

## Future Regional Investment Model

### The Steering Group is being asked to offer views on:

- What are the key features required to support an effective model for regions to plan and deliver socio-economic investment programmes?
- What works / doesn't work in current or previous approaches?

### Issue

At the February meeting, the Group considered the mix between national, regional and local investments for a new Regional Investment model to replace European Structural and Investment funds in Wales. There was broad support for a greater decision-making role for regional partnerships, but that this needed to be accompanied by equivalent increases in accountability. Clarity in responsibilities and decision-making at each level of administration was also highlighted as essential.

Engagement to date has highlighted a desire for both streamlining of regional partnership arrangements and the need for additional capacity relative to the scale of delegated responsibility. The group suggested:

- A need to compare implementation approaches elsewhere, including setting priorities and objectives;
- Delegation should include the ability for regions to reject projects, and a system which is responsive and flexible enough to deal with cross-border working;
- A more proportionate approach to risk will be needed across the whole system (accepting that some things will fail, and not everything will work);
- Clear priorities and effective communication from Welsh Government should empower regions without micromanaging;
- A clear governance structure is needed so that partnerships are absolutely clear on who is responsible for what and the right people are in the right place;
- A national framework must avoid being overly specific so not to hamper regions' abilities to meet their own issues / needs. Better regional co-ordination is distinct from national delivery;
- Welsh Government should compare powers of English regions with proposals for Welsh regions, as parity could enable better cross-border co-operation;

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- There should be one national IT System to a future funding approach;

This paper seeks to address a number of these comments by providing a short description of three existing funding models in Wales and in England that involve different degrees of delegation to regional partnerships. This is not a detailed examination of each, but is intended to stimulate a debate about features of these different models that could be utilised, or lessons for what to avoid, in a Welsh regional investment model.

When designing the replacement funding model we will need to be clear at which levels key decisions and accountability rests:

- Welsh Government
- An appropriate regional body
- An appropriate local partnership
- Shared responsibility by any combination

### **Group Discussion**

To assist discussion the models currently used for the Welsh City deals, the Local Growth Fund in England, and EU structural funds in Wales are summarised below. Each description has been limited to a single page. A comparative table is also provided to provide a snapshot of key features for each.

The group are asked to discuss the relative merits and disadvantages of each, identifying those features of most value and those most constraining of effective investment within regions.

### **(1) City/Growth Deals in Wales**

Agreed decision-making/budget allocation responsibilities delegated to Accountable Body in each region (individual local authority responsible for receiving funds). Joint Committee are the main decision-making forums, but Accountable Body responsible for funding flows within the region. Whilst each deal has a joint committee at its centre, the Governance structures are bespoke to reflect the needs of individual regions.

#### **Strategy / programming:**

A Heads of Term Agreement entered into between Welsh Government and UK Government and participating local authorities. The Heads of Terms document references a wider suite of control and governance documents and sets out the strategic direction, investment themes and mechanism for release of funding. These can be broad in nature, but changes require approval of Welsh and UK Government.

Welsh and UK Government have established the Joint Governments Welsh Cities & Growth Implementation Board to oversee the programme of current and future deals. Terms of Reference set out the role and remit of the Board, with both standard and bespoke arrangements specific to each deal.

A grant award letter will be put in place between Welsh Government and Accountable Body, setting out corporate terms and conditions and high-level objectives of the City Deal. Letter references full term of deal, future funding release is conditional on all terms and conditions and monitoring and evaluation processes, which are specific to each deal. . Reporting required jointly to both Welsh and UK Governments.

#### **Implementation arrangements / Governance**

All governance structures and agreements are the responsibility of the participating local authorities, with agreement from both Welsh and UK Governments. A Joint Committee Agreement is the key legal document establishing the prime governance structure of the Joint Committee (of Local Authorities) and sets out how the participating local authorities intend to work together. Additionally each deal tends to have other committees, such as a predominantly private sector advisory board, programme and project boards and regional Scrutiny Committee.

Under each deal there is a process for assessing/approving investment projects/schemes. HM Treasury/Welsh Government Five Case Model to be followed with approval through the relevant Committee, Cabinet and/or Programme Board. In some cases business cases must also be agreed by both Welsh and UK Governments.

Projects are designated to a Lead Authority who is responsible for ensuring that all project conditions are met and funding then drawn down from the Accountable Body in annual tranches. Financial risks generally borne by LAs.

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## **(2) UK Government Local Growth Fund**

Decision making generally by Local Enterprise Partnerships (LEPs), but budget delegated to Accountable Body (lead local authority responsible for receiving funds).

### **Strategy / Programme**

The Ministry of Housing, Communities and Local Government (MHCLG) provide £9.1 billion of the £12 billion Local Growth Fund (LGF) to regions across England on a competitive deal-by-deal basis. LGF has the broad strategic aim of supporting local economic growth.

Funding allocated through a series of three rounds of growth deals with individual LEPs. These cover multiple rounds (e.g. Cornwall and Isles of Scilly have had Growth Deals in July 2014, January 2015 and November 2016) and are wholly capital expenditure (reflecting MHCLG Departmental priorities)<sup>1</sup>. Linked to strategic economic plans (future funds will be linked to Local Industrial Strategies and the more specific aim to address productivity weaknesses).

A grant funding agreement with the Accountable Body details the funding allocation and terms and conditions which need to be met. The grant funding agreement does not impose detailed conditions around expenditure and delivery, with decisions on spending the grant needing to be agreed by the LEP and approved by the accountable local authority in line with the agreed local assurance framework, written in response to guidance set by the National Local Growth Assurance Framework.

### **Implementation / Governance**

Local Enterprise Partnerships (LEP's) are business led public-private partnerships with increasing responsibilities for economic planning and investment across England. The type of legal entity a LEP can adopt varies (though they are now being asked to move to a single incorporated private company model), however the Local Growth Fund allocations are paid to a separate Accountable Body (individual lead Local Authority). Different arrangements exist in areas with combined authorities (e.g. Greater Manchester) where governance is by a statutory Joint Committee of Local Authorities, with LEPs providing advisory functions (i.e. more analogous to Welsh City Deals, albeit the Joint Committee has a legal personality).

A UK-wide National Local Growth Assurance Framework sets out governance arrangements, policies and protocols, and the relationship required between the LEP and the Accountable Body, including the management of funding. A Local Assurance Framework explains how the LEP will identify, appraise (using the Five Case Model), monitor and evaluate schemes to achieve value for money. Strategic Economic Plans provide a framework for targeting investments based on local priorities.

Reviews over a number of years have led to a move to a more standardised model, a greater central suite of guidance and requirements, and greater oversight and monitoring arrangements from the UK Government. An increasing focus is also being placed on monitoring and evaluation to define outcomes and measure progress.

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<sup>1</sup> Resource funding for administration of Growth Deals by LEPs is provided by in the form of 'core' funding for LEPs. MHCLG and BEIS provide this funding jointly.

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### **(3) Current EU Structural Funds Model in Wales**

Decision making/budget allocation responsibilities all contained within Welsh Government as the grant giving organisation. Functional separation of functions within a 'Managing Authority'.

#### **Strategy / Programmes:**

Funding is administered by Welsh Government. Broad investment programmes are developed in partnership across Wales and negotiated/agreed with the European Commission. Programme documents form a contract with the EC, including a suite of specific objectives, financial and performance targets, and coordination mechanisms. Strategy serves to focus investment in small number of thematic areas.

Discreet funding programmes/budgets established to deliver against defined outcomes, with bespoke rules and eligibility criteria in place. Multi-year funding programmes.

Welsh Government reports on progress of programmes to both PMC and to EC. Annual review processes, with release of funding at milestones linked to performance in both financial and output terms. Some flexibility within programmes to vary strategy, but significant changes or new activity requires agreement of both Welsh Programme Monitoring Committee (PMC), of Welsh stakeholders, and EC.

Funding from EC to Welsh Government on arrears basis of verified expenditure. Welsh Government uses similar basis for payment of grant to projects.

#### **Implementation / Governance**

Welsh Government manages end-to-end grants processes, covering application, guidance, appraisal, awarding, monitoring, payment and evaluation.

External bodies apply for funding through a formal and open application process, with eligibility criteria known at point of application (having been agreed by PMC). Applications are appraised in line with the programme criteria, following defined separation of duties between officers recommending and approving the offer to award/decline funding. Application involves phased assessments, built around five-case business model but adapted to incorporate additional legislative requirements.

Formal legal agreement (grant award letter) setting out the level of support and all terms and conditions of funding. No autonomy exists to alter terms and conditions expected and set in the award letter without agreement of Welsh Government.

Assurance framework in place and signed off by audit authority and EC prior to funding becoming eligible. EC rules govern assurance requirements, established over 20 years of delivering regional funding. All programmes and projects subject to both internal and external audit function.

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### Comparison table – some headline differences

	Welsh City/Growth Deals	Local Growth Fund – UK	EU Structural Funds in Wales
<b><i>Programme Strategy processes/activities</i></b>			
<i>History</i>	3 years since first Heads of Terms Agreement. Capacity issues and teething problems leading to slow implementation.	9 years since LEPs established. 5 years of LGF funding. Reviews raised governance and capacity issues, which are being addressed	20 years of funding delivery, with significant capacity built incrementally to deal with complexity and audit findings.
<i>Scope</i>	Economic growth and jobs. Mainly capital, but some revenue (dependent on deal).	Local economic growth focus. Capital / infrastructure (reflecting MHCLG departmental priorities).	Broad remit for economic development and skills, social inclusion, environmental outcomes. Integrated capital and revenue.
<i>Funding allocation and outcomes</i>	General and limited number of results expected for whole programme (primarily GVA increase and gross jobs created)	General and limited number of results expected for whole programme, tailored to deal (e.g. Jobs, new learners, GVA, houses built, travel times)	Funding organised into programmes and priorities, with allocations for each to deliver specific quantified results (e.g. increase in competitive research income).
<i>Funding agreements</i>	Individual grant agreements (and Heads of Terms agreement) in place between WG and Accountable Body for each City/Growth Deal region.	Individual grant agreements in place between UK Gov. and Accountable Body for each Local Enterprise Partnership (LEP)	Agreement in place between European Commission and WG ('Operational Programme'), underpinned by EU legislation.
<i>Contracts – programme level</i>	Grant agreements outline corporate terms and conditions but few bespoke outputs other than high-level programme outcome.	Grant agreements outline corporate terms and conditions other than high-level programme outcome. Increasingly regular reporting and reviews with UK Gov. to monitor and assess progress/performance.	Funding agreement with EC includes targets and milestones, with underpinning legislation determining rewards/penalties for meeting/missing both financial and output targets.
<i>Payments – programme level</i>	Annual payment profile not linked to achievement of expenditure – but is bespoke for each Deal.	Annual payment profile not linked to achievement of expenditure – advance principle through Section 31 grant determination	Payment profile linked to achievement of outputs and expenditure – arrears principle

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<b><i>Project management and governance</i></b>			
<i>Appraisal of projects</i>	Appraisal activity within the City/Growth Deal Regions. Decisions by Joint Committee and Accountable Body. No discreet eligibility criteria defined. Appraisal through Five Case Model	Appraisal activity within the LEP. Decision of LEP subject to Accountable Body signoff. No discreet eligibility criteria defined. Appraisal through Five Case Model	Appraisal activity and decisions within WEFOWG. Prescriptive eligibility criteria and appraisal processes (agreed with stakeholder committee). Appraisal a modified Five Case Model (additions to reflect EU requirements)
<i>Monitoring of projects</i>	Monitoring processes, payment decisions and delivery of funded activities the responsibility of City/Growth Deal Regions	Monitoring processes, payment decisions and delivery of funded activities the responsibility of LEP's	Monitoring processes, payment decisions and delivery of funded activities the responsibility of WEFOWG
<i>Governance, audit and assurance of projects</i>	Governance, audit and assurance processes/controls the responsibility of City/Growth Deal Regions, in agreement with WG/UK Govt	Governance, audit and assurance processes/controls the responsibility of LEPs, in agreement with UK Govt. MHCLG conducts an Annual Performance Review of LEPs	Governance, audit and assurance processes/controls responsibility of WEFOWG, in line with assurance framework agreed with EC
<b><i>Potential strengths/weaknesses/features</i></b>			
<i>Track record / experience</i>	City/Growth Deal Regions are newly formed with less established experience of delivering grant funding programmes/processes	LEP's expanded role requires experience of delivering grant funding processes to improve with more direct oversight and support by UK Gov.	WEFOWG have long established track record of administering grant funding processes across wide scope of activity and types of funding.
<i>Capacity</i>	Administration of this grant funding a new responsibility, requiring the building of capacity and skills across the required grants process stages	With LEP's role and responsibilities growing, building capacity and developing skills remains an ongoing issue for some areas	Administration of grant funding a core activity for many years with capacity and skills spread widely throughout the organisation
<i>Local relevance</i>	Funding decisions a local level – greater confidence funded activities addresses local opportunity/need	Funding decisions a local level – greater confidence funded activities addresses local opportunity/need	Central funding decisions can lead to a lack of awareness of local sensitivities/needs
<i>Controls</i>	Internal LA audit controls and external scrutiny from WAO.	Internal LA audit controls and external scrutiny from NAO. Agreement of Local Assurance Framework a condition of funding	Internal audit controls and external audit scrutiny of grant funding decisions. Assurance framework with EC a condition of funding

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Page 8 of 7