



Llywodraeth Cymru
Welsh Government

A Framework for Regional Investment in Wales

Securing **Wales'** Future

Ministerial Foreword



Our vision for regional investment is to support jobs and growth in communities right across Wales, in a way which is both inclusive and sustainable and with an emphasis on integrating investments and regional decision making.

Our national strategy *Prosperity for All* and *Well Being of Future Generations Act* are at the heart of our Framework as is the strength of partnership from which we have learned so much since devolution began two decades ago. The Welsh Government has continued to work effectively with local authorities, the private sector, research and academia, the third sector and other public services in order to offer a prosperous future for everyone in Wales.

I am extremely grateful to the wide range of stakeholders who have engaged with us in co-designing this Framework, for their commitment, enthusiasm, and expertise. The Regional Investment for Wales Steering Group and technical working groups, comprising a wide range of sectors, have all played a valuable role in advising the Welsh Government about what has worked well to date and what can be done better for the longer term. We have also drawn on extensive feedback and views from our

public consultation held earlier this year as well as best practice in other countries through our work with the Organisation for Economic Cooperation and Development.

As a result of this work, Wales is now positioned to make the most of future investment opportunities, and to work nimbly across boundaries, and through a range of partnerships, in order to do so.

Parts of Wales continue to face structural economic weaknesses. We will face significant new challenges as we leave the EU transition period shortly, which will demand new ways of working. In the past year, like other nations globally, our economy, people and communities have also been hit hard by the unprecedented circumstances of the Covid pandemic. This Framework has a key role to play in the work of reconstruction in light of the Covid pandemic, to encourage prosperity, to tackle inequalities and to promote well-being.

We will no longer receive funding for regional economic development directly from the EU. However, in order for us to meet the challenges we face with the opportunities that are open to us, it is vital that Wales receives the sustained replacement funding from the UK Government following the end of transition – as has been promised – and that the decisions around how those funds are used remains devolved to Wales.

Our Framework focuses on four investment priority areas: business productivity and competitiveness, healthier, fairer and more sustainable communities, the zero carbon

economy, and reducing economic inequalities for people. These priorities are specific enough to guide us towards our goals of prosperity and inclusiveness, but flexible enough to respond to the ever-evolving landscape in which we do so.

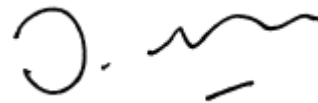
The themes of opportunities and gender equality, sustainability, and the flourishing of the Welsh language are also woven through the Framework in a way which is both cross-cutting and capable of being applied in different contexts.

But our Framework recognises that policy is translated into practice on the ground and so there is an indispensable role for our regions – encompassing urban, rural, post-industrial, city, and coastal Wales. It supports the genuine decentralisation of power to regions and to people in their local areas, so that they can make decisions and form the kinds of new and dynamic partnerships which can link places and investments in fresh and imaginative ways. In doing this, we can ensure that future economic growth is both sustainable and equitable.

Our Framework builds on the benefits of working with partners across the UK, in Europe and beyond to raise Wales' profile and help make us more competitive and well known internationally.

It provides us all in Wales with the opportunity to make the most of future investment in order to give us the resilience and prosperity we aspire to, the ability to compete at an international level, and to meet our well-being ambitions.

I look forward to continuing to work with you to pursue our shared vision for a prosperous and inclusive Wales with the creativity and ambition that has been the hallmark of the co-development of this Framework.

A handwritten signature in black ink, consisting of a stylized 'J' followed by a series of loops and a horizontal line.

Jeremy Miles MS

**Counsel General and Minister for
European Transition**

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Context and Vision

In our White Paper *Securing Wales' Future* (January 2017)¹ and in *Regional Investment for Wales after Brexit* (December 2017)² we set out the importance of continued devolved funding for regional investment of at least the level that Wales currently receives from the European Union (EU). We also highlighted the importance of partnership with stakeholders across Wales to develop a new Framework for regionally-focused economic development that will address needs and challenges and drive opportunities in Wales with creativity and ambition.

We are committed to improving the way regional investment is delivered and how it can best meet the needs and opportunities of regions across Wales, in urban, rural, post-industrial, city, and coastal areas. Earlier this year we delivered a successful public consultation³, which we developed with our stakeholders, so that all citizens could provide their views on new proposals for a Framework focused on delivering strategic objectives for prosperity and inclusiveness across and within all regions of Wales. We also partnered with the Organisation for Economic Co-operation and Development (OECD), inviting rigorous challenge and analysis over nearly two years to ensure international best practice sits at the heart of our work, and resulting in its report *The Future of Regional Development and Public Investment in Wales*⁴.

The outcome of our collaboration is this Framework for Regional Investment in Wales, which sets that high-level strategy to which local, regional and Wales-wide interventions will contribute. Our Framework is based on the evidence of what has worked well and lessons learned during 20 years of EU cohesion policy, and on the fresh ideas and innovative proposals we have heard from our stakeholders and citizens throughout our consultation. Our plans within this Framework are dependent on confirmation from the UK Government on its proposals for the UK Shared Prosperity Fund that is to replace EU funding⁵, including the quantum of funding and programme design and funding allocation decisions being devolved to Wales, as now.

¹ <https://gov.wales/securing-wales-future>

² <https://gov.wales/regional-investment-wales-after-brexite>

³ The public consultation ran between 28 February and 10 June 2020, and was supported by a range of communication and engagement measures including regionally focussed online events, citizen and young people surveys. We commissioned an independent report of consultation findings³ which is available here <https://gov.wales/framework-for-regional-investment-in-wales>

⁴ The OECD report is available here <https://www.oecd.org/unitedkingdom/the-future-of-regional-development-and-public-investment-in-wales-united-kingdom-e6f5201d-en.htm>. We will continue to consider all of the OECD's wide-ranging recommendations further with our partners over the coming months. We will also continue to work with the OECD to establish Welsh Government requirements for a toolkit to assess the capacity of regions to help deliver this Framework but a number of the larger structural questions will need to be decided by the next Welsh Government.

⁵ EU funding in this context relates to the European Regional Development Fund, the European Social Fund, and the European Agricultural Fund for Rural Development.

Wales has undergone a rapid change in its recent history. The effects of the Covid pandemic create the need for economic reconstruction in the months and years ahead. While we look to work closely with the UK Government and cross-border partners, the importance of replacement EU funding from the UK Government and for spending decisions to remain with the Welsh Government and its partners, has only grown stronger.

We are committed to using replacement funding from the UK Government for regional investment, and our vision through this Framework is to optimise these resources into Wales to build a more modern economy which is diverse and inclusive, leveraging high-tech and high value opportunity in tandem with the foundational economy⁶ which keeps our communities thriving. We will do this by working with funding partners across the UK, working across boundaries, places and institutions to deliver a better skilled workforce, fair work, to tackle poverty, and to create a more equal, more prosperous and greener economy for the benefit of all of Wales.

At the heart of our Framework is our world-leading *Well-being of Future Generations (Wales) 2015 Act*⁷, meaning the actions we take must help to deliver sustainable change, evaluated through an outcomes-based approach.

Our Framework develops the place-based approach of our *Economic Action Plan*⁸, empowering regions to develop their own distinctive strengths and opportunities, with decisions to be taken at the appropriate level of governance and as close to the level of the citizen as possible.

We know there are improvements to be made in terms of future investment. This includes better strategic alignment to the needs of communities across Wales, ensuring value for money, and not duplicating activity. We also know that there are significant benefits to be had by joining up investments. We will do this by more effectively integrating the range of funding streams that currently contribute to regional economic development, and the range of financial instruments that are deployed. This will include UK-wide, private sector, and wider public sector funding sources.

Through this Framework we have also taken the opportunity to create a more proportional and risk-based approach. This retains the benefits of a clear and transparent rules-based framework from our experience of managing European funding and from international benchmarking, but also stimulates opportunities for greater innovation and more private sector investment. We will also build on the integration over the past two decades of equality, sustainable development and the

⁶ The services and products within the foundational economy provide those basic goods and services on which every citizen relies and which keep us safe, sound and civilized. Care and health services, food, housing, energy, construction, tourism and retailers on the high street are all examples of the foundational economy. Estimates suggest they account for four in ten jobs and £1 in every three that we spend. (source: Business Wales)

⁷ <https://gov.wales/sites/default/files/publications/2019-06/easy-read-a-guide-to-the-wellbeing-of-future-generations-act.pdf>

⁸ <https://gov.wales/prosperity-all-economic-action-plan>

Welsh language in our investments and will drive cross-border and international working to project Wales even further abroad to help make us more competitive globally.

Our Framework will help deliver prosperity across all parts of Wales, in urban, rural, post-industrial, city and coastal areas. It is shaped by our economic landscape and with real social purpose whilst being outward looking, open to new ideas and opportunities, and ready to compete on a global platform so together we can deliver on our vision of a more equal, prosperous and green Wales.

Principles of the Framework

In the light of both the Covid pandemic and EU Exit, it is more important than ever to grow the resilience and adaptability of our economy by building on our strong capability in research and innovation, setting up and growing a diverse range of businesses and exports, 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 aim, for this reason, that our Framework for Regional Investment in Wales supports prosperity and inclusiveness across Wales, building on the *Well-being of Future Generations (Wales) 2015 Act* (WFG Act) through four broad priorities for investment:

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

Our Framework for Regional Investment is to deliver a place- and people-based approach which:

- **Focuses on delivering outcomes**, the long-term structural changes to which our regions aspire. There is a real opportunity to ensure our investments add value, without duplicating activity or effort, so we maximise the return on our investments and help create the Wales we want to see.
- **Supports regions by moving decision-making and prioritisation** closer to the people and places they aim to benefit. In order to do this we will work with the regions to build on their existing and emerging governance arrangements, such as those developed to deliver the four City and Growth Deals across Wales, and provide them with adequate legal powers and resourcing so that they are empowered to deliver wider large-scale investment programmes. We expect these arrangements to involve all the key stakeholders in each region, though the approach for doing so will be determined locally. Our intended mechanism will be the proposed Corporate Joint Committees (CJCs) under the Local Government and Elections (Wales) Bill currently before the

Senedd⁹. The CJsCs will enable regions to prioritise funding allocations and portfolios of integrated interventions in a way that is aligned with this Framework and with the Regional Economic Frameworks currently being co-designed with stakeholders in partnership with the Welsh Government's Chief Regional Officer teams.

- **Integrates with our policies and facilitates greater opportunities for joining up investments and activities** in Wales, as well as the UK and internationally, including research and innovation programmes, and the City and Growth Deals, to ensure better strategic alignment and value for money. It also means helping to position our nation to access all of the resources available to it – wherever they exist – and that we work across boundaries, places and institutions to align and leverage opportunity.
- **Reduces the administrative burden on organisations**, and is flexible enough to effectively respond rapidly to emerging challenges.
- **Delivers multi-annual financing**, where possible, for some elements of regional investment activities to provide longer-term investment planning certainty for organisations and a greater focus on outcomes.
- **Integrates equality, sustainable development and the Welsh language** (called 'horizontal themes') in our investments.
- **Encourages collaborative working across borders**, within and beyond Wales, to help us find real solutions to shared needs, opportunities and challenges and ensure Wales remains an active and respected partner in Europe and internationally.
- **Ensures regions and local areas have the necessary capability and capacity** to meet needs and maximise the opportunities from regional economic investment.
- **Delivers simpler and more proportionate** arrangements which maintain our commitment to openness, fairness and transparency of investments.

How we want to get there

A unique Welsh context

In Wales, we are unique. Our policies and regional model in Wales are distinctive. Our innovative and world-leading *Well-being of Future Generations (Wales) 2015 Act* is the cornerstone of Welsh Government policy.

Our Framework is structured around the ways of working in the sustainable development principle for public bodies in the WFG Act: integration of objectives,

⁹ <https://business.senedd.wales/mgIssueHistoryHome.aspx?IId=26688>.

collaboration between and within organisations, making decisions which don't sacrifice our ability to meet our needs in the long term, involvement of citizens in the decisions that involve them, and preventing problems occurring or worsening.

*Prosperity for All: the national strategy*¹⁰ sets out how we will deliver sustainable and inclusive growth which underpins the evidence-based and better targeted investment priority areas we will support through our Framework.

Our commitment to empowering regions is the cornerstone of our *Economic Action Plan*, which supports real change by capturing the importance of place and people. It provides the direction of travel we want to take by working with each region, involving new and existing partners, to determine and drive its own innovative and creative solutions according to its own strengths, needs and opportunities.

The strategic objectives within our four investment priority areas in the Framework echo the more detailed work on economic reconstruction already underway to address the impact of the Covid pandemic. This is a values-led reconstruction and the mission for economic recovery is guided by the broad principles of:

- A **well-being economy** has the fundamental goal of achieving sustainable well-being with dignity and fairness for people and their environment. It should strengthen social and natural capital while generating human development.
- A **prosperous economy** requires a focus on resilience with a capacity for transformation. Action to support a diverse yet inter-related economic base of outward-looking firms with positive innovation performance, good productivity levels and a highly skilled workforce.
- A **green economy** will have high levels of circularity, where resources are kept in use adding economic value and where waste is avoided. Part of a low carbon society, where we invest in low-carbon and climate resilient infrastructure, renewable energy projects and sustainable homes.
- A **fair economy** means investing in the productive potential of all people in communities, where there is a fair distribution of opportunities and people have decent and secure employment.

Our Economic Contract, to which over 12,000 businesses have committed, is also currently being strengthened to further embed these values.

An important part of a more joined up and integrated approach is to ensure that we take account of all the policy areas that have an impact on regional economic development. As such, our Framework also aligns with other policies for delivering prosperity and tackling poverty, including our *International Strategy*¹¹, *National*

¹⁰ <https://gov.wales/sites/default/files/publications/2017-10/prosperity-for-all-the-national-strategy.pdf>

¹¹ <https://gov.wales/international-strategy-for-wales>

*Development Framework*¹², *Wales Infrastructure Investment Plan*¹³, *Employability Plan*¹⁴, *Sustainable Farming and Our Land*¹⁵, *Innovation Strategy*¹⁶, *A Healthier Wales*¹⁷, and *Fair Work Wales*¹⁸.

Our Framework in Practice

Overview

Our Framework will empower communities of all kinds to co-produce innovative and creative solutions to the challenges they experience. It will support regions and communities across Wales, in urban, rural, post-industrial, city and coastal areas, to work together to develop longer-term plans that will seek, for example, to stimulate sectors with the potential to grow and create jobs, and provide people with the skills and access to do them. It will also address priorities for the short term so that we can hit the ground running with a solid base of well-planned, integrated, investments from an early stage.

The Framework will deliver the four investment priority areas with a greater focus on outcomes, including relevant performance indicators and targets to evaluate success¹⁹, and is sufficiently flexible to respond and adapt to new and emerging evidence and needs. A clear focus on the outcomes we want to achieve in Wales – our well-being goals – enables us to define “what good looks like” for the success of this investment in Wales. Our supporting monitoring and evaluation measures will focus on what the evidence shows us will make a difference, based on achievements over the long term.

There is a real opportunity to ensure that economic investment in our regions adds value to our national priorities, improving the results that people see without duplicating activity or effort.

The Framework also makes it much easier to join up priorities, activities and investments. The principles of partnership, and cross-border and international working which it advocates, will also encourage the co-ordination of efforts to access funding from the public and private sector and in doing so help address the persistent gap in UK-wide funding for Wales, such as in the areas of infrastructure and research and development, and help accelerate economic recovery and level-up across Wales.

¹² <https://gov.wales/future-wales-national-plan-2040>

¹³ <https://gov.wales/infrastructure-investment>

¹⁴ <https://gov.wales/employability-plan>

¹⁵ <https://gov.wales/revised-proposals-supporting-welsh-farmers-after-brexite>

¹⁶ <https://gov.wales/sites/default/files/publications/2019-04/innovation-wales-strategy.pdf>

¹⁷ <https://gov.wales/sites/default/files/publications/2019-10/a-healthier-wales-action-plan.pdf>

¹⁸ <https://gov.wales/fair-work-wales>

¹⁹ Drawing on key data in the National Indicators under the Well-being of Future Generations (Wales) Act: <https://gov.wales/how-do-you-measure-nations-progress-national-indicators-0> - currently under review following consultation: <https://gov.wales/written-statement-how-do-we-assist-welsh-ministers-measuring-nations-progress-proposals-developing>

As our Framework guides our approach to replacement European Structural and Investment (ESI) funds, including rural development funding, it will ensure that the needs of the rural economy are addressed. Activities led by and with the active involvement of rural communities will be key in delivering priorities within the Regional Economic Frameworks to facilitate place-based planning and delivery in response to locally identified needs and opportunities across rural areas. Provision will also be made available to facilitate the realisation of innovative responses to the particular needs and opportunities of the rural economy and Communities, along with funding to mainstream and scale-up successful ideas.

There will be a mix of national, regional, and local investments and delivery approaches supported by this Framework. The overall management of this Framework and the assessment, approval, and monitoring of national investments will be led by the Welsh Government. We will however wish to do so in partnership with stakeholders across Wales and within regions to help ensure that national interventions, such as investment in business support and skills, and some research and innovation, can be adapted to the specific needs of each region and the sectors within it.

In integrating with Welsh Government regional policy, our aim is that investments delivered regionally will be co-ordinated and managed by the CJsCs. Their portfolio of regional projects will align with the strategic objectives of this Framework and the Regional Economic Frameworks, the latter also providing a core part of the evidence base for the creation of a portfolio of national projects.

Our Framework includes a transition period, which the Welsh Government will manage, allowing sufficient resource and time for each region to evolve their existing and emerging regional arrangements, building on the capacity and partnerships they already have in order to assume new investment responsibilities effectively. During this transition, we will continue to make use of the successful partnerships, structures and fora already in place nationally and across each region to provide advice on the distribution of regional funding. The Welsh Government will work with the regions and play a co-ordinating role in ensuring appropriate governance arrangements are in place and that the process is simplified and streamlined.

A Multi-layered Approach: National, Regional and Local

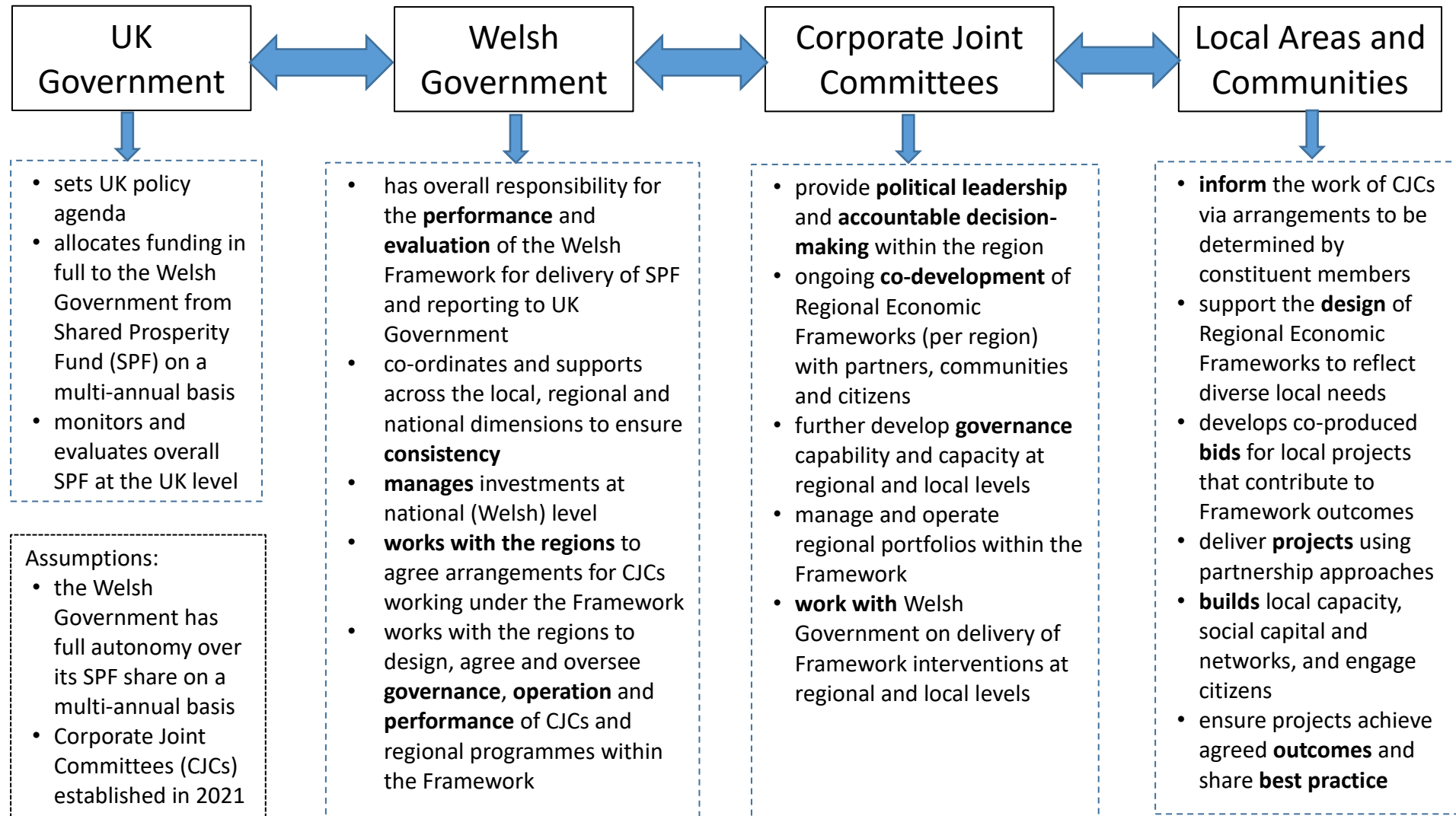
Our Framework is flexible so we can be creative and ambitious with our goals, and so that investment can adapt and respond to opportunities, needs and challenges at local, regional, national, UK and international levels.

Our commitment to the principle of subsidiarity means that decision-making and delivery should ultimately take place at the closest level to the citizen that is appropriate for the intervention in question. Whilst to a great extent this will mean decisions being made at regional and local level, there will be a range of interventions that are best managed at a Wales-wide level. Welsh Ministers will work with delivery partners to be accountable for how their interventions contribute to the delivery of the goals for Wales as a whole.

In the context of this Framework, Welsh Ministers will deliver their responsibilities for the economy in Wales through an overarching co-ordination function that will focus on successful performance and governance, on the sharing of best practice, and on the coherence of the Framework as a whole. The Welsh Government will perform this role in a transparent way, and will establish a stakeholder committee or steering group to seek advice and ensure that progress in delivering the Framework is monitored closely. Responsibility for the control and delivery of investment regionally will be taken by the CJsCs with support from the Welsh Government.

The Framework is a vital tool to ensure that national, regional, and local interventions complement each other and all drive toward a shared vision. This is a fundamental part of a place-based approach. National and local projects alike will be co-ordinated around the unique economies, needs, and opportunities in our regions. Chart 1 outlines the governance responsibilities at the national, regional and local levels.

Chart 1: Outline Governance Model



National Investments and Roles

Some investments through this Framework will need to be managed at the national level; for example to benefit from economies of scale, to co-ordinate and optimise innovation across a network of partnerships, or to take advantage of specific technical expertise, not necessarily replicated across all regions. Key examples may include national transport infrastructure, competitive UK and international funds for research and innovation, broadband, small and medium-sized business (SME) support, entrepreneurship, business and export support, and employability and skills interventions such as apprenticeships.

National projects, through their business cases for funding, will need to set out how they will maximise delivery against our Framework's strategic objectives to align with wider Welsh Government priorities set out at the national level. National project business cases will also need to demonstrate that full engagement has taken place with representative audiences via the CJsCs (or appropriate existing and emerging regional collaborative arrangements during the transition period), so that such investments are designed and focused on the people and places they are intended to help.

Regional Investments and Roles

Empowering regions in Wales through this Framework means that we will need to do things differently in the future. The CJsCs, once they are established and have put arrangements in place for effective and inclusive partnership working, building on existing and emerging regional arrangements, will be the vehicles for driving our new regional approach. They will be the designated bodies with the legal ability and operating capacity to work with national, regional and local partners to prioritise a joined up, regional portfolio of interventions so they can address needs and opportunities at the right time and fulfil the expectations and requirements of people and places in the region. These regional portfolios will need to be developed so they align with the agreed strategic objectives within this Framework, the Regional Economic Frameworks and other relevant regional strategies. Regional working will be supported with a national toolkit for governance, currently being developed with stakeholders by the OECD, to ensure the necessary capacity and capability at regional and local levels.

CJsCs will not be fully operational at the point when they first meet in summer 2021. They will require a transition period, so that they can build the capacity and capability required to deliver their investment roles successfully at the regional and local levels. The extent of the transition period may vary among regions.

During this period existing and emerging regional arrangements will be utilised and the responsibility for initiating, prioritising and approving regional and local projects will involve these arrangements working with the Welsh Government.

Over time, however, CJsCs will become responsible for operating all aspects of these regional investments, taking into account the views and input from key partners and sectors within their regions via existing and emerging arrangements. In line with the provisions of the Local Government and Elections (Wales) Bill, it will be for the

constituent members, i.e. local authority leaders, of each CJC to determine the appropriate arrangements for their regions.

In addition to the prioritisation of projects, CJC roles could include appraising and agreeing projects, monitoring the management and performance of projects, undertaking evaluations of its regional portfolios within the overall evaluation function. To support this work, we will work with local authorities and the existing and emerging regional arrangements in the run up to and during the transition period to turn our principles for empowering regions into detailed delivery options.

The CJsCs will determine how they work with all key partners and stakeholders in their region, in line with the provisions of the Local Government and Elections (Wales) Bill. This could include, for example, working with relevant Welsh Government Departmental Regional Teams to develop regional portfolios of interventions helping to ensure that they reflect the agreed strategic objectives in our Framework, represent value for money, without duplicating activity or effort, and that they are based on inclusive partnership working²⁰.

Investments developed by the Community

Our Framework also encourages development led by the community in which the activity takes place. The principles underpinning this activity are a local area-based approach, partnership participatory approaches and co-production, integrated multi-sector strategies, innovation and networking and co-operation.

Community-led local development can be considered in all four Priority Areas of our Framework where a contribution can be made to our outcomes. It is an important component of our Framework not just for the immediate added value of the investment (i.e. project associated outcomes), but also for the impact it has in building capacity in local areas by increasing social capital and networks, building local governance, and enhancing the delivery of outcomes. The difference that communities can make when they come together has been evidenced during the Covid pandemic.

Development led by the community is likely to take place within a single local authority area, but there may be opportunities to extend these activities beyond these areas. Take up of the model will also be encouraged across all parts of Wales, not just within rural and coastal areas traditionally covered by the European-funded LEADER programme. As with other national and regional proposals seeking support under our Framework, community-led local activity must be able to demonstrate its contribution to the aims, outputs and outcomes of this Framework and must be capable of having its outputs and outcomes measured. Our Framework is not prescriptive on the types of community-led local activity that will be funded, as

²⁰ For example, Regional Partnership Boards (RPBs) have a clear mandate to drive the integration of health and social care in order to provide more seamless services to citizens. RPB membership includes local authorities, and we envisage these new regional investment arrangements working effectively with our established health and social care mechanisms.

communities need to be able to be innovative and design their own solutions to local problems.

Activity must also be consistent with the relevant Regional Economic Framework. To support this work we will be undertaking further engagement with stakeholders to turn our principles around inclusiveness and connectivity with the local community into detailed delivery options. We welcome independence and impartiality in this engagement process to provide the confidence and assurance to stakeholders that their views are being heard and taken into account.

Options for delivery models should be simple and ensure there are no unnecessary levels of bureaucracy whilst ensuring good governance over and accountability for public funds. Cost implications for delivery options will need to be proportionate, affordable and represent best value for money.

In line with their community leadership role, their local place-shaping role and their roles in relation to the Local Well-being Plans as outlined in the WFG Act, we envisage a central role for local authorities, working with their communities, in developing and delivering the necessary interventions that will play a key role in the economic recovery and renewal of local communities as part of this framework.

Horizontal Themes

Key to the success of regional investment is addressing needs and providing economic opportunities and prosperity at the local, regional and national level and ensuring the benefits are, and are seen to be, felt across all our communities.

The horizontal themes of equal opportunities (inclusive of the Welsh language), gender mainstreaming and sustainable development have been a pioneering feature of EU funding in Wales and we want to build on the integration of these as part of our Framework.

The WFG Act provides the bedrock for both the Framework overall and for the horizontal themes specifically, reinforced by the Welsh Language (2011) Measure²¹. The Framework recognises the critical role of regional development in realising the national ambition of a million Welsh speakers by 2050 and the Framework will support interventions to increase the sustainability and prosperity of areas where Welsh continues to be the language of the majority of the population. The Welsh Government is committed to tackling inequality as set out in the Equality Act 2010 (Statutory Duties) (Wales) Regulations 2011²², with its vision for Wales to be a world leader for gender equality. The enactment of the Socio-economic Duty²³, to which the Welsh Government and CJs alike will be subject, will also be a key part of how

²¹ <http://www.legislation.gov.uk/mwa/2011/1/contents?lang=en>

²² www.legislation.gov.uk/wsi/2011/1064/made

²³ The Socio-economic Duty is due to begin on 31 March 2021. This will put a duty on relevant public bodies, including the Welsh Government, to make an assessment of the socio-economic impact for all strategic decisions. It is intended that CJs will be captured by this Duty, as well as other public bodies including the NHS.

taking account of these themes will help us to deliver our objectives by capturing the real impacts on our people and communities.

Wales has robust legislation with regard to sustainable development, equality and the Welsh language but, legislation alone is not enough to generate prosperity and to tackle disadvantage. This Framework will adopt the necessary legislative measures but will also bring the ‘added value’ of projects that support the horizontal themes.

The Framework will support a case-by-case approach to integration that is proportionate and takes account of local needs and circumstances. Co-ordinating the horizontal themes at a national level offers opportunities for sharing information, resources and learning and provides co-ordination and a consistent approach. However, to maximise impact, the approach for the horizontal themes will be flexible to take account of regional and local variations.

As well as integration into design and delivery, organisations’ proposals will need to include activity which contributes to the horizontal themes, with Welsh language standards being a part of each project proposal. Activity should be proportionate to the type and size of the project, and we will not impose a one-size-fits-all approach. In addition, as part of its proposal, the organisation must identify a horizontal themes champion from within their team who will encourage this activity and monitor delivery, progress, and the impact of the horizontal themes activity on our communities.

Cross-border and International Working

Our experience of delivering European funding is that one of its many valuable aspects has been the ability to bring a wide range of partners together within and across nations to work collaboratively and attract funding and opportunities. Our *International Strategy* commits to continuing to look outwardly to Europe and beyond, while recognising the importance of working with partners at home and abroad to raise Wales’ profile internationally to help make us more competitive and well known on the global stage. The OECD has also highlighted the potential of cross-border agglomeration of economies.

There is a need to deliver a step change in cross-border and international working²⁴, empowered by regional investment. When future opportunities present themselves to our Welsh, UK and international partners, we need funding structures and relationships that enable co-operation and maximise the benefits for Wales (see illustration below).

²⁴ It is Welsh Government policy that the Devolved Governments should continue to have access to European programmes such as European Territorial Co-operation, Horizon Europe and Erasmus Plus. The activity proposed under this Framework complements and will help maximise the benefits of such programmes.

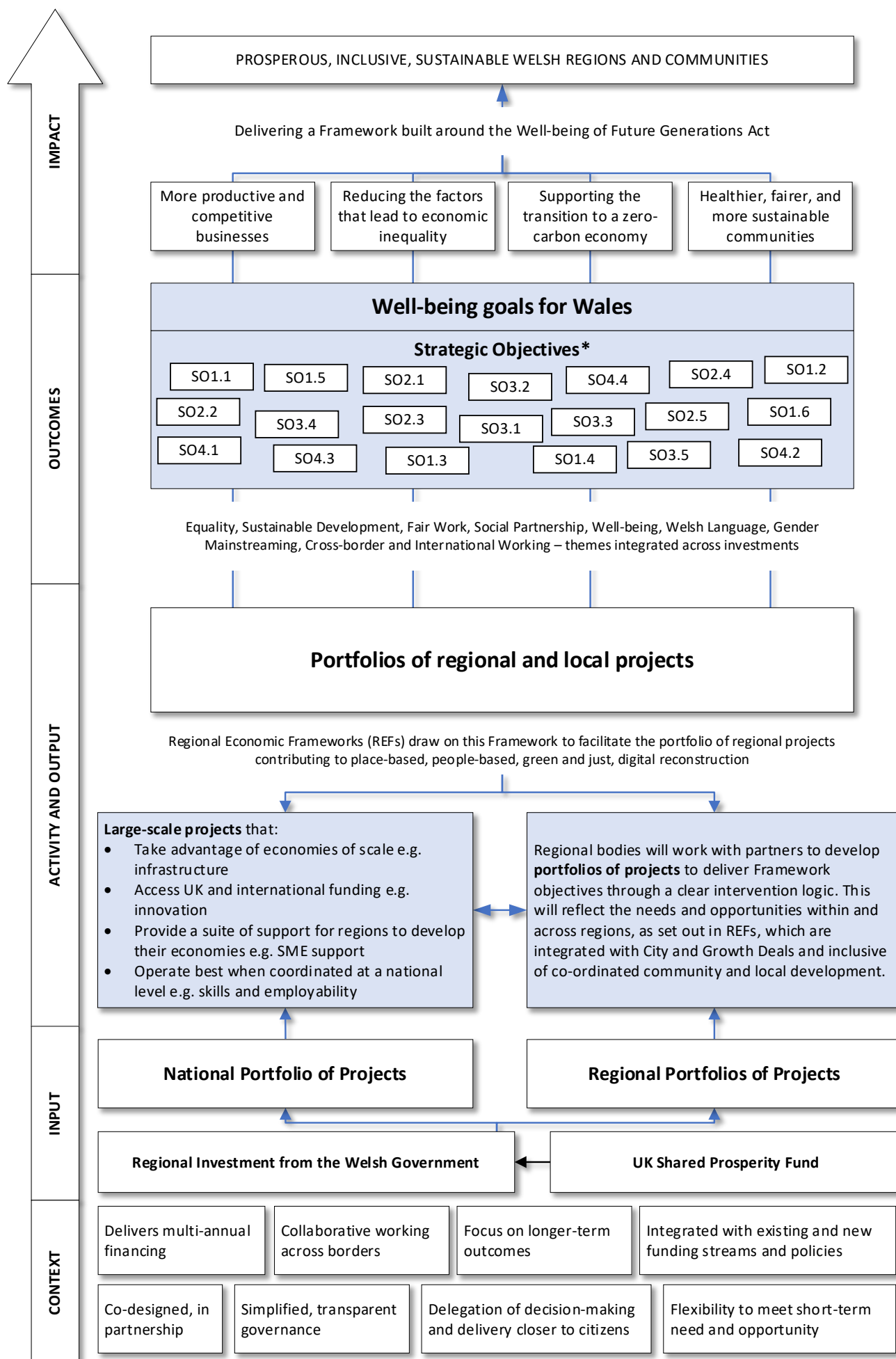


Based on lessons learned and best practice, we believe that representing Wales internationally would be best served by the Welsh Government delivering agile funding at the national level in line with the ambition of our *International Strategy*. However, the need to consider cross-border and international challenges and opportunities must also inform all investments under this Framework, whether at the local, regional or national level. Integration and partnership are also key principles under this Framework and supported organisations will be expected to co-ordinate actions wherever possible to raise the profile of Wales and maximise the benefits of investments.

To deliver this ambition the Framework will support the following mechanisms:

- The Welsh Government to support regions in driving forward the implementation of cross-border and international activity, working in partnership with international, national, regional and local bodies. We will manage relevant national-level funding mechanisms but also support regional and local organisations with their cross-border and international ambitions.
- An 'Agile Fund' to invest, at speed, in small-scale cross-border and international opportunities across themes, sectors and geographies. This might include supporting the development of funding bids, networking opportunities, individual collaborations and supporting organisations to accelerate the implementation of their international strategies.
- An 'Agile Fund Plus' to invest in large-scale strategic opportunities, such as multi-lateral international schemes (e.g. emerging thinking around the Irish Sea space), bilateral schemes with priority regions/nations and strategic interventions in the capacity/capability of Welsh sectors to engage internationally.

Chart 2: Our Model



* Strategic Objectives are listed in the Annex at the end of this document

Priority Areas for Investment

Our four priority areas for regional investment are aimed at delivering a more prosperous, more equal, and greener Wales. These national priorities are part of our programme for government, set out in *Prosperity for all: the national strategy* and our well-being objectives as well as the priorities of the First Minister. Through our regional investment funding we will drive regional economic development by adding value to existing and future Welsh Government strategies. We want to empower regions and communities to develop their own portfolio of actions that work together to deliver the best results according to their needs and strengths.

The strategic objectives for each of the four priority areas are designed to maximise the contribution regional investment can make to the well-being goals for Wales. They have been determined by working closely with stakeholders on the basis of what evidence tells us works, to ensure that we address needs and achieve value for money, and deliver the greatest impact for people, businesses, and communities across Wales. The four priority areas and strategic objectives are the most important tool in making sure that national, regional, and local efforts are complementary and contribute to the delivery of the best outcomes for Wales.

The four priority areas don't stand alone – they are part of an integrated whole. Just as the well-being goals collectively describe the economic, environmental, social, and cultural elements of well-being in Wales, so do our priority areas recognise that businesses need strong communities of people and of place from which to draw their workforce; that communities and economies both are embedded in the biosphere we inhabit and this can mean wider opportunities for our environment, natural capital and ecosystem services.

As we look to the future, our strategic objectives consider both the long-term prosperity and inclusiveness of Wales and its regions, as well as the short- and medium-term post-Covid reconstruction. The case for intervention is set out in more detail within our socio-economic analysis which forms a key evidence base for our interventions alongside all the work co-designed with our partners. The socio-economic analysis also sets out our evidence base for our proposed four priority areas and will help us to target activity within this Framework, with the emerging evidence suggesting that the Covid pandemic has deepened the existing inequalities in our society.

Running through these four priority areas is recognition of the transformational impact of research and development and innovation (RD&I), the power of technology (including digital technologies), entrepreneurship and global competitiveness, and the importance of promoting equality and sustainability.

All of the priority areas complement each other. For example, maximising the number of people in good quality work will also help businesses to thrive and strengthen local communities. Also, where businesses are not already delivering activity which contributes directly to the decarbonisation agenda, the support that they are offered across the Framework, including via the integration of the horizontal themes, will support them to reduce their carbon footprint across the activities they do undertake.

These are complex issues which need multiple solutions to address them effectively and there are huge opportunities which require collaborative and integrated working if we are going to take advantage of them in a post-Covid world. That working must not be confined by borders, as working together across regions and nations can deliver real solutions to shared needs, opportunities and challenges.

Under each investment priority area, we have organised some of the key evidence and the desired outcomes into a table demonstrating a theory of change: what can work to deliver our strategic objectives. We know from our evidence, our stakeholder engagement, and our lessons learned what impacts we are aiming for, and our strategic objectives describe that. The theory of change tables show how we could achieve those impacts through our investments.

To work out how to achieve our desired impacts (the strategic objectives) we need to understand the context we are operating in. We need to identify what resources we will have (the inputs)²⁵, and what sorts of activities make a change to the desired objectives. Understanding what activities might work means that we can identify what outputs are needed from those activities.

National and regional investment plans to be supported by the Framework will identify in more detail the specific activities that will work in their specific context to contribute to the strategic objectives.

Theory of Change: assumptions and common context

Our working assumptions reflect both our principles and what our extensive engagement has shown us that people need from our regional investment. The tables in each priority area set out an indicative assessment of what will work to deliver our strategic objectives based on multi-annual funding devolved to the Welsh Government and our design principles, described earlier²⁶. The activities and outputs in these tables are indicative.

In developing a Welsh policy for regional investment we have the opportunity to better integrate with Welsh national policy. Our *Employability Plan*, our *International Strategy*, our *Wales Infrastructure Investment Plan*, *Fair Work Wales*, our *Innovation Strategy*, our *Economic Action Plan* and Covid pandemic economic reconstruction plans, our forthcoming export action plan, *Wales 4.0: Delivering Economic Transformation for a Better Future of Work*²⁷, and our *Digital 2030: strategic framework*²⁸ are, amongst others, all a part of the common context for how we have

²⁵ Depending on the investment priority area, additional inputs could include, for example, those secured from City and Growth Deals; Innovate UK; the Development Bank of Wales; private sector investment, the Circular Economy Fund for businesses etc

²⁶ See pp.3-4

²⁷ <https://gov.wales/review-digital-innovation-economy-and-future-work-wales>

²⁸ <https://gov.wales/digital-2030-strategic-framework>

designed our priority areas to add value and enable market failures at national and regional levels to be addressed.

Likewise, the common inputs with which results can be achieved are a portfolio of national projects (where economy of scale and national consistency across regions are more important) and portfolios of regional projects (where delivery closer to citizens to meet regional needs and opportunities is more important). Some other inputs are more appropriate to some priority areas than they are to others – suggestions for these are noted against each table in the sections below.

More Productive and Competitive Businesses

We want to drive recovery and prosperity by supporting entrepreneurs, start-ups and businesses to create and retain sustainable jobs that reflect the principles of *Fair Work Wales*. We will help businesses to take advantage of opportunities to grow and strengthen the productivity and competitiveness of businesses and social enterprises of all sizes, particularly micro to medium sized businesses. This includes supporting businesses in their efforts to create or improve their share of the export market²⁹.

In reconstructing after the Covid pandemic³⁰ we will seek to move away from simply reacting to technology change to a more proactive stance in Wales' transition to the fourth industrial revolution, by actively co-designing interventions through a multi-stakeholder approach. This will support our ambitions in our *Innovation Strategy* for accelerating our investment in research and innovation that need our 'fair share' of complementary support from the UK Government and other UK agencies, including from UK Research and Innovation (UKRI)³¹. This will contribute to increased expenditure on research and innovation in both the private and public sectors and will develop international recognition for Welsh science³². We will build new capacity in Wales' core capabilities in Key Enabling Technologies³³, in the areas of Cybersecurity, Artificial Intelligence and Data. Existing and future investments in

²⁹ In line with the forthcoming Welsh Government export strategy. While responses to the ONS' coronavirus business survey suggest that trade impacts continue to be felt in the UK as a result of the coronavirus pandemic. See ONS (2020, September 30). GDP quarterly national accounts, UK: April to June 2020. Retrieved from <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/apriltojune2020>

³⁰ In the first two quarters of 2020, the UK economy contracted, meaning it officially entered a recession. UK GDP fell by 2.5% in the first quarter, followed by the sharpest quarterly fall on record in the second of 19.8%, reflecting the impact that restrictions brought in to control the coronavirus pandemic have had on the economy.

³¹ <https://www.ukri.org/>

³² *Strength in Diversity*, Graeme Reid for Universities Wales, October 2020:

<http://www.uniswales.ac.uk/publication/strength-in-diversity-professor-graeme-reid/>

³³ <https://ec.europa.eu/programmes/horizon2020/en/area/key-enabling-technologies>

more traditional manufacturing will still play an important role, as set out in our consultation document *A Manufacturing Future for Wales: A Framework for Action*³⁴.

Research, Development, and Innovation (RD&I) have a critical role to play. Better expert resource pools, knowledge-sharing, and collaborating to aggregate the offer to industry and internationally are all steps we want to encourage in order to promote competitiveness in RD&I and allow institutions to integrate delivery under the Framework with delivery against the UK Research and Development Roadmap and its commitment to spending 2.4% of national spend by 2027³⁵.

Supporting digital connectivity and infrastructure will be important in responding to the opportunities of automation to ensure that appropriately skilled people are available to take up positions in new areas of work. We will continue Smart Specialisation efforts to ensure inclusive development of strategy and delivery which is responsive to the needs of business, universities and other research organisations. We will need to prioritise those areas where Wales is truly able to compete on a global stage.

This includes the need for high level skills to implement new technologies and business models, for example through international or industrial doctoral training centres³⁶. At all skills levels there may be opportunities for learner experiences that involve international exchanges and best practice.

As the transition period after the UK's exit from the EU ends, we want to encourage firms to export their products and services, building capacity for this to happen. Outside of the EU customs union businesses will need new systems and processes to continue trading with the EU and will need support to help facilitate these requirements and enter new markets by addressing market barriers. We will complement existing Welsh Government support for this activity where we can add value.

Where we are now

Before the Covid pandemic, employment growth was 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

³⁴ <https://gov.wales/manufacturing-future-wales-framework-action>

³⁵ <https://www.gov.uk/government/publications/uk-research-and-development-roadmap/uk-research-and-development-roadmap#levelling-up-rd-across-the-uk>

³⁶ One of the elements through the first Sêr Cymru programme included support for the development of three national research networks in each of the three 'Grand Challenge' areas: Life Sciences and Health; Low Carbon, Energy and Environment; and Advanced Engineering and Materials. The 'Grand Challenges' were identified both for their strength in academic departments in Wales and for their potential for commercial exploitation of research outcomes by businesses in and for Wales. All three networks undertook a variety of pan-Wales activities such as providing funding for large-scale doctoral training schemes, support for postdoctoral researchers and engagement activities with a broad range of stakeholders, particularly those in industry.

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 investment in business, RD&I, poor quality management and lower skills levels. Across the UK, since the financial crisis, productivity growth over the last decade has been limited, with a growing number of low productivity firms limiting aggregate productivity, relative underperformance in sectors where productivity could be higher, a slowing of the rate of innovation, and barriers to the diffusion from leading firms to the wider population of firms. Improving the capacity of firms to make use of innovation will address a key barrier to adopting new technologies and bringing them to market³⁷.

The Welsh research and innovation base is a national asset, delivering economic, social, cultural, and health benefits for Wales and collaborators around the world. However, Wales' small but effective research base is vulnerable to competitive global pressures and competing priorities. In leaving the EU transition period, we will need to maximise the return on the kind of high impact research and innovation that supports the Welsh economy, whilst also being alive to the new pressures we will face outside the EU.

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. The investment priority of 'Supporting the transition to a zero carbon economy' provides opportunities, for example, in relation to clean energy – both in reducing the footprint of how that energy is used as well as how it is produced. This will support the creation and retention of sustainable jobs which will not only contribute to productivity and prosperity in a sustainable way, but also to fair work. We also want to encourage the creation and sustainability of more enterprises owned by local people, employing local staff. Firms rooted in Wales are good for the long-term health of the Welsh economy.

A strong and competitive university and innovation sector that is well linked to the public sector in Wales is a major asset for communities and the local economy. We want the benefits to be felt across Wales, building on our successful implementation of our suite of Smart Specialisation³⁸ to identify areas of comparative advantage across Wales to attract inward investment, compete for research funding, and increase the sharing of best practice amongst enterprises. This will support the growth in Welsh businesses trading and competing internationally, which both drives

³⁷ Riom, C., & Valero, A. (2020). The Business Response to Covid-19: the CEP-CBI survey on technology adoption. Centre for Economic Performance. Note: CEP survey was conducted in July 2020.

³⁸ <http://www.oecd.org/sti/inno/smartspecialisation.htm>

and demands higher productivity. We will target support where specific market failures are identified, recognising that each sector has different business needs.

Strategic Objectives

- 1. Support the creation and retention of sustainable jobs that meet the definition of fair work as set out in *Fair Work Wales*.**
- 2. Support the sustainable and inclusive growth, succession and retention of home grown businesses with a particular focus on progression into productive medium sized firms that are grounded in their local communities.**
- 3. Support the workforce in Wales to become skilled and trained to achieve progression, particularly skills to transition to Industry 4.0 and 5.0 technology.**
- 4. Enhance effective research, development, knowledge exchange and innovation capacity in businesses and research organisations in Wales aimed at increased competitive public and private investment and successfully translating research into sustainable new and improved products, processes, and services.**
- 5. Support businesses to participate in UK/International best practice networks where linked to improved productivity and competitiveness.**
- 6. Ensuring Welsh businesses can access the finance they need to thrive and grow, including repayable finance options where appropriate, within Wales and maximising cross-border and international opportunities.**

Table 1: More Productive and Competitive Businesses – Theory of Change

Activities ⇒	Outputs ⇒	Results and Impacts
<p>Broad type of activity to be funded:</p> <ul style="list-style-type: none"> • Business start-up, business growth, support and advice • Creating demand drivers to encourage business growth, greater productivity and jobs • Job creation and job retention • Workforce development including upskilling and re-skilling. • Develop business owners and management leadership skills to enable them to improve business processes and management practices. • Research, development knowledge exchange and innovation support and collaboration and capacity building • Doctoral training centres • Securing greater UK and international RD&I resources to Wales • Increasing the research capacity and level of collaboration between firms to spread/share best practice. 	<p>For illustration purposes, outputs may include:</p> <ul style="list-style-type: none"> • Increased number of business births relative to the size of the population in Wales • Increased quantity of inclusive business advice and mentoring for start-up and business expansion • Increased number of people in Wales in sustainable employment • Increased numbers of upskilled individuals in the workforce to achieve skills for the future • Greater number of skills demands of employers are met, ensuring skills are targeted at areas where there is genuine market failure • Increased number of small sized businesses in Wales by growing and progressing micro businesses • Increased number of medium sized businesses in Wales by growing and progressing small businesses 	<p>Strategic objectives that contribute to more productive and competitive businesses:</p> <ol style="list-style-type: none"> 1. Support the creation and retention of sustainable jobs that meet the definition of fair work in Fair Work Wales. 2. 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. 3. Support the workforce in Wales to become skilled and trained to achieve progression, including skills to transition to Industry 4.0 and 5.0 technology. 4. Enhance effective research, development, knowledge exchange and innovation capacity in businesses and research organisations in Wales aimed at increased competitive public and private investment and

<ul style="list-style-type: none"> • Access to funding via grants and repayable finance • Increase the number of businesses exporting their products/services and participating in international activity. • Supporting businesses to understand and prepare customs documentation and tariff procedures, particularly following EU exit where complementing Welsh Government core funding. 	<ul style="list-style-type: none"> • Increased number of businesses exporting their products/services and participating in international activity, in line with Welsh Government's forthcoming Exporting Action Plan • Increased incidence of collaboration and technology transfer from HEIs • Increased number of incentives for businesses to take up new-to-market and improved innovations • Increased expenditure on R&D per head in Wales • Increased rate of capacity building in R&D organisations to allow them to compete at home and internationally • More specialists in technologies for the digital transformation, healthy communities, and zero carbon economy • Increased quantum of R&D funding secured for Wales • Creation of a tailored finance package for investment in key sectors, the foundational and circular economy and specific geographical areas 	<p>successfully translating research into sustainable new and improved products, processes, and services.</p> <ol style="list-style-type: none"> 5. Support businesses to participate in UK/International best practice networks where linked to improved productivity and competitiveness. 6. Implement sustainable means of ensuring Welsh businesses can access the finance they need to thrive and grow, within Wales and maximising cross-border and international opportunities. <p>Projects can contribute to one or more of the above, and outcomes across other Priority Areas and Horizontal Themes of equal opportunities, gender mainstreaming, sustainable development and the Welsh language.</p>
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Reducing the Factors that lead to Economic Inequality

We want to maximise the number of people able to participate in good quality, sustainable work, for which they receive fair pay, ensuring this is shared fairly across geographies and demographics, particularly amongst under-represented groups. Evidence³⁹ shows that inequality has a negative impact on economic growth and social outcomes. In the short term we will focus our efforts on supporting those who have been most adversely affected by the economic impact of the Covid pandemic, notably young people, those in low paid and insecure employment, women, black, Asian and minority ethnic (BAME) groups, and disabled people.

Where are we now

Our Employability Plan sets out our ambitions to support people into work today and to prepare the workforce for challenges of the future.

At the end of 2019, Wales celebrated the lowest rates of unemployment and economic inactivity since devolution, and there have been large reductions in the share of working age people with no qualifications, with continued improvement in the number of people qualified at higher levels.

Wales still lags behind, however, in terms of wages, productivity and qualification attainment at all levels. Wales faces significant challenges as a consequence of the Covid pandemic and the UK leaving the EU transition period.

The impact of the pandemic appears to have accelerated structural trends in automation, decarbonisation and the impact of an ageing population, and threatens to reverse the significant progress made in the last decade in reducing unemployment and economic inactivity in Wales. It has more severely impacted the education of young people from poorer families which could act to depress social mobility⁴⁰, and threatens to increase the debts of unemployed and lower and middle income households⁴¹.

Unemployment, underemployment and economic inactivity remain significant drivers of inequality, with impairment/sickness⁴² and looking after family/home being the

³⁹ For example by the OECD <http://www.oecd.org/els/soc/trends-in-income-inequality-and-its-impact-on-economic-growth-SEM-WP163.pdf>

⁴⁰ Major, L. E., Eyles, A., & Machin, S. (2020). Generation COVID: Emerging Work and Education Inequalities. Centre for Economic Performance.

⁴¹ Brewer, M., Corlett, A., Handscomb, K., McCurdy, C., & Tomlinson, D. (2020). The Living Standards Audit 2020. Resolution Foundation.

⁴² Disabled people account for 45% (200,000) of the economically inactive group; 31% (18,000) of the unemployed in Wales are disabled people; and approximately 48,000 economically inactive disabled people are either seeking work, or are not actively seeking but would like to work. Poverty rates are substantially higher in households where no adults work and poverty rates of workless households have been increasing in Wales while they have fallen for the UK overall.

main reasons for adults in Wales not being in work. There is also strong evidence that periods of economic inactivity and unemployment early in the working life can have a detrimental impact on a range of outcomes in later life. Periods over a year are particularly damaging for young people. Conversely, older workers experience significant barriers in returning to the workplace following redundancy.

As well as the challenges we face for reducing unemployment given the pandemic, there are employment opportunities that are likely to be more permanent in nature, such as the forecast growth in 'essential key worker' services, such as in the health and social care sector and in the foundational economy.

People with higher level qualifications and skills are more likely to be in sustained employment, with larger earning and wage gains, particularly for those individuals from disadvantaged areas. Wales has a lot to gain from stepping-up our support for basic skills, foundation and digital skills⁴³, to equip individuals to take advantage of these opportunities. Apprenticeships tend to increase the probability of participants being in employment with higher level apprenticeships appearing to generate substantially larger labour market benefits.

Pay disparity reduces lifetime earnings and affects pensions – a significant cause of poverty in later life. Although many pay gaps are gradually decreasing over time, austerity measures and the changes to the labour market (e.g. public sector job cuts and pay freezes, increasing use of zero hours contracts in the private sector) have contributed to the widening pay disparities in the short-term. For example, the gender pay gap has been estimated at around 14% in Wales, while the pay gap for disabled people is around 9%; there is a less consistent picture in BAME communities⁴⁴.

Rising essential costs are also an issue for many people. Key groups who appear to be at higher risk of poverty are likely to have additional costs with a disproportionate effect on them, such as disabled people, those with caring commitments and those living in rural areas. People on low incomes are less likely to be 'active consumers', switching suppliers and shopping around. This is partly due to a lack of access to 'enabling goods' that give consumers advantages such as a bank account or internet access.⁴⁵ There is also 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 services.

Where we want to be

We want to do everything we can to reduce unemployment and give everyone the best chance to find and keep decent work with long-term prospects, and increase the adaptability of the workforce by providing opportunities for people to develop their skills and to acquire new ones. We will ensure access to education and training

⁴³ The proportion of people who have Foundation skills and Essential Digital Skills for life in Wales are significantly below the UK average.

⁴⁴ <https://www.equalityhumanrights.com/sites/default/files/is-britain-fairer-2018-is-wales-fairer.pdf>

⁴⁵ <https://www.jrf.org.uk/report/poverty-and-cost-living>

provision for young people, in order to build skills and knowledge to increase their work-readiness.

To avoid lasting high unemployment it will be essential to support people with the skills to return to work or embark on self-employment quickly, and for young people to be supported into other options to continue learning. We already work closely with organisations such as the UK Government's Department of Work and Pensions on the deployment of employment/employability and skills support, with significant operational engagement and integration on the ground, and this will continue. We will also need to use existing infrastructure for community-based learning and employability delivery wherever we can.

Reducing economic inactivity will require raising aspirations and opportunity in those young people for whom unemployment may already be entrenched in their family. The achievement of softer outcomes and their subsequent ripple effects will be equally important so that marginalised groups get closer to the labour market with onward progression to education, training or employment. Volunteering and social enterprises can also offer important routes to improving skills and experience that may lead to increased rates of economic activity.

A productive workforce is also key for Wales' economic competitiveness in the UK and internationally, and for building a healthier society. The challenge will be balancing short-term economic reconstruction measures and continuing longer-term efforts to raise labour market participation levels. We want to increase both the quality of employment and equality of access to employment.

Equally, we need a workforce that is mobile and adaptable to respond well to the challenges, such as those posed by automation, and the opportunities, including through pay progression⁴⁶, that a dynamic and changing economy presents.

We want to support workless adults move back into work and help other adults move to different sectors through reskilling, in order to increase the resilience, transferability and adaptability of the workforce so that people can find meaningful employment or progress to better or more secure employment. The current workforce may need to adopt more learning for life, and adapt and acquire different skills as their jobs get redesigned due to technological change, they change career, or enter new roles. We also recognise the importance of progression in the workplace and reducing pay disparities in respect of gender, race, and disabled people, as well as reflecting socio-economic disadvantage, with particular support for under-represented groups into senior management posts. Being visible and contributing in leadership roles and across sectors is beneficial for employees and employers alike.⁴⁷

⁴⁶ Pay progression is generally greater for those who move employer rather than those who stay in the same job or move into a new job with the same employer, and is even stronger for those who move employer and region. Management practices such as the provision of training, development of internal labour markets and flexible working have also been identified as important determinants of progression opportunities.

⁴⁷ <https://www.cipd.co.uk/knowledge/fundamentals/relations/diversity/factsheet#6428>

There are significant benefits to be had from upskilling people in Wales and to match them with the needs of employers and industry, including apprenticeships, supply chains and entrepreneurship, to create opportunities for individual progression and build capacity for enterprise growth. Further and higher education and employers that are anchored in local communities also have a significant role to play in upskilling and offering employment to people who often come from areas of high deprivation.

Whilst the adverse economic effects of the Covid pandemic continue, it will be important for young people to stay in training or education to shield them both from the immediate labour market challenges and the long-term scarring effects, and to increase their work-readiness when they do enter the labour market.

We also want to reduce essential costs for people on low incomes, with opportunities to achieve this through the role of housing associations, credit unions, digital inclusion initiatives and local enterprises to provide access to goods and services, low cost home insurance, collective energy switching schemes, and transport.

Strategic Objectives

- 1. Reduce levels of unemployment and improve labour market participation levels for those who have been most economically disadvantaged by the Covid pandemic, notably young people, those in low paid and insecure employment, women, BAME and disabled people**
- 2. Increase mobility and/or adaptability of existing workforce**
- 3. Improve qualification and/or skills levels**
- 4. Support activity to reduce essential costs for people on low incomes**
- 5. Reduce the pay disparity in respect of gender, race, and disabled people and/or support progression within and across sectors**

Table 2: Reducing the Factors that lead to Economic Inequality – Theory of Change

Activities ⇨	Outputs ⇨	Results and Impacts
<p>Broad type of activity to be funded:</p> <ul style="list-style-type: none"> • Careers and employment advice and guidance • Employability support • Vocational training/employment support • Provision to enable young people staying in learning or education • Engagement and softer skills development for young people • Work experience, volunteering • Entrepreneurship and business start up • Upskilling/reskilling • Community-based learning for young people and adults • Digital skills and engagement • Tackling digital exclusion • Stimulate hiring, new job creation and in work progression • Job/skills matching 	<p>For illustration purposes, outputs may include:</p> <ul style="list-style-type: none"> • Increased numbers of people moving into work, including self-employment • Increased numbers into further and vocational learning • Increased numbers into alternative employment/career switching • Increased numbers of qualifications achieved in a different sector and/or employment pathway • Increased numbers of qualifications achieved at higher level • Reduced number of households in income poverty • Increased numbers of employees earning at least the real Living Wage • Reduced numbers of workers on in-work benefits • Increased opportunities for career progression • Increased digital competency levels 	<p>Strategic objectives that contribute to Reducing the Factors that Lead to Economic Inequality:</p> <ol style="list-style-type: none"> 1. Reduce levels of unemployment and improve labour market participation levels of those who have been most economically disadvantaged by the Covid pandemic, notably young people, those in low paid and insecure employment, women, BAME and disabled people. 2. Increase mobility and/or adaptability of existing workforce. 3. Improve qualification and/or skills levels. 4. Support activity to reduce essential costs for people on low incomes. 5. Reduce the pay disparity in respect of gender, race, and disabled people, and/or support progression within and across sectors. <p>Projects can contribute to one or more of the above, and outcomes across other Priority Areas and Horizontal Themes of equal opportunities, gender</p>

		mainstreaming, sustainable development and the Welsh language.
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Supporting the Transition to a Zero-Carbon Economy

The climate crisis is the global challenge of our age. The risks are real for every citizen and business, but are greatest for those who are already at a socio-economic disadvantage. The transition to a zero-carbon economy will bring opportunities for clean, energy efficient economic development, quality jobs and global market advantages, as well as benefits to our environment, our health, our natural capital and our ecosystem services.

Where we are now

Wales is already in transition, reducing its emissions and unlocking clean⁴⁸ economic development opportunities. 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 hosts sufficient renewables to provide half its electricity use, an increase of a quarter since 2014. Most of this increase has come from wind turbines, both on and offshore. 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.

Our national commitment to developing an economy which respects our natural environment is expressed in our Natural Resources Policy⁴⁹ and demonstrated in, for example, our Circular Economy Strategy⁵⁰. We also capture this commitment throughout our other priority areas.

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 ensure Wales retains more value from the move to a smarter, more renewable energy system. The main contributions to carbon emissions in the economy that we can help address are in the transport infrastructure businesses use, the sustainability of their venues waste management, the resource efficiency of the energy we produce and where it is used, and residential decarbonising.

Our 2017 renewable energy targets were reiterated in *Prosperity for All: A low-carbon Wales*. They are to generate at least 70% of Wales’ electricity consumption from renewables by 2030, with 1 GW of renewable electricity generation locally owned by 2030. New energy generation in Wales should also have at least an element of local ownership. This will help ensure that Wales retains the benefits from the transition to a cleaner energy system. We also want to help communities to be powered by locally-generated energy as part of a smarter, flexible energy system. Keeping production and the benefits closer together reduces the costs of

⁴⁸ Clean economic development means economic growth that is energy efficient.

⁴⁹ <https://gov.wales/natural-resources-policy>

⁵⁰ <https://gov.wales/beyond-recycling>

transporting energy over long distances and increases the opportunity for local ownership.

We want to reduce transport emissions by encouraging people to use alternative forms of transport, including walking, cycling, and public transport, developing ultra-low emission transport systems and building on an electric charging station network to enable wider adoption of electric vehicles.

We also want to tackle housing emissions through behavioural changes, energy efficiency and low carbon heating measures – a priority we describe in our Optimised Retrofit Programme (ORP), part of the Innovative Housing Programme⁵¹. We also want to support farm energy efficiencies including through increasing tree cover, reducing peatland carbon loss and building carbon stores within biomass.

This focus has been intensified as a result of the Covid pandemic with the plans for economic reconstruction prioritising measures for a green recovery. These include priorities to capitalise on the economic opportunities in the low carbon and circular economy, invest in low carbon housing at scale, manage our land for the benefit of rural communities, and protect and enhance our natural resources.

Strategic Objectives

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

⁵¹ <https://gov.wales/9-and-half-million-programme-reduce-housing-carbon-footprint>

Table 3: Supporting the Transition to a Zero-Carbon Economy – Theory of Change

Activities ⇨	Outputs ⇨	Results and Impacts
<p>Broad type of activity to be funded:</p> <ul style="list-style-type: none"> • R&D • apprenticeships • traineeships • upskilling • Locally and Community owned energy generation • Green transport infrastructure • Housing refurbishment • Biodiversity growth • Waste recycling initiatives 	<p>For illustration purposes, outputs may include:</p> <ul style="list-style-type: none"> • Increased energy generation through renewable means • Increased number of locally owned renewable energy generators • Greater quantities or qualities of benefits captured from renewable energy generation retained in Wales • Increased use of low carbon transport and alternate transport methods • Reduced waste levels • Quantity of added energy saving innovation to capital build projects • Increased quantity of refurbishment of Wales' housing stock to reduce fuel poverty • Increased channels of support for efforts by businesses and communities to tackle climate change • Increased biodiversity measures that help tackle greenhouse gas emissions 	<p>Strategic objectives that contribute to supporting the transition to a zero carbon economy:</p> <ol style="list-style-type: none"> 1. Increase locally owned renewable energy generation. 2. Improve the transition to low carbon living including transport and waste management. 3. Support housing and capital build initiatives to reduce emissions. 4. Improve biodiversity and avoid greenhouse gas emission effects getting worse. 5. Develop and support relevant research, development and skills required by the workforce for decarbonisation. <p>Projects can contribute to one or more of the above, and outcomes across other Priority Areas and Horizontal Themes of equal opportunities, gender mainstreaming, sustainable development and the Welsh language.</p>

	<ul style="list-style-type: none"> • Increased research and development into new and improved energy generation, energy storage, conservation, management and efficiency technology • Increased rate of uptake of new skills into the workforce which relate to tackling climate change • Increased rate of deployment of technology by businesses which help to address climate change • Increased numbers of workers with specialist skills in fields relating to tackling climate change 	
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Healthier, Fairer, more Sustainable Communities

A workforce that is healthy and happy, and well-connected communities that are strong and resilient, are economic assets which benefit everyone. The link between well-being and economy has never been clearer. We want to help ensure that communities of place and of people have the resilience and structures they need, so that the people living here can live long, happy lives and fulfil their potential to contribute productively to our economy and society.

Where we are now

The socio-economic impact of the Covid pandemic has drastically highlighted the inequalities and challenges already present in our society. Many communities were already struggling following ten years of austerity and loss of traditional sources of employment to other countries. Town centres are suffering in the wake of ongoing retail closures, the increase in online shopping⁵², public sector shrinkage, a significant increase in people working from home affecting footfall in town centres⁵³, and a lack of inward investment. Some 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, and there are still too many obstacles which prevent people from participating in education, employment and training and from fulfilling their full potential.

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 our deficits, it is vital to build on our assets. We have witnessed the potential of social capital in local responses to the Covid pandemic in communities right across Wales. Resilient, sustainable communities have never been more important.

Where we want to be

We want to support and empower urban, rural, post-industrial, city and coastal communities to identify and develop innovative solutions to the social and economic barriers they face to prosperity. We want to encourage an awareness of the role of place in driving new economic opportunity. We want to protect and nurture the Welsh language and the communities and networks which sustain it, and to foster mental and physical health and well-being. We want more businesses, community groups

⁵² In August the year-on-year growth of online sales for all retail sectors was 51.6%. ONS. (2020, September 18). Retail sales, Great Britain: August 2020.

⁵³ Costa Dias, M., Farquharson, C., Griffith, R., Joyce, R., & Levell, P. (2020). Getting people back into work. Institute for Fiscal Studies.

and social enterprises in the wider third sector to deliver activities in partnership with the local community. We want ecosystem services, the natural capital available to communities of place across Wales, and our circular economy to be an important part of our local, regional, and national economies. When it comes to working with citizens, bodies closer to the communities they serve are best placed to organise and manage how that is best co-ordinated. National and regional bodies can best take advantage of the good practice in other regional and local partners⁵⁴ to empower the delivery of outcomes.

There is an opportunity to bring research and innovation to bear at scale in our health and care system to make a difference to people and communities, including through impacts on the environmental determinants of health. This will require increased collaboration, strategic partnerships and centres of excellence in such areas as health inequalities, social care, data or the health and care workforce.

With the challenges facing high street retail made ever starker by the Covid pandemic, we need to repurpose our town centres around homes, offices, leisure and hospitality, learning, services and community space that respects and supports biodiversity. Our town centres can be locations for social and cultural interaction as well as economic and commercial transaction. By promoting greater connectivity, we can reduce inequalities in outcomes and ensure citizens receive the services they need. We can build economies by improving connectivity, both digital and through public transport, including cross border. 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 those people who are most at risk of socio-economic disadvantage. We want to improve access to cultural and heritage sites to counter the effects of isolation, particularly for older people and disabled people. We want to encourage innovative approaches to these challenges and to combat the risks to mental health in children and young people, as well as in adults, as a result of the Covid pandemic.

We also want to provide sustainable economic opportunities for young people, wherever they live, so that getting good work does not mean ‘moving away’.

The Covid pandemic has drastically increased the vulnerability of some groups and some areas, and addressing that is urgent and essential. Access to services and improvements to housing are key determinants of mental and physical health⁵⁵. Our priorities for economic reconstruction include stepping up our investment in town centres, including providing better access to open spaces, the creation of remote working hubs, and making sure that our public services are more accessible. Our

⁵⁴ For example, Regional Partnership Boards which bring together the main stakeholders for health, social care, care providers, housing and education

⁵⁵ <https://gov.wales/sites/default/files/publications/2019-10/a-healthier-wales-action-plan.pdf>

Framework can support and build on this activity and on the Welsh Government's approach to supporting and developing the foundational economy, leveraging additional investment into communities across Wales.

Strategic Objectives

- 1. Empower communities of place and of people to co-produce solutions to shared problems, connect with delivery partners, and to spread best practice.**
- 2. Reduce inequality of people's access to services, goods, and local cultural or leisure activities, especially where the need is greatest in the most at-risk or marginalised groups.**
- 3. Improve economic infrastructure to support sustainable communities of people in rural, coastal, city and urban areas.**
- 4. Create community-based solutions to revitalise and repurpose town centres as sustainable places for living, learning, leisure and work.**

Table 4: Healthier, Fairer, more Sustainable Communities – Theory of Change

Activities ⇒	Outputs ⇒	Results and Impacts
<p>Broad type of activity to be funded:</p> <ul style="list-style-type: none"> • Developing the foundational economy • Exploiting local assets • Improving individuals' ability to join the workforce • Improving individuals' skills to attain and progress employment • Organisational skills to employ less advantaged groups e.g. health, impairment, gender, race • Support for care sector workers • Access to services • Essential social infrastructure • Empowering community-led development 	<p>For illustration purposes, outputs may include:</p> <ul style="list-style-type: none"> • Increased number of venues, services etc. able to conduct business in Welsh • Increased provision of and community access to essential goods and services from the food, and retail sectors • Increased level of sustainably repurposed town centre assets • Increased provision of and community access to the health and care sectors • Increased numbers of employers meeting the standards and characteristics of Fair Work • Increased access by individuals to existing support schemes for work attainment and in-work progression • Increased rate of access of care services for those who need it • Improved access of the social care workforce to in-work training and qualifications 	<p>Strategic objectives that contribute to Healthier, fairer, more sustainable communities:</p> <ol style="list-style-type: none"> 1. Empower communities of place and of people to co-produce solutions to shared problems, connect with delivery partners, and to spread best practice. 2. Reduce inequality of people's access to services, goods, and local cultural or leisure activities, especially where the need is greatest in the most at-risk or marginalised groups. 3. Improve social and economic infrastructure to promote sustainable communities of people in rural, coastal, city and urban areas. 4. Create community-based solutions to revitalise and repurpose town centres as sustainable places for living, learning, leisure and work. <p>Projects can contribute to one or more of the above, and outcomes across other Priority Areas and Horizontal Themes of equal opportunities, gender</p>

	<ul style="list-style-type: none"> • Greater numbers of social care employers supported to meet the standards of fair work • Improved measures of digital inclusion • Improved outcomes of transport networks in Wales • Improved access to cultural and heritage sites in the region • Improved range of opportunities for social prescribing and leveraging of community natural capital • Improved rate of use of existing or new community assets • Improved integration of different infrastructures 	mainstreaming, sustainable development and the Welsh language.
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Consistent and Transparent Governance

Regional investment funding will be administered against a transparent governance framework which will include a set of rules so that decisions are made in a consistent, fair and equitable way.

These rules will apply to local, regional and national projects. Over time, as the delivery of our Framework matures and regional working gathers pace, more flexibility may be needed in the rules needed at the local, regional and national levels. We will continue to work with our stakeholders to address this. The governance approach will also support the required flexibility to respond effectively to risk and to cater for regional differences, strengths and needs.

Consistency is also important when considering the tools and processes needed to deliver the Framework. We will use the Better Business Case methodology⁵⁶ as the basis of our decision-making process at the local, regional and national level, with project business cases following the Five Case Model⁵⁷. We will use this in a proportionate manner and will offer guidance on the information that organisations need to provide to access funding.

We are in the process of developing governance arrangements for our Framework in partnership with our stakeholders. Our aim is that our governance approach will be as clear, simple and proportionate as it can be, but still recognising that excellent stewardship of public funding is critical.

Multi-annual Financing

One of the key values of European funding noted by stakeholders has been the availability of multi-annual finance. By ensuring budgets are in place for the longer term, it enables beneficiaries to plan more effectively and commit greater resources to maximise the delivery of beneficial outcomes. We continue to seek assurances on this from the UK Government, as decisions will need to be made within the fiscal rules and take account of the financial context at the time⁵⁸. Where possible, however, we will provide multi-annual finance for elements of regional investment and support longer-term planning.

Repayable Finance

Our Framework will use repayable finance where market failures are identified. Due to the high level of technical expertise required to deliver financial instruments and the significant resource involved in setting up individual funds, administering them will be best retained at a national level to take full advantage of economies of scale.

⁵⁶ <https://gov.wales/better-business-cases-investment-decision-making-framework>

⁵⁷ <https://gov.wales/five-case-model-templates>

⁵⁸ The UK Government has decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021-22, and Devolved Governments' block grants for the same period. See <https://www.gov.uk/government/news/spending-review-to-conclude-late-november>

The regions, via the CJsCs would provide the strategic direction required to prioritise interventions that reflect their local circumstances, based on the Regional Economic Frameworks.

We will undertake market assessments across the agreed impact areas of the Framework to identify where repayable approaches may be viable, and aim to mainstream their use.

We understand the extreme financial pressures that Welsh organisations across all sectors are experiencing due to the impact of the Covid pandemic. A fully repayable model may therefore not be realistic for all interventions and, where this is the case, we will develop a flexible offering, combining grant with repayable funding and other co-investment approaches in order to maximise the sustainability and legacy of the regional investment.

Our design and development of suitable repayable finance activities will be driven by the evidence provided through our market assessment, which will look in particular at the financial conditions across Wales and the viability of using repayable financing to deliver our Framework's strategic objectives.

Evaluating and Evidencing Delivery

Robust and effective monitoring and evaluation play a crucial role in the success of all policy and investment delivery.

The monitoring and evaluation functions which we intend to put in place will support the successful management and delivery of all investments and will build an evidence base to inform future investments and allow performance comparisons across Wales. In particular, they will ensure formative ongoing data is captured on the delivery and progress of the different kinds of investment activities and ensure accountability for monies being spent and the achievement of the intended outcomes. There will be full guidance to support regions to deliver against their monitoring and evaluation responsibilities; we are aiming to have standardisation of performance measures where possible so there will be the opportunity to assess and compare performance across Wales.

Annex: List of Strategic Objectives

More Productive and Competitive Businesses

- SO1.1 Support the creation and retention of sustainable jobs that meet the definition of fair work as set out in Fair Work Wales.
- SO1.2 Support the sustainable and inclusive growth, succession and retention of home grown businesses with a particular focus on progression into productive medium sized firms that are grounded in their local communities.
- SO1.3 Support the workforce in Wales to become skilled and trained to achieve progression, particularly skills to transition to Industry 4.0 and 5.0 technology.
- SO1.4 Enhance effective research, development, knowledge exchange and innovation capacity in businesses and research organisations in Wales aimed at increased competitive public and private investment and successfully translating research into sustainable new and improved products, processes, and services.
- SO1.5 Support businesses to participate in UK/International best practice networks where linked to improved productivity and competitiveness.
- SO1.6 Ensuring Welsh businesses can access the finance they need to thrive and grow, including repayable finance options where appropriate, within Wales and maximising cross-border and international opportunities.

Reducing the Factors that lead to Economic Inequality

- SO2.1 Reduce levels of unemployment and improve labour market participation levels for those who have been most economically disadvantaged by the Covid pandemic, notably young people, those in low paid and insecure employment, women, BAME and disabled people
- SO2.2 Increase mobility and/or adaptability of existing workforce
- SO2.3 Improve qualification and/or skills levels in Wales
- SO2.4 Support activity to reduce essential costs for people on low incomes
- SO2.5 Reduce the pay disparity in respect of gender, race, and disabled people and/or support progression within and across sectors

Supporting the Transition to a Zero-Carbon Economy

- SO3.1 Increase locally owned renewable energy generation
- SO3.2 Support the transition to low carbon living including transport and waste management.

SO3.3 Support housing and capital build initiatives to reduce emissions

SO3.4 Improve biodiversity and reverse greenhouse gas emission effects

SO3.5 Develop and support relevant research, development and skills required by the workforce for decarbonisation

Healthier, Fairer, more Sustainable Communities

SO4.1 Empower communities of place and of people to co-produce solutions to shared problems, connect with delivery partners, and to spread best practice.

SO4.2. Reduce inequality of people's access to services, goods, and local cultural or leisure activities, especially where the need is greatest in the most at-risk or marginalised groups.

SO4.3 Improve economic infrastructure to support sustainable communities of people in rural, coastal, city and urban areas.

SO4.4 Create community-based solutions to revitalise and repurpose town centres as sustainable places for living, learning, leisure and work.