

A Framework for Regional Investment in Wales - Integrated Impact Assessment Summary

What action is the Welsh Government considering and why?

Wales is a confident and forward-looking nation. We want to grow our economy by building on our strong capability in research and innovation, setting up, starting and growing businesses, delivering needed infrastructure and skills across the regions, increasing the pace of our transition to a zero-carbon economy, and doing this in a fair and inclusive way.

We propose, for this reason, that the future of **regional investment supports growth and inclusiveness** across Wales, with four broad investment priority areas covering:

- **Productive and competitive businesses**
- **Reducing the factors that lead to income inequality**
- **Supporting the transition to a zero-carbon economy**
- **Healthier, fairer, more sustainable communities**

We propose an approach which:

1. **Focuses on delivering outcomes** to ensure that we maximise the return on our investments and help create the Wales we want to see, as set out in our Well-being of Future Generations Act.
2. **Decentralises funding and decision-making** closer to the people they aim to benefit in all parts of Wales with regions prioritising portfolios of integrated interventions to deliver in partnership economic policy focused on people and places. We want to align with Welsh Government plans for greater regional collaboration including the potential vehicles of the proposed Corporate Joint Committees being taken forward by the Local Government and Elections (Wales) Bill¹, and the Regional Economic Frameworks being co-designed by Chief Regional Officer teams with stakeholders in each region.
3. **Integrates with our policies and wider opportunities for investments** in Wales, the UK and internationally, including City and Growth Deals.
4. **Forms a single fund on a multi-annual basis**, where communities and partners across Wales can benefit from and propose activities that deliver local, regional, and national priorities.

¹ <https://gov.wales/local-government-and-elections-wales-bill>

5. **Builds on the integration of equality, sustainable development and the Welsh Language** (called ‘horizontal themes’) in our investments.
6. **Encourages collaborative working across borders**, within and beyond Wales, to strengthen Wales’ reputation as an outward looking, innovative nation.
7. **Ensures regions and local areas have the necessary capability and capacity** to maximise the opportunities from regional economic investment.
8. **Creates a simpler and more proportionate framework** that maintains our commitment to openness, fairness and transparency of investments.

What we want to achieve

To replace European funding in Wales we are proposing a new and flexible National Framework for regional economic investment which has our *Well-being of Future Generations Act* at its heart.

Our aim for this Framework is to deliver evidence-based and better targeted investments that will achieve real change by capturing the importance of place and people, together with a commitment to decentralise funding and decision-making closer to the people it aims to benefit.

While this commitment to regionalisation is the cornerstone of the Welsh Government’s *Economic Action Plan*², this framework for managing, co-ordinating and evaluating regional economic investments across Wales will also align with other policies for capitalising on growth and tackling poverty, including our *International Strategy*³, *National Development Framework*⁴, *the Wales Infrastructure Investment Plan (WIIP)*⁵, *Employability Plan*⁶, *Sustainable Farming and Our Land*⁷ and *Fair Work Wales*⁸.

We aim to deliver this Framework by:

Creating a single fund that would reduce the administrative burden on organisations seeking to benefit from future regional investment funding and facilitate greater opportunities for joining up investments and activities.

Moving to a place-based approach reflective of the regions and providing greater opportunities for integration with Welsh Government policies as well

² <https://gov.wales/prosperity-all-economic-action-plan>

³ <https://gov.wales/international-strategy-for-wales>

⁴ <https://gov.wales/national-development-framework>

⁵ <https://gov.wales/infrastructure-investment>

⁶ <https://gov.wales/employability-plan>

⁷ <https://gov.wales/revised-proposals-supporting-welsh-farmers-after-brexit>

⁸ <https://gov.wales/fair-work-wales>

as reflecting the interdependencies across borders, within the UK, and internationally.

Aligning investments with Welsh, UK and international best practice on auditing, monitoring and evaluation to reduce bureaucracy for delivery partners.

Moving relevant decision-making and prioritisation to the regions and communities, so that they are empowered to better develop their own distinctive strengths and opportunities, and create benefits that are closer to people and places.

Capitalising on opportunities to develop new and flexible ways of working outside the EU regulatory funding framework does not mean that we propose starting from a blank slate. There are key elements of previous funding arrangements which have proven to be beneficial which, based on feedback from our stakeholders, we want to keep and build upon. These are:

Multi-annual financing, which provides longer-term investment planning certainty for organisations, and a greater focus on delivering outcomes.

Equality, human rights and protection of the environment, which have been integrated into European-funded interventions over the last two decades, and are key to Welsh Government and wider Welsh public sector commitments.

Aligning investments with wider Welsh Government policy to ensure better strategic join up and value for money.

Working collaboratively across the UK, Europe and internationally, as the partnerships we create will help us find real solutions to shared challenges and ensure Wales remains an active and respected partner in Europe and internationally.

How have people most likely to be affected by the proposal been involved in developing it?

We have structured our Framework around the design principles of the Well-being of Future Generations Act and the ways of working in the sustainable development principle for public bodies.

The proposals set out in this consultation have been developed in close partnership with stakeholders in a range of sectors across Wales. Our investment priority areas have a strong evidence-based focus that is driven by a clear logic to ensure that we achieve value for money and deliver the greatest impact for people, businesses, and communities across Wales.

The Regional Investment for Wales Steering Group⁹, chaired by Huw Irranca-Davies AM, and comprising a wide range of stakeholders, including business, local government, academic institutions, trade unions, and the third sector, has met six times since January 2019 to assemble the significant evidence base, steer an extensive programme of stakeholder engagement, and develop this consultation. Four expert sub groups (National Framework, Implementation, Cross-border and International, and Monitoring and Evaluation) have also been meeting regularly since last summer to help inform the work, bringing together more than 100 stakeholders. (See Annex A for more details, which also includes web links to summary working papers drafted by the four expert sub groups).

We have also been working closely since January 2019 with the internationally-renowned Organisation for Economic Co-operation and Development (OECD) to support our continuing ambition for benchmarking internationally after leaving the European Union and to provide advice on future regional development and governance. The two-year project¹⁰ will be completed by the end of this year, with the feedback gained so far by the OECD from government and stakeholders across Wales also informing this consultation.

The **socio-economic analysis** we have produced (Annex B) sets out our evidence base for investment for each of the four investment priority areas outlined below.

What are the most significant impacts, positive and negative?

The proposed funding model is designed to replace the current European Union Structural Funds. Failure to replace these funds post Brexit would have a significant negative impact upon the Welsh economy and the people of Wales.

Our four priority areas are aimed at delivering the more prosperous, more equal, and greener Wales set out in the Programme for Government and the priorities of the First Minister. This includes, in particular delivering against Objective 2 of the Welsh Government's well-being objectives¹¹, and aligning with and adding value to existing Welsh Government strategies. We want to empower regions and communities to develop their own portfolios of actions, that work together to deliver the best results according to their needs and strengths.

The strategic objectives are designed to maximise the contribution regional investment can make to the well-being goals for Wales. They have been determined by us working closely with stakeholders on the basis of what the evidence tells us works. The case for intervention is set out in more detail within our socio-economic analysis (Annex B) which has formed a key evidence base for our interventions alongside all the work by partners in the working groups focused on each area.

The importance and transformational impact of innovation, research, technologies (including digital), entrepreneurship, and recognising and addressing inequality and

⁹ <https://gov.wales/regional-investment-for-wales-steering-group>

¹⁰ <https://gov.wales/oecd-multi-level-governance-review-project-overview>

¹¹ <https://gov.wales/welsh-government-annual-report-2019>

sustainability are all themes which run through these four priority areas. All of the priorities complement each other, for example, maximising the number of people in good quality work will also help businesses to thrive. There are complex issues which need multiple solutions to address them properly, and huge opportunities which require collaborative and integrated working if we are going to take advantage of them.

Productive and competitive businesses

Our aim is to build on the successes to date to create high quality jobs across Wales by strengthening the productivity and competitiveness of businesses and social enterprises of all sizes. We want to drive growth in a way which is both sustainable and inclusive by supporting entrepreneurs, start-ups and businesses to increase prosperity.

Where we are now

Employment growth has been particularly strong in micro and small businesses for more than a decade. In comparison to the rest of the UK, Wales has a higher proportion of employment in micro and small firms, which we want to grow into medium and large firms. Performance of medium sized firms is also reasonably good with increases in turnover, employment and the number of firms. Wales has a high number of micro businesses, but the number of new business births relative to the size of the population is lower in Wales than the rest of the UK.

Poor productivity performance has been recognised as a significant problem for the UK, driven by low levels of business investment, lower levels of innovation, poor quality management and lower skills levels. Growth since the financial crisis has been particularly weak, with a growing number of low productivity firms limiting aggregate productivity, relative underperformance in sectors where productivity could be expected to be higher, a slowing of the rate of innovation, and barriers to the diffusion from leading firms to the wider population of firms.

Where we want to be

We want to increase the number and size of enterprises and new start-ups (including social businesses, services, and those in the foundational economy), across Wales in a sustainable manner, particularly in areas of greatest need working across government to identify the most effective solutions, not just those traditionally considered. This will support the creation and retention of high quality, sustainable jobs that will not only contribute to productivity and economic growth, but also to fair work. We also want to encourage the creation and sustainability of more enterprises which are owned by local people and employ local staff. Evidence shows that they generate beneficial economic outcomes, and are more likely to stay within Wales.

We also want to foster a strong and competitive university and innovation sector and for the benefits to be felt across Wales, building on our successful implementation of smart specialisation to identify areas of comparative advantage across Wales to

attract inward investment, compete for research funding, and increasing the diffusion of best practice amongst enterprises. We know that when businesses are ready to trade internationally they have higher productivity – and they need that productivity as they begin to compete in international markets.

Our aim to ensure we add value is to target support in those areas and on those enterprises where specific market failures are identified, recognising that each area has different business needs. Specific interventions would be prioritised by the Regional Economic Frameworks in each region to reflect the challenges and opportunities present in each locality.

Proposed Strategic Objectives

- 1. Support the creation of high quality, sustainable jobs and businesses that meet the definition of Fair Work as set out by the Fair Work Commission.**
- 2. Support the workforce to become highly skilled and trained, maximising business competitiveness at home and internationally.**
- 3. Support the sustainable and inclusive growth, succession and retention of home grown businesses, including those in the foundational economy with a particular focus on progression into productive medium sized firms that are grounded in their local communities.**
- 4. Enhance research and innovation capacity to increase the success of research institutions in attracting funding to Wales and support business to translate innovation into new and improved commercial products.**
- 5. Implement sustainable means of ensuring Welsh businesses can access the finance they need to thrive and grow, within Wales and taking advantage of cross-border and international opportunities.**

Reducing the factors that lead to income inequality

Our aim is to maximise the number of people in good quality work where they are secure and healthy, ensuring this is shared fairly across geographies and demographics, particularly amongst under-represented groups. The reason for this is that evidence, for example OECD work¹², shows that inequality has a negative impact on economic growth.

¹² <http://www.oecd.org/els/soc/trends-in-income-inequality-and-its-impact-on-economic-growth-SEM-WP163.pdf>

Where are we now

A combination of digital innovation, automation, decarbonisation, an increasingly ageing population, and the UK's exit from the EU will change the availability and nature of jobs in Wales.

Unemployment and economic inactivity remain significant drivers of inequality, with disability/sickness and looking after family/home being the main reasons for adults in Wales not being in work. Periods of inactivity can have a detrimental impact on a range of outcomes in later life, and are particularly damaging for young people.

People with higher level skills are more likely to be in work and less likely to be in poverty. Unemployed individuals gaining Further Education qualifications below Level 2 have an increased probability of being in sustained employment, with larger earning and wage gains particularly for those individuals from disadvantaged areas. Apprenticeships tend to increase the probability of participants being in employment with higher level apprenticeships appearing to generate substantially larger labour market benefits. There is also evidence of higher employment and wage returns to higher level qualifications. Our socio-economic analysis shows that between genders, the gap between level of educational attainment and employment level is greater for women than it is for men.

Wales has seen a rise in in-work poverty among working households, with low pay growth as well as rising housing costs accounting for the increase. Evidence suggests that relatively small proportions of people move out of low paid work and those 'stuck in' low paid work are more likely to be female, older, working part-time and working in sales and customer service or elementary occupations.

Key groups who appear to be at higher risk of poverty are likely to have additional costs with a disproportionate effect on them, for example in the areas of disability and childcare. In addition, there is evidence that housing costs are a significant contributor to poverty rates among young people, and there is a "poverty premium" whereby poorer households incur greater costs to access goods and services¹³. This provides scope to support initiatives such as credit unions, low cost home insurance via housing associations, and collective switching schemes in relation to energy.

Where we want to be

Our *Employability Plan* (March 2018) sets out the ambition to support people into work today, whilst also preparing the workforce for challenges of the future. Ten-year targets have been set to increase productivity and close gaps with the rest of the UK on unemployment, economic inactivity and qualification levels. This is supported by the Social Partnership (Wales) Bill, set out in a separate recent consultation, and *Fair Work Wales*, the report of the Fair Work Commission. We want to help people get the skills and training needed to be part of a productive workforce for high quality

¹³ <http://www.appgpoverty.org.uk/poverty-premium/>

sustainable jobs, and which maximises our economy's competitiveness in the UK and internationally.

This requires a careful balance between continuing efforts to raise labour market participation levels as well as increasing the quality of employment in line with Fair Work definitions. We also need to increase the skills and adaptability of the workforce, tackle in-work poverty and reduce inequality of employment prospects, particularly for people with race or disability characteristics that are under-represented.

Proposed Strategic Objectives

- 1. Improve labour market participation levels for people from groups where the gap in levels of economic activity is most severe, especially for disabled people**
- 2. Increase mobility and adaptability of existing workforce**
- 3. Improve attainment and skills levels in Wales**
- 4. Reduce essential costs for people on low incomes**
- 5. Reduce the pay disparity in respect of gender, race, and people with disabilities**

Supporting the transition to a zero-carbon economy

The climate crisis is the global challenge of our age. The risks are real and greatest to our most vulnerable, but as well as bringing opportunities for clean growth, quality jobs and global market advantages, the transition to a zero-carbon economy will bring benefits to our environment, our health, our air and our water as well.

Where we are now

Wales is already in transition, reducing its emissions and unlocking clean growth opportunities. Total turnover generated by businesses active in the "Low Carbon and Renewable Energy" economy in Wales was £2.2 billion in 2018, an increase of 15% compared to 2017. Wales currently produces half its energy as renewables, an increase of a quarter since 2014. Most of this increase has come from marine wind turbines. Wales is also seen as a prominent leader in the research and development of new green innovations. Wales' emissions come from a variety of sources, but mainly business, housing, transport and agriculture.

Where we want to be

We want to build on Wales' capability and reputation for research and innovation in the field of renewable energy production and make it easier for renewable energies to reach the market as part of a smarter energy system.

Our commitment through *Prosperity For All: A low-carbon Wales*¹⁴, is to generate at least 70% of Wales' electricity consumption from renewables by 2030, with 1 GW of renewable electricity locally owned by 2030. We also want all new energy developments in Wales to have an element of local ownership from 2020. This will help ensure that communities retain the benefits from the transition to a cleaner energy system. We also want to help communities to be powered, in the longer-term, by locally-generated energy as part of a smarter, flexible energy system. Keeping production and the benefits closer to communities will help ensure that the transition to a zero-carbon economy is innovative socially just, and will protect workers otherwise at risk from the transition.

By the year 2030, we want to reduce travel emissions by increasing the number of people owning and using electric vehicles, improving fuel efficiency measures, and encouraging the use of more sustainable travel. We also want to tackle housing emissions through behavioural changes, energy efficiency and low carbon heating measures, and farm energy efficiencies including through increasing tree cover, reducing peatland carbon loss and building carbon stores within biomass.

The objectives below show how regional investment could play an important role in helping to achieve these aims, and are aligned with wider Welsh Government policies.

Proposed Strategic Objectives

- 1. Increase renewable energy production and support relevant research, development and education**
- 2. Improve the transition to low carbon transport**
- 3. Support housing and capital build initiatives to reduce emissions**
- 4. Improve biodiversity and reverse greenhouse gas emission effects**
- 5. Develop the future skills required by the workforce for decarbonisation**

Healthier, fairer, and more sustainable communities

A workforce that is healthy and happy, and communities that are strong and resilient, are economic assets which benefit everyone. We want to ensure that communities across Wales offer sufficient opportunities and well-being so that the people living here can live long, happy lives and fulfil their potential to contribute productively to our economy and society.

¹⁴ <https://gov.wales/prosperity-all-low-carbon-wales>

Where we are now

Many communities are struggling following ten years of austerity and decades of globalisation. Town centres are suffering in the wake of ongoing retail closures, public sector shrinkage and a lack of inward investment. Many people are still unable to access digital services. Transport times can limit access to care and the growth of businesses. Access to cultural opportunities and the multiple heritages in modern Wales is not evenly distributed. Massive inequalities in health outcomes are driven by economic inequality, with factors such as disability and mental health remaining a constant pressure on economic indicators.

Despite these challenges, Welsh communities can be vibrant, creative and resilient. They have the potential to be rich in human capital and there are many examples of action being driven by local people and the wider third sector, often in partnership with others, to safeguard the environment, support those in need, tackle poverty, and create prosperity. We recognise that, as well as addressing deficits, it is vital to build on assets and seize opportunities which can benefit a community, including supporting those who are already doing so.

Where we want to be

We want to empower urban, rural and coastal communities to identify and develop solutions to the social and economic barriers they face to prosperity, shaping their local places to drive new economic opportunity and foster the development of mental and physical health. We want more businesses, community groups and social enterprises in the wider third sector to deliver activities in partnership with the local community.

With the continuing decline of retail we need to repurpose our town centres around homes, offices, leisure, services and community space. By promoting greater connectivity, we can reduce inequalities in outcomes and ensure citizens receive the services they need. We want to strengthen town centres by building and strengthening the social infrastructure needed for communities to function, including the creative industries, which are integral to promoting a strong sense of people and place. This will require improved use of community spaces, the development of new community assets, particularly green infrastructure, and better-integrated connectivity.

We want people to have equal access to services across Wales, focusing particularly on the most vulnerable people. We want to improve access to cultural and heritage sites to counter the effects of isolation, particularly for people such as the elderly and disabled people.

We also want to provide sustainable economic opportunities for young people, ensuring that a positive future is made possible within their local areas, irrespective of rurality or location, without necessarily requiring movement to cities in Wales or beyond.

Proposed Strategic Objectives

- 1. Empower people in communities across Wales to co-produce solutions to shared problems with delivery partners and to spread best practice**
- 2. Reduce inequality of access to services, goods, and local cultural or leisure activities for people across Wales, especially where the need is greatest in vulnerable or marginalised groups**
- 3. Improve social and economic infrastructure to promote sustainable rural and urban places**

In light of the impacts identified, how will the proposal:

- maximise contribution to our well-being objectives and the seven well-being goals; and/or,**
- avoid, reduce or mitigate any negative impacts?**

The new Framework is intended to be an evidence-based model that will achieve radical change by combining investment in people and in places, together with a commitment to decentralise funding and move decision-making closer to the people it aims to benefit. The Framework is structured around the design principles of the Well-being of Future Generations Act and the ways of working in the sustainable development principle for public bodies. The priority investment areas have been chosen due to their fit with Well-being of Future Generations Act and the Economic Action Plan.

While facilitating regionalisation the framework will also enable support for managing, co-ordinating and evaluating investments across Wales so that they align with other Welsh Government policies including the International Strategy, Employability Plan, Sustainable Farming and Our Land and the Fair Work Commission recommendations.

The new regional funding model will:

- Support the creation of high quality, sustainable jobs and businesses that meet the definition of Fair Work as set out by the Fair Work Commission.
- Support the workforce to become highly skilled and trained, maximising business competitiveness at home and internationally.
- Support the sustainable and inclusive growth, succession and retention of home grown businesses, including those in the foundational economy with a particular focus on progression into productive medium sized firms that are grounded in their local communities.

- Enhance research and innovation capacity to increase the success of research institutions in attracting funding to Wales and support business to translate innovation into new and improved commercial products.
- Implement sustainable means of ensuring Welsh businesses can access the finance they need to thrive and grow, within Wales and taking advantage of cross-border and international opportunities.
- Improve labour market participation levels for people from groups where the gap in levels of economic activity is most severe, especially for disabled people
- Increase mobility and adaptability of existing workforce
- Improve attainment and skills levels in Wales
- Reduce essential costs for people on low incomes
- Reduce the pay disparity in respect of gender, race, and people with disabilities
- Increase renewable energy production and support relevant research, development and education
- Improve the transition to low carbon transport
- Support housing and capital build initiatives to reduce emissions
- Improve biodiversity and reverse greenhouse gas emission effects
- Develop the future skills required by the workforce for decarbonisation
- Empower people in communities across Wales to co-produce solutions to shared problems with delivery partners and to spread best practice
- Reduce inequality of access to services, goods, and local cultural or leisure activities for people across Wales, especially where the need is greatest in vulnerable or marginalised groups
- Improve social and economic infrastructure to promote sustainable rural and urban places

No negative impacts are anticipated due to the introduction of the new model. The proposed objectives are designed to enhance opportunities for the people of Wales, by providing a funding model that will continue regional investment that would otherwise be lost once the UK leaves the European Union.

How will the impact of the proposal be monitored and evaluated as it progresses and when it concludes?

Our aim is to create an effective monitoring and evaluation system as part of our outcomes-focused approach in line with the *Well-being of Future Generations Act* for effective policy and programme delivery. Our successor arrangements for regional investment need to maintain high standards of evidence-driven policy, while being more proportionate and tailored to Wales' requirements.

Where are we now

EU regulations require high standards for monitoring and evaluation at programme and project levels to demonstrate value for money and impact. As these are EU regulatory requirements, monitoring and evaluation can be supported by European funding. The Welsh Government retains a team of professional researchers and analysts, while projects also use researchers and consultants to independently evaluate and evidence progress and impact.

Stakeholder feedback (see further details in summary working paper¹⁵) shows strong support for strengthening, monitoring and evaluation in future, but also that we need to make our systems more proportionate.

Where we want to be

We want future interventions to be subject to monitoring requirements through a common set of indicators which can be applied across our national framework. Regions, however, could include additional indicators for specific initiatives. Indicators will be aligned with the structure for measurement of progress toward the well-being goals under the *Well-being of Future Generations Act*, but will not use the Well-being Indicators¹⁶ as measures of progress for individual projects or programmes.

Monitoring processes should be adopted so that at any point in the delivery it should be possible to understand what progress is being made against the project and programme indicators.

Evaluation should provide an understanding of how the intervention was or is being implemented, its effects, for whom, how and why. Evaluation should also examine the longer-term difference made, and benchmark regions' performance not just between themselves and the rest of the UK, but across Europe in line with the OECD's standards.

¹⁵ <https://gov.wales/regional-investment-proposals-monitoring-and-evaluation>

¹⁶ <https://gov.wales/how-do-you-measure-nations-progress-national-indicators-0>

Our proposals for regional investment present opportunities for substantive elements of monitoring and evaluation activity to occur at regional and local levels, contingent on ensuring sufficient capability and capacity in this area.

We propose a co-ordinated, collaborative system of monitoring and evaluation activities at both the national and regional level is developed. Here, each region would have its own monitoring and evaluation team determining how monitoring activity and evaluations of regional and local programmes should be carried out and be responsible for ensuring delivery of this activity. Some strategic functions would be retained at the national level to help set and oversee monitoring and evaluation requirements for national priorities and programmes.

The national level activity would also include thematic reviews and meta-evaluations of all monitoring and evaluation activity undertaken across all levels by reviewing, analysing, drawing together and reporting on findings from individual evaluations. In order to prevent duplication and encourage co-operation, the national role would include a degree of oversight and co-ordination of planned activities to link national, regional and local structures.

Delivering this will require funding and expertise for monitoring and evaluation at the appropriate level. This will ensure our current evidence-based approach is maintained and takes full advantage of the opportunities for greater regionalisation.

What we need to do

1. Maintain high standards of evidence-driven policy, while creating a more proportionate system to monitor and evaluate in line with the *Well-being of Future Generations Act*
2. Ensure the provision of robust evidence on the performance of the regional investment system at the national, regional, thematic and individual project level
3. Achieve a balance between formative learning and accountability
4. Where appropriate, establish a consistent set of indicators comparable across interventions and geographic areas and aligned to Welsh Government objectives
5. Retain best practice and encourage innovation in the use of evaluation methods
6. Ensure the sharing and spreading of best practice and lessons learned across Wales