areas.

Subsidy Control rules are not a devolved matter, and any changes that might benefit Wales would clearly have implications for other parts of the UK as well, so this is an issue for the UK government, not the Welsh Government, to resolve. The forthcoming White Paper on *Industrial Strategy*, promised for spring 2025, provides at least one opportunity to set out a new direction.