Regional Economic Development

Decision sought

Cabinet is asked to:

a. Agree new plans for Regional Economic Development as set out in this Cabinet Paper.

b. Endorse the aspiration to develop and expand the regional approach over the longer-term.

The Issues

Background context and rationale

1. The Prosperity for All national strategy commits the Welsh Government to deliver a “regionally focussed model of economic development”. The Economic Action Plan (EAP) expands upon the policy rationale for that commitment alongside a three region footprint (southeast Wales; mid and southwest Wales; north Wales).

2. The policy rationale includes recognising and addressing regional disparities in wealth and well-being and empowering each region to better develop its own distinctive strengths and opportunities, as part of the Economic Action Plan’s broader inclusive growth agenda.

EAP policy commitment and deliverables

3. Building successful regional economies and encouraging local growth is not the preserve of one government department. An effective approach requires coordinated interventions across different portfolios and joined up working with local government and others so that key interventions such as economic development, skills, housing, regeneration and transport are effectively planned and delivered around common goals.

4. The EAP recognises the complex and multi-faceted nature of regional economic development and the range of levers at different tiers of Government that influence this agenda. It also acknowledges the existing regional landscape includes a plethora of governance structures. Collectively, these existing arrangements can make join-up, co-ordination, and unity of purpose around shared priorities more difficult to achieve.

5. Moreover, given the scope and influence of the regional economic development agenda across a number of portfolios, there is a risk of unnecessary duplication or
ineffective ways of working. To counter these risks, the EAP introduces Chief Regional Officers and Regional Economic Development Plans, to provide appropriate leadership and strategic alignment across economic development.

6. Over the last few months, several scoping papers have been produced setting out options to deliver the regional approach. Discussions across government and with external stakeholders, including discussions at the Council for Economic Development and my Ministerial Advisory Board informed the scoping papers. This work culminated in a discussion at EAP Cross Government Delivery Board and formal advice (MA-P/KS/3467/18), which I subsequently agreed.

Chief Regional Officers (CROs) and Regional Economic Development Plans

7. The Welsh Government occupies an important leadership position in economic development in Wales. It has the opportunity to play an even stronger leadership role in helping bring different interventions together and achieve coherence and clarity in the overall strategic direction of economic policy in Wales. The CRO role is intended to strengthen that capacity within my portfolio and for Welsh Government as a whole.

8. The CROs will lead activity across a number of areas including developing and maintaining strategic relationships with business, local authority and other stakeholders in each region; relationship management of businesses and identifying strategic business and infrastructure investment opportunities in each region. The CROs have already been working actively with a range of partners in the regions to identify regional priorities and lead the co-ordination of strategic projects such as the Advanced Manufacturing Research Institute and Tech Valleys.

9. The CROs will develop Regional Economic Development Plans and any requirement for additional funds will be subject to separate advice. The intention is to develop these with stakeholders, with the Plans owned by Welsh Government. Rather than add to an already crowded regional planning space, the intention is to consolidate key themes and priorities from existing plans to help bring clarity and coherence. This may help pre-empt any attempt by the UK Government to impose Local Industrial Strategies upon Wales as part of its UK Industrial Strategy, in addition to helping prioritise and drive regional investment post Brexit.

Impact

The new Regional Economic Development model
10. A Regional Economic Development model is about more than changes to structures. Changes in cultures, behaviours, and ways of working are critical in having an impact on how we shape policy and delivery to address regional priorities and challenges. Nevertheless, this cannot be achieved without a robust organisational model that provides leadership, clarity on roles and responsibilities and which acts as the engine to drive change.

11. It is proposed that the model will be delivered through the creation of three Regional Units, each headed by a CRO and underpinned by Regional Indicative Budgets covering economic development and transport. These are indicative budgets because we do not envisage demarcating existing budgets under each of the regions. However, we do intend to add transparency to help our stakeholders better understand where we deploy our budgets and see for themselves how each region compares. This level of transparency is something that stakeholders have called for. For example, an option we are considering is publish what my portfolio spends in each region per head of population and per active enterprise.

12. In time and with further work and stakeholder engagement, a Regional Board providing external advice, challenge, and assurance may supplement our internal model. However, we are mindful that initial discussions with stakeholders has revealed little appetite for adding to the plethora of partnerships, boards and panels that already exist at a regional level, without an attendant drive to consolidate and simplify those arrangements. We need to work with partners and across Government on this and the Regional Units present a coherent vehicle for having that conversation.

Roles, scope, and responsibilities

13. The proposed new approach will deliver a greater regional focus in deploying policy levers within my portfolio responsibilities. However, I also expect Economy and Transport’s regional model to support strategic alignment of levers across Government by working collaboratively, in line with the requirements of the Prosperity for All national strategy, the Economic Action Plan, and the Well-Being of Future Generations Act.

14. In this regard, the CROs and their regional units will play a two-way role as decision-shapers and decision-makers. Firstly, they will engage widely with key partners in the regions to feedback intelligence on priorities and challenges that can influence, shape and co-ordinate wider delivery. Whilst the focus of this work will be economic development, inevitably it may also cover intelligence gathering on wider priorities that underpin functional economic regions, including housing and regeneration. Secondly, they will have direct responsibility for a number of functions and activities within the E&T portfolio, including relationship management of businesses.
15. The new regional model will support a more systematic approach to Regional Economic Development, promoting join-up, the sharing of information and dissemination of best practice, whilst reducing the risk of silo working. This is a message that came through strongly in the external engagement that was undertaken earlier this year. Between January and April we spoke to over 300 individuals and organisations in all parts of Wales and at those meetings the contribution that wider policy levers make to liveable places and functional economic areas was a common theme. In that context, the external stakeholders pointed out to us their frustration at the lack of join-up within Government and their perception that different parts of Government were not sharing information around regional challenges and opportunities.

16. Internally, the Regional Economic Development model has been discussed extensively with staff across ESNR, with colleagues in WEFO and at a senior level at my Ministerial Policy Board and EAP Cross Government Delivery Board. The need for an approach that supports more systematic working was a common theme of those discussions.

Longer-Term Aspiration

17. The model allows for an incremental approach, potentially expanding the model’s scope and reach over-time to support future regional investment prioritisation and the strengthened regional partnerships that will be needed in a post Brexit landscape. Over the longer-term, my ambition is for the Economy and Transport regional units to expand to include direct responsibility for key levers across Government and much closer integration with Local Authorities on a regional basis. This may include such functions as regeneration, strategic planning and employability.

18. Evolving the model to incorporate fully pan-Welsh Government levers will have significant public service delivery implications and Local Authorities in particular may perceive it to pose a threat to their powers and autonomy. I appreciate this would represent a radical change. Given the political, financial, and administrative constraints associated with such fundamental change, it is unlikely this would be deliverable within this Government, but I would welcome the views of Cabinet on the potential to scale up toward that target model over the longer-term.

Timescales and alternatives

19. We face a number of drivers that point to the need to make progress with the Regional Economic Development model. These include:
• Potential reputational risk around the CRO role. CROs have now been in post part-time for a year, but have been lacking a support function to assist delivery and stakeholder engagement.

• Expectations from stakeholders who have responded well to the policy intention for a greater regional focus, but who are keen to understand what this means in practice and how the approach will be operationalised.

20. For these reasons, we have developed a pragmatic approach that is deliverable in the short-term as well as capable of setting the foundations upon which we can build longer-term progress. The new regional model can be in place and operational by the start of the new financial year and delivered as part of the wider changes within my portfolio to ensure we are equipped to deliver the EAP.

21. We considered alternatives in terms of the scope, function, and responsibilities of regional units. These ranged from a narrow and primarily stakeholder engagement function (which was considered to be insufficient to drive new ways of working and changed outcomes) to a much broader scope encompassing responsibility for wider Welsh Government levers (considered to be unachievable in the short-term and potentially undesirable in view of wider disruption and potential cost implications).

Governance

22. In its initial phase, the model of Regional Economic Development will benefit from governance provided by the EAP Cross Government Delivery Board and my Ministerial Policy Board. Should we decide to evolve the model in future to incorporate pan Welsh Government levers, then we may need to consider what a future governance model may look like.

23. Our objective is not to pit regional decision-making against national decision-making, but to create a model where increased and more effective regional working enables us to better mould national decision-making to regional priorities.

Wider developments

24. These proposed changes are taking place within a wider context of regional policy and considerations of the future of regional investment funding. In July 2018, Cabinet agreed a joint paper prepared by the Cabinet Secretary for Finance and I. This proposed the development of a cross-Government Regional Policy and new regional investment model to replace the European Structural and Investment funds policy framework and delivery model in Wales. The Cabinet Secretary for Finance has since announced the intention to establish a regional investment steering group and the group will be able to draw upon the CROs and Regional Units.
25. I recognise that we need to avoid a separation between the WEFO-led work on future regional investment and the work on the regional economic development model. Given current uncertainties around if and in what form we will receive replacement EU funding in future, there are limits as to how tightly we can mesh these approaches together at this stage. However, we will continue to work closely to develop a consistent approach and minimise any potential for confusion either internally or amongst our stakeholders.

26. The Regional Economic Development model led by CROs and supported by Regional Units is being developed to promote join-up and significantly contribute to creating a unity of purpose amongst a fragmented regional policy landscape. The footprint being suggested here fits with other work across Welsh Government.

**Well-Being of Future Generations (Wales) Act**

27. The EAP directly supports seven of Welsh Government’s 12 Well-Being objectives. The commitment to Regional Economic Development recognises that disparities in wealth and opportunity in different regions of Wales are a threat to well-being and the Model set out in this Paper is designed to provide us with the capability and capacity to tackle those regional inequalities. The Model supports the five ways of working by supporting a whole Government approach and in driving collaboration with external organisations through the CROs and Regional Units.


28. A growing, sustainable, and inclusive economy directly contributes to the UNCRC and the interventions within the EAP pursuant to seven Well-Being Objectives contribute to Article 27 (right to an adequate standard of living) and Articles 28 and 29 (right to education and development).

**Welsh Language**

29. The Welsh Government’s obligation under the Welsh Language Standards has been taken into account in drafting this Cabinet Paper. The placed-based focus integral to Regional Economic Development will help support the thriving local and regional economies essential to supporting the target of one million Welsh speakers by 2050. It will also help to better attune and join-up interventions to meet bespoke needs and opportunities within each region, including those related to the Welsh language.

**Equality and Human Rights**
30. Strong regional economies will support an inclusive agenda and the regional economic development model and the associated intelligence gathering has the potential to identify issues for particular groups and bespoke, localised responses.

31. An Integrated Impact Assessment has been undertaken and continues to evolve as the EAP implementation develops.

Finance Requirements and Governance Implications

32. The Regional Economic Development Model set out in this Paper does not seek additional financial resources. Any significant actions will be subject to the usual assessment of financial implications including the opportunity cost, and based on realistic and sensible planning assumptions of the future financial outlook. ESNR finance officials are exploring options to scope out and implement Regional Indicative Budgets and this will be subject to separate advice in due course. We do not envisage demarcating existing budgets under each of the regions. However, we do intend to add transparency to help our stakeholders better understand where we deploy our budgets and see for themselves how each region compares. This level of transparency is something that stakeholders have called for. For example, an option we are considering is publish what my portfolio spends in each region per head of population and per active enterprise.

33. Economy & Transport Corporate Finance has cleared the financial implications set out in this paragraph under number ET/CF/18/434. As there are no issues of regularity or propriety, nor are the proposals novel or contentious, this submission does not need prior approval by the Corporate Governance Unit (CGU). In accordance with FN 01/2015 this advice has been copied to the CGU and SB mailboxes for monitoring purposes. SB Clearance Code SB/0597/5. Neither Corporate Governance Clearance nor Legal Advice has been sought on this Paper.

Communications and publication

34. Subject to Cabinet agreement, I will be seeking plenary time to make an Oral Statement in December. Separate press activity will also be discussed with Ministerial Communications officials.

Recommendation:
That Cabinet:

a. Agrees new plans for Regional Economic Development as set out in this Cabinet Paper.
b. Endorse the aspiration to develop and expand the regional approach over the longer-term.

Joined up Working
35. I have met with the Cabinet Secretary for Finance to outline my proposals and I am scheduled to meet with Cabinet Secretary for Local Government and Public Services and with the Cabinet Secretary for Environment and Rural Affairs ahead of the Cabinet meeting.

Ken Skates
Cabinet Secretary for Economy and Transport
November 2018