

External Affairs and Additional
Legislation Committee

Inquiry into the future of regional policy - what next for Wales?

June 2017



National Assembly for Wales
External Affairs and Additional Legislation Committee

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National Assembly for Wales
External Affairs and Additional Legislation Committee

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The Committee was established on 28 June 2016. On 15 September 2016 its remit was agreed as:

(a) to examine the implications for Wales of the United Kingdom's withdrawal from the European Union and to ensure Welsh interests are safeguarded during the withdrawal process, in any new relationship with the European Union and in the intra-UK post-withdrawal arrangements for relevant policy, finance and legislation;

(b) to coordinate activity across Assembly committees in relation to point (a) above.

(c) to carry out the functions of the responsible committee under Standing Orders 21.8 to 21.11, with a consequential change to the remit of the Constitutional and Legislative Affairs Committee;

(d) to consider any other matter, including legislation, referred to it by the Business Committee.

Current Committee membership:



David Rees AM (Chair)
Welsh Labour
Aberavon



Dawn Bowden AM
Welsh Labour
Merthyr Tydfil and Rhymney



Michelle Brown AM
UKIP Wales
North Wales



Suzy Davies AM
Welsh Conservative
South Wales West



Mark Isherwood AM
Welsh Conservative
North Wales



Steffan Lewis AM
Plaid Cymru
South Wales East



Jeremy Miles AM
Welsh Labour
Neath



Eluned Morgan AM
Welsh Labour
Mid and West Wales

National Assembly for Wales

External Affairs and Additional Legislation Committee

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Chair's foreword

Following the referendum decision to leave the European Union, questions relating to the replacement of almost £2 billion that Wales receives in funding through the EU's regional policy became a key consideration. What would happen in the short term? What, if anything, should replace it? In short, what next for Wales?

We set out to look at these questions and our report identifies some of the issues that we face in the short term along with potential answers for what should happen in the long term.

The Welsh Government needs to articulate a clear vision for the future which encompasses well-being alongside the traditional emphasis on economic indicators. Planning for that should have started.

Our report highlights some of the principles for future policy and the Welsh Government will need to determine the best structures for the delivery of its future regional policy, looking outwards to the world to identify international best practice.

One of the messages we regularly heard during our inquiry was a plea for more of the same. We were disappointed with the lack of imagination, creativity and ambition underpinning this viewpoint. We are clear that if we fail to learn from the mistakes of the past we are doomed to repeat them.

The opportunities that will arise from Brexit to refresh our approach to regional policy within Wales that will tackle inequality and disparity in economic performance must be seized. Carrying on as we are is not an option and everyone - from the Welsh Government, to the private sector, our universities and the third sector - need to start thinking about fresh approaches to tackling some of the economic challenges we face as a nation. It is a call to arms that none in Wales should shy away from.

David Rees AM
Chair of the External Affairs Committee

Recommendations

Recommendation 1. We recommend that the Welsh Government sets out in its response to this report the steps it will take in preparation for any possible future currency fluctuations..... Page 11

Recommendation 2. We recommend that the Welsh Government clarifies how programme closure will operate post Brexit, and whether those programmes will be subject to EU law and raises these questions with UK counterparts to ensure that they are adequately addressed as part of any withdrawal agreement. Page 12

Recommendation 3. We recommend that the Welsh Government keeps us updated with progress on these matters to enable us to assess the direction of travel that is being proposed for the development of future mechanisms for addressing disparities in economic performance in Wales. Page 14

Recommendation 4. We are concerned that a one-off adjustment to the Block Grant, whilst acceptable in the short term, may pose risks in the longer term and therefore recommend that the Welsh Government ensures that funding is future proofed and examines the merits of an objective needs-based formula, agreed by all nations of the UK..... Page 17

Recommendation 5. We recommend that the Welsh Government continues to press the UK Government on:

- the need for the UK Government to bring forward proposals for a formal inter-governmental structure for agreeing funding allocations and resolving conflict along the lines of a UK 'Council of Ministers'; and
- the need for clarity from the UK Government on whether their views on the legal status of the powers for regional policy are in accord with the Welsh Government..... Page 18

Recommendation 6. We recommend that the Welsh Government works with all relevant partners to articulate a clear vision and purpose for future regional policy which makes the most of the opportunity for fresh thinking and considers the advantages and disadvantages in drawing up a new industrial strategy for Wales, post Brexit. Page 20

Recommendation 7. We recommend that any future policy should seek to measure impact using a broader range of indicators than solely economic indicators. Page 22

Recommendation 8. We recommend that the Welsh Government sets out in its response to this report how it will ensure greater simplification and flexibility in the rules governing regional policy after the UK leaves the EU. We would also welcome clarification on which aspects it would seek to retain from the current regime. Page 23

Recommendation 9. To inform the design and delivery of future regional policy in Wales, we recommend that the Welsh Government:

- commissions expert research on the effectiveness of its current policies and brings forward proposals for new policies based on best practice from across the globe;
- sets out in its response to our report how it will ensure that all relevant officials learn from international best practice;

The Welsh Government should set out the anticipated timescales for this research in its response to this report..... Page 25

Recommendation 10. We recommend that the Welsh Government evaluates whether more robust mechanisms for data collection and analysis are required for the purposes of designing and evaluating future regional policy and that the Welsh Government works with international experts, such as the OECD, in order to do this. Page 26

Recommendation 11. We recommend that the Welsh Government sets out how it will ensure that new regional structures in Wales are transparent and accountable to local people. Furthermore, the Welsh Government should ensure that rural areas in mid and west Wales are properly accounted for in the future design and delivery of regional policy. Page 29

Recommendation 12. We recommend that the Welsh Government considers which structural changes may be necessary or desirable to ensure that the structures in place for delivery of regional policy are fit for purpose after the UK leaves the EU. Page 29

Recommendation 13. We recommend that the Welsh Government retains strategic oversight and sets the direction for future regional policy in Wales whilst ensuring that future policy is responsive to local needs and that responsibility for delivery is clearly delineated..... Page 30

Recommendation 14. We recommend that the Welsh Government sets out how it intends, in addition to the strategies that are already in place, to work with the private sector to boost spending on research and development in Wales to ensure that innovation and productivity gains are central to future regional and economic development policy..... Page 33

Recommendation 15. We recommend that the Welsh Government sets out in its response to this report how it will take forward an innovation and engagement strategy in Wales after the UK leaves the EU. page 34

Recommendation 16. We call upon the Welsh Government, in its response to this report, to set out its preferred ambitions for the future of state aid and procurement rules after the UK leaves the EU..... Page 36

Recommendation 17. We recommend that future regional policy in Wales includes:

- continued support for education, skills and human capital;**
- continued support for investment in both physical and digital infrastructure;**
- improved collaboration between local authorities; further and higher education; local health boards; the private and third sectors;**
- sustained private sector engagement wherever possible; and**
- a more strategic approach to maximising the potential of procurement in stimulating economic development. Page 37**

01. Introduction

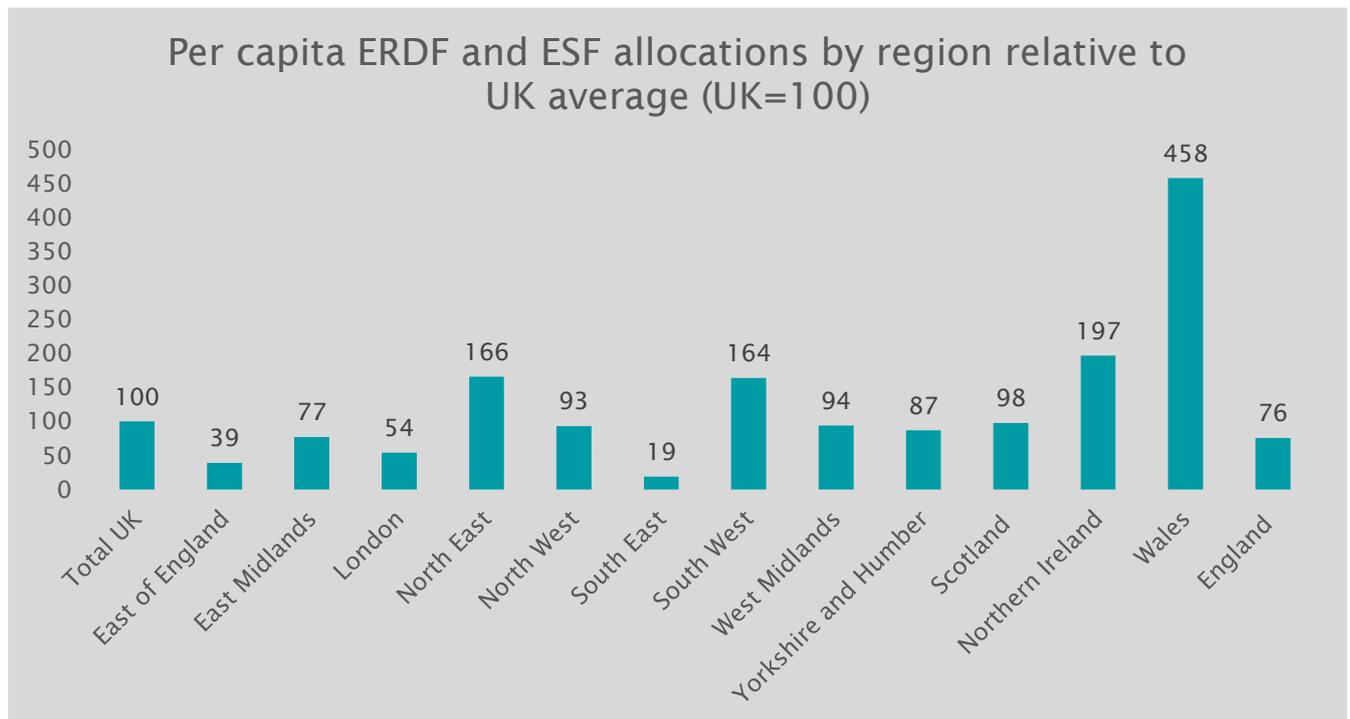
1. The European Union's regional policy is designed to support job creation, business competitiveness, economic growth, sustainable development and improve the quality of life of Europe's citizens.¹ In order to achieve these aims a total of €351.8 billion – almost a third of the total EU budget – has been set aside for this purpose in 2014-2020. Wales has qualified for the maximum level of financial support offered by the European Union in every single funding round since the year 2000.
2. The United Kingdom's withdrawal from the European Union means that Wales is likely to face a future without access to these funds. During a previous phase of our work, we looked at the **implications of Brexit for Wales**. It became apparent that we needed to look in more detail at implications of Brexit for regional policy and also to the future - where next for Wales?
3. Our inquiry set out to look at three things:
 - the status of existing programmes (including levels of commitment and questions around programme closure);
 - the future of regional policy in Wales (in the context of the United Kingdom outside the European Union); and
 - best practice elsewhere in the world, including alternative models that are used to reduce regional disparities in economic performance.
4. We held 11 oral evidence sessions with business, charities, higher education, local government and others and we received several written submissions. A summary of the evidence-gathering process is provided in Annex A.

¹ European Commission, '[European structural and investment funds](#)' – March 2017

02. Current funding

The Chancellor's guarantee

5. Although the European Structural Funds have not had the transformational impact it was initially hoped they would, the sums of money involved in the current and previous funding rounds are significant.² During the current funding round, Wales has been allocated a total of £2 billion in structural funding, of which £1.6 billion will go to West Wales and the Valleys and over £325 million to East Wales.³ On a per-capita basis, the level of support that Wales is set to receive is significantly higher than any other UK nation or region. Figures by the Sheffield Political Economy Research Institute show a per capita European Regional Development Fund (ERDF) and European Social Fund (ESF) funding allocation for Wales of 458 per cent of the UK average. By comparison, the next highest recipient is Northern Ireland which is calculated to receive 197 per cent of the UK per capita average.⁴



Source: Sheffield Political Economy Research Institute

6. Wales also receives support through the European Agricultural Fund for Rural Development (EAFRD) which funds the Welsh Government's Rural Development Plan.⁵ During the current funding round, the total amount spent per annum on the Rural Development Plan is £80 million.⁶ This sum includes transfers from Pillar one of the Common Agriculture Policy (CAP) and covers both socio-economic investments and environmental investments in land management and biodiversity.

² IOB 47 Cardiff School of Law and Politics, Dr Jayne Woolford;

³ Welsh Government, *European Structural Funds 2014-2020* – 16 May 2017

⁴ Sheffield Political Economy Research Institute, *'UK regions and European structural and investment funds'* – May 2016

⁵ Welsh Government, *'Rural Development Programme 2014-2020'* – 17 May 2015

⁶ *Paper 1 – Evidence from the Cabinet Secretary for Finance and Local Government on Regional Policy in Wales*

7. Following the referendum decision, we identified the status of current programmes and the outlook for funding in the current multi-annual financial framework (which will run from 2014 - 2020) as an immediate concern for regional policy in Wales. In October 2016, the UK Government announced a funding guarantee for projects up until the point at which the UK leaves the EU.⁷ The guarantee covered EU funding for structural and investment fund projects, including those agreed at the devolved level.

8. All those who gave evidence to our inquiry welcomed the Chancellor's guarantee and welcomed the certainty that it provided. However, we did hear from some witnesses who cautioned that, even with the funding guarantee, uncertainty was having an effect on projects on the ground. Phil Fiander of the Wales Council for Voluntary Action said that:

“There is still an awful lot of uncertainty, a lot of potential apathy to the current programme as well—because they don’t necessarily want to get too involved, because they’re afraid of the risks, even though the Treasury have issued a guarantee. There is still an apathy there that, ‘Actually, we don’t want to get involved at this present moment until we know what the future holds.’”⁸

9. The Cabinet Secretary for Finance and Local Government, Mark Drakeford AM, also welcomed the Chancellor's funding guarantee.⁹ In his paper, the Cabinet Secretary stated that the “outcome of negotiations following the triggering of Article 50 creates unprecedented challenges to delivery,” but that these were being managed by “close working with the UK Government”.¹⁰ The Cabinet Secretary expanded on the impact of this uncertainty in oral evidence:

“The people who started off on this round of European funding—the 2014 to 2020 round—started off with a rulebook that they knew they could rely on, they knew how the system would work, they knew when the end point would come, and they knew how funding would flow. And particularly when you’re working with a wide range of partners—local authorities, universities, third sector and private sector partners and so on—investor confidence and the willingness to come forward with proposals and to be able to plan ahead are very important. So, no matter how well managed the next couple of years will be, the fact of uncertainty is bound to be having an impact on the way in which those partners approach their use of European funding.”¹¹

Our view

Conclusion 1. We welcome the Chancellor’s guarantee of equivalent EU funding to 2020. Based on the evidence we received, we are satisfied that many of the immediate risks to regional policy funding in Wales have been mitigated by this guarantee, and by the actions of the Welsh Government to allocate funds.

⁷ HM Treasury, [Further certainty on EU funding for hundreds of British projects](#) – 3 October 2016

⁸ National Assembly for Wales, Record of Proceedings, [paragraph 132](#) – 6 March 2017

⁹ Record of Proceedings, [paragraph 14](#) – 20 March 2016

¹⁰ [Paper 1 – Evidence from the Cabinet Secretary for Finance and Local Government on Regional Policy in Wales](#)

¹¹ Record of Proceedings, [paragraph 7](#) – 20 March 2016

Allocation of funding

10. Many witnesses told us about the different ways in which their sectors are supported by structural funds during the current round. Representatives of Universities Wales and Colleges Wales stressed the role of EU structural funds in supporting work-placed learning and for bridging the shortfall in capital funding since the financial crisis.¹²

11. In his evidence, the Cabinet Secretary told us that Wales had committed 68 per cent of all funding for the current funding round by the end of 2016. This contrasts with a European average of 27 per cent.¹³ He also explained that currency fluctuations would potentially have an impact on the total value of EU structural funds coming to Wales. The Cabinet Secretary said:

“There is a vulnerability for us in relation to the parity of the pound sterling to the euro. So, we’re probably £150 million [correction: £130 million] or so better off in sterling terms than we were when the referendum was called on 23 June. Obviously, if the pound were to sink further, we end up with more pounds to spend here and that becomes a challenge towards the end of the period.”¹⁴

12. In terms of allocation and approval of funding the Cabinet Secretary said that the Welsh Government is on track to allocate 80 per cent by the end of the calendar year. He told us that:

“We are trying to accelerate the rate at which we approve projects that are already in the pipeline, while remaining clear that one thing we will not do to accelerate progress is to lower the quality threshold. I will not be willing to approve any project that does not demonstrate that it can make the impact that we need it to make. But we are confident that there are projects in the pipeline that will make that difference and we want to push them ahead.”¹⁵

Our view

Conclusion 2. We heard anecdotal evidence that uncertainty arising from Brexit is having a behavioural impact on those involved in bidding for, and the delivery of, structural fund projects.

Conclusion 3. We acknowledge that currency fluctuations may pose a challenge to the Welsh Government in seeking to use all of the EU structural funds that are available to Wales.

Recommendation 1. We recommend that the Welsh Government sets out in its response to this report the steps it will take in preparation for any possible future currency fluctuations.

Post-Brexit programme closure

13. Dr Jayne Woolford's submission to us as part of our initial work on the implications of Brexit for Wales highlighted a number of concerns relating to the extent to which the established regulatory

¹² Record of Proceedings, [paragraphs 7-13](#) – 13 March 2016

¹³ Record of Proceedings, [paragraph 14](#) – 20 March 2016

¹⁴ Record of Proceedings, [paragraph 15](#) – 20 March 2016

¹⁵ Record of Proceedings, [paragraph 17](#) – 20 March 2016

procedures around N+3 and programme closure will be applied after the UK leaves the EU. These concerns included:

- That programme closure in the context of Brexit would be complicated by audit requirements that continue beyond the end of the programming period (and therefore the date of the UK's departure);
- That legal requirements under the European Structural and Investment Fund regulations suggest that, within the context of programme implementation, the UK will be subject to all relevant aspects of EU law for a period of at least three years following withdrawal.

14. In answer to a question about programme closure, the Cabinet Secretary told us that the Welsh Government “take all the opportunities that we can to rehearse these issues with the UK Government” through the Joint Ministerial Committee on European Negotiations and through bi-lateral meetings with counterparts.¹⁶

Our view

Conclusion 4. We heard that EU-funded projects in Wales may have to abide by the requirements of EU audit rules and European law post-Brexit.

Recommendation 2. We recommend that the Welsh Government clarifies how programme closure will operate post Brexit, and whether those programmes will be subject to EU law and raises these questions with UK counterparts to ensure that they are adequately addressed as part of any withdrawal agreement.

¹⁶ Record of Proceedings, [paragraph 10](#) – 20 March 2016

03. The future of regional policy

The case for the future of regional policy

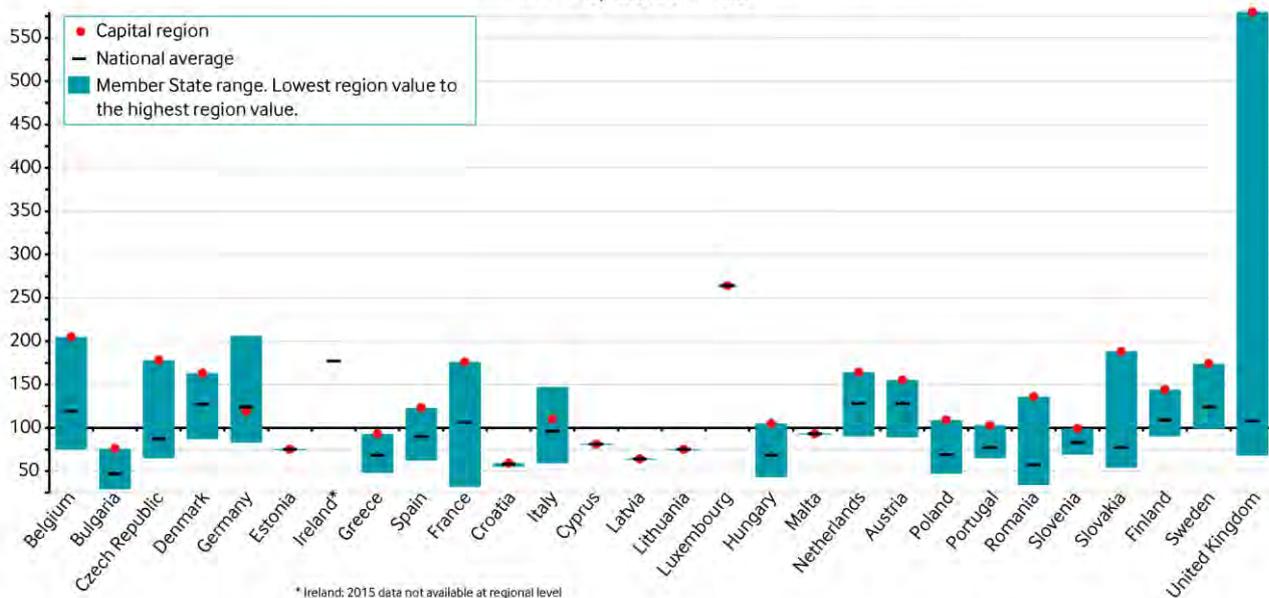
15. The European Commission allocates notional funding for regions within the 28 member states which are categorised according to their per capita Gross Domestic Product (GDP) as either 'less developed', 'transition' or 'more developed'. The largest amount of structural funding goes towards 'less developed' regions which have a per capita GDP of less than 75 per cent of the EU average. This status applies to two UK regions: Cornwall and the Isles of Scilly, and West Wales and the Valleys. West Wales and the Valleys has qualified for this level of support during the 2000-06, 2007-13 and the 2014-2020 funding rounds.

16. In 2015, figures from Eurostat showed total GDP per capita¹⁷ for Wales as 21,900 or 76 per cent of the average for the EU as a whole.¹⁸ The breakdown within Wales for GDP per capita was:

- East Wales: 26,000 or 90 per cent of the EU average; and
- West Wales and the Valleys: 21,900 or 68 per cent of the EU average.

17. It is also the case that in terms of GDP per capita, the difference between the UK's wealthiest area and the UK's poorest is greater than that of any other EU member states. This is illustrated below.

Regional GDP per capita by EU Member State in 2015
in PPS, EU28=100



18. A number of witnesses to our inquiry raised the issue of inequality within the United Kingdom in terms of economic performance. Professor Sascha Becker of Warwick University said that:

“[...] one thing to note is that the UK is, in a regional perspective, the most unequal country of the EU. It’s more unequal than Italy, for instance. People would always think that the north and the south of Italy are a crazy world apart,

¹⁷ NB: All GDP per capita figures are quoted in Purchasing Power Standard (PPS) terms

¹⁸ Eurostat, '2015 GDP per capita in 276 EU regions' – 30 March 2017

but, ultimately, the UK with Cornwall as the lowest per capita income part of the country and London, it's factor four in terms of GDP per capita and it has been like that for, roughly, 40 years.”¹⁹

19. Iestyn Davies of Colleges Wales made similar remarks about the need for a new regional policy, for the benefit of all the UK's nations and regions, post-Brexit. Mr Davies said:

“[...] I think we would all hopefully agree that some form of regional assistance, albeit from the Treasury as opposed to from the European Commission, needs to happen not simply because we are indulging in some sort of special pleading on Wales's behalf, but because the UK as a whole remains a very divided and very different country depending on where you sit. [...]”²⁰

Our view

Conclusion 5. We expect the Welsh Government to ensure that the views and interests of Wales are presented and argued for at meetings between the Welsh and UK governments. We would welcome assurances from the Welsh Government that the case made in this report are raised at both Joint Ministerial Committee (including the JMC-EN) and at bi-lateral meetings between the two governments, at a ministerial and at an official level.

Conclusion 6. We agree that the case for a new regional policy designed to address the significant disparities in wealth and economic performance between the regions of Wales is unequivocal.

Recommendation 3. We recommend that the Welsh Government keeps us updated with progress on these matters to enable us to assess the direction of travel that is being proposed for the development of future mechanisms for addressing disparities in economic performance in Wales.

Impact of previous funding

20. Whilst we did not set out to review the effectiveness of previous spending, the effect of EU structural funds did arise during the course of our inquiry. In the context of his EU-wide (rather than Wales specific) research, Professor Becker stated that:

“So, overall, our findings are that, when we look at Objective 1, which nowadays is called the convergence objective, which is the biggest pot in the regional policy budget, it does, overall, work, in the sense that you get out what you put in or a little bit more—there is a multiplier that's roughly above 1, but not much above 1. So, overall, the money the EU spends via the regional policy budget is not wasted, but it doesn't do any magic.”²¹

¹⁹ Record of Proceedings, [paragraph 38](#) – 27 February 2017

²⁰ Record of Proceedings, [paragraph 15](#) – 6 March 2017

²¹ Record of Proceedings, [paragraph 38](#) – 27 February 2017

21. Professor Kevin Morgan of Cardiff University told us that Wales has had a “wholly unrealistic” expectation about the transformative potential of structural funds. He added that the total value of these funds amounted to less than one per cent of economic activity in Wales.²² Professor Becker also emphasised the importance of geography, stating that “a lot of why regions will probably never really catch up with the average region is economic geography. Some places are just not as good places to do business.”²³

22. Ben Cottam of the Federation of Small Businesses told us that they were concerned about any decrease in future funding. Mr Cottam said that:

“I think we as FSB share a concern about any future constriction of funding that otherwise would have been available had we remained part of the European Union. Certainly, the case was made that in Wales there wouldn’t be a material impact on that. So, at FSB, we do have a concern about any future constriction.”²⁴

23. Mr Cottam went on to acknowledge that although there were “conversations to be had” about the quality of spending, funding should not decrease. He told us that:

“So, we would like to see some movement, some indication, that there will be the protection of that to the level that we would otherwise have expected had we remained within the European Union.”²⁵

24. Furthermore, Professor David Bell of Stirling University, in written evidence submitted to our inquiry suggested that:

“The argument that the Structural Funds offer the best possible use of scarce public resources does not have strong empirical justification. Nevertheless, there will be strong political pressure for their retention.”²⁶

The future of funding

25. A number of witnesses told us about the risks to the future funding of regional policy. In its written submission, the Welsh Local Government Association (WLGA) told us that “there is no guarantee of funding post-2020” and that “the impact on wider public finances is potentially devastating for Wales, coming on top of the reductions in public expenditure already forecast”.²⁷

26. In their submission to our inquiry, the Welsh Government told us that: “despite the progress to date long-term challenges remain, and appropriate long-term needs-based funding is essential to continue to invest in addressing those regional disparities”.²⁸

²² Record of Proceedings, [paragraph 109](#) – 27 February 2017

²³ Record of Proceedings, [paragraph 26](#) – 27 February 2017

²⁴ Record of Proceedings, [paragraph 175](#) – 13 March 2016

²⁵ Record of Proceedings, [paragraph 179](#) – 13 March 2016

²⁶ [02 Written submission from Professor David Bell](#)

²⁷ [WLGA, 170224 Item 04 Brexit Update and Emerging Position on Future Regional Policy](#) – 24 February 2017

²⁸ [Paper 1 – Evidence from the Cabinet Secretary for Finance and Local Government on Regional Policy in Wales](#)

27. The Welsh Government's White Paper on Brexit (issued jointly with Plaid Cymru) sets out their view that “EU funding benefits Wales by addressing need through a transparent and rules-based formula” and that “these principles must underpin the approach to the replacement funding for Wales from within UK resources when the UK has left the EU”.²⁹ It further states a position on future funding:

“the baseline of the Block Grant payment for Wales must be re-adjusted, at the point of exit from the EU, to reflect the real loss of funds in Wales arising from leaving the EU and taking into account funding which Wales would have otherwise reasonably expected from EU sources.”³⁰

28. Professor David Bell suggested that the Barnett formula approach of adjusting the block grant may not be desirable for Wales in that it did not measure need and would be contingent on any changes to spending in at a UK level. He explained that:

“Further to there being an adjustment to the block grant, there would have to be equivalent spending on a UK level that could be used to determine how that block grant varied after the initial adjustment. So, basically, all of these block grant adjustments work in the following way: in the first year, you’re no better off or no worse off; the amount of money transferred from Westminster to the Welsh Assembly is the equivalent of what it was in the previous year or what was planned. Subsequent to that, the amount that’s received depends on the change in equivalent spending at Westminster level. So, the question is: what would be the comparator at the Westminster level? So, you know, it might be something that the UK Government decides to cut, and as a result of that the size of the block grant coming to Wales contracts.”³¹

29. Professor Kevin Morgan had similar concerns about the risk to Wales over time of allocating regional policy funding via the Barnett formula. However, Professor Morgan also stated that there were risks associated with a central pot of regional policy funding sitting at a UK level.³²

30. In their report, the Industrial Communities Alliance (ICA) propose the creation of a new UK Regional Development Fund to “take over the responsibilities” of the EU structural funds and that the relevant share for Wales should be a payment “over and above the monies due via the Barnett formula”.³³ During oral evidence, Peter Slater of the ICA told us that it may be necessary for the UK Government to have a role in the overall allocation of the funding envelope for regional policy but that this should be taken forward on the basis of agreement between the four nations and the regions of the UK.³⁴

²⁹ Welsh Government, ‘Securing Wales’ Future’ – 23 January 2017

³⁰ Welsh Government, ‘Securing Wales’ Future’ – 23 January 2017

³¹ Record of Proceedings, **paragraph 64** – 27 February 2017

³² Record of Proceedings, **paragraphs 165-168** – 27 February 2017

³³ **PTN 1 - Industrial Communities Alliance report on future of regional policy**

³⁴ Record of Proceedings, **paragraph 16** – 15 May 2017

Our view

Conclusion 7. We are unanimous in our view that Wales should not be any worse off in terms of equivalent funding, as a consequence of the leaving the EU, than it would have been had Wales remained in the EU.

Conclusion 8. We conclude that a needs-based formula – which must be subject to the agreement of all the nations of the UK – for the allocation of funding for the purposes of regional policy is the best guarantor of equality and fairness between the UK’s constituent parts.

Conclusion 9. We heard about the risks inherent to the 'Barnettisation' of any future funding for the purposes of regional policy and the need to ensure that any future funding mechanism is 'future proofed'.

Recommendation 4. We are concerned that a one-off adjustment to the Block Grant, whilst acceptable in the short term, may pose risks in the longer term and therefore recommend that the Welsh Government ensures that funding is future proofed and examines the merits of an objective needs-based formula, agreed by all nations of the UK.

The future of powers for regional policy

31. The question of how regional policy should operate within the UK after Brexit was a key element of our inquiry. In her written submission, Dr Jayne Woolford explains that a number of scenarios could “fill the 'policy vacuum’ left by the UK's withdrawal from the EU.³⁵ Dr Woolford states that the UK could legislate for a UK-level territorial policy and cites the fact that the UK position “has been to ‘re-nationalise’ the policy with richer Member States funding their own policy to reduce regional disparities” for a number of years.³⁶

32. By contrast, the Welsh Government makes clear in its White Paper that regional economic development is a devolved area of policy. The Welsh Government states that:

“only the Welsh Government, working in partnership with local authorities, businesses and the third sector, has the strategic capacity to deliver micro economic development at community or regional levels. We will reject firmly any attempt by the UK Government to infringe this area of devolved competence.”³⁷

33. The Cabinet Secretary for Finance and Local Government expanded on this position during oral evidence. Mr Drakeford stated that:

“Chair, what we have said, and we say it in the White Paper and we say it very loudly every time, is that competencies that exist at the devolved level today remain at the devolved level when we leave the European Union. We don’t use the term ‘repatriation’ because we think it is misleading. Those competencies are here now. We choose to exercise them at the European level. When the

³⁵ [JOB 47 Cardiff School of Law and Politics, Dr Jayne Woolford](#)

³⁶ [Ibid.](#)

³⁷ [Welsh Government, 'Securing Wales' Future' – 23 January 2017](#)

European level isn't there, we will still be here and the competencies will be here as well. So, the danger we are pointing to is that, what sometimes appears to be a rather different view of the world at the Westminster end—that post Brexit, these competencies are free-floating and they could grab them first, is not our view of the world. So, it's not a present danger, but it is a risk in the way that these things might be thought of in the future, although we are very clear indeed as to where we see these things lying.”³⁸

34. The Cabinet Secretary also told us that should the UK Government wish to take control of these powers then legislation would be required at a UK level.³⁹ This tallies with the legal advice that we have received from our advisers in the National Assembly that, upon leaving the EU, constraints placed upon the Welsh devolution settlement, by virtue of EU law, in the field of economic and regional development in Wales would no longer apply. UK constraints - in the shape of reservations from the National Assembly's competence relating to aspects of regional policy (for example certain fiscal levers) - will continue to be in place, however, the Welsh Government and the Assembly will have greater freedom to shape laws for Wales on devolved topics. Any attempt to change this settlement would require:

- an Act of Parliament; or
- a Section 109 Order (under the Government of Wales Act 2006).

35. A detailed overview of the legal position is provided on page 19.

36. Professor Kevin Morgan raised concerns about the issue of responsibilities without resources. Professor Morgan said:

“[...] But, for me, there's also the issue of powers, the repatriation of powers. When they come back from Brussels, as it were, how are they then allocated between Whitehall and Wales? We have to be clear that we need the powers to do the job, but we also need to be careful, it seems to me, that the powers that are devolved, the responsibilities that are devolved, also come with resources. We don't want responsibilities without resources. That's a very, very important issue.”⁴⁰

Recommendation 5. We recommend that the Welsh Government continues to press the UK Government on:

- the need for the UK Government to bring forward proposals for a formal inter-governmental structure for agreeing funding allocations and resolving conflict along the lines of a UK 'Council of Ministers'; and

the need for clarity from the UK Government on whether their views on the legal status of the powers for regional policy are in accord with the Welsh Government.

³⁸ Record of Proceedings, [paragraph 101](#) – 20 March 2016

³⁹ Ibid. [paragraph 104](#) – 20 March 2016

⁴⁰ Record of Proceedings, [paragraphs 140](#) – 27 February 2017

BREXIT AND WELSH DEVOLUTION

What will be the legal position after Brexit?

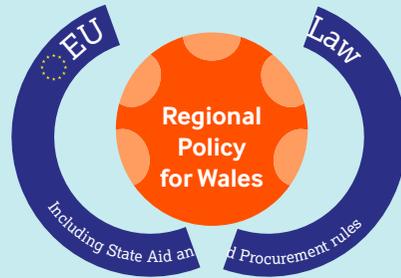
Pre-Brexit

The National Assembly and Welsh Government can only make laws for Wales that fit within EU law. Some people think that that has good results, others think the opposite.



Brexit

The Supreme Court has ruled that the removal of EU constraints, on withdrawal from the EU treaties, will alter the competence of the devolved institutions **unless** new legislative constraints are introduced (see path 1). In the **absence** of such new restraints, withdrawal from the EU will **enhance** the devolved competence (see path 2).



Path 2

if...Welsh devolution settlement is left as is

Post-Brexit

Powers may not be much different in practice because of existing reservations from competence. However, with the need to fit within EU law removed, Wales will have more freedom over what goes into its laws.



if...UK Government decides to change the Welsh devolution settlement. How can this be done?
There are 3 ways

01 Act of Parliament

- e.g. Great Repeal Bill or (more likely) later Brexit related Bills
- inserting new reservations or restrictions into Government of Wales Act 2006

Would this require the consent of the Assembly?

- Yes - as a matter of constitutional convention
- But UK Government might assert that the convention doesn't apply in the circumstances
- And anyway the Supreme Court has ruled that the 'requirement' for consent is not a legal one
 - i.e., the Assembly can't take the UK Government or Parliament to court if they ignore the Assembly's view.

02 Section 109 Order

- This is a special Order made by the Queen under section 109 of the Government of Wales Act
- This would definitely, legally, require the consent of the Assembly.

03 Subordinate legislation made by UK Government Ministers

This would be an 'indirect' way of restricting the Assembly's or Welsh Government's powers. It would not legally require the Assembly's consent but the Assembly or Welsh government would probably be able to get rid of it and replace it with Welsh law.

Post-Brexit



The Assembly and Welsh Government would not have greater freedom to shape laws for Wales on devolved topics than before Brexit. The need to fit within EU law would have been replaced by a need to fit within UK common rules.



04. Principles for future policy

37. During our inquiry, we heard from a number of witnesses who identified several key principles that could underpin any future regional policy in Wales.

Clarity of purpose

38. The importance of clarity of purpose was a key theme. We heard that a lack of clarity about the purpose of regional policy - and the funding earmarked for that purpose - had led to mixed results in the past. Paul Byard of EEF - the Manufacturer's Organisation told us that:

“If you think about the last two decades, we haven’t had a form of—I’m going to use the words ‘industrial strategy’ a number of times this afternoon—we haven’t had a form of industrial strategy to give a common purpose. I think if we all had that common purpose in mind, it would be far easier to look at the connectivity between all of these activities and that’s what fundamentally lacking.”⁴¹

39. Mr Grant Santos of Educ8 - a firm based in the south Wales valleys and who employ apprentices funded by the European Social Fund - took a similar view. He told us:

“I personally think, in terms of ambition, aspiration, we need our communities—and we are based in the Valleys—to buy into a common vision and a common aspiration for Wales. I think mindset is important. I think the impact of some of the programmes that we’ve dealt with in terms of European programmes have maybe not had the harder impact, but they’ve had softer elements in terms of self-esteem, confidence building, and helping people get closer to the labour market, even if they may not have actually got into the labour market, and I think we’ve got to challenge our communities to actually think bigger and actually buy into something different, particularly the Valleys. That’s where I’m from, and that’s where we’re based. I think it’s really important that they actually can see the leadership and the vision there and grab hold of it and want to be part of it.”⁴²

Recommendation 6. We recommend that the Welsh Government works with all relevant partners to articulate a clear vision and purpose for future regional policy which makes the most of the opportunity for fresh thinking and considers the advantages and disadvantages in drawing up a new industrial strategy for Wales, post Brexit.

Measuring and evaluating

40. We heard from some witnesses that a lack of evaluation and feedback had hampered the effectiveness of policy in previous funding rounds. Professor Kevin Morgan told us that:

⁴¹ Record of Proceedings, [paragraph 257](#) – 6 March 2017

⁴² Record of Proceedings, [paragraph 199](#) – 13 March 2016

“We don’t do enough monitoring and evaluation of our policies in Wales to create an evidence base to show us what works where and why. We really need a robust evidence base for that, especially now, as we’ve got this once-in-a-lifetime opportunity to design a new policy that is locally attuned. European structural funds—a lot of good things went on, in my view, in the design, but they were hugely over-prescriptive.”⁴³

41. The OECD, in its written submission to our inquiry, stated that measuring performance is increasingly important in regional policy-making and that “a lack of reliable data is often one of the main constraints for effective policies particularly at the sub-national level.”⁴⁴

42. Ann Beynon, Chair of the Cardiff Capital Region, made a similar point stressing the importance of measuring impact. Ms Beynon said:

“What concerned me most, I have to say, was this difficulty in measuring a WEFO project in a way that was economically real. So, the project would create jobs, and it would safeguard jobs, perhaps, but had it created economic prosperity? Those two things aren’t necessarily the same, so what are you measuring? That became a problem, that question. It goes back to the same thing: what are you going to measure?”⁴⁵

43. A majority of witnesses suggested to us that any future policy should measure more than just economic indicators. They suggested other, broader measurements of well-being and cited the Well-being of Future Generations (Wales) Act 2015⁴⁶ as a potential framework for future policy.⁴⁷

44. The OECD explained in its paper that the concept of well-being “is grounded in an understanding that economic conditions should be viewed as part of broader social and environmental systems and conditions”. The organisation has also developed a 'Framework for Measuring Well-Being and Progress' which encourages governments “to think of natural, economic, human and social capital as interconnected and as such, supports the idea of policy complementarity”.⁴⁸ At a regional level, the Framework considers “a combination of individual characteristics and local conditions, to get closer to what people experience in their life”.

45. The Cabinet Secretary agreed that there were limitations associated with using Gross Value Added as the sole way to measure impact. The Cabinet Secretary told us that:

“[...] another thing that we have learnt from other parts of the European Union has been a way of trying to be more precise about the way in which the investments we make through regional funds can be tracked to particular outcomes. And so, there is a European-wide attempt to try to capture things

⁴³ Record of Proceedings, [paragraphs 148](#) – 27 February 2017

⁴⁴ [03 OECD Written Evidence Paper on regional policy in Wales](#)

⁴⁵ Record of Proceedings, [paragraph 162](#) – 13 March 2017

⁴⁶ [Well-being of Future Generations \(Wales\) Act 2015](#)

⁴⁷ Record of Proceedings, [paragraph 112](#) – 27 February 2017; Record of Proceedings, [paragraph 88](#) – 6 March; Record of Proceedings, [paragraph 159](#) – 13 March 2016

⁴⁸ [03 OECD Written Evidence Paper on regional policy in Wales](#)

that are called ‘result indicators’. So, result indicators are more carefully calibrated indicators, where you can do more than just have an association between the investment you’re making and the outcome that you are securing.”⁴⁹

Recommendation 7. We recommend that any future policy should seek to measure impact using a broader range of indicators than solely economic indicators.

Simplification and flexibility

46. Many witnesses spoke about the opportunities presented by Brexit to start afresh and look at reducing the bureaucratic burden. Richard Morgan of Valleys Kids said that:

“So, I suppose that my plea for when you are doing it—when it’s Wales that’s doing it—is that (a) it’s less bureaucratic, but (b) that it’s local. We can’t do things to people. We have to do things with people. If people in communities are going to change, they have to change themselves. We can help them do it, and European funding has undoubtedly had tremendous success in doing that, but as a small, local organisation, it’s got more and more bureaucratic, more and more ‘big is beautiful’. The excruciating bureaucracy in accessing it has meant that it became outside even organisations of our size.”⁵⁰

47. Ben Cottam of the FSB told us about private sector involvement in previous rounds:

“I think what we have heard throughout the process, since the coming of Objective 1, is that the processes have been quite laborious. So, in the first tranche of funding, where businesses themselves were encouraged to participate directly, we knew that that was quite a difficult process, that it was a very bureaucratic process. I think that probably still remains.”⁵¹

48. Several witnesses, including Professor Morgan and Dr Woolford, emphasised the importance of flexibility in the design and delivery of future policy.⁵² Peter Slater of the Industrial Communities Alliance agreed, stating the lack of flexibility in the current system had “made it difficult” for companies and training providers to access funding.⁵³ He highlighted support for manufacturing and industrial policy as one area, currently not recognised explicitly in the structural fund programme, that could benefit from greater flexibility.

49. We also heard a number of arguments relating to the simplification of structures for delivery. These are dealt with in chapter 5.

⁴⁹ Record of Proceedings, [paragraph 68](#) – 20 March 2017

⁵⁰ Record of Proceedings, [paragraph 150](#) – 6 March 2017

⁵¹ Record of Proceedings, [paragraph 182](#) – 13 March 2017

⁵² Record of Proceedings, [paragraphs 144 and 147](#) – 27 February 2017;

⁵³ Record of Proceedings, [paragraph 28](#) – 15 May 2017

Recommendation 8. We recommend that the Welsh Government sets out in its response to this report how it will ensure greater simplification and flexibility in the rules governing regional policy after the UK leaves the EU. We would also welcome clarification on which aspects it would seek to retain from the current regime.

International best practice

50. During our inquiry, a number of witnesses pointed to international examples of best practice which could provide models that Wales could seek to emulate.

51. Councillor Phil Bale, speaking in his capacity as WLGA lead for European Affairs, stressed the importance of looking outwards:

“I do want to pick up a point that was made earlier about the Cardiff region being the wealthiest in Wales. If you actually look at the data, only Sheffield was below us in terms of league tables, if you look outside of Wales. And I think, if we hadn’t secured that city deal with the UK Government, we’d have fallen to the bottom of the league table in terms of productivity. So, we really need to work much harder as a region and as a country to make sure that we’re benchmarking against others in the UK and internationally, because there’s a danger that we look inwards, as others have talked about, and look at comparisons within regions, when we also need to be looking much more broadly internationally as well.”⁵⁴

52. Professor Kevin Morgan highlighted the case of the Basque Country. He told us:

“I think it’s useful to have a reference point that is comparable, and I do a lot of work in the Basque Country, for example. That is a comparable economy to Wales, in terms of a heavy industrial base. The Basques have had a more favourable fiscal settlement than us; there is no doubt about that. But it’s not just about money, it’s about the deployment of that money, how that money has been deployed, and how it has been embedded in a suite of policies that are integrated—a much more holistic approach to development. So, for example, back in the 1990s, Bilbao was reconstructing its economy in a very sustainable way, investing in connectivity. I came back to Wales in 1990; there was a debate about a metro for south Wales. In 1936, David Marquand’s father, Hilary Marquand, wrote a remarkable book called *South Wales Needs a Plan*, and in it was the heart of a regional transit system linking the Valleys with the coast. I think you can say we haven’t rushed into that decision. And, therefore, why have these things not happened? I would say, looking at Scotland, looking at the Basque Country, looking at other regions—comparable regions that I work in—that, at the end of the day, it’s about a combination of greater political will elsewhere, and greater awareness of the developmental challenge.”⁵⁵

⁵⁴ Record of Proceedings, [paragraph 123](#) – 6 March 2017

⁵⁵ Record of Proceedings, [paragraph 119](#) – 27 February 2017

53. Peter Slater of the ICA cited the Ruhr Valley in North Rhine-Westphalia as one example of a comparable, heavily industrialised area making the transition through post-industrialisation without the associated decline in relative economic performance. He stated that this had been achieved through investment in technical and higher education.⁵⁶

54. We also heard directly from Michael Koch-Larsen and Asger Andreasen of the Danish Regions about the situation in Denmark. A factual case study is provided in Table 1.

1. Case study on Denmark and the Danish regions

Denmark has a population of 5.7 million and is the second most decentralized country in the OECD. It is also the 5th least urbanised country with only 22 per cent of its population living in predominantly urban areas.⁵⁷

In 2007, reforms to regional and local government created five new regional governments: North Jutland, Central Jutland, Southern Denmark, Zealand and the Capital Region. These regions have been given responsibility for regional economic development.

Under a **Business Development Act** the regions have been given statutory responsibility for establishing regional growth forums that combine representatives from the regions, municipalities, the business community, knowledge institutions and other key stakeholders such as trade unions.

These regional growth forums are responsible for the development of regional business strategy, monitoring regional and local economic trends and for making recommendations and providing advice to the regional governments.

The activities of the regional forums are overseen by the **Danish Growth Council**. The Growth Council has responsibility for promoting coordination between the national growth strategy and the regional business development strategies.

Evaluation by the European Commission on the use of structural funds by the growth forums suggest that over the 2007-14 period the businesses who participated in forum activities had generated 8,300 more jobs than a control group who did not and had also increased turnover compared to businesses in the control group (who did not receive support). The alignment of structural funds to the delivery of regional development strategies is identified as a key aspect of the success of the forums. The need to coordinate activities across regional boundaries was highlighted as one area of development.⁵⁸

55. We explored some of the elements of the situation in Denmark in more detail during oral evidence. During our session Mr Andreasen emphasised the importance of recognising the differences in structural conditions between regions. He told us that in Denmark, the approach to regional policy focuses on the strengths of each region rather than direct competition between regions. Mr Koch-Larsen went on to explain that:

⁵⁶ Record of Proceedings, **paragraph 40** – 15 May 2017

⁵⁷ OECD, **Regional Outlook 2016 Denmark** – 2016

⁵⁸ European Commission, **Growth Forum Initiatives (Southern Denmark)** – March 2017

“One interesting thing that happened recently is that all regions, they agreed on opening up their regional schemes for businesses from all over the country. So, if you have some kind of initiative for the maritime industry, then the maritime industry from all over the country could apply to become a member of this initiative, even though it’s initially for only one region and financed from only one region. So, there is huge co-operation between the regions.”⁵⁹

56. Michael Koch-Larsen also emphasised the benefits of one body coordinating the different funds at setting the priorities. He told us that:

“What really works well is that we co-ordinate the effort from the social fund and the regional development fund and the regions’ own funds. That is, three funds, and the prioritisation of these three funds is done in the same body, with the individual growth forum, which includes all partners. So that’s really strong, and you get very focused spending of all the funds that are available for regional development, and that can only be done, I think, through the fact that, in Denmark, these two EU funds are administrated in the same ministry. So, they have the same perspective on business development and job creation as their only goal. If you have one ministry of business and another of, I don’t know, it could be a labour market or an industry or something, they would have different goals that are even more difficult.”⁶⁰

Our view

Conclusion 10. Our report has identified a number of important principles for the future design and delivery of regional policy in Wales. Consideration of the principles: clarity of purpose; measuring and evaluating; simplification and flexibility; and international best practice should be central to the Welsh Government’s thinking in the future.

Conclusion 11. We were extremely disappointed, however, with the lack of creativity and imagination displayed in the evidence we received. We believe that the opportunity to look afresh at regional policy now, and as we leave the European Union, must be seized by all those involved in and all those impacted by this area of public policy.

Recommendation 9. To inform the design and delivery of future regional policy in Wales, we recommend that the Welsh Government:

- commissions expert research on the effectiveness of its current policies and brings forward proposals for new policies based on best practice from across the globe;
- sets out in its response to our report how it will ensure that all relevant officials learn from international best practice;

The Welsh Government should set out the anticipated timescales for this research in its response to this report.

⁵⁹ Record of Proceedings, [paragraph 184](#) – 15 May 2017

⁶⁰ Record of Proceedings, [paragraph 196](#) – 15 May 2017

Recommendation 10. We recommend that the Welsh Government evaluates whether more robust mechanisms for data collection and analysis are required for the purposes of designing and evaluating future regional policy and that the Welsh Government works with international experts, such as the OECD, in order to do this.

05. Structures for the future delivery of regional policy

57. For the purposes of calculating funding allocations, and for administering the levels of support, Wales is currently split into geographical entities along the EU's NUTS-II model.⁶¹ Several witnesses argued that Brexit would provide an opportunity to end these territorial distinctions, particularly the artificial separation of West and East Wales.⁶² We also heard a number of arguments relating to the structures for future delivery of regional policy.

Regional structures

58. Several witnesses told us that the structural complexity of the public service delivery landscape in Wales could pose a challenge in terms of determining how to organise and administer future regional policy.

59. Ann Beynon, whose role with the Cardiff Capital Region is to advise the Welsh Government, argued that the structures of public service delivery in Wales needed to be looked at. She described the current landscape in Wales as a “spaghetti junction of layers” which was “not going to work”.⁶³ Ms Beynon went on:

“I would start by simplifying, because there are many regional layers in Wales that are administered by the Welsh Government and it is complex. Health boards are different; area statements are different; we have 22 LDPs, for example—do we need 22? So, there is a need for somebody on a Wales level to simplify all of that and to come to a decision.”⁶⁴

60. Tim Peppin of the WLGA contrasted working at regional level with working at a local authority level:

“I think the local authorities have worked together to do an analysis of their regions’ strengths and weaknesses, and I think it leads to a very different type of analysis. For example, on the planning front, each individual authority doing their own local development plan would come up with a certain set of proposals. When you look at that on a regional basis, you come up with a very different set of ideas of what would be the way forward. It opens up a lot more opportunities.”⁶⁵

⁶¹ The Nomenclature of Territorial Units for Statistics (NUTS) 2013 are set out in Commission Regulation (EU) No 1319/2013 of 9 December 2013. NUTS 2013 provide a uniform, consistent breakdown of territorial units for the production of regional statistics for the EU.

⁶² [Paper 1 - Evidence from the Cabinet Secretary for Finance and Local Government on Regional Policy in Wales](#)

⁶³ Record of Proceedings, [paragraph 118](#) – 13 March 2017

⁶⁴ Record of Proceedings, [paragraph 139](#) – 6 March 2017

⁶⁵ Record of Proceedings, [paragraph 45](#) – 6 March 2017

61. He went on to explain some of the potential benefits of adopting a more regional approach:

“I think one of the things with the regional working is we can start looking at packages of investment where you’re not so grant dependent. There may well be—. To give you an example, look at the metro in south-east Wales: if you start to talk about residential development around hubs or commercial development at stations, those are the sorts of things that have a commercial return. So, there’s a possibility of bringing in other sources of investment.”⁶⁶

City and Growth deals

62. The UK Government's programme of **City and Growth Deals** whereby bespoke packages of public and private funding and decision-making powers are agreed between central, devolved and local government were cited as a new form of regional assistance.⁶⁷ City Deals have recently been agreed for Cardiff and Swansea calculated to be worth £1.2 billion and £1.3 billion respectively.⁶⁸ A Growth Deal for north Wales is also currently under consideration.⁶⁹

63. Some witnesses had reservations about this model and believed that they should supplement rather than replace the schemes that are currently operating within the context of EU membership. Professor Becker raised concerns about the role of bargaining in determining regional assistance. He contrasted the situation with Germany which has a “fiscal equalisation scheme, which is somehow formula based and reshuffles money from the richer parts to the poorer parts, and that has a certain beauty to it because there is less behind-the-scenes bargaining, and more objective criteria being applied.”⁷⁰

Our view

Conclusion 12. We welcome the UK Government's programme of City and Growth Deals and the additional public and private sector investment that they will bring. We agree that it is important that future regional policy complements initiatives of this nature. We recognise, however, that not all areas of Wales are covered by these deals and take the view that no area of Wales should be overlooked by future policy.

Conclusion 13. We also recognise that some complexities exist in agreeing City and Growth Deals and note the need for both Welsh and UK governments to work together to ensure complementarity.

Local accountability and co-design

64. A number of witnesses including the WCVA and the FSB stressed that a move towards regional working should not come at the expense of local democratic control and accountability.

⁶⁶ Record of Proceedings, **paragraph 46** – 6 March 2017

⁶⁷ Record of Proceedings, **paragraph 31** – 6 March 2017; Record of Proceedings, **paragraph 39** – 6 March 2017; Record of Proceedings, **paragraph 52** – 13 March 2017;

⁶⁸ UK Government, 'PM visits Wales before triggering Article 50' – 20 March 2017; UK Government, 'City Deal: Cardiff Capital Region' – 15 March 2016

⁶⁹ UK Government, '**Secretary of State pushes forward with growth deal for North Wales**' – 31 March 2016

⁷⁰ Record of Proceedings, paragraphs 43 – 27 February 2017

65. Dr Jayne Woolford highlighted some of the advantages of greater community-led local development including the LEADER approach which entails a more locally engaged, participative approach.⁷¹ Dr Woolford argued that these approaches could be particularly beneficial in rural parts of Wales.⁷²

66. Richard Morgan of Valleys Kids told us that:

“My plea is that you have to do it locally. You have to do it with people. You have to do what people tell you they want. You have to be innovative as well because people will say, you know, ‘I want a swimming pool’ or ‘I want a paddling pool’; so, there has to be that access. It’s great to have access to Europe, but you have to do it with people, take them with you and motivate them to change.”⁷³

67. In the context of the Cardiff Capital Region, Councillor Phil Bale told us that greater openness around decision making was needed. Councillor Bale said:

“It is really, really important, though, when you look at the narrative around some of these arrangements, and these big sums of money, that you do connect with people. It has been a real challenge for us in the Cardiff capital region, when you’re talking about innovation, when you’re talking about digital and economy and skills: what does that actually mean to local communities and people when you’re knocking doors and talking to residents in your communities? So, we do need to translate that.”⁷⁴

Our view

Conclusion 14. Whilst we recognise the benefits that greater regional working can bring, we acknowledge the potential challenges for democratic legitimacy and accountability associated with the new regional structures that are being created.

Conclusion 15. We share some of the concerns expressed about the complexity of the public sector landscape in Wales and the implications that this may have on the future delivery of regional policy in Wales.

Recommendation 11. We recommend that the Welsh Government sets out how it will ensure that new regional structures in Wales are transparent and accountable to local people. Furthermore, the Welsh Government should ensure that rural areas in mid and west Wales are properly accounted for in the future design and delivery of regional policy.

Recommendation 12. We recommend that the Welsh Government considers which structural changes may be necessary or desirable to ensure that the structures in place for delivery of regional policy are fit for purpose after the UK leaves the EU.

⁷¹ Record of Proceedings, [paragraphs 116](#) – 27 February 2017

⁷² Record of Proceedings, [paragraphs 116](#) – 27 February 2017

⁷³ Record of Proceedings, [paragraph 152](#) – 6 March 2017

⁷⁴ Record of Proceedings, [paragraph 88](#) – 6 March 2017

Strategic oversight

68. In its written submission, the WLGA sets out its view of the Welsh Government’s role in delivering any future regional policy:

“The decision-making, governance, implementation and delivery of future funding and finance should be devolved to the regions, as is currently happening with the City Deals in South East and South West Wales and the Growth Deal in North Wales, thus negating the need for national Wales wide programmes administered centrally by the Welsh Government.”⁷⁵

69. In terms of the Welsh Government’s role, the WLGA stated that it should provide “an overall framework, setting key objectives and providing strategic national direction for economic development but not direct delivery of interventions”.⁷⁶

70. In his evidence, the Cabinet Secretary for Finance and Local Government set out the Welsh Government’s view on strategic oversight and local delivery. He told us:

“I think there are some lessons about national strategies locally delivered—that you can’t simply leave it to the local level altogether; you need a national strategic approach, but then recognise the importance of local delivery agents in making those things happen.”⁷⁷

71. The Welsh Government did not preclude a role for national delivery in certain instances. The Cabinet Secretary highlighted apprenticeships and nationally coordinated support for business as two such examples.⁷⁸ He went on to characterise his overall philosophy:

“Bringing people together and coming to the right answer, rather than just thinking that we are always the right answer ourselves, will be the way I think we would want to do it.”⁷⁹

Our view

Conclusion 16. We believe that getting the right structures for future delivery of regional policy will be key to the success of future regional policy in Wales. In order to maximise impact, the Welsh Government should look to set the overall strategic direction of policy whilst working with partners, particularly the private sector, to identify the best mechanism for the delivery of its strategic objectives. In setting the overall direction, the Welsh Government should also set clear parameters for effective monitoring and evaluation of outcomes.

Recommendation 13. We recommend that the Welsh Government retains strategic oversight and sets the direction for future regional policy in Wales whilst ensuring that

⁷⁵ WLGA, ‘170224 Item 04 Brexit Update and Emerging Position on Future Regional Policy’ – 24 February 2017

⁷⁶ WLGA, ‘170224 Item 04 Brexit Update and Emerging Position on Future Regional Policy’ – 24 February 2017

⁷⁷ Record of Proceedings, [paragraph 35](#) – 20 March 2016

⁷⁸ Record of Proceedings, [paragraph 111](#) – 20 March 2016

⁷⁹ Record of Proceedings, [paragraph 112](#) – 20 March 2016

future policy is responsive to local needs and that responsibility for delivery is clearly delineated.

06. Future approaches – research and innovation, collaboration, infrastructure and connectivity

72. Building on some of the principles that witnesses identified in chapter four, we also heard suggestions from witnesses about the priorities for future regional economic development approaches. Witnesses told us that key priorities for future approaches to regional policy should be support for collaboration, innovation, infrastructure and connectivity.

Research and innovation

73. In his report, considered by us as part of our inquiry, Geraint Talfan Davies of the Institute of Welsh Affairs looks at the position of Wales in Europe in terms of research and collaboration. His report highlights some of the challenges faced by Wales in terms of moving up the research, collaboration and innovation league tables. Mr Talfan Davies's report highlights a number of issues including:

- that the UK is 20th in the world league table of research and development expenditure as a percentage of Gross Domestic Product;
- that Wales is disproportionately reliant on EU funding for research and that only 10 per cent of the total is funded by the private sector (with universities responsible for almost all the remaining 90 per cent); and
- that, in the context of university-led research, the research base in Wales is lower than the other nations of the UK - in the ten years up to 2014-15, Wales had taken around 2 per cent of total research funding (in contrast to its 5 per cent population share).⁸⁰

74. In his evidence, Professor Kevin Morgan also drew attention to Wales's performance in successfully bidding for research funding relative to other parts of the UK, particularly Scotland. He told us that Wales needed to focus on excellence in order to make the most of research funding. Professor Morgan said:

“Sometimes in Wales, you encounter an attitude—I’ve encountered it quite a lot, to tell you the truth—where people will say ‘We’re not getting our fair share of framework funds’ or ‘We’re not getting our fair share of Innovate UK.’ There’s no such thing as a fair share, because it’s not based on need, it’s based on excellence. I was asked to chair the smart specialisation strategy for Wales, and when we took evidence from Innovate UK, I pressed the representative and said ‘Why does Wales do so badly on Innovate UK funds compared to other parts of England and to Scotland?’ And he was rather coy in answering, and we pressed him, and he said, ‘Because the quality of your applications is very poor.’”⁸¹

⁸⁰ Paper 1 - IWA Single Market of the Mind

⁸¹ Record of Proceedings, paragraphs 171 – 27 February 2017

75. Paul Byard spoke about the historically low levels of investment in research and development in Wales and emphasised the need to match rhetoric on re-balancing the economy with resources. Mr Byard said:

“[...] we only spend, in Wales, about 1.2 per cent of the UK on R&D, so our ability and our rate of innovation in Wales is low and our ability to bring new products and services to the market is low. So, if you just take those two measures, if we then said, ‘By 2025, if we’re going to rebalance the economy, what do those numbers need to look like?’—you can then draw the timeline. So, we know what our current state is, we know what our future state is, we draw the timeline, we can do the gap analysis ourselves, and then determine what we need to do to get there and lay those numbers down. So, I would say that 1.2 per cent needs to be closer to 7 per cent. Now, the translation of that may mean that instead of spending X millions of pounds on R&D, we need to spend one-point-whatever billion it is. That’s where we should then focus on how we fund that activity and how to resource that, because that’s the only thing that’s going to get us to rebalance the economy and take us out of some of the many systemic issues that we have in Wales.”⁸²

76. In its submission, the OECD stated that promoting innovation as a means of boosting the productivity of firms and the public sector was becoming more important in the field of regional development policy. They went on to tell us that Scottish Enterprise was one successful example of an organisation that had worked with businesses to improve competitiveness.⁸³

Recommendation 14. We recommend that the Welsh Government sets out how it will, in addition to the strategies that are already in place, work with the private sector to boost spending on research and development in Wales to ensure that innovation and productivity gains are central to future regional and economic development policy.

Collaboration

77. Many witnesses told us that better synergies could be realised if collaboration between government; local authorities; further and higher education; local health boards; the private and third sectors were improved. Paul Byard told us that:

“we can actually do things differently if we work together in the true collaboration of Government, industry, academia, stakeholders. But we’re not doing that fully.”⁸⁴

78. Iestyn Davies of Colleges Wales commented on the improvement in collaboration between government, further and higher education and the private sector in Wales over recent years. Mr Davies told us:

⁸² Record of Proceedings, [paragraph 273](#) – 6 March 2017

⁸³ [03 OECD Written Evidence Paper on regional policy in Wales](#)

⁸⁴ Record of Proceedings, [paragraph 296](#) – 13 March 2017

“I think a consequence of where we’ve been on skills policy has led to that coming together, and that sense of being in—what’s that phrase—being in ‘co-competition’: being both competitive and co-operative at the same time. So, it’s trying to raise standards by working together. So, I think that has been a feature of the last five or six years in particular. Quality has increased in terms of outcomes and in terms of inspection reports. I think we will see a continued increase in the quality provided by FE organisations and, indeed, a willingness to work in partnership with the universities, some of which are represented here today, to offer a higher level set of qualifications and skills.”⁸⁵

79. Professor Kevin Morgan argued that “education policy in Wales is totally disconnected from innovation and development policy”. In his evidence Professor Morgan contrasted the situation in Wales with England and Scotland:

“For example, England has a higher education innovation fund, Scotland has its knowledge transfer fund and the Higher Education Funding Council for Wales has cut entirely everything—zero. We are the only nation in the United Kingdom without an innovation and engagement budget to promote the collaboration of universities and business and Government, which lies at the heart of the Innovation Wales strategy for smart specialisation. So, you’ve got an economic development strategy over here that is being completely undermined by an education policy over here.”⁸⁶

Recommendation 15. We recommend that the Welsh Government sets out in its response to this report how it will take forward an innovation and engagement strategy in Wales after the UK leaves the EU.

Investing in infrastructure

80. Those who gave evidence to us regularly highlighted the role that current European funding plays in supporting infrastructure investment in Wales. Witnesses told us that although there had been a shift in recent years to supporting investment in skills and human capital, challenges surrounding infrastructure and connectivity will remain important.⁸⁷

81. Tim Peppin of the WLGA stated that infrastructure investment is still needed in Wales. Mr Peppin also described some of the risks associated with a strategy that focuses solely on skills, to the detriment of infrastructure and connectivity. He told us that:

“I think there’s a danger that if you just skill people up, then you skill people up to move out, and in the communities that are left, you then have bigger problems, and the cost of service delivery per head is higher, so it puts extra strain on the council resource. I think what the strategies are trying to do is keep communities alive, keep them supported, see new growth in those

⁸⁵ Record of Proceedings, [paragraph 81](#) – 13 March 2017

⁸⁶ Record of Proceedings, [paragraph 184](#) – 27 February 2017

⁸⁷ Record of Proceedings, [paragraph 24](#) – 27 February 2017; Record of Proceedings, [paragraph 81](#) – 13 March 2017; Record of Proceedings, [paragraphs 27 – 29](#) – 20 March 2017

communities, new housing developments in areas by better infrastructure, so that the local shops, the local communities can actually sustain themselves. In terms of a long-term sustainable development plan, I think, at the moment, there is still a need for infrastructure investment to complement, as you say, the hugely important investment in human skills.”⁸⁸

82. Paul Byard of EEF - the Manufacturer's Organisation told us that leaving the EU gave us an opportunity to look afresh at state aid rules. He went on to tell us that there needed to be better links between infrastructure spending, employment and skills.⁸⁹

83. In its paper, the Welsh Government highlighted infrastructure as a key component of regional policy. However, the paper argued that a partnership of equals between the Welsh Government and UK Government would be required “to ensure UK investments work with, not against, the grain of regional policy and recognise the distinctive Welsh policy context”.⁹⁰

Procurement and state aid

84. Several witnesses told us about the issue of state aid rules and the future of procurement. Professor Bell told us that due to the EU’s strict state aid rules it is difficult to focus financial support on particular enterprises.⁹¹

85. The OECD in its paper described good practice in procurement as integral to successful regional policy investments.⁹² Professor Richard Davies of Universities Wales believed that more could be done – particularly after the UK leaves the EU – to maximise the use of procurement and support local supply chains within regional economies.⁹³

86. Mr Peppin highlighted the need for agreement between the Welsh and UK governments on what state aid rules should look like after Brexit. He told us:

“There are some things that are non-devolved, like competition policy, state aid, procurement, industrial strategy, where they will have a major impact on regional prospects, and therefore we’ve got to work with the UK Government—Welsh Government and local authorities—to ensure that what those UK-wide framework look like work for Wales, that they’re not developed and then handed down. So, I think there’s a role in terms of having an input into the way that those things are developed in the first place.”⁹⁴

87. Mr Byard also stressed the potential of procurement as a driver of regional growth. He told us that currently around 54 per cent of procurement is won by Welsh-based businesses. Aligning

⁸⁸ Record of Proceedings, [paragraph 121](#) – 6 March 2017

⁸⁹ Record of Proceedings, [paragraph 253](#) – 6 March 2017

⁹⁰ [Paper 1 – Evidence from the Cabinet Secretary for Finance and Local Government on Regional Policy in Wales](#)

⁹¹ Record of Proceedings, [paragraph 24](#) – 27 February 2017

⁹² [03 OECD Written Evidence Paper on regional policy in Wales](#)

⁹³ Record of Proceedings, [paragraph 78](#) – 13 March 2017

⁹⁴ Record of Proceedings, [paragraph 66](#) – 6 March 2017

procurement with a common strategy for regional economic development – including harmonisation across local authority areas – would be key.⁹⁵

Our view

Conclusion 17. We welcome the opportunity to look afresh at state aid and procurement rules in a way that helps to support growth led by the private sector.

Recommendation 16. We call upon the Welsh Government, in its response to this report, to set out its preferred ambitions for the future of state aid and procurement rules after the UK leaves the EU.

Connectivity

88. Professor Morgan told us about the importance of looking at places in terms of “interdependence and connectivity rather than as bounded spaces that need to get their share of the public purse”. He also emphasised the importance of including more rural areas such as mid-Wales and the Heads of the Valleys in future approaches.⁹⁶

89. Professor Colin Riordan of Universities Wales highlighted the need for connectivity to embrace both transport and digital connectivity. He told us that universities had an important role to play in contributing to the “ecosystem for innovation” but warned that European funding was currently a key source of capital funding for our universities. Professor Riordan said:

“[...] either you go out and borrow the money, or there’s Welsh European Funding Office funding, and that’s your capital—or whatever you’ve got in reserves. And that’s a hugely limiting factor in terms of being able to be competitive institutions for Wales. So, I think we’ve got to think about that part as well. If we as universities are starved—I know it sounds like special pleading, but it is just a fact that if we are starved of capital that will put us at a disadvantage and it’ll be more difficult for us to contribute to this agenda in the way that [...] we should be doing.”⁹⁷

Our view

Conclusion 18. We are of the view that future approaches to regional policy in Wales should encompass research, innovation, collaboration, procurement, and infrastructure and the Welsh Government must work with partners, and involve the private and third sectors wherever possible.

Recommendation 17. We recommend that future regional policy in Wales includes:

- continued support for education, skills and human capital;
- continued support for investment in both physical and digital infrastructure;
- improved collaboration between local authorities; further and higher education; local health boards; the private and third sectors;

⁹⁵Record of Proceedings, [paragraphs 300 and 306](#) – 6 March 2017

⁹⁶ Record of Proceedings, [paragraph 191](#) – 27 February 2017

⁹⁷ Record of Proceedings, [paragraph 36](#) – 13 March 2017

- sustained private sector engagement wherever possible; and
- a more strategic approach to maximising the potential of procurement in stimulating economic development.

Annex A – Witnesses

The following witnesses gave evidence to the Committee.

27 February 2017	
Professor Sascha Becker	Warwick University
Professor David Bell	Stirling University
Dr Jayne Woolford	Cardiff University
Professor Kevin Morgan	Cardiff University

6 March 2017	
Cllr Phil Bale	Welsh Local Government Association
Tim Peppin	Welsh Local Government Association
Phil Fiander	Welsh Council for Voluntary Action
Janine Downing	Welsh Council for Voluntary Action
Richard Morgan	Valleys Kids
Paul Byard	EEF Wales – the Manufacturer’s Organisation

13 March 2017	
Professor Colin Riordan	Universities Wales
Professor Richard Davies	Universities Wales
Iestyn Davies	Colegau Cymru
Ann Beynon	Cardiff Capital Region Transition Board
Ben Cottam	Federation of Small Business
Grant Santos	Educ8

20 March 2017	
Mark Drakeford AM	Cabinet Secretary for Finance and Local Government
Damien O’Brien	Welsh European Funding Office
Rob Halford	Welsh European Funding Office

15 May 2017	
Peter Slater	Industrial Communities Alliance
Michael Koch-Larsen	Danish Regions
Asger Andreasen	Danish Regions

A transcript of the meetings can be viewed at

<http://senedd.assembly.wales/documents/s63123/15%20May%202017.html?CT=2>

Written evidence is available at:

<http://senedd.assembly.wales/mgConsultationDisplay.aspx?id=261&RPID=1508620510&cp=yes>