

Future Regional Investment Model

The Steering Group is being asked to offer views on:

- the degree to which decision-making and responsibilities should be delineated between the national, regional and local levels
- what the decision-making bodies should be at each level and what capacity would need to be built to enable effective planning and delivery
- the potential need for ring-fencing or minimum requirements for different objectives at each level

The Issues

1. The Welsh Government is designing a new Regional Investment model to replace European Structural and Investment funds aligned with the Well-being of Future Generations Act, Economic Action Plan, wider policies and plans, and informed by stakeholders and international best practice (a separate paper is presented on policy scope).
2. Engagement to date has highlighted the need for both streamlining of regional partnership arrangements and the need for additional capacity relative to the scale of delegated responsibility.
3. A clear delineation of what responsibilities should reside at regional, national and local levels will be necessary to build appropriate capacity, reconfigure existing systems and delivery arrangements, and provide clarity for future discussions.

Welsh Government Position to date

4. The commitment to regionalisation is based on both political commitments and a strong evidence base that significant delegation and decentralisation creates stronger ownership amongst communities and stakeholders, delivering more effective policy.
5. The Welsh Government's Economic Action Plan and Regional Skills Partnerships focus planning and delivery on three functional economic regions: North Wales; South East Wales; and South-West and Mid Wales. A future model will need to align with Welsh Government policy to promote integration and avoid adding new layers; though in doing so there is recognition that a wide range of other regional delivery arrangements are in place in different policy areas.
6. A future model will need to be able to plan and deliver investments at a national, regional and local level. The commitment to simplification by both Welsh

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Government and stakeholders will be a challenge in the context of decentralisation and calls to ensure robust governance arrangements.

7. There are certain areas where the case for retaining national level investments is robust, taking advantage of economies of scale and avoiding duplication and competition between regions. This might include large scale infrastructure, national skills investments like apprenticeships, Financial Instruments or business support. Feedback to date emphasises that such national investments could, however, be more effective if developed in genuine partnership with regional and local stakeholders; better reflecting local and regional specificities.

Stakeholder Positions

8. There are many areas of broad consensus in terms of the replacement model¹:
 - A made-in-Wales replacement for European Structural and Investment funds via a single multi-annual funding stream, mixing capital and revenue
 - Welsh Government, working with a wide range of partners, setting a clear strategic direction, developing a replacement policy and funding framework, a common rulebook, agreeing national investments, providing oversight and guidance, and sharing best practice
 - Removal of geographical restrictions associated with EU programmes and including flexibility for cross-border investments, in particular with England
 - Greater delegation of decision making to regional and local areas, considering options to allocate regional and local funding via needs-based formulas
 - Utilisation of existing and emerging regional partnerships for planning and delivery, but ensure they are streamlined, inclusive and representative
 - Appropriate consideration of local investments, building on the experiences of innovative and community-led development, including examples such as the LEADER approach in the Rural Development Programme
 - Aligning and integrating systems / processes with wider funding programmes in Wales (e.g. common business case model, selection criteria, etc.)
 - More risk-based, proportional approach in audit, verification, innovative investments, third sector access, and monitoring and evaluation
 - Maintaining cross-cutting objectives of: environmental sustainability and equality; additionality; leverage of other investment

¹ A range of views have been put forward in response to the *Regional Investment in Wales after Brexit* policy paper, National Assembly for Wales inquiries, position papers, and in meetings and events.

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9. There were areas in which there were contrasting views, requiring further discussion and analysis:
- Single funding pot welcomed, but calls for ring-fencing for different purposes, including rural development, community-led development and social inclusion
 - Contrasting views on the mix of national, regional and local investments with the focus on each dependent on the respondent's view
 - Unclear on the level of delegation of decision-making and responsibilities at regional and local levels, with questions about the level of capacity and potential to incorporate incentive and sanction mechanisms in the model

Group Discussion

(1) Where should specific decision-making capabilities and responsibilities sit in a new investment model for national, regional and local investments?

10. There are a range of functions, decisions, and responsibilities associated with a long-term investment programme, in which a variety of organisations are delivering a range of projects aiming to contribute to common objectives and outcomes.
11. When designing the replacement funding model a decision is required for each area of responsibility as to whether it should be:
- Carried out by the Welsh Government
 - Carried out by an appropriate regional body
 - Carried out by an appropriate local partnership
 - A shared responsibility by any combination. This approach would still require clarity over the roles of each partner (e.g. approving plans / delivering plans)
12. Decisions and responsibilities might be different depending on whether investments are being planned and delivered at a national, regional or local level. At a high level these might include:

Programming

- Agreeing or revising investment plans or programmes for investment
- Monitoring and reporting on investment plans or programmes
- Developing a monitoring and evaluation system
- IT development and systems
- Rulebook setting out parameters for investment, dispute resolution, incentive and sanction mechanisms, reporting and oversight requirements, etc.
- Guidance, prioritisation and selection criteria, application processes, etc.

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Implementing programmes

- Managing budgets and financial risk
 - Selection of projects and entering into contractual arrangements
 - Monitoring of projects against delivery and associated reporting
 - Measuring success and evaluations
 - Auditing and verification
13. Stakeholder feedback suggests a role for the Welsh Government at national level in setting an overarching investment framework, developing a common rule-book to create a level playing field, and oversight of regional and local delivery through a common monitoring and evaluation system. This role is however yet to be defined and could range from close monitoring and verification, to lighter touch annual reviews, or a risk-based approach that flexes dependent on progress in delivery.
14. There is some risk of increasing complexity and fragmentation at a regional level if different approaches are adopted at each level of delivery. This could result in different IT systems, application processes, guidance, and an inability to compare regions or integrate investments. Meaningful delegation in practice is likely to conflict with ambitions for simplification. Delegation will require additional complexity within governance structures, requiring greater capacity, concomitant to the level of delegation.
15. Greater delegation would, however, provide regions with the greatest degree of autonomy and responsibility. This would maximise the ownership held by regions, which the OECD identifies as fundamental to delivering meaningful regional economic development.
16. With any degree of delegation we will need to consider how the system as a whole can avoid the potential risks of unhealthy competition between regions, displacement of economic activity between regions, or unnecessary duplication of activity between each level.

Discussion Point 1: What are the group's views on the roles and responsibilities that should sit at the national, regional and local level?

2) What the decision-making bodies should be at each level and what capacity would need to be built to enable effective planning and delivery

17. At the national level a central unit has been established in the Welsh Government, as recommended by the Finance Committee of the National Assembly for Wales, to take forward the development of successor arrangements on a cross-Government basis.

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18. The current European Structural and Investment funds are delivered by the Welsh Government, though each fund operates under a rulebook set by the European Commission, ensuring open and fair access to related funding programmes and a degree of certainty for stakeholders.
19. There have been calls in engagement to date for a central unit to be maintained in Welsh Government to oversee delivery at the national level, building on the expertise of WEFO and other Managing Authorities in Wales, but significantly adapted to deliver the different functions needed in the new model.
20. At the regional level there are a range of partnership structures, with some work underway to understand the existing arrangements (see draft regional mapping paper). The EAP also intends to work with regional partnerships in the regionalisation of economic development policy in Wales. There are separate regional skills partnerships, and City and Growth Deal boards.
21. An early decision will be needed on the most appropriate partnership structures to utilise and whether adjustments will be required to ensure they are sufficiently inclusive and representative. Capacity building activities can then take place to address gaps, in line with delegated responsibilities.
22. There may be different legal arrangements required, dependent on the scale of delegation. If funding is delegated and funding decisions made, for example, requirements for managing public money will need to be met.
23. Concerns have been raised by some stakeholders about the risk of organisations that make decisions at both national and regional levels 'capturing' funding, or the risk of 'sharing out' funding. These issues will need to be further explored in the design of a new system and in how decisions will be made.
24. At the local level so far stakeholders have mainly pointed to existing Local Action Groups, but these are focused on rural areas. Creating new groups could have significant lead-in times and capacity building challenges. The appetite for managing funding may be lower, with the ability to make decisions on funding priorities more important.

Discussion Point 2: What are the groups views on which structures and partnerships would be best placed to take on relevant decision-making responsibilities at each level?

(3) The potential need for ring-fencing or minimum requirements for different objectives at each level

25. Stakeholders have raised concerns that a single flexible funding pot could see investment skewed to areas such as urban areas, not reflect community or local needs, or minimise efforts towards social inclusion.

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26. At an EU level the European Commission have introduced a series of different approaches to tackle similar issues, predominantly requiring minimum allocations for each investment programme in priority areas.
27. Ring-fencing or minimum allocations can ensure priorities are not lost but can reduce flexibility. National guidance might also lead to a one-size fits all approach, when opportunities in each area may differ between regions.
28. On the other hand, a recognition of the need to invest in these areas (absent earmarking) may not be sufficient to offer assurances investment in related areas will be delivered, but provides maximum flexibility.
29. A more dynamic approach could seek to negotiate differentiated minimum allocations in preferred areas based on objective measures (e.g. degree of rurality), though this would add some complexity.

Discussion point 3: Is there is a need to incorporate a degree of ring-fencing in the model design and, if so, how could this best be incorporated?