



Llywodraeth Cymru
Welsh Government

Regional Investment in Wales after Brexit

Securing **Wales'** Future

Contents

Summary	7
1. The Case for Regional Policy	9
2. European Structural Funds Legacy: Lessons Learned	14
3. Working in Partnership	16
4. A Future Without Borders	18
5. Investing in our Future	24
6. Our Approach	28

First Minister's Foreword



The decades of Wales' partnership with the European Union (EU) will leave a legacy on which we will build our economic future. The Welsh Government is best placed to lead this process and we are committed to working with our partners in Wales and beyond to design the most effective approach.

Our White Paper *Securing Wales' Future* in January 2017 set out the broad challenges for Wales associated with leaving the EU. EU investment has helped improve Wales' economy but parts of Wales continue to face structural economic challenges which will not magically disappear as we leave the EU: indeed, it is likely that Brexit will simply increase them. The need to maintain investment for regional economic development is more important than ever. Brexit must not be used to take money from our poorest communities. This document sets out the *Welsh Government's* approach to developing a regional investment policy after we leave the EU.

As some of the specific requirements associated with EU funding fall away we have the opportunity to work

differently, and we will develop new approaches over time, while retaining best practice. Policy will be focussed on places where it is needed, and not according to an artificial map. New and dynamic partnerships can be formed and we have the chance to innovate and link policies in fresh and imaginative ways.

This government is committed, through our national strategy Prosperity for All, to improving life for everyone in Wales. Continuing uncertainty over Brexit is damaging and we wish to work with the UK Government and other partners to plan for our long-term future. Our priorities for economic prosperity for the current Assembly term are set out in the *Economic Action Plan* (EAP). The regional investment approach we take from 2020 and beyond will build on the actions set out in the EAP and will focus on addressing the key structural challenges in the Welsh economy. We need a sustained, collective approach to enhance infrastructure, raise skill levels, boost entrepreneurship and promote innovation to support growth across all parts of Wales.

The Welsh Government takes our long term future seriously, as reflected in our commitment to the Well-being of Future Generations Act. Our aim is to see full integration between local, regional and national outcomes. We have a few years to run on our current EU programmes but the clock is ticking and now is the time to discuss the future. I hope partners across Wales will join with us to determine what approaches will work best for our country's future.

Carwyn Jones

First Minister of Wales

Preface by the Cabinet Secretary for Finance



When devolution began, the EU Structural Funds were one of the first big issues on our agenda. We have learned much from our partnerships within Wales and with the European Commission about what works. Just as important, we have learned much about what can be done better. Outside the EU, we will build on that legacy. Crucially, jobs and growth and people will remain at the heart of our approach.

Perhaps the most important single lesson is that we need the right kind of partnerships for success. We will work with business, local authorities, universities and colleges, the third sector and communities – partners who also know what’s best for our country. Together, we have learned how to design long-term programmes for regional economic development and how to test project ideas that will work. That is the legacy on which we will build.

We will work constructively with the UK Government on aspects of economic delivery but we will firmly oppose any attempt to centralise regional development policy in London. The UK Government’s “Shared Prosperity Fund” approach, if applied on a UK

basis and directed from London, would be an attack on devolution, and would risk reducing needs-based funding to our poorest communities.

There are four distinct reasons why the Welsh Government is best positioned to take the lead in shaping future regional policy, after Brexit. The first is because we have the experience of nearly 20 years of managing regional policy and regional funds. This has produced an important legacy of expertise in the design and delivery of effective regional economic services. Secondly, we have coverage. To translate regional economic policy into practice requires people on the ground. The Welsh Government has a significant presence in every part of Wales. Effective regional policy simply cannot be delivered remotely.

Thirdly, we have the partnerships already in place, at all levels, to go on making a success of this vitally important area. We have the national forums where the Welsh Government comes together, directly, with private sector interests, research organisations, local authorities, the third sector and public services. We have the regional partnerships increasingly

in place, with new developments to come in the future of local government and economic policy. And, at the local level, our experience of working alongside partners in the delivery of European funding means there is no part of Wales where we do not have existing relationships already operating and delivering together.

Finally, the Welsh Government is responsible for those other vital levers which are essential to the success of regional policy. In this paper we emphasise the need for an approach which combines investment in people and in places. It is the Welsh Government which has the responsibility for improving the skill base of population, so that we can grasp the economic opportunities of the future also it is the Welsh Government which has the responsibility to take forward those physical investments in transport, in energy and in our ICT infrastructure which will shape the places of the future. No other body is able to match these essential advantages in delivering an effective regional policy for Wales, both today and tomorrow.

Alongside our devolved responsibilities, we must also have a voice in important non-devolved areas. Future competition policy, possible bi-lateral free trade agreements, selective assistance, state aid and public procurement frameworks will all be important in shaping our future.

This document opens a dialogue. We outline a range of thoughts to stimulate discussion. We want to know what our partners think and we will continue that conversation in the period ahead. We are also looking beyond Wales and exploring opportunities to work with the Organisation for Economic Co-operation and Development (OECD) and others, building on international best practice. And we remain committed, after the UK has exited from the EU, to continue working with our partners and friends across Europe.

Leaving the EU presents many challenges but some opportunities too. We must think now, together, about the kind of Wales we want to build in the future and how best to achieve it.



Mark Drakeford

Cabinet Secretary for Finance

Summary

In the White Paper *Securing Wales' Future* (January 2017), the Welsh Government sets out six priorities for the UK's future, outside of the EU. One of those priorities is the importance of continued devolved funding and regional investment of at least the level Wales currently receives from the EU. This new policy document develops our thinking on the future of regional investment policy in Wales. We agree with the National Assembly's External Affairs and Additional Legislation Committee, in their inquiry into the future of regional policy, that our challenges must be approached with creativity and ambition, and that the Welsh Government is best placed to lead that work.

This new paper consists of five key elements.

Firstly, we make the case for continued regional investment. Our partnership with the EU has produced encouraging trends but structural weaknesses require sustained investment and we emphasise a focus on the long-term. Investments must be targeted geographically and based on evidence of what works while also stimulating fresh ideas and innovation.

The second element is the lessons learned from 20 years of EU regional policy. During this time we have worked with partners in communities, and with the European Commission,

and we have developed a strong evidence base of what works well. We have understood the merit of working strategically and investing in people and places - in a manageable number of projects - rather than trying to spread resource thinly, with a light touch central structure. Regional disparities remain a challenge and we can only address them by setting a national strategy underpinned by regionally designed and managed action plans.

The third element stresses our continued commitment to work in partnership with stakeholders across Wales. This is essential for success and the most important lesson from our engagement with EU funds. Open and transparent decision making must remain a priority. Partnerships must be strategic, strong and inclusive. Outcomes must be both people- and place-based and local, regional and national partnerships must be strategically linked.

Our fourth element is that Wales should remain and build on our tradition as an outward looking country. We will collaborate across borders and we will enhance our global economic effort. We will retain and develop international relationships and networks as part of our future economic development.

The fifth element relates to how future people- and place-based investment programmes could be

delivered. It considers governance, planning and finance and the need for transparent rules and criteria as we design future programmes. We must reflect future challenges rather than assuming that past practices will always provide the best template for what is to come. Our EU partnership will leave a strong legacy and we must face our future with confidence in our own collective capability.

Actions to make our approach a reality

- We call on the UK Government to make good promises made in the EU referendum campaign to ensure Wales is not a penny worse off as we leave the EU. This needs a permanent upward adjustment to the *Welsh Government* baseline of at least the levels received historically via the EU Structural and Investment funds with no spending constraints.
- We also call on the UK Government to confirm continued UK and Welsh involvement in European cooperation programmes, including Horizon 2020, ERASMUS+, Creative Europe and a range of European Territorial Cooperation programmes. Wales has had an effective partnership with the European Investment Bank and we call on the UK Government to remain a partner in this institution after Brexit.
- We will develop a framework for regionally-focussed economic development in partnership with stakeholders across Wales.
- We will consult on a set of core objectives and priorities, but include flexibility for regions to adapt regionally-specific investment approaches.
- This new model will provide the framework for utilising replacement regional funding and integrating investments from across the public, private and third sectors.
- Our investments will be based on a common set of rules that will be as simple as possible and reflect standards developed and set in Wales, avoiding creating new rules solely for replacement funds.
- Beneath the overarching framework, we will work in close partnership with regional partners to develop investment plans to drive growth in each region according to their specific strengths and opportunities.
- We will develop a framework for consistent implementation approaches that place greater planning responsibility and decision-making powers in the hands of regional partnerships, building capacity where necessary.
- We will ensure strengthened, but simplified, project appraisal, monitoring and evaluation processes are put in place to enhance the evidence base, inform delivery, and increase the visibility and oversight of investment plans.
- We will promote an experimental approach to regional development to strengthen the evidence base.

1. The Case for Regional Policy

Wales’ economic development partnership with the EU will leave a positive legacy on which we will build in future years. EU Structural and Investment funds have worked in Wales, helping more than halve the gap in economic inactivity rates between Wales and the UK since 2001. The core components of partnership, place focus, innovation and skills as a route out of poverty and a way of creating prosperity for all will continue to inform our approach. Jobs and growth and people remain our core concerns.

Persistent weaknesses remain in parts of our economy. Some areas continue to suffer from long-term structural issues and lag behind better performing areas. Lower levels of productivity, an older population, the effects of geographical peripherality, and adverse skills and industrial mixes are all challenges faced by different parts of Wales.

Progress and ongoing investment need

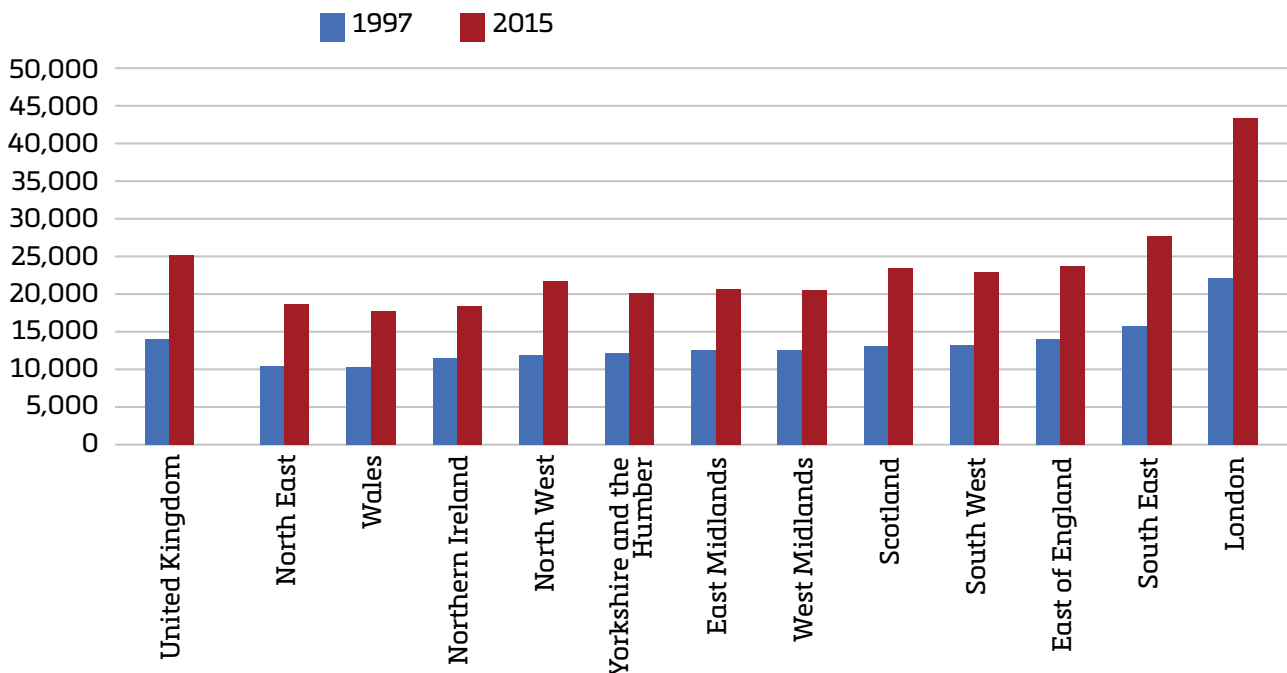
Historic disparities within the UK continue to widen, driven by stronger growth in London and the South East of England (Figure 1).

Indeed, the UK experiences the highest levels of regional economic disparities across Europe.¹

EU funding reflects relative need and has been targeted to help the Welsh economy and labour market recover from decades of industrial decline. This funding has proved vital to Welsh businesses, and communities. The EU funds have helped draw in wider private, public and third sector investment.

EU funding has supported investment in infrastructure, research and innovation, skills and targeted those individuals furthest from the labour market.

Figure 1: Gross Value Added (Income Approach), per head of population at current basic prices (1997 and 2015) [Source: ONS]



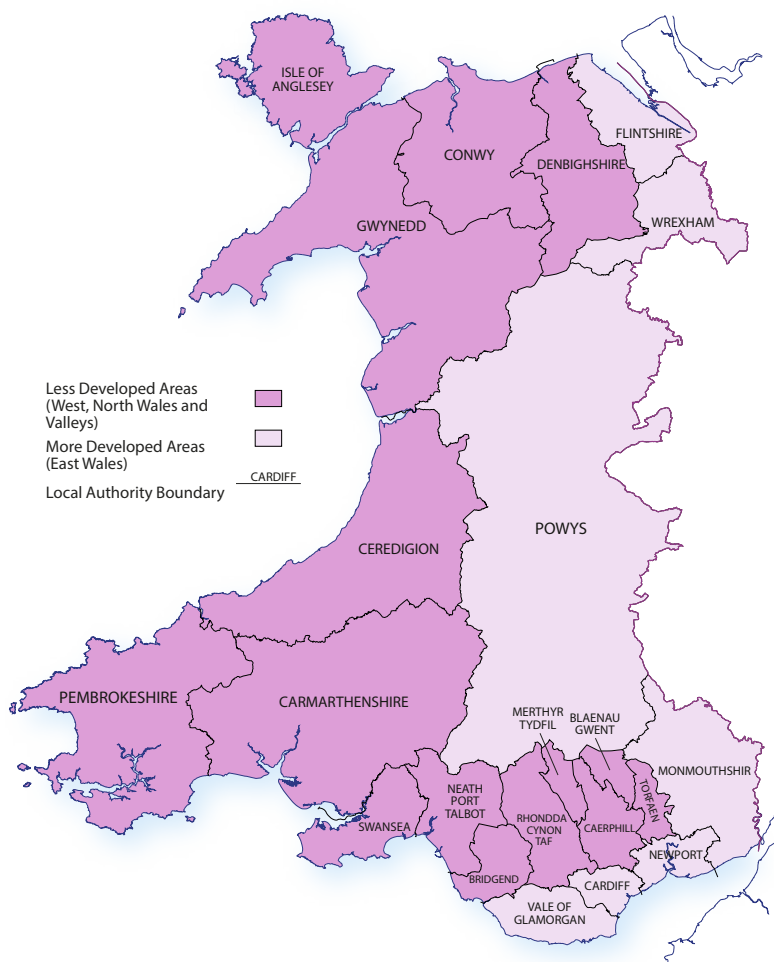
1 Regional Studies Association (2015) Spatially rebalancing the UK Economy: the need for a new policy model.

The impact of these investments may take decades to show full effect, but some positive long-term trends are evident. Wales has narrowed the gaps to the UK averages in a number of areas since 2000. At 72.5 per cent, the employment rate in Wales is well above the rate of 65-67 per cent experienced in the early years of the 2000s. The unemployment rate for Wales is now below the UK average.²

Up until the banking crash of 2008 and the great recession which followed, people in West Wales and the Valleys became better off every year, and year on year. The long years of austerity have created significant economic challenges but three successive rounds of EU Structural Funds will leave people in Wales better off, and better prepared, than they would otherwise have been.

Within Wales, particularly in terms of rising employment and falling unemployment, the effect has been striking. West Wales and the Valleys has closed historical gaps with both East Wales and the UK average. Improvements in employment (Figure 2) have been driven by falls in economic inactivity;³ areas specifically targeted by successive EU and Welsh Government investment programmes in Wales over the last 20 years.

Regions of Wales that will benefit from EU Structural Funds 2014 to 2020



2 ILO unemployment rates by UK country/English region and quarter (seasonally adjusted), August 2017 to September 2017 (17 November 2017), Stats Wales.
 3 The gap in economic inactivity rates (excluding students) between Wales and the UK has narrowed from 4.9 percentage points in 2001 to just 2.2 percentage points at 30 June 2017; West Wales and the Valleys saw a decrease of 7.1 percentage points in this time (from 28.4% to 21.3%) (Stats Wales).

Figure 2: Employment Rate in the Welsh Regions from 1996 – 2017
(Annual Population Survey, ONS)

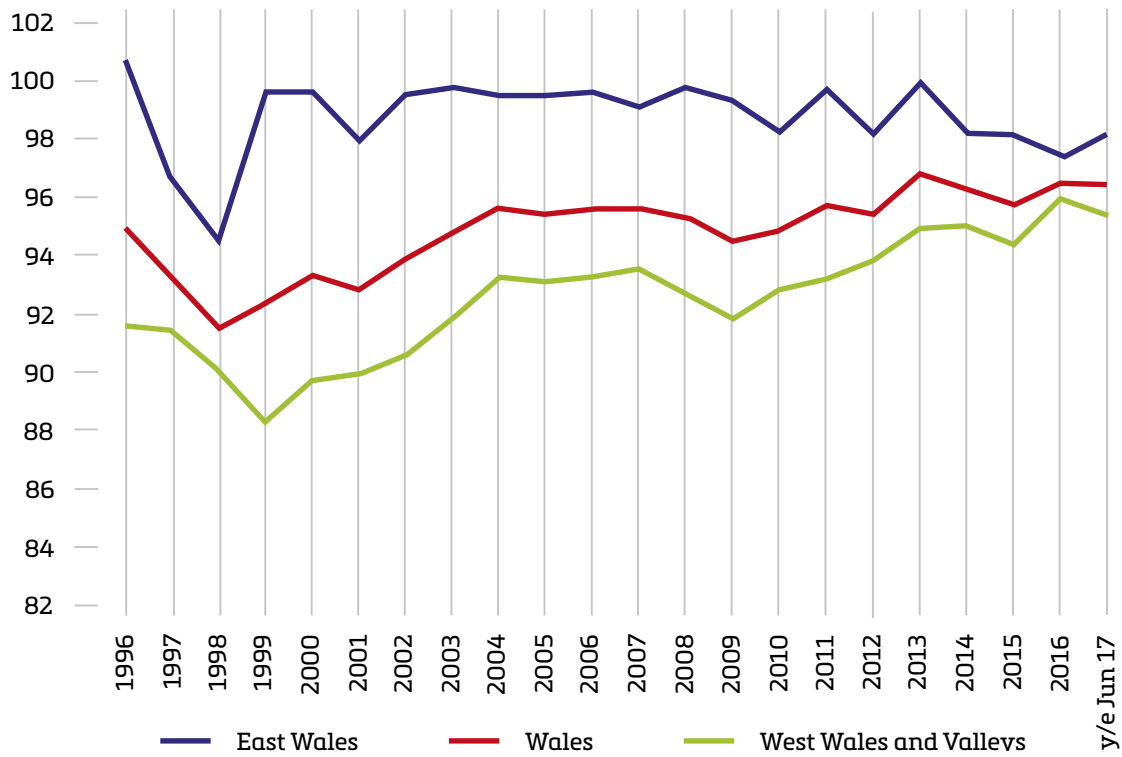
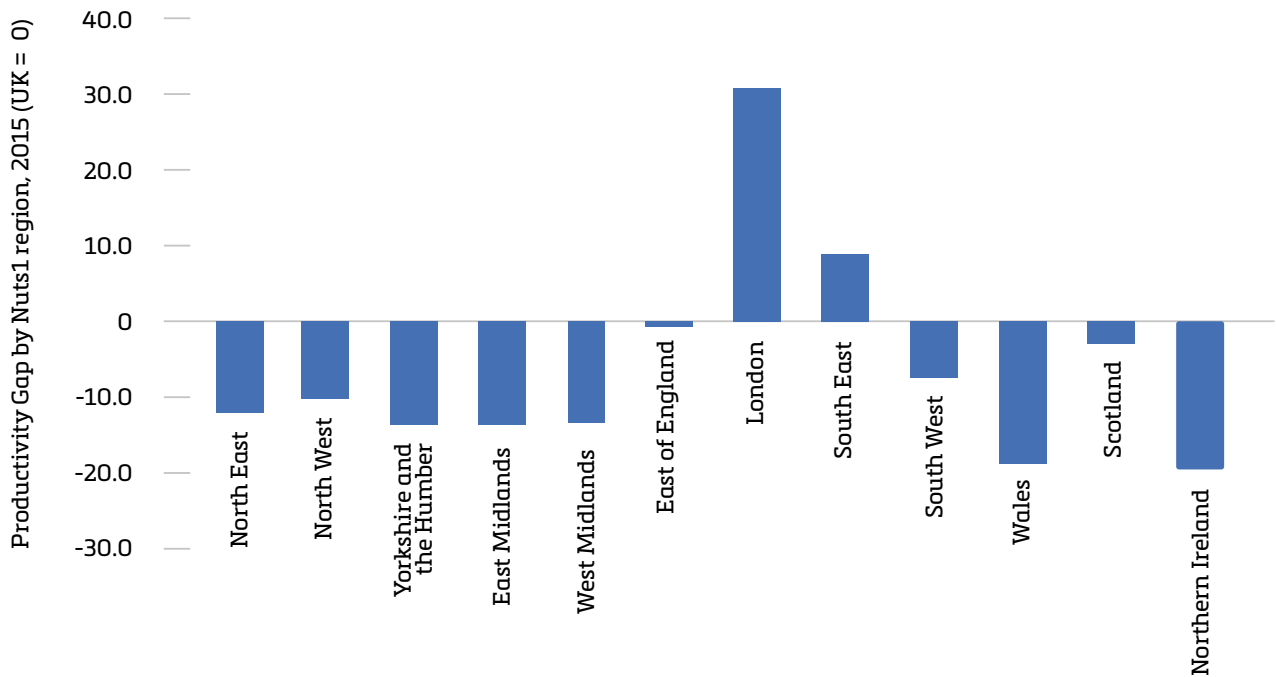


Figure 3: Welsh Government analysis of Sub-regional Productivity [ONS]



Despite this success, there remain significant challenges to address in the Welsh labour market. These include underemployment, with part-time workers working less than they want or need to, and at lower wages.⁴ There are continuing challenges in raising levels of economic activity, skills and productivity, as well as improving accessibility in rural areas to jobs and training. Low productivity remains a particularly important problem requiring long-term investment in skills, connectivity and innovation. Some of these challenges are shared across the UK and elsewhere, but they are compounded in Wales by other issues such as relative peripherality and an adverse skills mix.⁵ Taken together, the case for properly funded continuing regional investment in Wales is compelling.

The need for rebalanced investment across the UK is also evident in the persistent gaps between UK regions expressed in terms of Gross Value Added (GVA). This gap is largely accounted for by differences in productivity. In terms of productivity at the regional level, only London and the South East perform above the UK average (Figure 3). The gap between London and the rest of the UK is widening. These gaps remain large

and the outsized growth of London emphasises the need for greater investment in the nations and regions across the UK to support more sustainable and balanced people- and place-based economic development.

Inevitably, some of Wales' disadvantages, such as its geographical peripherality, will continue to exist after we exit the EU, regardless of investment. However, much can still be achieved by investments in improved connectivity and economic diversification, to improve Wales' position and better capitalise on our assets: from our natural resources, to our innovation strengths, to our key sectors.

We believe Wales is well-placed to capitalise on a new industrial revolution. We have natural assets – wind, waves, water – which can power a new generation of energy through this century. We also have the people who can be further up-skilled and equipped to make Wales an innovation nation and, once again, a source of achievement in the industrial world.

What works and new ideas

Independent evaluations⁶ confirm that many Welsh EU-funded projects have been

more effective than other forms of support. For example, unemployed participants on EU-funded employability projects are 46 per cent more likely to find work over twelve months than non-participants. Economically inactive participants are 84 per cent more likely to find work than similar economically inactive people who have not benefited from this support. For those entering employment, participation in EU-funded projects is associated with better-paid employment than would otherwise be the case. A quarter of participants in EU funded programmes aimed at up-skilling reported having achieved promotion since completing their course. EU funding has allowed new approaches to be trialled, for example via preventative actions such as investment in early years, mitigating the risks of dropping out of education, employment or training in later life. We need to build on this evidence-based, experimental approach, testing new ideas to maximise impact.

An increasing emphasis on partnership working and integrating investments, where appropriate, is also bearing fruit within the Rural Development Programme (RDP). This has included, for example,

4 Joseph Rowntree Foundation (2016), Prosperity without poverty.

5 For example, at the end of December 2016, of working age adults 37.4% in Wales have an NVQ Level 4 or higher, whereas 22.3% have below Level 2 or no qualifications: in England these figures are 40.2% and 21.1% respectively (*Welsh Government* analysis of Annual Population survey data).

6 Findings given relate primarily to the following evaluations: Synthesis report: impact of the 2000-2006 Structural Funds in Wales; ESF Leavers Survey 2009-2014 Additional Analysis; ERDF Support for Business evaluation; and Ex-Post Evaluation 2007-2013 Structural Funds.

the incorporation of previously multiple strands of rural business support, such as knowledge transfer, into the 'Farming Connect' service and a variety of former land management schemes into the current 'Glastir' programme. This has brought benefits of improved business planning and decision making, and better diffusion of best practice to improve the competitiveness of the agricultural and forestry sectors. The RDP has also strengthened community-led local development via the LEADER⁷ approach, creating improved collaboration and network benefits. A range of case studies, evaluations and best practice across all the funds is available on the Welsh Government website.⁸

Regional needs

Largely arising from a history of industrial decline, Wales has some of the most deprived communities in the UK. West Wales and the Valleys, for example, has GVA per capita £9,542 below the UK average.⁹ Based on figures from the 2011 census, Blaenau Gwent and Merthyr Tydfil had the 1st and 5th highest proportion of adults without any qualifications of local authorities in England and Wales

(36.0 per cent and 34.3 per cent respectively¹⁰). Despite significant improvements in the Welsh economy and labour market over recent years, the Joseph Rowntree Foundation estimates that more than 20 per cent of the Welsh population faced relative poverty in 2014-15.¹¹

The growth in employment levels across Wales is one of the encouraging aspects of the recent economic narrative, but there remain persistent jobs shortages in particular areas. The Bevan Foundation reports, for example, that Blaenau Gwent, Caerphilly and Rhondda Cynon Taff have "half the number of jobs per head of working age population compared with the UK average".¹² These regional disparities are long-term challenges and point to a need for a more granular understanding of the specific needs of different places. In this way we can ensure all parts of Wales can benefit from economic growth.

The years of our partnership with the EU will leave a positive foundation which is evidenced in the trends illustrated above. However, the evidence is equally clear that long-term economic challenges can only be addressed

through sustained long-term interventions. Moreover, a range of economic analyses (including those cited in our White Paper *Securing Wales' Future*) highlight the likelihood that leaving the EU will damage the economy of the UK as a whole – with Wales particularly vulnerable. A continuing commitment from the Welsh Government and our partners to our communities, particularly those that are disadvantaged, backed by continued needs-based funding, is vital. The solutions lie within the energy contained in those communities and our collective mission is to continue working together to build the future we all want. There is a clear ongoing need to continue investing in the regions of Wales beyond Brexit.

7 'LEADER' derives from the French "Liaison Entre Actions de Développement de l'Économie Rurale" which means, 'Links between the rural economy and development actions'.

8 For example: www.gov.wales/funding/eu-funds/?lang=en; and www.gov.wales/topics/environmentcountryside/farmingandcountryside/cap/wales-rural-network.

9 Gross Value Added (Income Approach), per head of population at current basic prices 2015, ONS.

10 2011 Census, ONS.

11 Joseph Rowntree Foundation and Bevan Foundation (2016), Prosperity without poverty.

12 Bevan Foundation (2016), Economic Priorities for Wales.

2. European Structural Funds Legacy: Lessons Learned

Within Wales, early experience with different EU funding sources resulted in divergent delivery approaches, from which we have learned and which will help shape our new regional investment model after leaving the EU.

Existing approaches to EU regional and local investment

The Structural Fund programmes have transitioned from an initial, relatively freely organised ‘bottom-up’ approach, with more than 3,000 projects supported between 2000-2006, to a more strategic approach including around 300 projects planned for the 2014-2020 budget period. A focus on far fewer but more substantial projects, with more clearly defined outputs and outcomes, has produced better and more strategic results. Programmes now aim to integrate national, regional and local investments so that they complement each other and this, we believe, is the right model for the future. Furthermore, the lifting of current EU constraints should enable partners to integrate related and cross-cutting policies in a closer way for even greater strategic benefit.

The existing approach aims to build tailored regional and local investments on the ‘backbone’ of a core national offer of support for individuals and businesses

across Wales. This includes major interventions such as apprenticeships or access to finance for businesses via the Development Bank of Wales. The European Investment Bank (EIB) also makes a significant contribution to economic development in Wales and we continue to argue that the United Kingdom should remain a partner of the EIB after Brexit. Regional projects aim to address specific bottlenecks to growth or take advantage of new opportunities. For example, investments in the A465, A40 and A55 are helping to tackle pinch-points on the critical East-West road networks, while investments in marine energy are supporting the development of demonstration zones to help drive this sector in Anglesey and Pembrokeshire.

Functional economic regions across Wales currently provide the focus for regional prioritisation of many EU investments in Wales, supported by a regional-proofing process for nationwide investments. This should ensure that pan-Wales investments are responsive to regional opportunities and complemented by dedicated support tailored for each region, although we do not doubt there is still potential to make this more effective. Regional strengths and opportunities are identified by regional partnerships, such as the North Wales Economic

Ambition Board, with investment targeted to help deliver those opportunities. These functional areas align closely to emerging regional approaches for local government reform and the regionalisation of economic development policy.

Investments are also made at a local level via community-led development. The LEADER approach under the RDP is a form of Community-Led Local Development, which empowers local communities (via Local Action Groups) to develop local strategies and provides them with resource to deliver prioritised investments. Through a process of stakeholder engagement it builds the capacity and confidence of target groups, fosters co-operation, identifies the problems faced and opportunities available to an area and pilots potential solutions.

Opportunities to do things differently

A potential benefit of being outside of the EU will be the opportunity to work more systematically with functional regional areas that reflect the economic reality in each part of Wales, rather than being constrained by the current geographical and fund-specific limitations. We will no longer need to separate parts of West and East Wales artificially, or address the needs of rural areas, people, and businesses entirely separately.

We will work closely with local authorities, universities and colleges, the third sector and businesses across Wales to produce new regional plans as part of a new Wales-wide approach that is based on clearly articulated regional planning and partnership structures.

We will plan for the long-term, within the framework of the *Well-being of Future Generations Act*, and agree collective goals aligned to our funding streams. We will work with partners to agree the right mix of national, regional and local investments.

The UK Government must adjust the Welsh Government budget with a permanent uplift of at least the levels of funding from the EU to Wales and without restriction, in line with commitments made during the EU referendum campaign. Our intention, however, is not simply to replace existing EU programmes by other means.

This is an opportunity to think differently and work differently in ways which link polices together across portfolios and organisations.

Our new regeneration policy, and the work of the Valleys Taskforce, both offer early opportunities for us to learn lessons and explore new ways of regional working and new kinds of partnerships with roots across multiple policies.

Funding already exists that will need to be aligned to a new regional approach. For example, Local Government in Wales invests around £100 million a year in economic development and business support, and £500 million a year in transport.

The Welsh Government invests £1.4 billion a year in economic development and infrastructure.

City and Growth Deals also represent major investment opportunities across Wales, along with major private-sector led investments such as the Wyfla B nuclear power station and the proposed Swansea Bay Tidal Lagoon.

3. Working in Partnership

A new regional approach will require a strengthened commitment to partnership, allowing for the specific challenges and opportunities in Wales' regions to be identified and targeted. Partnership working and local engagement will need to be reinforced, for example through recognising international evidence on the importance of effective governance and capacity in driving successful regional economic development.

At a national level, we have established strong collective oversight of EU funds through the Wales Programme Monitoring Committee which brings together partners from, local government, business and enterprise, the third sector, education, environment, farming and rural affairs bodies and the Welsh Government to monitor the effective delivery of the programmes for the European Regional Development Fund (ERDF), European Social Fund (ESF) and European Agricultural Fund for Rural Development (EAFRD), and consider how the funds work together to achieve maximum impact. Looking beyond EU funds as we leave the EU, we need to build on these embedded collaborative partnership arrangements at a national level.

At a regional level the approach must recognise that different places face diverse challenges and opportunities, with each region needing to drive its own development.

Just as the Welsh Government is best placed to provide an overarching strategic framework for regional investment in Wales, it is partners within the regions – working jointly with the Welsh Government – who are best placed to identify the specific challenges and opportunities in their areas.

Regional partnerships and networks in Wales

There are a range of existing regional partnerships and networks which provide firm foundations on which to build enhanced planning and delivery arrangements for regional investments. Yet most of these currently have to work across the boundary between the EU-funded “West Wales and the Valleys” and “East Wales” regions. Outside the current EU policy framework there will be opportunities for these partnerships to have a greater role in strategic planning and informing decisions through a process of ‘co-production’. Collaborative regional working with partners is an essential part of public services in Wales. We will continue to strengthen our partnerships to meet the challenges of leaving the EU and drive forward joint

working, particularly in economic development and skills.

Below the regional level are a number of complementary sub-regional spatial partnerships, reflecting and addressing different opportunities within those regions. These include, for example, the Valleys Taskforce, Enterprise Zones, Local Action Groups as well as specific investment opportunities like Anglesey Energy Island or Marine Energy Pembrokeshire. These partnerships are all characterised by their wide membership across different sectors.

International evidence

The Welsh Government remains fully committed to working in close partnership with the European Commission to maximise the benefits from our current EU programmes up until their completion. This will in all likelihood (because of the structure of the programmes) stretch several years beyond the UK's withdrawal from the EU, until 2023. We will reflect on our decades of economic development partnership with the EU as a positive period of collaboration which will leave a lasting legacy.

An important part of that legacy is the recognition on our part of the benefits to Wales of approaching policy within an international framework. For this reason,

we have opened a dialogue with the OECD in this area and will seek further international engagement in future. Indeed, perhaps one of the positive consequences of Brexit is the stimulus to look further afield, including Europe but also beyond.

The OECD emphasises the importance of partnership working, supported by appropriate capacity building activities, in order to make a success of regional and local economic development. This will require us to assess and build sub-national capacity and strengthen the relationship between Welsh Government and regional and local stakeholders. OECD places great importance on multi-level governance, and the way national governments organise their interventions in different parts of a country and at what level.

Clarity regarding the roles and responsibilities of different actors is vital. We will thus develop an overarching strategic approach, including common goals and monitoring and evaluation arrangements. Beyond this we will look to support capacity to facilitate the development of joint planning and delivery arrangements at the most appropriate level – whether that is at the national, regional or local level.

The OECD has also championed the use of partnership groups to develop a formal functional planning and delivery framework, and this extends to decision making. We agree that open policy and decision making is crucial.

We have good examples of such partnership working in the delivery of our EU programmes and we will build on those experiences.

4. A Future Without Borders

Effective economic development can be frustrated by borders of both geography and bureaucracy. In future there must be no unnecessary borders within Wales. Equally, we must have flexibility to work with appropriate partners on the land border with England where doing so is beneficial to the Welsh economy. We must also ensure that we do not lose the excellent and creative partnerships which have been built up across the maritime border with Ireland.

The division of Wales into regions that reflected the primacy of EU statistical classification in determining eligibility for, and hence the management of, EU funding streams, was consistent with the EU-wide approach to regional allocation, but did not in all cases align with local level need. In future, this constraint will be lifted and we must use that opportunity to think afresh about the right principles to underpin the

development of rational regional and local partnerships. This must include consideration of the contribution that both rural and urban areas can make to regional economies, reflecting a more integrated approach.

Wales' economy is closely integrated with the UK economy, particularly along the England-Wales border. A new regional approach should encourage greater cross-border planning and investment to the benefit of Wales and the UK as a whole, while fully respecting devolved competences in these areas.

The EU's Ireland-Wales cross-border programme is worth some €100 million during the current financial perspective. It represents 20 years of relationships built around economic development; a store of human capital that is put at risk without continued access to this funding stream. We want to see this programme continue for the

long-term after we have left the EU. The Prime Minister in her Florence speech suggested the UK could continue to participate in some EU Programmes which are open to non-member states after we leave the EU: in our view, this must be one of those Programmes.

Wales is – and will continue to be – an outward looking country. We will want to maintain and build on our international networks, including through continued participation in collaborative programmes like Horizon 2020, ERASMUS+, Creative Europe, the European Territorial Cooperation programmes and their successors. Outside the EU we want to continue learning from best practice in Europe, and beyond, and we aim to remain part of international networks for that reason.

The Cardiff Declaration, approved by the Conference of Peripheral Maritime Regions General Assembly, 19-20 October 2017, Helsinki, set out the views of 160 regions from 25 European Countries and beyond including Wales. It states that:

“The CPMR:

- Underlines that continued participation of the UK nations and regions in the CPMR post-Brexit is unquestioned and invites nations and regions in the UK that are not currently members to join the CPMR.
- Underlines the importance of maintaining strong relations at sub-Member State level between the UK and the EU27 and the other European Economic Area (EEA) countries after Brexit.
- Calls for future frameworks for co-operation between the UK and the EU to provide scope for direct engagement between the UK nations and regions with EU27 regions, including through the participation of the UKs devolved nations and regions in future EU programmes after Brexit.

- Stresses the importance of maintaining strong cooperation in the Atlantic and North Sea regions (including the Channel), and the participation of the UK nations and regions in future EU Territorial Cooperation Programmes and in any future Macro-Regions in these areas.
- Underlines our strong interest in seeing continued participation of the UK nations and regions in other EU programmes after Brexit, including the successor programmes to Horizon 2020, Erasmus+ and Creative Europe.
- Similarly calls for future cooperation arrangements with the UK to enable good relations to be maintained with Norway and the other non-EU27 EEA countries.
- Advocates, in the case of no agreement being reached on a post-Brexit co-operation framework with the EU27, that the European Commission open the possibility for the UK Devolved Administrations to participate directly in future EU programmes and co-operation.”

Joining-up

As the UK leaves the EU it will be vital that funding streams and investments for economic development made at all levels – national, regional and local – are better co-ordinated and aligned. Simply replicating EU programmes in Wales is not an option. Brexit must be a lever and catalyst to bring together a broader range of national, regional and local investments.

Future physical regeneration programmes in Wales, for example, might be more closely aligned with wider economic development interventions, including targeted investments in skills and business development. Our regional economic development planning can also better reflect the different geographies of Wales and take

fuller account of the opportunities for growth in rural areas and the linkages between urban and rural areas as a driver for sustainable and inclusive growth.

Wales cannot – and should not – operate in isolation from the rest of the UK, especially those parts of England along our land border. We have close economic ties, for example, between Deeside and the Northern Powerhouse and between mid-Wales and markets in the Midlands. The Severn-side Strategy links the Swansea-Cardiff-Newport corridor with Bristol and Exeter. We must work pragmatically with neighbouring English regions for the mutual benefit of all.

The long-term challenges for the Welsh economy cannot be addressed solely by replacing

EU investment, nor even by better coordinating investments with our budgets. UK Government macro-economic policy and spending decisions can have the single most powerful effect on our economy. EU funding has helped mitigate some of the worst impacts of UK Government austerity, but UK-wide investment decisions must be more sensitive to the economic interests of all UK nations and regions. Cuts in UK public spending have a disproportionate effect in parts of Wales where an older and more dispersed population necessitates higher levels of public investment compared to other parts of the UK.

Major UK investments need to be regionally sensitive. The UK Olympic Games in 2012, for example, cost £8.9 billion¹³ and was promoted as being of benefit to the whole of the UK. Investment,

13 DCMS (2012). Available at: www.gov.uk/government/news/london-2012-forecast-to-come-in-nearly-400-million-under-budget.

however, was predominantly focussed on regenerating and improving connectivity and facilities within London. Put in context, the cost of delivering the Olympics could have financed regional investment in Wales, at current EU funding levels, for over 20 years. Recent UK Government decisions on rail infrastructure suggest that it continues to focus disproportionately on the needs of London and the South-East at the expense of Wales and other more peripheral parts of the UK.

This underlines the case for effective coordination of UK and Welsh Government policies, on the basis of shared sovereignty and with clear recognition of where responsibility for different interventions rest. Future collaboration must be based on genuine partnership. UK Government investments require closer coordination with the Welsh Government to ensure they work with, not against, the grain of Wales' economic policy. As we set out in our policy paper *Brexit and Devolution* (June 2017), this will require new forms of governance after we have left the EU. We advocate that a Council of Economic Ministers from the four nations meets at least twice a year to ensure coordination of policy across all nations of the UK.

Policy and Legislative Framework in Wales

Our Well-being Goals and Principles provide a clear framework for government decision-making and underpin our public services. Wales is one of the first devolved administrations in the world to put in place carbon budgeting and to embed the 'ecosystem approach' better to recognise the vital role Wales' natural resources play in supporting its economy and communities.

Central to this policy approach is recognition that individuals face different challenges and have different needs at different points of their life, such as the transition from education to work or when losing a job or up-skilling at work. The same is true when businesses reach certain 'tipping points' at which they might progress to a new stage, such as exporting or employing staff for the first time.

Places, in the same way as individuals and businesses, exhibit different levels of development, with different needs and opportunities. Rural and urban areas, for example, face different challenges but are closely interlinked. A tailored approach to place is therefore vital: one which recognises these differences, makes connections, and builds on area assets and expertise.

UK frameworks

Our governance arrangements within a post-Brexit UK are vital to effective regional policy. Currently, competition policy is applied within an EU-wide framework of regional and sectoral support. Within this, West Wales and the Valleys benefits from being designated an 'Assisted Area' because of the particular economic challenges it faces. Any downgrading of Wales' ability to provide state aid to businesses in the current Assisted Areas, or harmful interregional competition, would be very damaging.

In order to avoid such problems, and to deliver balanced economic development within the UK, it will be essential that the four national Governments work collectively to align appropriate economic levers such as trade policy, competition policy, labour market policy, rail infrastructure, energy and others. This should be achieved without undermining devolved or local scope for specific area-based policies and actions. Failure to produce coherence on over-arching UK-wide issues risks distortion or marginalisation of communities within UK markets, or else a 'race to the bottom' based on competing unregulated incentives.

Our transition from the EU will clearly require new approaches to agriculture and fisheries, with major implications for our economy and society. The Welsh Government is already in advanced dialogue with these sectors; working together to develop a shared view on best approach to the challenges ahead. New trade relationships and approaches to migration might also fundamentally reshape our economy and we have published on the latter our document *Brexit and the Fair Movement of People* (September 2017).

We explicitly and vigorously reject any notion of a UK centralisation of regional economic development policy, including the creation of a Whitehall managed 'UK Prosperity Fund'. Any such approach would be materially damaging to communities and unreflective of EU referendum voters' intentions.

A majority in Wales voted to leave the EU. They did not vote to become poorer and they did not vote to reduce or undermine devolution in Wales

Any proposed outcomes which leave Wales worse off financially, or with reduced powers, will be unacceptable.

Furthermore, the UK Government simply lacks the machinery on the ground effectively to devise and deliver regional programmes of this sort in Wales. It would be irresponsible for the UK Government to try to bypass the established partnerships and structures that we have built up over 20 years and any effort to do so would result in disruption, incoherence and ineffectiveness. The Welsh Government will not agree simply to administer funds where critical decisions are made in Whitehall. To do so would be a betrayal of devolution and the legitimate expectations of people and communities across Wales.

Some £370m annually of EU funds is allocated to Wales for regional economic development. This is allocated, not as a result of discretionary decision-making, but as a consequence of transparent, rules-based allocation based on objective data and criteria. After Brexit, this amount of money, as a minimum, must be allocated to the Welsh Government baseline as replacement for the loss of EU funding for regional economic development.

International collaboration

An important element of our decades of partnership with the EU is the opportunity to work collaboratively with colleagues from other countries. We have learned from shared best practice between European partners and Wales has itself been acknowledged as demonstrating international best practice in a number of areas of our delivery of EU programmes. Partners across Wales have embraced opportunities to participate in international networks and access collaborative EU funding for international projects. Wales currently contributes to, and has benefited significantly from, successful engagement in a number of centrally managed EU programmes, opening us up to new ideas and ways of working as well as sharing our experiences internationally.

Welsh students have benefited from the opportunity to experience education in Europe through EU programmes such as ERASMUS+ and Europass.

During 2014 alone, more than 2,000 participants were involved in Welsh international exchanges and between 2014-2015 Welsh organisations secured around £10 million of funds across 86 projects.

Welsh researchers have collaborated successfully in European research and innovation programmes, including Horizon 2020. Through this programme, Wales has attracted more than **€83 million** of Horizon 2020 funds, with 191 participations by Welsh Higher education organisations and businesses in 174 projects.

Contributing to this success has been additional European funding via the European Structural and Investment Funds, helping to level the playing field within the UK by building the capacity needed to enable Wales to compete for funds like Horizon 2020 and UK Research Council funding, and increasing the attractiveness of Wales as a partner for other regions and as a destination for investment. This is particularly important in addressing the disproportionate flow of competitive UK-based research

funds to institutions in the south of England.¹⁴ Programmes like Horizon 2020 also provide opportunities for businesses to collaborate with each other and work together towards common goals. This collaboration is vital if businesses are to remain globally competitive and retaining access to these funding streams is a vital part of the Welsh Government's work on Brexit.

Wales has a close relationship with the Republic of Ireland, based on trade, common values, culture and neighbourhood. Cross-border investment is made via the European Territorial Cooperation (ETC) programmes, which attracts funding of around £7.3m per year to Wales and creates opportunities for partners to develop shared, innovative solutions to common challenges. We call for continued funding to support this collaboration when we leave the EU, in keeping with existing precedents.¹⁵

The ETC programmes extend beyond our links with Ireland and offer the opportunity to work collaboratively with Member States across the EU and even further afield.

It is possible to continue to participate in these programmes as a 'Third Country' and we are keen to continue to build co-

operation models and develop best practice with our European partners and neighbours in this way after Brexit.

Networks will remain an important aspect of international collaboration. Welsh organisations are active participants, for example, in both the Vanguard Initiative on Advanced Manufacturing and Bio-based Industries and the European Regions Research and Innovation Network (ERRIN). Such networks have facilitated close and constructive working with many European regions. The Welsh Government is also an active member of the Conference of Peripheral and Maritime Regions, a major European regional organisation, and we are currently working with colleagues on the implications of Brexit for Europe's regions. We will continue to participate in key existing networks and we will seek new alliances of interest in future, both within and outside the EU.

In the year ending June 2017, 59.8 per cent of direct exports of goods from Wales went to destinations in the EU.¹⁶ Our overriding priority is to retain full and unfettered access to the Single Market and to avoid disruption to trade with the EU after Brexit. However, from a position outside the EU we will need to work hard to

14 For example, the South East of England and London received 44% of UK research council funding in 2015/16, compared to just 2% for Wales. See: www.rcuk.ac.uk/about/aboutrcs/research-funding-across-the-uk/.

15 For example Iceland, Norway and Switzerland participate as 'third countries' in the European Territorial Cooperation programmes.

16 Regional trade statistics, HMRC 2016. Data available - www.gov.wales/statistics-and-research/welsh-exports/?lang=en.

help keep Wales on the commercial radar in Europe. We plan to retain an office in Brussels after Brexit but also to open new offices in Canada, Qatar, France and Germany to help retain and develop our economic co-operation. We will also look at other opportunities in Europe and beyond. The Welsh Government budget agreement reached with Plaid Cymru includes £5m for Brexit preparedness, including business support, over two years.

Welsh Ministers are absolutely clear that leaving the EU does not mean that Wales is “leaving Europe”. Wales is part of Europe and always will be. This is a matter of trade, commerce and geography, certainly, but also of values, culture and civilisation. UK membership of the EU has made it easy for us to give practical expression to our European identity and our range of mutual interests. From a position outside the EU we will have to work much harder and pro-actively to retain this European dimension to our activity but we are determined to do so. In or out of the EU, Wales will continue to be a European nation.

Our collaboration with the European Commission has been very fruitful. If we succeed in our ambition of retaining full access to European programmes mentioned above – ETC, Horizon 2020, ERASMUS+ and others – and institutions like the EIB, then this co-operation will continue. In addition, we have

an opportunity to access and link into policy expertise elsewhere. We have already opened a dialogue with the OECD and we plan to deepen this in years ahead. Our aim is for Wales to always measure itself against high standards and we will seek partners and benchmarks from a range of international sources to help frame our ambitions.

5. Investing in our Future

We remain fully committed to delivering our current EU Structural and Investment (ESI) Funds programmes up to the end of this European budget period to benefit communities, people and businesses across Wales. In practice this could mean that we will continue to work in our current partnership with the European Commission until as long as 2023. Throughout this period we will work with the same diligence, duty and responsibility that we have always shown.

In our dialogue with UK Government we have been clear that on a recurrent basis the EU funds allocated to Wales for all programmes must be replaced in full by the UK Treasury. In technical terms this means that the Welsh Government Block Grant baseline must be augmented by some £680 million a year (adjusted for inflation) after Brexit.

The Welsh Government expects, and the Welsh people will insist, that the financial promises made during the EU referendum campaign should be kept.

We intend to build on some key elements of our current approach to managing EU funds in Wales. We strongly see the value of multi-annual programming to offer long term vision and clarity for investors. We see the need for clear and transparent criteria and processes for assessing project ideas, which ensure that each proposed intervention is rigorously tested, along with robust monitoring and evaluation systems. Throughout this document we have recognised the benefits of strong partnership within Wales and we intend to strengthen regional planning and delivery while retaining national oversight.

A key lesson from years of experience in this field is the need to deliver strategically, making national aims consistent with regional and local delivery built around people and places.

Having comprehensive plans or programmes in place which identify priorities for investment over the medium- to long-term provides the investor confidence to encourage different organisations to invest in the same vision. This is true, in particular, for the private and third sectors. This will also allow us to strengthen and align our programme delivery capacity.

A strong monitoring and evaluation system is essential. This must incorporate an appropriate appetite for risk. In measuring success we

must include the correct outcomes, including inequality, wellbeing, inclusion and environmental sustainability – as well as more conventional economic measures.

A simple and clear set of rules provides all partners with clarity about decision-making – it creates a level playing field. At the same time, the opportunity for simplification, where this is merited, should not be lost. Excessive bureaucracy has been one of the frequent complaints of EU programmes, and we are not looking simply to replicate EU programmes in Wales after Brexit. Instead, we want to take the best elements from our EU legacy and build a new future for the long-term. Equally, good regulation exists for a purpose – to protect workers and consumers, for example – and there can be no question of watering down standards designed to protect people and communities.

Good governance is vital and we want to continue our dialogue now about what will work best. Specifically, we want to know what our partners across Wales think. The highest standard of accountability is central to the Welsh Government's sense of mission and we will take into account findings from the Wales Audit Office and Public Accounts Committee and others.

We can already be clear on some key principles. Governance should reflect useful economic boundaries and not be artificially or awkwardly imposed. There is a major opportunity to align different policy strands in a fresh way and we must capture this in our arrangements. Partnership is central, where local government, businesses, trade unions, universities and colleges, rural and urban communities, and the third sector must all participate in shaping Wales' future regional investment policy. The Welsh Government (via the Welsh European Funding Office and the Rural Development Division) has been the key deliverer of EU programmes and it is essential we capture and use the experience which has been built up in the new context, without simply continuing established structures for their own sake.

There are opportunities to move more responsibility for planning and decision-making closer to citizens and this will require clarity about respective roles and responsibilities.

As a Welsh Government we are committed to a stronger regional approach. We must, in due course, realign resources accordingly.

A major opportunity for a new model will be to lever in significantly greater investment than could be achieved by EU programmes alone. Our EU programmes have been successful in attracting additional private, public and third sector investment – increasing the value and impact of investments. Yet, we can do more. In turn, this larger public commitment to our regions can attract even greater private and other investment in those areas, including via innovative financing models such as loan, guarantee and equity investment approaches.

In our *White Paper Securing Wales' Future* we draw attention to the very explicit and beneficial role of the EIB and we believe this has been under-examined in the UK debate on Brexit. We called very clearly for the UK to negotiate to remain a subscribing partner of the EIB after Brexit. No UK institution fulfils the same remit and the Welsh Government remains committed to a long-term relationship with the EIB.

The OECD notes that a complementary mix of national, regional or local approaches all working towards the same objectives can be very effective. For example, in Norway, 'development' or 'action zones'

help to target funding to specific geographical areas with the objective of making disadvantaged areas attractive places to live and work, thus ensuring that no place gets left behind. The OECD points repeatedly to the importance of effective multi-level governance. We must plan methodically to develop and mobilise structures built around voices in different parts of Wales.

Integrating investments

The Welsh Government aims to build on the integration between different investments which has become increasingly central to our ESI programmes. This has involved not only getting different EU programmes to work together more effectively, but also better integrating them with related investments across the public (including higher education and further education), private and third sectors.

Each EU-funded project is committed to working closely with the others, and networks have been established to ensure appropriate cross-referrals, joint promotion activity and joint investment approaches. For example business support interventions have been brought together under a 'Business Wales' banner which now provides: entrepreneurship support; business growth; innovation support; access to finance;

social enterprise support; and tailored support for farmers via Farming Connect.

Support to help individuals into employment now adopts a 'life-course' approach, recognising that those furthest away from the labour market often have complex and multiple barriers, with the journey towards employment sometimes being a long one. Interventions are designed so that individuals have a clear route through complementary and overlapping sources of EU and domestic support through to employment.

EU funding has also helped us to accelerate and extend flagship investment programmes like Apprenticeships or SuperFast Cymru – supporting quicker reductions in youth unemployment and faster rollout of broadband provision across Wales despite the challenges of skill deficits and topography.

Enhancing our transport infrastructure is a key priority over the next few years and will be essential to maintaining competitiveness as we leave the EU. The Welsh Government is investing in a modern, integrated transport network that delivers for communities across Wales. Both domestic and EU investment is being directed

towards major improvements to the M4, A55, A40 and A494, the delivery of a South Wales Metro, the development of a North Wales Metro, a new rail franchise, a ports development fund, the development of a third Menai crossing, and improved, more sustainable bus services.

Attracting additional finance

While there will be opportunities to design new funding arrangements, a key benefit of EU funding has been its ability to lever additional investment from different sources, including from the private sector.

EU funds must be invested alongside additional funds from the UK Government, Welsh Government, private sector, third sector, and others. This principle of 'co-investment' increases the likelihood of investments being successful, as different actors have a financial stake in the success of the project. It also encourages an alignment of investment approaches by the private, public and third sectors around common goals.

Innovative finance models, such as loans or equity investments and the Welsh Government's new Mutual Investment Model, are increasingly used as a mechanism to recycle funding for reinvestment. These

offer new ways to make limited funding stretch further, but are not suitable in all areas or for all types of investment.

The Welsh Government's new fiscal framework enhances our ability to use tax policy and borrowing powers to raise additional finance. The OECD suggests that the fiscal framework adapted for the needs and objectives of regional economic development should strive for quality and consistency in regulatory systems across levels of government. A strategic planning approach, such as via programmes, provides certainty and consistency for all, and medium- to long-term timeframes provide investor confidence for businesses and partners beyond the immediate period.

The OECD also recommends that governments strengthen the capacity and reach of economic development by mobilising private actors and financing institutions, where it is possible to do so.¹⁷ Co-financing with external partners has long been a tool to guarantee financial capacity and sustainability, and should continue as a central aspect of future regional economic development across Wales. The EIB, in particular, has been a major investor in Wales, complementing our EU programmes. This has ranged from investing in strategic infrastructure

17 OECD (2014), Recommendation of the OECD Council on Effective Public Investment Across Levels of Government, www.oecd.org/gov/regional-policy/recommendation-effective-public-investment-across-levels-of-government.htm.

like the Swansea Bay Innovation Campus, to improving access to finance for businesses via Finance Wales/the Development Bank of Wales, to providing expert advice on the development of the South Wales Metro. We urge the UK Government to negotiate partnership with the EIB after we leave the EU.

There is a clear role for the Welsh Government in setting out a strategic framework. This will set out priorities, put in place a simplified rules-based system, support capacity building in our regions to enable better planning and investment at a regional level, and establish strengthened monitoring and evaluation systems.

Doing things differently

This policy document marks a new point in the process of engagement and consultation on the potential shape of a future regional investment approach in Wales beyond 2020. There are significant opportunities to simplify administrative complexity and rules, in particular to seek a more proportional and risk-based approach to encourage innovation and more private sector investment, incorporating a tolerance for failure where entirely new approaches are trialled. At the same time we need to ensure a balance is struck between retaining those benefits of a clear rules-based framework, such as the results-focus developed over recent EU funding periods, and spreading those benefits across everything we do not just via one funding stream.

6. Our Approach

This document emphasises the need in Wales for continued regional funding and regional investment, replacing funding from the EU. The UK Treasury must add this as a permanent addition to the Welsh Government's Block Grant baseline. Our years of partnership with the EU will leave a legacy on which to build, but the job is by no means complete. We do not want simply to replace like with like. We want to be more integrated and ambitious.

There has been significant progress in deploying EU funding in Wales over the last 20 years. EU regional economic development funding has supported a change in investment culture and capacity to deliver investment programmes across Wales, with a greater focus on evidence, stronger monitoring, and careful evaluation of impact to help inform future investments. The partnership approach central to successive EU programmes is now mainstreamed in our policy development.

With our distinctive Welsh policy and legislative approach, underpinned by the resource of Welsh Government, we are best placed to develop an integrated set of investment plans, working in partnership across Wales. We will deliver a full range of public investment in each region, using replacement regional economic

development funds as a lever to bring partners together and attract additional finance.

We envisage a people- and place-based regionally-focussed model of economic development working towards nationally defined strategic outcomes. We will support each region to develop those plans, building capacity where needed, and work together to design investment approaches to drive growth based on each region's specific strengths and challenges. We aim to see a greater planning and decision-making capability within regions, building on our proposals for local government reform and regionally-focussed economic development.

Our overarching framework for investment will set out the rules for the use of replacement funding for regional economic development, recognising those funds are only part of the picture. Those rules will not simply replicate EU rules, but will be consistent with our investment principles for the use of public funds across the whole of Government.

Different places will, of course, have different challenges and opportunities, and flexibility will be needed to ensure each region is able to invest appropriately. Different industry and skills mixes may suggest variable investment strategies – as might different geographical or demographic features of a region. Just as

Welsh Government is best placed, working with partners, to provide an overarching integrated Welsh policy, each region is best placed to identify specific priorities in their places and for their people.

As a broad principle, policy and decision making should be made as close as possible to those whom it impacts. We want partners in each of our regions to have clarity on roles and responsibilities, decisions and priorities. We also recognise that delivering complex integrated investment plans will require new ways of working and realignment of resources. We will work closely with regional partners to develop plans which draw on our different knowledge and expertise.