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Economic Renewal: a new direction

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1. Introducing economic renewal

The people of Wales have far-reaching ambitions – as individuals, as families, as members of communities and as a nation. Wales deserves to be widely recognised as one of the best places in the world to live, to work and to thrive.

As a Government, we want a strong economy, not as an end in itself, but for the integral contribution it can make to the quality of life and the economic, social and environmental wellbeing of people and communities in Wales, placing sustainable development as our central organising principle.

Today, these ambitions are shaped – but not constrained – by the global economic climate. Wales, along with the rest of the world, is emerging from a recession which has demonstrated how the economies of individual nations are vulnerable to changes in global markets, in particular financial services and commodities. At the same time, the recession has shown that devolution has provided the drive and innovation to help Wales through a downturn.

Throughout, we have been working with partners in new ways to lead Wales out of recession. The All Wales Economic Summits brought stakeholders together in a new spirit of partnership – around the same table, with the same goal.

And through this partnership our role came into sharper focus than ever before – a whole-Government role, not just a business development function. For whilst the Government itself makes a significant and direct contribution to the economy

in terms of innovation, employment, procurement and capital investment, it cannot create jobs and prosperity in the wider economy. However, it can provide the conditions and framework to enable the private sector to flourish. Government, both national and local, has a critical role in shaping the environment in which businesses operate, providing network infrastructure, developing skills, healthy workplaces and supporting research and development.

This is not a task that can simply be delegated to an arms-length agency. It is wide-ranging and requires joined up, cross-Government effort. There are also significant benefits for Wales from the fact that we work directly with businesses as a Government. This allows for simplified decision-making with strong political buy-in and accountability, and for a more responsive and joined-up approach across the Government. We cannot afford to approach this in the wrong way or fail to deliver – the financial outlook for public services leaves us little room for error and in turn is dependent on sustained economic growth.

All of this requires a fresh approach to policy-making and its delivery. We have engaged right from the start, because we appreciate that we do not have all the answers and we want to make full use of the breadth of ideas and experience that surround us to shape the programme.

We have engaged with a wide range of stakeholders, including individual businesses, representative organisations,

local authorities, the third sector, academics and other experts, and the public. We have used a variety of methods, from roundtable discussions and other face-to-face meetings to an online questionnaire, a business survey and a formal consultation.

We have been encouraged by the willingness to take part, and by the enthusiasm and commitment demonstrated in the contributions. The views expressed have been diverse and challenging.

Alongside this rich input, we have reviewed evidence including social and environmental data, good practice within Wales and elsewhere and examined the fundamental characteristics of the Welsh economy.

Our new programme has therefore been based on the widest possible range of opinions and evidence and has enabled us to develop a new direction for economic renewal. A clear conclusion from our analysis is that the economy is simply too dynamic to forecast credibly over the long term, with relentlessly changing consumer demands, continuous formation and failure of firms, potentially large global realignments and accelerating innovation.

Therefore we are setting out how we can help shape the conditions in which a dynamic economy functions, and the role the government and wider public sector can play in encouraging success in the private and third sectors.

Our vision for economic renewal is of a Welsh economy built upon the strengths and skills of its people and natural environment; recognised at home and abroad as confident, creative and ambitious; a great place to live and work.

Our five priorities for delivering this vision are:

- **Investing in high quality and sustainable infrastructure.** Wales needs modern, sustainable infrastructure to underpin economic growth and the wellbeing of our people. Our people, businesses and communities need to be well-connected within and beyond Wales, and to have access to the right facilities and services where they live and work.
- **Making Wales a more attractive place to do business.** We need to develop the conditions which not only allow, but actively help, people and businesses to flourish sustainably – by making the most of our assets, by improving the health of our working age population, and by getting the balance right between environmental, social and economic objectives.
- **Broadening and deepening the skills base.** The foundation of any economy is its working population and education and skills at all levels are vital for economic growth and prosperity in Wales. Delivering this is a shared responsibility for us as a Government, learning providers, employers and individuals.
- **Encouraging innovation.** Research and development play an important role in stimulating innovation, and innovation is a key driver of economic growth and long-term wellbeing. Wales must move towards a more R&D intensive and knowledge-based economy where the right conditions exist for innovation to flourish.

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- **Targeting the business support we offer.** We need to concentrate our resources where we can add the most value, acting as an enabler for the economy as a whole rather than a significant direct deliverer of services to individual businesses. We will develop a sector-based, strategic approach to business support, developing our role as an expert facilitator and enabler.

Realising this vision requires a whole-Government approach. The Department for the Economy & Transport (DE&T) will increasingly promote economic development through its interactions with Departments and the wider public sector. This will require substantial reorganisation within DE&T to integrate functions, create a more coherent approach, and draw on its strong regional structure in translating national priorities into local action.

Most importantly, we cannot deliver on this vision by ourselves. It requires us to build on the partnerships forged during the downturn – with the private sector, the third sector, local authorities, Higher and Further Education, the NHS and others.

We also want continuing input from those who took part in the engagement process, and those who did not. We cannot accommodate every single view – we are not seeking to do so. But we are committed to giving proposals due consideration even if we are not able to take them up immediately. And we want people to have a say on how we measure our progress and that of the economy. Most importantly, we want to encourage ideas and keep them flowing.

This is the start of our dialogue, not the end.

2. Understanding the challenges and opportunities

The recession has changed the way markets, businesses and governments operate and has set the global economy on a new course. It has thrown modern challenges such as climate change, as well as the structural weaknesses of the Welsh economy, into sharp relief. But it has also highlighted key opportunities that Wales needs to exploit.

Challenges

The post-recession economic landscape poses significant challenges:

- Increasing global integration and interdependencies
- The large UK budget deficit and constrained public expenditure
- The need to remain competitive through innovation and technological advancement
- Restricted and expensive access to finance for individuals and for business.

As well as the immediate priority of recovery from recession, there are wider challenges that bear on our approach to economic renewal:

- The need to respond to climate change by improving resource productivity and decarbonising energy supply
- Pressure on land for multiple purposes – food production, housing and economic development, landscape, nature conservation and biodiversity, water management and energy

- A persistent proportion of our population who are economically inactive, with low or no qualifications, often living in communities where there are limited opportunities for employment
- Rising demand for quality public services.

This complex landscape means there are no simple prescriptions for economic renewal. There are tough balancing acts to perform:

- between sometimes conflicting environmental, social and economic aims
- between the use of resources for long term structural change and for more immediate visible results
- between spending on current service provision and investment in infrastructure and future resilience.

These can be addressed through our commitment to sustainable development, putting long-term wellbeing at the heart of our policies and actions.

Most parts of the European Union face similar challenges. We welcome therefore the Europe 2020 Strategy (EU2020), which underlines the need to continue to invest in R&D and innovation, employment and skills and the low carbon economy. We will continue to work closely with the European Commission and our partners across Wales to make a success of our current programmes and to ensure Wales' voice is heard in shaping future Structural Funds policy.

The Welsh economy

We recognise that, over the long term, the performance of the Welsh economy has not met expectations, particularly when measured in terms of relative Gross Value Added (GVA) per capita. The two factors immediately responsible for Wales' position are a low employment rate and low average wages (reflecting low average productivity). When comparing Wales with similar regions in the UK, these factors are of broadly similar levels of importance.

There are three main challenges that underpin Wales' employment rate, productivity and hence its growth rate:

- An adverse skill mix, particularly the prevalence of individuals with low or no qualifications; low or no skills are strongly associated with both a low employment rate and low average wages and productivity
- The absence of a major conurbation (by European standards) is associated with wages and productivity levels that are lower than would otherwise be the case (the "agglomeration effect"); however, there is a key opportunity in the medium term to build on the projected rapid population growth of Cardiff, our capital city
- A relatively high proportion of people who are of retirement age.

The engagement process has confirmed our view that looking at a broader range of indicators and a wider set of comparators than just Gross Value Added (GVA) gives a more balanced picture. For example, the best available indicator of relative living standards is disposable income – a measure of the goods and services that can be bought with household income. On this measure, Wales ranks higher within the UK (than GVA) and performs better than Ireland

and parts of Scandinavia, including Denmark.

Some of the features of the Welsh economy differ from common perception. Despite the challenges the Welsh economy has faced, living standards have doubled during the last 30 years. Long term growth has been driven by productivity improvements, technology, innovation and skills. The economy is dynamic in the sense that new jobs are created and lost each week; most of the changes are small expansions and contractions rather than the major openings and closures that attract the majority of media attention. The mix of firms in Wales is similar to that for the UK as a whole, with large firms accounting for a little under half of total employment, and SMEs rather more than a half. In respect of manufacturing's share of the economy, Wales is now around the middle of the league table for developed countries. Employment in manufacturing is declining in most developed countries, including Wales, where it now accounts for around 11% of total employment.

The public sector makes a valuable contribution to GVA in areas such as health and education, through the services it provides and through innovation, procurement, capital expenditure and employment. Despite the general public perception, the number of public sector jobs in Wales as a proportion of our population is only a little higher than the UK average. Over the last ten years, the growth in private sector employment has actually been greater than in public sector employment in Wales, when the reverse has been the case for the UK as a whole. In some areas, the contribution of public sector employment, particularly through local government, can have a disproportionate contribution to local economies and market conditions. However, the key challenge here is that the private sector

is still too small, and must be encouraged to grow in a way that makes our economy more sustainable and resilient.

Drawing attention to this wider context does not imply complacency, but is important as a basis for understanding the Welsh economy and creating a shared and balanced view of its performance.

The role of government in the economy

We are ambitious for the Welsh economy, but we need to be realistic about our own role within it. As a Government, we do not have responsibility for the wider macroeconomic levers that influence the economy. In that sense our role is limited as the governmental framework for the Welsh economy is determined at different levels for example the European Union, (the single market and environmental regulation) and the United Kingdom (tax and utility regulation). We are focusing on the areas that we and our partners can affect directly.

We recognise the powerful role played by markets and competition in ensuring that resources flow to the most innovative and well-managed firms that successfully meet the demands of customers. It follows that we should consider carefully our interventions at the level of individual companies. Support for one company may disadvantage its competitors or prop up an incumbent firm that should otherwise fail and make way for new businesses.

We should not try to second-guess the action of markets at the level of individual businesses and therefore we will reduce substantially our direct business support. However, governments have a critical role in supporting enterprise through shaping the environment in which businesses compete, providing network infrastructure, developing skills and supporting research and development.

We need to clarify where we do, and do not see a role for government in the economy. The following economic concepts will guide our approach:

- **Market-making** – Governments intervene in markets through contract law and property rights, consumer protection and fair trading legislation, health and safety standards, environmental regulation and allocation of land through planning consents. Most of this intervention is essential and effectively creates markets by establishing a system of rules and consistent conditions for market participants.
- **Addressing market failure** – Market failures arise from flaws in the way markets operate to allocate resources, not from a failure of market forces to deliver a particular desired outcome, and may arise from a variety of circumstances in which businesses lack information to make decisions, cannot easily work together, or cannot realise a return on their investment because the benefits are instead enjoyed by wider society.
- **Meeting equity objectives** – Governments wish to limit inequalities in society for many reasons, for example, tackling poverty, promoting social justice, improving health, reducing crime or protecting children or vulnerable groups.

We will be alert to unintended consequences which may arise from intervention in markets and recognise that government can also fail to allocate resources efficiently. We will strengthen our policy appraisal process to ensure there is a sound rationale for intervention, with good supporting evidence, and that we intervene proportionately, assessing potential negative consequences.

Working efficiently and effectively

In our approach to economic renewal, we will work more effectively and efficiently. It will be underpinned by the following principles:

- **Clarity** – we will explain why we are intervening and how
- **Adding value** – we will identify which activities are likely to benefit most from government support
- **Simplicity** – we will make it as straightforward as possible to work with us
- **Efficiency** – we will obtain value for money (in its widest sense) to ensure we get the most for our investment
- **Partnership** – we will develop a greater and shared understanding of our role, others' roles and engage early in determining policy
- **Regional and local distinctiveness** – we will work with local authorities and other partners in the regions to address their specific needs within our national priorities
- **Sustainable development** – our policies and programmes will be underpinned by our central organising principle
- **Equality** – we will ensure that the way we implement our policies is based on an understanding of how any particular group(s) within society might be unfairly disadvantaged or affected.

3. Investing in high quality and sustainable infrastructure

Wales needs modern, sustainable infrastructure to underpin economic growth and the wellbeing of our people. Our people, businesses and communities need to be well-connected within and beyond Wales, and to have access to the right facilities and services where they live and work. Investors and indigenous businesses must be able to count on communications, transport, energy and other infrastructure necessary for 21st Century enterprise.

For Government, this is a more important role than helping individual businesses – and it is something that businesses, individually or together, cannot do by themselves.

For economic renewal we need to:

- ensure Next Generation Broadband is available across all parts of Wales
- integrate the way we plan and deliver our investment in infrastructure
- take a more strategic approach to land management and premises for business
- move towards a low-waste, less resource intensive, low-carbon economy.

Context

We have specific and long-standing challenges with respect to infrastructure in Wales, in particular the geography and population distribution. These challenges affect all our networks, including even relatively recent technology changes such as the switch to digital TV and radio broadcasting. Like the rest of the world, we face the modern challenge – and opportunity – of moving to a low-waste, less resource intensive, low-carbon economy. It requires a range of behaviour changes, from modal shifts in transport, to using ICT to reduce the need to travel, to new ways of generating energy, and using resources responsibly.

Evidence points to the important role that good infrastructure plays in the economy, and as countries adapt to changing global

conditions, but also from history, there are many examples of countries investing significantly in infrastructure in order to improve the long-term competitiveness of their economies (*How infrastructure investments support the U.S. economy: employment, productivity and growth*, PERI). Similarly, there is a very real and potentially substantial cost to having poor infrastructure.

Infrastructure helps people to access work, increases the forces of competition, promotes greater efficiency, and increases the likelihood of co-location and clustering (*Going for Growth*, OECD, and *Understanding productivity variations between Wales and the rest of the UK*, Welsh Assembly Government).

Investments in ICT infrastructure in particular, such as broadband, have been

shown to promote the wider use of new technologies found to be associated with increased rates of economic growth (*Productivity and ICT: a review of the evidence*, CEP, and *The impact of broadband on growth and productivity*, EC). Although the transformative benefits from transport infrastructure improvements tend to be most evident in the early stages of a country's economic development, there is clear evidence that transport improvements can yield large economic benefits even in developed economies (*The Eddington Transport Study*, and *The Economic effects of transport infrastructure improvements: roads*, Welsh Assembly Government).

We already play a significant role in the development and maintenance of infrastructure. However, stakeholders have given us a strong message that we do not emphasise this enough. We need to widen our role, and give more weighting to infrastructure in terms of investment, planning and regulation.

Infrastructure is partly about networks: moving things around Wales – people, goods, information, energy, water – to the people and businesses that need them. People cannot work if they are not linked to their jobs, training and public services. Businesses cannot operate without access to the labour force, materials, professional services and markets. Furthermore, faster connections – physical (like high speed rail, and an efficient and reliable road network) and electronic (like next generation broadband and 3G+ mobile networks) – increase productivity because they save time and therefore lower costs. It is also a prerequisite for creating the right conditions to enable businesses to locate and flourish. Infrastructure is also about making sure people and businesses can be where they want to – i.e. that they have the right housing or premises, situated

in high quality, attractive places with the facilities they need, including hospitals and schools. This includes the provision of water, food, flood defence and other natural services on which we all depend.

Taking a new direction for economic renewal

We will invest additional resources to improve our basic infrastructure. This will include redirecting funds from existing programmes as well as realising more of our land and property portfolio. This investment will enable us better to support business competitiveness and improve labour market mobility.

Next Generation Broadband

We will ensure that Wales is at the forefront of the digital economy through **investment in next generation broadband infrastructure**.

We will do this by working closely with the ICT market players. We expect that all businesses in Wales will have access to next generation broadband by the middle of 2016, and that all households will be enabled by 2020. This is ahead of the EU's target of ensuring that all of the EU population can access 30Mbps broadband by 2020 with over half able to benefit from speeds of 100Mbps by this date.

We need a full procurement exercise and State Aid approval to achieve this aim. The next steps are to engage quickly with the market during summer and autumn 2010 and then to commence a full procurement exercise by spring 2011.

Our approach is to encourage the ICT market to drive forward its own investment in areas where there is a strong commercial case to do so, and we will invest our own funding to accelerate the deployment of next generation broadband infrastructure in areas where there is a genuine requirement for

government intervention. This “push and pull” approach will maximise the investment opportunities across the public and private sectors and will accelerate the realisation of our policy outcomes.

We will use the next year to prepare thoroughly so we can hit the ground running once all of the necessary procurement and State Aid clearances have been completed.

This is going to be a significant public procurement contract and we plan to fund it from the reallocation of existing budgets (including proceeds from property sales), from EU funding and from match contributions from the ICT sector.

We will also **improve broadband coverage for homes and the public sector** by continuing to invest in Regional Innovative Broadband Support (addressing notspots), Public Sector Broadband Aggregation and FibreSpeed.

We also recognise the opportunities afforded by the mobile telephony infrastructure in Wales. The mobile industry has evolved from supporting second generation call based traffic, through third generation multimedia traffic to supporting full-blown mobile broadband. This is increasingly the means by which people access media and other content. We will work with the mobile industry, Ofcom and businesses across Wales to **improve mobile coverage** where it is needed most and ensure that we keep pace with technological development.

Delivering a Digital Wales will reflect the importance of digital communications to the Welsh economy and will strive to realise the benefits that digital technologies hold for the wellbeing of Welsh people and economic growth.

Integrating infrastructure planning and delivery

Given the critical importance of high-quality infrastructure to the long-term growth of the economy, we need to plan and deliver our investment in infrastructure in a coherent and joined up way across Government. We need to ensure that our investment plans are responsive to different market conditions and emerging opportunities in all parts of Wales.

We will **bring together our strategic infrastructure and investment plans** to maximise the benefits in terms of outcomes and achieve economies of scale in our investment. This will include transport, ICT, energy, waste, water and sewerage, housing, health services, regeneration and business property. Where appropriate, we will seek alignment between our plans and those of the utility companies and large private sector companies.

A statutory Wales Strategic Infrastructure Plan

An infrastructure plan with a statutory basis, building on the Wales Spatial Plan, could inform the decisions of local planning authorities, the Planning Inspectorate and bodies charged with planning UK national infrastructure. By December 2010, we will examine the option to use powers under the Planning Act 2008 to develop a **Wales Strategic Infrastructure Plan**.

Improving infrastructure planning and delivery requires a wide range of expertise and technical skills (including engineers, surveyors, planners and finance and procurement experts). To make best use of their skills we will bring our specialists together into a **new DE&T Infrastructure Group** by November 2010.

The new Group will be charged with achieving better value for money through more joined up planning, smarter design, procurement, programme and project management. It will also be tasked with developing and making the best use of different and new forms of finance.

Business Premises and Strategic Land Management

In the 1970s and 1980s there were major programmes for reclamation of former mining and heavy industry sites and the direct construction of advanced factory units. In more recent times, there has been increased joint working and risk sharing with the private sector to bring forward sites and premises.

However, commercial land and property markets in Wales vary greatly by area. There are areas where there are high levels of demand and the market delivers an affordable property solution; in others there are lower levels of demand or the local property market is underdeveloped and, therefore, not delivering the type of properties required at values the market can sustain. We will intervene only where there is demonstrable market failure.

We will **review our land holdings** to ensure their use aligns with wider economic renewal objectives, specific regional priorities and key sector needs. We will look at how we can use the value of assets that we no longer require and redirect this value to other objectives, in particular digital infrastructure.

We will develop our approach to **premises for business** to work with the market across Wales. In areas of high market demand we will seek to provide information rather than finance and be involved in joint ventures where necessary. In areas with low market offering we will provide a combination of gap funding (to the developer) and

direct provision. As part of this approach we will use the **JESSICA Regeneration Investment Fund for Wales** (supported by European funding) to promote physical regeneration across Wales.

Energy and energy efficiency

The Wales Energy Strategy, *A Low Carbon Revolution* sets out our overall approach to energy in Wales, recognising the role of the private sector, the market regulator, the national gas and electricity grids and the UK Government's role in infrastructure and major project planning.

Whilst a low-carbon, secure energy supply is critical, the efficiency or productivity with which we use energy will contribute to economic, social and environmental performance. Our strategy for energy efficiency rests on three main pillars:

- **Market making** – to coordinate investment into Wales, and to ensure procurement delivers real benefits for the Welsh economy.
- **Supply chain development** – to enhance our skills base, to strengthen our supply-chain, and to work with the Low Carbon Research Institute to develop Wales' research capabilities.
- **Industry engagement** – to broker deals with industry on specific opportunities such as Feed In Tariffs and Low Carbon Housing Developments, to broker relationships between manufacturers and installers, and to work with the sector in Wales to establish a suite of financial products, warranties and quality assurances.

Around £1bn is likely to be invested into the energy performance of Welsh homes over the next decade, including: arbed (Wales' Strategic Energy Performance Investment Programme); European funding; the Home Energy Efficiency Scheme; the Welsh Housing Quality Standard; financial instruments; statutory

obligations on energy companies; and UK regulatory and pricing changes.

We will create an **All-Wales approach to energy efficiency** under the arbed banner. We will establish a dedicated, cross-departmental team to strengthen the supply-chain in Wales and publish a programme strategy to elaborate this three-pillar approach.

Supporting economic renewal through existing activities

In addition to new priorities for economic renewal, we are already engaging in significant infrastructure developments:

- The *National Transport Plan* sets out our approach to put transport onto a carbon reduction pathway, at the same time ensuring that it can continue to support sustainable economic development and social inclusion.
- The *Wales Energy Strategy A Low Carbon Revolution* sets our aim of renewably generating up to twice as much electricity annually by 2025 as we use today. There will be significant investment across Wales in new energy plant and in transmission facilities to link new developments to the grid.
- *Towards Zero Waste* sets out proposals for reaching a 70% recycling target by 2025.
- We will publish a National Flood Risk management Plan later this year.
- The Water Regulator's 2009 periodic review establishes a major programme of investment in water quality and environmental performance.

4. Making Wales a more attractive place to do business

We need to develop the conditions which not only allow, but actively help, people and businesses to flourish sustainably – by making the most of our assets and by getting the balance right between environmental, social and economic objectives. Wales is a great place to live, work, visit and invest – but it can be even better. Building the image and reputation of Wales as an attractive place to do business is vitally important.

For economic renewal we need to:

- sell ourselves and what Wales has to offer
- create a more responsive planning system
- ensure that the impact of regulation on business is taken into account
- make public sector procurement more accessible
- improve the health of the working age population.

Context

Wales is a country with a wealth of natural and cultural assets that we need to celebrate and promote. The natural beauty of the countryside and coastline, strong sense of community, and unique heritage and language all mean that Wales is able to present itself as a distinctive and diverse nation that provides a rich quality of life for those who choose to work, live, do business and invest here.

Evidence shows that favourable business conditions can help to promote economic growth (see *Going for Growth*, OECD). Not only are business conditions one of the prime drivers of business location decisions, particularly for internationally mobile businesses, but they are also likely to play an important role in start-up, survival and growth.

Favourable conditions help keep business costs down, both by directly reducing the cost of doing business and by promoting competition. Reducing the burden of regulation in particular is identified as a key driver of business and economic growth (see *Regulation and growth*, World Bank, as well as broader evidence such as the *Global Competitiveness Report*, World Economic Forum, and the *Ease of doing business index*, World Bank).

Alongside delivery of our physical infrastructure, we need to ensure that we are managing our land and water to make best use of this finite resource and to ensure we are delivering public benefits from its management. The land of Wales is our ultimate resource base. If we fail to manage it well, we will not only reduce Wales' attractiveness as a place to live, work and invest, but we will also impose costs through, for example, increased flood risk and water scarcity.

Attractiveness also means making it easier for people to do business. To remain competitive, businesses in Wales must be able to invest in new development in an efficient and timely way. Government provides the framework for this new development, and needs to ensure that the planning system in Wales facilitates effective decisions and to impose costs only where these are justified by the benefits they bring to society as a whole. The planning system is used to arbitrate between contending uses for land and to implement economic, environmental and social policies – it does not in itself determine what those policies are.

The development management system is the backbone of the planning system and is the area of planning that businesses are most likely to encounter. The development management system must be proportionate and efficient, delivering timely decisions which are open, fair, consistent and transparent.

These principles also apply to other regulations. Whilst general policy on business regulation is not devolved, we note the recent commitments made by the UK Government.

We can also enhance the attractiveness of Wales to businesses by making sure they can access public sector procurement. We control £16 billion (2010-11) of expenditure in Wales, which is substantial in relation to Wales' Gross Domestic Product (GDP) of £46 billion. Capital spending is approximately £1.7 billion, covering for example transport, housing, flood defence and building programmes for health and education. Further funds are leveraged from the European Union and are influenced by Welsh policies and priorities, for example the Rural Development Plan and Structural Funds.

Wider public sector spend, beyond capital investment, also has major

impact on the economy. Spending on the NHS accounts for over £5bn, which creates some 100,000 jobs directly and more through purchasing of goods and services and spending by its employees. In addition, services such as the NHS and social services, together with the broader efforts to improve health, constitute a substantial investment in human capital and future potential. Were they less, the strain would show in other ways – in adding to the burden of carers, in adding to the burden of long-term health problems. These services are not just a cost to the public; rather they are a source of enduring social benefit, with a significant multiplier effect within the economy.

In the current economic climate it is important that the public sector opens procurement opportunities to smaller, local businesses. The public sector cannot favour Welsh SMEs when awarding contracts, and should not give the impression that Wales is closed for business to companies beyond our borders. But we can strive to make the process as fair and efficient as possible so as to give Welsh businesses an even chance to win contracts competitively. The public sector needs to obtain value for money for its contracts, but this value includes making sure that Welsh companies have the opportunity to deliver what we need.

The Welsh public sector as a whole purchases goods and services worth up to £5 billion annually. Local authorities spend just over half of that, and the NHS in Wales just under a third. Capital spend on new developments, procurement of services and R&D can have a direct impact on economic growth. Not all suppliers can win all the time – that is the nature of a competitive market – but more Welsh based businesses can compete for more work overall.

Tourism, sports, the arts and the historic environment also have a direct impact as vibrant sectors of the economy that make a significant contribution to GVA and support high numbers of jobs throughout Wales. Our ability to host major events – sporting and cultural – is crucial in raising our international profile and reputation as well as attracting high numbers of visitors.

Our international profile is critical. Today, Wales must compete with every other location for our share of the world's commercial, political, social and cultural transactions. The markets in which we compete are increasingly global and very crowded – we need a distinctive competitive identity.

A nation's competitive identity is made up of a complex mix of experiences, perceptions and associations often created over a long period. Nations with a positive reputation and image can add value to the goods, products, services and companies associated with that country – the so-called "identity premium".

Research and experience suggests that Wales has not, in the past, benefitted from an identity premium. Internationally, Wales has not generally been well understood and its image has not always been positive. However, there is increasing evidence that people are looking for greater authenticity and individuality. Wales offers many unique characteristics, not least its diverse geography in a relatively small area, and its cultural distinctiveness.

Taking a new direction for economic renewal

We need to sell Wales better as a great place to live and invest. But alongside this, we also need to make sure that Wales lives up to our aspirations as a place where it is easy to do business.

Better promoting what Wales has to offer

Wales' image and reputation is an important influence on and reflection of the business environment in Wales. We need to elevate the significance of Wales' competitive identity and to re-invigorate the Welsh brand to highlight our successes and tackle any negative perceptions of Wales. As part of this we need to recognise the importance of London as a key location where opinions are formed.

In particular, we need to develop a clearer narrative around the business proposition. In other words we need to tell the Wales story better. We also need to develop a more coherent approach to international engagement that brings together business-facing sales, dialogue with European institutions, Higher Education partnerships, and other diplomatic relationships. The International Business Wales brand is not strong or recognised internationally – as the Massey report found – and it will no longer be used. In future organisational branding will reflect the fact that the focus of marketing will be the Wales brand. **We will develop the Wales brand, particularly around the business proposition**, to highlight the successes that underpin our offer and to counter any negative perceptions about Wales.

Planning and economic renewal

To remain competitive Welsh businesses must be able to invest in new development in an efficient and timely way. National and local government and public sector agencies have a key role to play by providing the best possible framework for pursuing sustainable development. The planning system must balance economic, social and environmental objectives and, in doing so, promote sustainable development.

We will make the following improvements to planning policy and the planning system for economic renewal:

Improve the planning application process

Following requests from the business community at the first Economic Summit, we commissioned research on improving the planning application process in Wales. We will take forward the research recommendations through a package of planning process reforms to:

- **improve guidance** with careful scrutiny of changes to the system
- **promote culture change in planning** through refreshing the basic approach to development and its management; examining the process of consultation; and improving delivery of the application process
- **improve the operation of the system** to make it more consistent, more proportionate and more effective, for example, making better use of new technology by reducing the number of applications; improving pre-application advice and procedures; and ensuring that local planning authorities have access to technical expertise.

Reviewing planning policy for economic development

Planning policy for economic development is set out in Planning Policy Wales. As well as the package of process improvements outlined above, we have initiated a **review of planning policy for economic development** to:

- evaluate whether Planning Policy Wales has delivered our economic development policy
- examine how the planning system can help deliver economic renewal in Wales
- propose options for changes to Planning Policy Wales.

We will actively consider recommendations for changes to planning policy and guidance for economic development. To support this work, we will form a stakeholder advisory group and seek representation and engagement from business.

Strengthen the interface between planning and economic development

The interface between the planning regime and economic development is critical and we are committed to strengthening this. We will ensure that economic development planning policy is aligned with our new direction for economic renewal by **making available resources** from DE&T to support the work of our Planning Division.

Placing sustainable development at the heart of the Natural Environment Framework

The new Natural Environment Framework, to be published for consultation later this year, will be our strategy for the use of land and water to the benefit of society and nature. It will emphasise and value 'ecosystems services' more rigorously, giving better information on priorities for nature conservation and better information on which to base planning decisions.

Better policy and regulation

We are committed to sustainable development as our central organising principle. This means we must give due weight to the role of the economy as one of the three pillars of sustainable development.

We recognise that we need to do more in terms of assessing the impact upon business of our proposals, and that the assessment process must challenge us more robustly on economic impacts. We acknowledge the need for early business engagement in the policy making process,

well before the drafting of regulations or legislation commences. In engaging with the private sector, we need to identify and communicate as soon as possible associated resource implications to enable them to plan their engagement. We also need to continuously improve our processes, for example through identifying and addressing the cumulative impact of individual regulations. Taking forward this regulatory agenda will increasingly require a more joined-up approach at both Wales and UK levels.

We will **improve the co-ordination of our processes** that lead to policies, regulations and legislation that impacts upon business, through embedding properly the provisions of the 2008 Business Scheme and through regularly bringing together policy practitioners. We will increase our resource on better regulation to establish points of contact for industry and its representatives, ensuring information is easily accessible and widely disseminated.

As part of the **Counsel General's review of legislative processes**, we will ensure that impacts on businesses and the economy are considered at an early stage in the policy development for legislation.

Low-carbon building regulations

In 2007, we stated our aspiration for new buildings in Wales to be zero carbon and our intention to pursue this objective through building regulations.

However, the devolution of building regulations proved to be a lengthy process. The first changes to devolved building regulations will not be made until 2012 at the earliest. Furthermore, the higher costs of meeting increased standards will have to be borne by an industry dealing with the impact of a recession. Whilst the signs are that recovery is underway, we need to be

sensitive to the potential impacts in the short term. The costs of higher standards will fall on the public sector too, and this will have implications in the light of reducing investment budgets.

In light of these issues we have identified the option for implementation after the transfer of powers in December 2011 which best balances both the policy imperative for urgent action to tackle climate change and the cost impact on development for example jobs, housing supply and affordable housing.

We believe that the **new approach for building regulations**, which sets us on a trajectory which runs a little ahead of England, minimises this risk, but also offers opportunities for Welsh businesses to be ahead of the game and develop genuine competitive advantage ready for the application of similar standards elsewhere. These opportunities will be backed up by training and supply-chain investment. This will not only benefit the construction sector; there will also be opportunities to encourage low carbon technology development and manufacturing capability in Wales. Thus we will make building regulations that both satisfy our low carbon policy objectives and benefit relevant sectors of the economy.

Using procurement responsibly to drive economic value

Considerable progress has been made in improving public sector procurement in Wales so that it addresses the challenges facing SMEs; ensures that the public sector conducts procurement as openly and fairly as possible; and keeps the administrative burden to a minimum for all those involved. Work is already underway, for example, to advertise lower-value opportunities more widely, and reduce the use of approved lists that limit competition.

However, we have more work to do. Although an analysis of spend indicates that around 50% of goods and services purchased by the Welsh public sector were procured from Wales based suppliers in 2009, there remains considerable scope for Wales-based suppliers to compete successfully for more. In 2009 we commissioned the 'Barriers to Procurement Opportunity Research', which identified that our priority should be to improve the transparency, standardisation and efficiency of pre-qualification processes through developing common core questions and guidance.

We will set up an **online supplier qualification information database** and make use of e-business technology to reduce bureaucracy for all buyers and suppliers, as well as significantly improving the quality of the processes.

Our websites Sell2Wales and Buy4Wales took advantage of the Internet to make it easier for businesses to access public sector contracts. However, we need to ensure we develop our web-based approach to support and make it easier for public sector buyers and suppliers – building on feedback received from both procurement professionals and businesses. We will do this by creating a single **National Procurement Website**.

A new Procurement Board has been set up as part of the Efficiency and Innovation Board to explore ways to work with the supply base, drive savings through more efficient processes, have less duplication and better supplier performance. We will establish a **Supplier Reference Panel** which will work with the Procurement Board to help suppliers and public buyers improve engagement, shape policies and interventions and ensure these succeed on the ground.

Pilot work on supply voids and weaknesses has highlighted areas where a significant proportion of public sector spend is contracted outside of Wales due to lack of Welsh capability, or Welsh suppliers not seeking public sector business. We will extend this work to the whole of Wales, to better appreciate spatial differences and understand our supply base fully, and to explore the potential for collaborative activity between businesses on a sectoral, spatial and capacity basis. We will **encourage businesses to develop and compete to fill gaps in the supply base**.

Lack of capacity, capability and skills across the public sector can make it difficult to drive forward change. We need to bring together a range of actions, from training young people, to better equipping senior leaders to make best use of professional procurement skills, and driving forward the use of e-procurement through the xchangewales programme. Our work in this area will be supported by the **Transforming Procurement through Home-grown Talent project** (using European funding).

Health procurement

Health and social services make a key contribution to economic development. As the largest and biggest spending organisation in the Welsh public sector, NHS Wales' spend on new capital developments and procurement of services have a direct impact on the economy.

We are building further on our approach to **collaborative procurement** by incorporating Local Health Board procurement teams within the new NHS Wales Shared Services function. This will drive further value for NHS organisations, improve the critical mass of procurement expertise within NHS Wales, and put the NHS in a stronger position to contribute to our broader priorities for the Welsh economy.

Our planned development of an end-to-end managed supply chain service for many NHS products is expected to provide a more efficient supply route to front line services and release more nursing time into the delivery of patient care. We plan to create opportunities for local commercial organisations to establish 'offsite distribution centres' for supplies to Welsh public sector organisations. This will provide the potential for the public sector to make further reductions to its carbon footprint by offering consolidated deliveries.

In its capital developments, the Welsh NHS uses the NHS Supply Chain Procurement Framework, the introduction of which has led to the opening or expansion of 14 separate offices throughout Wales by Supply Chain Partners and their Supply Chain Members. The Framework has developed a 'Community Benefits Strategy' that encourages all parties to engage with local communities and use local suppliers and sub-contractors when appropriate.

We are also keen to encourage more **innovative approaches across the health sector** through collaboration, using assets more effectively and sharing innovative practice and new ways of doing things.

Maximising the returns from social housing investment

Expenditure on housing and construction presents a huge opportunity to deliver efficiencies and at the same time develop local manufacturers and service providers, and a local skilled workforce. Construction represents around 20% of the overall public procurement spend of £4.3 billion and presents many opportunities for Wales based suppliers to compete for and win business while also acting as a vehicle to achieve social and environmental benefits for local communities.

In the Social Housing sector it is forecast that investment of £3bn is required to bring all homes up to the Welsh Housing Quality Standard. Our expenditure is over £430million on housing every year. This figure does not include the amount spent by housing associations and Registered Social Landlords (RSLs) from their own revenues. The use of social or community benefit clauses in procurement contracts as a way of getting people back into work, is an increasing feature of public sector construction contracts. We have an opportunity to roll out the good practice established in regeneration areas to help people into stable employment.

We will work with the social housing sector to **improve procurement practices**, and with the construction sector to **improve responsiveness to procurement opportunities**.

Improving the health of the working age population

Businesses can benefit from a healthy workforce. Research shows that investing in the health and wellbeing of staff can produce financial returns on the investment from 1:2.3 (for medical costs) to 1:10.1 (for absenteeism). We have therefore established Healthy Working Wales to support and advise businesses on developing healthy workplaces for their staff and on reducing their sickness absence levels. This can lead to increased effectiveness, productivity and competitiveness for employers.

Healthy Working Wales is delivered in partnership with the Health and Safety Executive and Public Health Wales and provides a range of advice and support through, for example, advice lines, face to face visits to engage businesses and by a wide range of health improvement initiatives, such as Stop Smoking Wales and Mental Health First Aid which can be delivered direct to workplaces. A new

online centre for employers is being developed to provide line managers with access to information and online desk aids to help them to manage employees with a health problem in work. Access to information is provided to health professionals to help them better support their patients with health at work issues.

We will work with the NHS and other partners to further **develop the support provided to businesses through Healthy Working Wales**.

Supporting economic renewal through our existing activities

We are already improving the conditions for economic development through a range of interventions, including:

- From 1 October 2010, around half of small businesses in Wales will pay no business rates for the year and roughly 20% more will see their business rates significantly reduced. In addition, the non-domestic rating multiplier for 2010-11 has reduced by 16% and 60% of business in Wales will see a reduction in their bills before any small business rates relief is taken into account following the 2010 non-domestic rating revaluation. We have already commissioned an evaluation of the rate relief scheme which will be complete in Autumn 2010 and will keep the issue of small business rates relief under review, whilst recognising the challenges of reducing public expenditure. Empty property with a rateable value of up to £18,000 per annum is exempt from rates up to 31 March 2011. Empty property above this threshold still has an exemption period of three or six months depending on whether it is commercial/retail or industrial.

- *Inspection, Audit and Regulation in Wales* was published in September 2009 and sets out our overarching policy. We are also working through the Four Nations Better Regulation Forum, and with the Local Better Regulation Office on the national enforcement priorities for Wales.
- The *Historic Environment Strategic Statement* prioritises action to conserve and protect the historic environment from threats such as insensitive development and climate change impacts but also to maximise its potential contribution to regeneration and sustainable development.
- We continue to invest in our Regeneration Areas in partnership with local stakeholders to deliver improved quality of life and quality of space for our most deprived communities and stimulate investment and economic activity.
- We promote the Welsh language by encouraging and supporting its use in all aspects of life in Wales.
- Government support for sport and physical activity is channelled via the Sports Council for Wales, with a view to both widening participation in sport and physical activity and promoting the achievement of sporting excellence nationally and internationally.

5. Broadening and deepening the skills base

The foundation of any economy is its working population and education and skills at all levels are vital for economic growth and prosperity in Wales. They contribute powerfully to national competitiveness, business productivity and individual social mobility. Developing skills is central to making Wales a highly attractive place to live, invest, employ and grow.

Broadening and deepening our skills base is a shared responsibility for us as a Government, learning providers, employers and individuals.

For economic renewal we need to:

- develop a responsive partnership with business on skills provision that targets investment explicitly on our post recession economic requirements
- support young people to succeed and be ready for the world of work
- step up our efforts to help those who are disengaged, reducing economic inactivity and worklessness.

Context

Wales needs a learning, skills and employment infrastructure which can develop a workforce with the right attitudes, skills, knowledge and confidence to meet both present and future economic and social needs. We believe that developing this infrastructure is a shared responsibility for us as a Government, learning providers, employers and individuals. To fulfil the collective potential we need:

- employers in the private and the public services who are committed to using knowledge and skills to the maximum effect
- a population where the vast majority of individuals are committed lifelong learners, willing to extend their knowledge and skills to the benefit of their current employer and to

maximise their opportunities for future employment

- support systems which provide simple, easily-accessed advice and guidance on learning opportunities, employment opportunities, financial support, and childcare
- an education and training system that gives people the knowledge, skills and confidence they need by the time they reach the statutory school leaving-age, and provides high-quality education and training for employment.

Our *Skills That Work for Wales* strategy (2008) set out our integrated agenda for post-16 skills, employability and business support. Our joint 'Labour Market Framework' (2010) with the Department for Work and Pensions brought together our efforts to help more people back into work. The *For Our Future* strategy (2009)

challenges our higher education providers to become much more deeply engaged in supporting the future economic success of Wales through stronger relationships with business and more commercialisation of new and existing knowledge. The identification of priority sectors for research and development and commercialisation gives focus to this effort. There is also a moral imperative to raise ambition and access to higher education, redoubling efforts to extend its benefits to communities with a history of under-representation.

Spanning the *Skills That Work for Wales* and *For Our Future* strategies and action plans is a greater emphasis on meeting employer and learner needs and aligning resources with national priorities.

Significant public investment is already being made in education and training in Wales – we could and should be reaping significantly greater economic and social benefit as a result. For this reason, both strategies herald significant changes to the way learning is planned, designed, delivered and supported.

These strategies are crucial components of the economic policy agenda for Wales. To date, our approach has proved flexible enough to allow us to quickly set up major skills initiatives such as ReAct, ProAct and Pathways to Apprenticeships, which formed the backbone of our response to recession.

Taking a new direction for economic renewal

We believe our commitment to developing skills is central to making Wales a highly attractive place to live, invest, employ and grow. We are committed to substantive progress on the following seven core outcomes:

- A genuine partnership with employers on workforce skills at all levels

- Young people motivated and ready for the world of work
- Funding that follows priorities and policy commitments
- High quality Apprenticeships
- Skills that open up rewarding routes into work
- A provider network that delivers choice, innovation and excellence
- New jobs and growth in existing and new companies arising from commercialisation of knowledge and research in Higher Education.

We will achieve this by taking forward the *For Our Future* Higher Education Strategy Action Plan and by implementing an updated *Skills That Work for Wales* action plan which will be published in the Autumn of 2010.

A genuine partnership with employers on workforce skills at all levels

We will continue to develop the suite of support for companies through the Workforce Development Programme. The programme acts as a gateway to many different learning options including leadership and management training and discretionary funding to address bespoke development needs. We will ensure that the Workforce Development Programme supports our economic development priorities.

Investing in skills must be a partnership and we will continue to value ongoing dialogue with employers and advisory bodies such as the Wales Employment and Skills Board. Skills programmes must remain relevant to the needs of employers and the wider economic context. We will tailor support in ways that reflect the different sectoral and individual needs of employers, helping to release the potential of those companies with high growth and employment prospects.

We will target the Skills Growth Wales programme, part financed from European funds, on strategically important businesses as part of an integrated approach to business support. We will also invest in **enhanced leadership and management skills**, again supported by European funds. The new Centre for Excellence for Leadership and Management in Wales will drive demand with employers and improve the quality of information and provision.

We will help employers tackle the costs and wasted potential arising from low levels of literacy and numeracy in the workforce through the **Basic Skills Employer Pledge**. This will be supported by European funds through the **new Basic Skills in the Workplace projects** which will operate across Wales from October 2010 to September 2013. The projects plan to support over 1000 employers and 30,000 employed individuals.

With the support of European funding and employer contributions, we will deliver the **Sector Priorities Fund Pilot** project. This involves working with Sector Skills Councils to pilot strategic project activity and provide labour market intelligence, enabling the delivery of post 16 skills provision to be more responsive and aligned to the needs of employers.

Young people motivated and ready for the world of work

For sustained economic renewal we need an education and training system that supports young people to succeed and be ready for the world of work. We believe that schools, colleges and universities must develop in young people the right attitudes and skills for the workplace, irrespective of the learning pathways they have chosen. This includes not only a commitment to ensure the basics of literacy and numeracy are in place, but the development of

wider skills such as entrepreneurialism and the understanding of personal social responsibility. Our actions will be underpinned by our ongoing commitment to widening choice and enhancing learner support through 14-19 Learning Pathways.

Critically we need to interest more young people in developing the sorts of skills that will develop Wales' potential for economic growth. Subjects such as science, technology, engineering and mathematics (STEM) are especially important in this regard. We will **promote engagement** in these subjects, into Higher Education and at postgraduate level, through the new National Science Academy (NSA) which will be linked to the wider science agenda and the work of the new Chief Scientific Adviser for Wales. We will use European funds to support the training of young people in STEM subjects through a STEM skills project.

The recession has had a disproportionate impact on young people. The employment rate amongst 16-24 year-olds fell by 5.1 percentage points between the year ending September 2008 and the year ending September 2009, compared with a fall of 2.3 percentage points for all working-age adults. Early setbacks can have long-term consequences: 'scarring' effects that increase a person's likelihood of experiencing future unemployment. But we believe that we can make a difference to young people's prospects in Wales.

We are already promoting new apprenticeship opportunities for young people through the Young Recruits and Pathways to Apprenticeship schemes. In 2011, we will **introduce a successor to the Skill Build programme** that will offer enhanced support, including entry-level 'engagement' training for young people facing the worst barriers to employment.

In addition, we will examine what more we can do to support unemployed young people, taking account of **the recommendations of the Youth Unemployment Task and Finish Group.**

High quality, independent and straightforward information about what is happening in the world of work, and where the learning opportunities are, is essential for an efficient labour market. The more well-informed that individuals, employers, and learning providers are, the more effective their decisions about jobs and investment in skills are likely to be. We will ensure that such information is available to **help individuals make well informed learning choices** and, in due course, consider our response to the wider review of careers services once this has been received.

Funding that follows priorities and policy commitments

Since everyone benefits from skills – learners, employers, the nation as a whole – this must be reflected in the contributions to the cost of learning. There is sound evidence of a payback through higher wages or greater productivity to most investment in skills by individuals and employers. Given our finite resources we cannot and should not fund all of the learning needed for a competitive economy. Our approach to funding must ensure the needs of the most vulnerable and needy are addressed alongside our priorities for economic development.

Building on the *Investing in Skills* consultation, we will progress the introduction of a **clear and transparent fees policy for post-16 education and training.** By September we will publish details of the next phase of our proposals for the implementation of a fees policy.

In July we are inviting tenders for the delivery of our apprenticeship programme. Going forward, we will use the **Annual Operating Agreement for Workplace Skills Development** to align provision more closely with economic renewal objectives, including ensuring that funding for apprenticeships is linked to priority sectors and strategic businesses.

We will support and develop the childcare sector to take forward action with our partners to improve the accessibility, affordability and quality of childcare. This will be an integral part of our approach to supporting families and also a key part of the delivery of our Child Poverty Strategy for Wales.

High quality apprenticeships

We believe that individuals and employers value apprenticeships as a means of developing the workforce at all ages. We are committed to the continuous development of the apprenticeship model as a flagship vocational training option, and to extending the numbers of employers who share in the benefits that apprenticeships offer. We aim to build upon the success of our all-age apprenticeship programme by further strengthening the apprenticeship brand.

The Apprenticeships Skills Children and Learning Act 2009 provides, for the first time, a statutory underpinning for apprenticeships. The Act will strengthen our apprenticeship system, so that in future more young people and adults can benefit from this path to a skilled career. Our new Apprenticeship Unit will take forward action to ensure training meets the needs of employers and examine how we can create **new incentives and opportunities for employers to offer apprenticeships** in Wales. This will include taking forward the lessons learnt from pilot Shared Apprenticeship models.

We will also **pilot a new Apprenticeship Matching service** which will allow employers to directly advertise apprenticeship vacancies to candidates. Additional opportunities will be made available through the European-funded Pathways to Apprenticeships for young people to prepare for apprenticeship training.

Skills that open up rewarding routes into work

For economically inactive and unemployed people, breaking cycles of disengagement and tackling disincentives to work are essential if we are to release new potential back into the Welsh economy. Overcoming these barriers will have the twin benefits of raising the size of the active workforce and at the same time tackling a principal cause of child poverty.

There are issues here which extend to non-devolved matters such as employment policy and benefits regimes – and therefore we need to understand UK-wide policy approaches and work to tailor and enhance this to reflect distinct needs in Wales.

We will work to deliver a **more effective skills and employment service** under the Careers Ladders Wales banner, underpinned by the Joint Labour Market Framework agreed with the Department for Work and Pensions and the work of the Joint Employment Delivery Board. We will work with Department for Work and Pensions to maximise its contribution to Wales, particularly in relation to the single Work Programme ensuring it contributes fully to our objectives. We will also simplify programmes and improve the quality of advisor support to help people get into work.

A provider network that delivers choice, innovation and excellence

While we have many examples of excellence, much of the provider network in Wales has evolved over time rather than been consciously planned. This has led to a legacy of duplication and inefficiency in some areas. The transformation of the post-16 learning network encourages the development of local solutions to local needs, and is now being extended into an all-age, system-wide approach.

We will continue our **system-wide transformation and governance reform agenda**, creating a high-quality learning network that delivers improved choice and opportunity and is attractive to employers. More than 70% of post 16 Transformation Plans will be implementing by September 2010 and this exceeds our stated target of 60%. Remaining plans will be implemented by September 2011. We will respond to the outcomes of the Education Review undertaken by PricewaterhouseCoopers – driving resources to the front line – as well as continuing to invest in the modernisation of our facilities for learning through the 21st Century Schools Programme.

Higher Education and High Level Skills

Higher Education in Wales makes a major contribution to the economy. The sector develops the advanced skills required by the most innovative businesses, creates and transfers knowledge, and is a significant employer and purchaser of goods and services in its own right. While there is already evidence of a strong multiplier effect from existing public investment in Higher Education we believe that there is more and further benefit to be gained in the future. We will complete our **review of Higher Education governance** to ensure that

governing bodies are appropriately structured to drive change and, if need be, challenge institutional management.

The *For Our Future* Action Plan sets out objectives to be achieved by 2012-13:

- Development of a national system of Higher Education in Wales, with universities and further education colleges working together in an integrated fashion
- More coherently planned and organised provision in each region of Wales, for the benefit of local learners and employers
- Research performance at international standards of excellence, organised within and between institutions in ways that are sustainable, and strongly linked to users and other beneficiaries
- Substantially fewer institutions
- A clear understanding of how each institution contributes to the system as a whole, individually and through collaboration, regionally, nationally and internationally
- All institutions being financially sustainable into the medium term future.

It is a central tenet of *For Our Future* that that the provision of foundation degrees in Wales is fully responsive and opened up to the skills needs of our employers, current employees and the future workforce. Equally we expect Higher and Further Education providers not only to work collaboratively and exploit their combined resources in the provision of foundation degrees, but importantly to work closely in networks with employers – particularly at a regional level. HEFCW will take forward action to implement the Foundation Degree policy and will expand Foundation Degree availability in Wales, targeted primarily on upskilling

the Welsh workforce, aligned with regional higher education strategies and sector priorities. We also expect HEFCW to take this consideration in mind when publishing their Regional Planning Strategy.

Supporting economic renewal through our existing activities

We have been making strong progress in improving skills in Wales. Examination results and qualification levels have improved over recent years. Our responsive and integrated approach to skills, employment and business support, as set out in *Skills That Work for Wales*, has helped many individuals and employers survive the recession and prepare for the future.

Helping individuals retrain in response to redundancy and businesses respond to the economic downturn

Our Redundancy Action Scheme (ReAct) provides funding for training for people facing redundancy, and employers willing to take on someone who has recently been made redundant. Between 1 October 2008 and 30 April 2010, ReAct helped nearly 16,000 people. ProAct has been providing training and a wage subsidy for employees put on short-term working, offering an alternative to redundancy. Our total funding commitment is over £25.6m. The successor programme, Skills Growth Wales, continues to support training in companies with growth potential. All three schemes are part-financed from European funds.

Helping children onto the right track from an early age

For long-term and enduring economic success Wales needs to help get people on the right track from early on. Addressing poverty and inequality amongst children is vital for a fair society, because social

background is a strong predictor of educational attainment and life chances. We need to make sure that children get the best possible start in life, breaking the link between social class and achievement. We are already supporting disadvantaged families and young children through our Flying Start scheme, and we are looking at how we can improve the accessibility, affordability and quality of childcare. These developments are supporting work on the new Child Poverty Strategy for Wales.

Improving the effectiveness of our schools

Schools in Wales are educating the workforce of tomorrow. Generally, Welsh children achieve well. However, we need to do more to reduce the differences in outcomes within schools, between schools, between local authorities and between the primary and secondary phases of education. We are continuing the implementation of the Foundation Phase, our radical new approach to education for 3-7 year olds and overseeing the further development of Learning Pathways 14-19, which offer young people a wider range of learning choices and better personal support. We are continuing to promote the Welsh Baccalaureate, which has been well received by employers.

Supporting opportunities for young people to achieve

The recession has hit the young especially hard: the employment rate amongst 16-24 year-olds has fallen more than amongst other age groups. We developed the Pathways to Apprenticeship scheme to help young people into vocational training at a time when employer demand for apprenticeships has dipped.

Workforce skills

Wales' changing demography means that fewer young people will be entering the workforce, making it ever more important to improve the existing stock of adult skills. Investment in adult learning, particularly training in the workplace, will be vital in maintaining and enhancing our competitiveness.

There are many ways in which current policies and programmes support adult skills. For example, planning guidance to Further Education institutions instructs them to increase basic skills provision and support local Spatial Plan priorities. The Workforce Development Programme also continues to offer employers a gateway to many different skills programmes. The Wales Union Learning Fund supports the union movement's efforts to encourage both employers and employees to participate in training.

There is growing demand for, and take up of vocational qualifications by those over the age of 21, reflecting the value more employers are now putting on these qualifications. Increasing participation in adult learning is important, as a culture of lifelong learning must respond to the evolving needs of employers. To further support this we will be introducing a new generation of vocational qualifications that will allow learners to learn and achieve in flexible, bite-size chunks – good for employers and learners alike.

With the growing use of Welsh in the public sector and parts of the private sector, the language is now acquiring an increasingly significant presence in the workplace. We are therefore supporting the Welsh Medium Education Strategy which recognises that Welsh language skills are important to the future success of many Welsh-based businesses.

Developing sector-based approaches and working with sectors to support their needs in Wales

We are working with Sector Skills Councils (SSCs) and stakeholders on the development of measures to strengthen the Apprenticeships programme, including Shared Apprenticeships, an Apprenticeship Matching Service, and the Young Recruits and Pathways to Apprenticeship programmes. We are also supporting the SSC reform agenda, to create a network of higher-performing SSCs. Finally, we are working with partners to develop specialist sector training academies, such as the National Skills Academy for Nuclear, which involves Coleg Menai's Llangefni site and the Photonics Academy at the Technium OpTIC in St Asaph.

Getting people into work

We work closely with the Department of Work and Pensions (DWP) and Jobcentre Plus to help young people and adults into jobs, and we have a shared ambition for better planning and integration of employment, skills and other programmes. Among our current actions we are developing a new, more flexible entry-level programme to replace Skill Build and making sure that learning enhances employability and helps people progress in the labour market. We are also piloting more active, personalised support for unemployed and economically-inactive people in Rhyl, the Heads of the Valleys and Môn a Menai. The Childcare Act places duties on local authorities to secure provision of childcare that is sufficient to meet the requirements of parents in their area in order to enable them to work or undertake education or training leading to work.

Making higher education work for business, the economy and social justice

While the *For Our Future* Strategy and Action Plan now takes forward the challenge for Higher Education, we have already begun to make progress. We have asked HEFCW to target more of its funding on restructuring the higher education sector in Wales in line with the expectations set out in the strategy.

This includes:

- more local access to higher education through regional collaboration
- stronger emphasis on shorter, more flexible programmes and those more tailor made to meet workforce needs
- greater critical mass and quality in research and education which competes internationally for reputation, academic and business partnerships, innovation and investment.

We have also asked HEFCW to review its approach to institutional planning to create a higher education system in Wales where institutions focus on their individual strengths and collaborate locally, regionally, nationally and internationally to enhance the economic impact of Higher Education.

6. Encouraging innovation

Research & Development (R&D) plays an important role in stimulating innovation, and innovation is a key driver of productivity, economic growth and long-term improvements in wellbeing. Wales must move towards a more R&D intensive and knowledge-based economy where the right conditions exist for innovation to flourish.

For economic renewal we need to:

- build upon the expertise that exists within Welsh universities and businesses, developing UK and global recognition of Welsh research
- encourage businesses to invest in R&D and to harness the commercial opportunities of innovation and research
- adopt a more focused approach, tackling the barriers to investment in R&D and innovation.

Context

R&D and innovation are critical for any modern, developed economy. The Sainsbury review (*Race to the Top*) of government science and innovation policies estimated that knowledge-intensive businesses have increased their share of GDP by five percentage points over recent years by adopting new technologies. The *Innovation Index* by the National Endowment for Science, Technology & the Arts highlights the importance of commercialising research and the need to innovate across all aspects of business and in all business sectors, citing improvements in productivity and profitability. Inventing, marketing and using new products, services and ways of working is essential for business growth. Adoption of these can also lock in investment to specific locations, in turn providing sustainability and resilience.

In Wales, the Economy & Transport Ministerial Advisory Group has undertaken an investigation into R&D and commercialisation. It has identified the innovation process as being driven by the need to solve customer problems. This involves identifying the problem, coming up with new ideas and successfully exploiting these with technology to develop new products, processes, systems, or services. This process solves a customer need and thus generates revenue and added value. The Economy & Transport Ministerial Advisory Group has identified R&D and innovation as key to the future performance of the Welsh economy.

Wales faces a number of barriers and challenges which are preventing us from realising our full R&D and innovation potential. In comparison to many other developed economies, Wales lacks a large R&D base in either the public or private sectors. R&D in Wales is dominated by

the Higher Education sector where there are fewer incentives to commercialise research. Science, technology, engineering and mathematics (STEM) activity in Wales' universities stands at a lower level, in some aspects, than other parts of the UK.

As well as traditional laboratory research, successful innovation and commercialisation also requires new and specialist skills, experience of intellectual property protection and innovation in organisation, product and service delivery. Clustering and agglomeration effects, as well as an attractive built environment (creating 'innovative places'), are important to retain home-grown talent and make Wales appealing to new researchers and wealth creators.

Office for National Statistics figures for R&D expenditure in Wales (£525m) place it around 2% of the total UK spend. It falls well short of the 5% level we might expect based on population share. The UK itself has lower levels of investment in R&D than many other developed nations. However, it is recognised that there are pockets of outstanding innovation and research, often in our newer, more creative SMEs, that are not captured by the headline figures. Also, investment in the wider aspects of innovation such as product design, service innovation and skills are not included in this measure.

R&D in Wales is conducted in several different settings and we are a significant direct funder of both business and academic research. Early-stage research is carried out chiefly in the universities, and is supported by the Research Councils and HEFCW. R&D that is closer to the market is typically done by businesses, often in collaboration with the universities. Where business does not fund its research entirely, it may be supported by the Technology Strategy Board (TSB), an agency of the UK Department for Business, Innovation and Skills.

Framework Programmes are the main financial instruments through which the European Union supports R&D activities and these cover almost all scientific disciplines. The Seventh Framework Programme (FP7) runs from 2007 to 2013. As of May 2009, the UK has attracted 13.7% of the total budget of the FP7, the second largest proportion of funding after Germany. Wales has gained 2 per cent of the UK total.

The Cabinet has recognised the need for a more focused approach to research and development and the commercialisation of knowledge in Wales. In response four R&D priority areas have been identified where Welsh universities have the best opportunity to maximise their research performance and economic impact:

- Digital economy (ICT)
- Low carbon economy (including climate change mitigation and adaptation)
- Health and biosciences
- Advanced engineering and manufacturing

Businesses in Wales are operating in an ever more competitive global marketplace. Technologies are becoming more complex and specialised, cost competition is fierce, and the pace of innovation and change is ever increasing. Wales must therefore look to exploit its advantages as a small country, including the ability to get the key players in industry, academia and government together to develop strong networks between institutions engaged in research activity and commercialisation.

These networks and relationships with businesses are vital to commercialise the fruits of research and transfer technology into those businesses for economic benefit. Matching this drive, we must encourage ongoing investments in higher-level skills and training for technicians at all levels to make the most

of this activity and the potential for business growth and profit.

In Wales we have many of the ingredients necessary for a competitive knowledge-based economy. We now need a step change to realise the benefits and to build competitiveness and to make the most of our talent and expertise.

Taking a new direction for economic renewal

We believe our role in increasing R&D, innovation and commercialisation should be focused on developing the environment and the infrastructure that encourages innovative activity to flourish.

We must also facilitate an increase in the amount of innovation and R&D conducted in Wales, particularly in our key sectors and ensure that Wales benefits through the commercialisation of R&D. Our approach to this will include:

- working with academia to **build capacity to support the needs of business** in the key sectors
- encouraging collaboration between researchers across Higher Education institutions to **increase our capacity to participate in higher value research contracts** and increase the quality of competitive bids
- encouraging **collaboration between Higher Education and business** for mutual benefit as part of an “end-to-end” approach
- promoting the **importance of innovation** (R&D, product and service innovation) **for business**
- **promoting Wales** as a place for innovation and for knowledge-based businesses to grow under the Wales brand
- working with businesses to **develop their innovative capacity** to ensure

that they create new and improved products, processes and services and implement new technologies

- **raising awareness** of the support available to business and academia for collaborative R&D and commercialisation activity
- provision of **specialist facilities**, including incubation centres to provide the environment which will accelerate the growth of technology and knowledge-based businesses
- encouraging Higher Education institutions to put robust quality review mechanisms in place to ensure **more successful research funding bids**
- work on the necessary **underpinning infrastructure**, such as facilities and accessible broadband.

We also believe that it is important for Wales to build upon investments and achievements already made in areas of internationally recognised expertise, and that this will help build Wales’ capacity as an innovative region for the long term. We will build on existing centres of expertise and specialist facilities in Welsh Higher Education and continue to develop pan-Wales research collaborations, including with business.

The TSB funds the Small Business Research Initiative which aims to create opportunities for innovative small businesses by leveraging government procurement. Wales attracts some 3.3% of the total TSB funding and when compared to the UK average has a considerably higher proportion of awards made to academic rather than industry partners. We will **facilitate greater involvement** in this Initiative.

We welcome, in particular, the **report of the Economy & Transport Ministerial Advisory Group on R&D and Commercialisation** and will develop

implementation plans to address the recommendations.

Progress is being made. With our encouragement and financial backing through HEFCW, universities across Wales have come together to develop collaborative institutes which are more robust, sustainable and credible to the wider world and to research funders – such as the Wales Institute for Mathematical and Computational Science, the Low Carbon Research Institute, and the Research Institute for Visual Computing.

We also have major infrastructure investments coming on stream, such as the new Positron Emission Tomography (PET) scanner and High Performance Computing Wales. We are working in collaboration with all universities across Wales to build a level of future computing infrastructure that will support high-quality, advanced R&D in universities and industry.

We will **maximise Wales' share of external research** funding by developing our engagement with UK Research Councils, the TSB, charities and the Framework Programme and other appropriate EU programmes, as well as with the universities applying for this funding.

In terms of Research Council funding, Wales performs relatively well in attracting funding from the Biotechnology and Biological Sciences Research Council (BBSRC) and the Economic and Social Research Council. However, we perform less well in attracting funding from the three Research Councils with the highest budgets: the Medical Research Council (MRC), the Engineering and Physical Sciences Research Council and the Science and Technology Facilities Council.

Successful groups in Wales, repeatedly winning significant research income and recognised internationally for their work, include:

- the MRC centre in Neuropsychiatric Genetics and Genomics at Cardiff University co-funded by the National Institute for Social Care and Health Research
- the Institute of Biological, Environmental and Rural Sciences (IBERS) at Aberystwyth University, which recently won £4.9m from BBSRC to develop improved Oat varieties – work we have co-funded through the Academia for Business programme
- Swansea University, which has had a long term partnership with Rolls Royce and will benefit from a £50m investment by the Engineering and Physical Sciences Research Council and Rolls Royce into Structural Metallic Systems for Advanced Gas Turbine Applications.

We need to build upon these successes and **take a whole-Government approach to supporting R&D**, creating more effective links between the Department for Children, Education, Lifelong Learning and Skills, DE&T and the Department for Health and Social Services.

A key aim of the newly created **National Institute for Social Care and Health Research** will be to promote collaboration between the NHS, industry and Higher Education institutions. It will provide a new way of engaging with the R&D community in Wales. There will be enhanced involvement of academic and service professionals, industry, voluntary sector and patient groups to strengthen the health and social care R&D base. It will also include a dedicated unit to lead strategy in commercial trials, NHS innovation and intellectual property, all

of which are aimed at enhancing the life science sector in Wales and contributing to the wider economy. This new way of working underscores the need for all the partners to work together in order to maximise the full R&D potential of health and bioscience.

To continue and grow activity that will help develop an innovation culture in Wales, it is recognised that we need to **educate, attract and retain able scientists, engineers, technologists and mathematicians**. Wales' Science curriculum has been revised in recent years and various factors, including incentives from Government, are bringing more and better qualified teachers into schools in Wales. As a forward looking country we need to ensure that those who want to can pursue research careers within Wales and find graduate and post-graduate level employment when they complete their academic studies.

To this end, we also need to support businesses and individuals to develop and commercialise their ideas in order to create new value-added, knowledge-based jobs for the future.

We have appointed our first Chief Scientific Adviser for Wales and our *Science Policy for Wales* (2006) will be revised by Spring 2011. It is important that people in Wales recognise the importance of science and that they are engaged in constructive, informed dialogue on the benefits and on occasions, risks of new discoveries. This kind of informed debate around science is important for a number of reasons. The awareness by parents, teachers and others who influence young people that a career in science and technology is important, exciting and rewarding will help increase the number of people committed to working in these fields in Wales. In addition, consumer acceptance

of products and services derived from such discoveries strengthens the market take-up and demand.

The Chief Scientific Adviser will also advise on the development of our National Science Academy. It will **promote the take up of science, technology, engineering and mathematics at all levels**.

Supporting economic renewal through our existing activities

In addition to new priorities for economic renewal, we already undertake significant activity aimed at making the most of Wales' strengths and stimulating and facilitating our research and innovation capacity. We need to build on what has been achieved.

There are niche areas of internationally recognised expertise and facilities in Wales, including, for example, IBERS, Opto-electronics, Foundation Wales (piloted with EADS) and Knowledge Transfer projects funded by A4B. The £50 million Academia for Business (A4B) programme, using mainly EU structural funds, is funding the establishment of centres to transfer research and technology knowledge to businesses and to conduct research and development for business benefit. A4B also supports specialist facilities and capacity building in academia to accelerate the processes of innovation and commercialisation.

Through HEFCW, we provide the core funding to universities that enables them to invest in research. This funding underpins the work needed to win competitively-awarded research funding from Research Councils, the TSB, other government sources, and the health and business sectors.

We help businesses to be more competitive through the adoption

of ICT. In addition, we encourage businesses to invest in R&D, innovation, commercialisation of IP, design, new product/process development and new technologies through our existing integrated approach to encouraging innovation in business. Wales has already invested significantly in incubation and specialist facilities and we have put in place measures to maximise the benefits of this investment.

We recently reviewed Research Council income within Wales. Insight from this study has helped us to develop strategies to improve the flow of income to Wales. Actions taken included:

- compiling a comprehensive overview of the current positions in Wales, including existing collaborations
- mapping the priority areas of the Research Councils against key areas of excellence for Wales
- developing a closer partnerships with and between the Research Councils and Higher Education institutions within Wales
- showcasing existing research collaborations to the Research Councils and other funders of research.

7. Targeting the business support we offer

We need to concentrate our resources where we can add the most value, acting as an enabler of growth for the economy as a whole rather than a significant direct deliverer of services to individual businesses. We will develop a sector-based, strategic approach to business support, developing our role as an expert facilitator and enabler.

For economic renewal we need to:

- reduce the level of direct business support and deploy more resources to wider infrastructure development
- move to more of an investment culture in our dealings with businesses
- adopt a sectoral approach, focusing support on work with six sectors where, with better targeted intervention, Wales can gain competitive advantage
- build strategic relationships with ‘anchor’ companies
- offer limited, specialised support to all businesses
- improve the way we work with businesses.

Context

Although most governments provide forms of support direct to business, evidence on the economic benefits is mixed. First and foremost, the ability of government to help effectively is constrained by resource and the number of businesses. For example, whilst there are no official figures a reasonable estimate would be that the provision of new credit to businesses in Wales from the banks alone has been in the order of £4 billion per annum in recent years. In addition, there is the risk of unintended consequences, for example propping up less successful businesses or supporting some businesses to the detriment of others (see *Analysis of the Regional Selective Assistance scheme in Wales*, Welsh Assembly Government).

However, evidence also identifies that the level of business support can be an important influence on decisions about business location (*A review of the economic evidence on the determinants and effects of foreign direct investment*, Welsh Assembly Government) and financial assistance provided may well have supported employment in disadvantaged areas.

Although the evidence is mixed, it is clear that where support for businesses is provided it should be in line with government priorities and provided as a last resort.

We have set out that the most effective and efficient role for us to play is to concentrate on the policy levers over which we have the greatest degree of control and the impacts of which are

most widely felt. We have described why and how we intend to increase our efforts to tackle wider systemic issues in the economy – in particular by investing in infrastructure, skills and improving the conditions within which businesses operate.

As a result, the level of support we deliver to individual businesses will be materially reduced. Such a reduction fits with our own analysis, and stakeholder feedback. We have traditionally attempted to reach as many businesses as possible but even this has remained a small proportion of the Welsh economy. We have also operated in fields where our original rationale for intervention was strong but over time it has become clear that the private sector should take the lead. For example, we have offered finance alongside banks and we have brokered and paid for business advice instead of allowing organisations to prove independently to their clients the worth of investing in this type of assistance. It is clear that in future we should confine our activities to specific and evidenced gaps in the market, where we seek to achieve specific policy objectives or where the private sector will not play a role.

Taking a new direction for economic renewal

We have received consistent feedback throughout our engagement process that DE&T should take a more focused approach to business support. We need to concentrate our resources where we can add the most value, beyond what the private sector can itself deliver and address issues of market failure or significant demand. Our focus going forward will be on sectors, alongside more strategic relationships and more targeted, specific interventions.

Priority sectors for economic development

We are not the sole provider of support to businesses in Wales; parts of UK Government departments, local authorities and Higher Education also provide a variety of services. And even our business support is not the sole domain of DE&T as is often assumed.

In 2008, we adopted the recommendation of the Economy & Transport Ministerial Advisory Group that we should align our activities to key sectors of the Welsh economy in order to improve the global competitiveness of Wales. A sectoral focus is necessary not only because resources are finite, but also because the current sectoral mix represents a weakness in the Welsh economy, with an over-dependence on potentially slow-growing sectors.

Previously DE&T has sought to provide some intervention across a wider range of the sectors. However, going forward it will **focus its support on work with six sectors** where, with better targeted intervention, Wales can gain competitive advantage and benefit from growing markets:

- ICT
- Energy and environment
- Advanced materials and manufacturing
- Creative industries
- Life sciences
- Financial and professional services.

These sectors correspond to around one third of private sector employers in Wales in business turnover and employment terms, compared to more than two-thirds of the private sector economy represented by the 14 sectors recommended by the Economy & Transport Ministerial Advisory Group – a refocusing of the ‘core/enabling’ and

'strategically important to Wales' sectors. These sectors have demonstrated above average growth at the UK level, are projected to perform well into the future, and are of significant importance to Wales in terms of employment. They align fully with our R&D priorities for Wales. We have also given particular weighting to sectors which are enablers within the wider economy, for example in providing opportunities for exploiting ICT, creating green jobs, resource efficiency and moving to a low carbon economy.

Information and Communications Technologies (ICT)

Information and Communications Technologies are a driving force in both economic development and wider societal change. In addition to being an important industry sector, the application of ICT drives productivity and competitiveness across the whole of the economy. Increased trade and globalisation is enabled by ICT, creating a 'flatter' world with more competition and more opportunities for Welsh businesses. ICT will also play an important role in helping us meet the challenges of climate change through efficient resource management and the creation of smart grids.

The ICT sector in Wales spans electronics, software and services, with a healthy mix of large multi-nationals and home-grown businesses. This is supported by an active research community in its universities and strong academic-business links such as the Institute of Life Science in Swansea.

Energy and environment

Protection and enhancement of the natural environment is part of our commitment to sustainable development and itself forms an important business cluster. Environmental remediation and management has a long history in Wales with world-wide recognition.

As the cradle of the industrial revolution, Wales led the world in coal and steel; now it is well placed to take a leading role in low carbon and sustainable energy sources such as wind, tide, hydro-electric and biomass. With abundant natural resources and businesses that can exploit the opportunity, this is a sector with strong growth potential across low-carbon energy, energy efficiency, energy storage and infrastructure, pollution control, environmental management, research and consultancy. Ground-breaking research into hydrogen technologies has recently led to South Wales being designated as the UK's Low Carbon Economic Area (LCEA) for alternative transport fuels.

Advanced materials and manufacturing

The Advanced materials and manufacturing sector covers the composition, structure and properties of materials and their specific applications, arguably therefore at the forefront of technological innovation, as well as high-value manufacturing based on high-level knowledge, skills and design and leading to technologically complex products and processes.

The sector's importance is based upon its activities underpinning future product development and innovations for most other sectors. In relatively high-cost developed economies such as ours, manufacturing has had to and will continue to change radically. This sector offers the opportunity for the strategic and employment benefits of manufacturing to be realised whilst remaining globally competitive. The sector is engaged in cutting-edge research with the engineering departments of Welsh universities.

The market for high value goods and services associated with advanced

materials and manufacturing is likely to increase significantly, particularly those produced to meet ever-evolving and exacting environmental standards.

Our particular strengths in Wales include automotive, aerospace and electronics.

Creative industries

The Creative industries sector is well positioned to achieve greater momentum through the implementation of the recommendations from the Hargreaves Review (March 2010). These actions will sharpen strategic thinking, clarify accountabilities and improve our channels of communication with creative businesses. Their goal is to ensure that Wales advances its competitive position internationally against strong efforts in this sector from other nations and regions of the UK.

A time-line for implementation is now in place to:

- establish a Creative Industries Board (October 2010) with a detailed agenda for action established for its first year
- create a new Creative Industries Strategic Hub (September 2010)
- appoint a Head of Creative Industries (September 2010)
- map all 13 Creative Industries sub-sectors (October 2010)
- agree transitional rules for funding the sector (July 2010)
- establish new Creative Industries Fund (April 2011) to support a wider base of creative businesses
- build the new BBC drama village/digital media hub in Cardiff Bay (work in progress)
- explore funding options for film and television locations to ensure continued support for in-Wales sector expertise (ongoing)

- improve co-ordination of educational resources across the creative/digital economy (ongoing).

This critical path provides a model for our other key sectors.

Life sciences

The Life sciences sector is diverse, research-driven and global, with the sector's characteristics constantly changing as new sub-sectors emerge and develop. The sector encompasses pharmaceutical, biotechnology and medical technology businesses, with wide ranging activities including research, testing, manufacture and the provision of specialist services.

In Wales, the sector has firm foundations within and links to universities, and we can rightly claim areas of world-class performance. Global trends have always played an important role in determining the sector's development, and changes in approaches to health care, demographics and technological advances are some of the many significant factors that make it difficult to predict how the sector will look in the future.

What is clear though, is that the Life sciences sector, and in particular some of its sub-sectors, will likely become significant global markets with strong potential for growth.

Specific strengths in Wales include wound healing, medical devices and technology, diagnostics and clinical trials.

Financial and professional services

As Wales increases its proportion of employment in services, there has been significant growth in the Financial and professional services sector. In financial services, traditional retail banking has been joined by growth in insurance, asset management, funds management and pensions firms. This is a vibrant and

innovative sector with home-grown, household names competing with blue-chip, multi-nationals. There are significant opportunities for further growth in this area as the restructuring of the UK banking industry take place.

Increased outsourcing of HR, legal and other corporate services has created new opportunities in professional services in which Wales has a growing presence. The availability of a skilled workforce is essential to this sector.

An integrated sectors approach

If we are to be effective in supporting and growing these sectors we need a better understanding of the opportunities there are for business growth within them as well as synergies between them. Alongside this knowledge, we will need a flexible set of interventions and teams which are capable of innovation and are empowered to respond quickly to opportunities.

For these six sectors, we will bring together our functions and expertise so that we can address sector needs holistically. By December 2010 we will **create integrated sector teams**, flexibly resourced to implement, with speed, the agreed sector plans. It is expected that the teams will have different profiles, reflecting the diverse needs of each sector.

We also need to draw on external, strategic, private sector and academic expertise for each of the sectors. We will do this by **establishing sector panels**. Each panel will be made up of a small number of business people with expertise and established reputation in their sector. The panels will provide advice to Ministers on the opportunities and needs of the different sectors, helping us to develop and implement our policies through **three-year sector plans**.

These plans will cover a full range of activities for example business support,

provision of repayable finance, export services, inward investment and R&D opportunities, including how best to align policy levers across our Departments. The plans will set out how we will work to identify opportunities in supply chains and bridge the gaps between buyer expectations and supplier capabilities. They will help us to maximise the impact of our expenditure and make best use of our resources.

Through these plans we will develop new, sophisticated propositions for the key sectors based around skills, R&D, clustering and genuine added-value with our universities and research infrastructure. Our propositions to investors will be marketed under a single Wales brand.

It is expected that the plans and interventions will vary according to the sector, reflecting their different needs and opportunities. The plans will be regularly reviewed in the light of further intelligence.

With the establishment of these sector panels, we will review our funding of existing Sector Fora. The Fora need to be placed on a more sustainable footing where they are industry led with a representative role.

The Welsh Manufacturing Forum has been particularly effective in its contribution both to sector policy (through the Manufacturing Strategy where we are working with the Forum as a partner) and to the Economic Summits. We see a continuing role for the Forum in representing industry, working in parallel with our new sector panel for Advanced Materials and Manufacturing.

Building strategic relationships

A critical part of our sector approach will be **deepening our relationships with 'anchor' companies**. This is not a

formal designation, but by 'anchor' we typically mean high-growth firms with the potential to increase employment dramatically, and major companies which are important national or local employers with extensive supply chains in Wales. These 'anchor' companies are often at the cutting edge of product innovation, R&D and management, and have significant influence within the wider business community. We will build strategic relationships with such companies, and take a whole-Government view of their needs.

This approach will include supporting skills development through a creative approach. We will deliver discrete, targeted programmes to maximise the support necessary for job creation and increasing productivity.

There will also be some companies which are outside the key sectors, as well as other organisations in the public and third sectors, which are of similar value to Wales as 'anchor' companies in terms of employment or national or regional importance. We will build strategic relationships with these companies and organisations on the same basis.

Reorganising DE&T to deliver

Securing Foreign Direct Investment (FDI) and stimulating trade will be integral parts of our sector approach, to fully **exploit the links between domestic and international opportunities**. International Business Wales will cease to be a separate function within DE&T. Integrated sector teams will be responsible for securing new investment as well as targeted aftercare of existing FDI so that we can build synergies across the sectors and encourage re-investment.

We will **review our operations in overseas markets**. Our aim will be to manage most European markets from Wales routinely,

and to undertake short-term, project-based, in-market activities to exploit opportunities as they arise.

We will **refocus our business innovation support** so that it is focused on the key sectors and enables an end to end approach for commercialisation, making the most of links with academia.

We will address under-used business incubation capacity. The Technium network has been extensively reviewed; there remain concerns that while the buildings and the facilities they offer are a valuable asset for Wales, their performance has been mixed. We have implemented a new approach to Technium management to address these concerns. At the end of August 2010, a year into this new approach, we will critically review the impact of the measures we have taken so far. We will consider factors such as performance, occupancy, property cost and income for each Technium and cease to fund those Technium facilities where we are not getting a good return overall.

We will structure our regional, policy and corporate services functions to align with our new focus.

We will work with WEFO to review the current portfolio of European-funded business support projects to ensure that these are more strongly focused on providing support for key sectors and addressing market failures.

Business finance

Businesses and entrepreneurs in Wales require access to debt, equity and mezzanine finance from banks, venture capital funds and investors to help finance the growth of existing businesses and new business start-ups with high-growth potential.

The scale of credit finance provided by the private sector enormously outweighs any sum that could be offered by Government. Yet our role in providing financial assistance to business is keenly debated, as evidenced by our engagement process.

Offering grants is perceived by many to distort competition, create dependency, and consume resources that could be deployed elsewhere for greater economic impact. On the other hand, some consider grants essential for certain sectors, for certain business processes (for example early stage R&D), and for achieving certain strategic objectives (for example resource efficiency).

We have considered the range of options and believe that there is a rationale for government financial intervention for specific policy purposes. Chiefly, we want to encourage growth in key sectors and support the transition to a low-carbon economy.

However, we also need to move to an investment culture. Therefore **all finance that DE&T provides directly will be repayable**. The terms will vary depending on the purpose and size of the financial package. We have received strong feedback that the way we administer funding is slow and bureaucratic. We will ensure that for all direct financial support we provide in future, the service to businesses is swift and responsive.

Ensuring businesses can access finance
Businesses in Wales can access commercial finance from a variety of sources. A number of financial institutions operate in Wales, including Finance Wales. Over the next five years, Finance Wales will continue to invest £150m through the European funding and European Investment Bank (EIB) backed JEREMIE initiative.

However, there are gaps in provision – this was acknowledged by the previous UK Government’s Rowlands Review. We need to ensure that the full range of finance is available to Welsh businesses for economic renewal, fulfilling not only current demand but financing the ambitious expansion that we want to see from the private sector. Businesses need access to start up and growth investment through a sufficient supply of loans, venture capital and private equity.

We will seek expert advice to **identify where those gaps currently exist and how best we can leverage private sector investment**. We will make funding available to leverage such investment. In addition, we will look at the provision of micro-finance and the possibility of securing additional investment through European funds, including in association with the EIB.

We know from the Economic Summits that in sectors such as construction, retail, tourism and transport, SMEs in particular continue to experience withdrawal, reduction or conversion of loans and overdraft facilities with interest charges and arrangement fees increased substantially. Banks’ level of scrutiny of repayments, pricing and loan/overdraft applications has changed significantly. With this new level of scrutiny and pricing the need for businesses to be ‘proposition ready’ when dealing with banks is increasingly important.

We have already worked with banks in Wales to publish a Ten Point Plan to assist businesses to secure or renegotiate loans, and we have organised workshops on accessing business finance across Wales. We will look at how we can do more to stop adverse credit ratings standing in the way of valid business propositions.

In terms of our own funding, we are reducing the amount of finance available

to individual businesses so that we can pursue our infrastructure objectives. This is consistent with our role as enabler rather than as a competitor in the business finance market. This means that we need to **focus the remaining funding in a more targeted way**. The Single Investment Fund will no longer operate; instead, funding will be directed in support of our new approach as follows:

Finance for sectors

Our sector plans can only be delivered if we make finance available for their delivery. The key sectors will be allocated about half of the former Single Investment Fund, initially on an equal basis but in due course according to need. The timescale for achieving this shift will depend on our existing forward commitments. We will aim to accelerate the release of funding from these commitments by reviewing and strictly enforcing grant conditions. This exercise will be complete by August 2010.

The way that the new budget is used will depend on individual sector requirements. The ratio between investment in indigenous businesses and mobile projects (such as inward investors or safeguarding Welsh jobs within international companies), for example, will vary between sectors.

Regional economies

We believe that we still have a role in working with regionally important growth businesses. We will make limited funding available for this purpose; the way the funding is used will depend on the priorities of a particular region. We recognise that food production, particularly the processing of primary agricultural product, is an important factor in regional economies and we will want our regional work to reflect this. It may also, for example, involve investment in infrastructure, in individual businesses

or in another activity that supports the regional economy and its distinctive needs.

Responding to future opportunities

Wales will continue to be open to good ideas across the wider economy. We need to retain the flexibility to fund strategic projects outside our key sectors that will deliver jobs and growth. Therefore we will reserve the right to consider high-quality proposals for support, including inward investment – but only if they represent significantly better value than projects identified within our sector pipelines.

Start-ups and business information

In addition to our sector approach, we believe that there are specific areas where the rationale for intervention is strong enough for DE&T to intervene.

There remains a role for Government in encouraging entrepreneurship – it is vital for developing a strong economy and therefore crucial for our future prosperity. We need to create a greater awareness of the opportunities and benefits of entrepreneurship in order to encourage more people to start businesses, as well as assisting established entrepreneurs. We want to retain and attract skilled individuals with entrepreneurial spirit and the ambition to succeed to create a modern and dynamic nation.

We have already highlighted the importance we place on encouraging youth entrepreneurship. The recession is hitting young people hard. In Wales one in eight 16-18 year olds is not in employment, education or training, and, in some areas, nearly half the unemployed are aged under 25. Youth unemployment in Wales is higher than that of the UK (19.1% vs 18.4%). The average person will now change jobs six times in their career. It is therefore vital that young people become

entrepreneurially aware and active so they can adapt to new challenges and be motivated to succeed. To achieve this we must work together to encourage the creation of new and viable companies which can emerge from the current economic climate and make a real difference to the Welsh economy and ensure long term sustainability.

We will launch a revised **Youth Entrepreneurship Strategy for Wales (YES): An Action Plan (2010-2015)** in autumn 2010. Alongside enterprise education at secondary and tertiary level, YES will aim to inspire the next generation of business leaders. The Action Plan will outline measures for the main audiences: young people, education, business and the community. It will include BIG IDEAS – a new campaign for young people thinking about starting up in business with a strong online focus.

Self-employment is an important route out of economic inactivity and we will place a **priority on self-employment to address problems of participation** in the economy. The Department for Work & Pensions is currently undertaking a review of its welfare-to-work agenda and we will continue to work with the UK Government in this area.

Early stage entrepreneurial activity in Wales is reasonably strong, with a TEA rate of 6% in 2009 against a UK rate of 5.8% (Global Entrepreneurship Monitor). The challenge ahead is to translate the level of interest and early entrepreneurial activity to encourage self-employment and start up rates.

We will place increased focus on **high-potential start-ups** that are of a high quality in terms of jobs and incomes that they generate especially in the key sectors and amongst graduates to impact on our birth rate levels. This will involve more specialism in idea generation and

supply chain development around key sectors where there are major commercial opportunities.

The quality and consistency of all of our support will be monitored and evaluated rigorously and involve customer insight to ensure we meet our customer requirements. We will **refocus our start up service** to support self-employment especially to address problems of participation and increase our focus on high potential start-ups.

We will **reduce our one-to-one support** beyond the start-up phase and create space for private-sector business support for more established businesses. We will review our contracted regional centre service in line with this new approach by the end of March 2011.

We still have a role in providing information to businesses, especially online to ensure easy access to clear guidance on important issues and opportunities for business, keep up to date with the latest rules and regulations and help them understand their obligations to Government and how to fulfil them online. We will provide **more and better quality information for businesses** focusing on the development of our online content and services based on the needs and insight of our customers to increase take up of the online services on offer.

We also need to encourage business behaviours that support our wider policy objectives, for example resource efficiency and equality. We will continue to offer support schemes for this purpose; these schemes will be time-limited, and regularly reviewed.

There is a real enthusiasm from successful Welsh businesses to engage with newly-established enterprises in their community, through networks

or mentoring activity. We will develop a **Business Volunteer Mentoring Framework** within Wales to significantly improve the provision, accessibility and quality of business mentoring within Wales. The initiative will be developed in partnership with the private sector and voluntary sector, in particular the Prince's Charities. We will also recruit and establish a network of entrepreneurship champions by April 2011.

As a consequence, the Flexible Support for Business (FS4B) brand will no longer be used.

Supporting economic renewal through our existing activities

Specialised support is provided to businesses through a number of our Departments. For example, support is provided to agri-food businesses and farming families by Rural Affairs; the tourism industry's needs are supported by Heritage; sector workforce development and skills are supported by the Department for Children, Education, Lifelong Learning and Skills; targeted business measures on low carbon and resource efficiency are offered by the Department for Environment, Sustainability and Housing and Social Justice and Local Government supports social enterprise and the third sector.

Such support is provided for distinct policy reasons with clearly targeted interventions, and often for reasons in addition to economic development. For example:

Farming and rural businesses

We manage support for farmers through Common Agricultural Policy payments and the Rural Development Plan. The rationale for intervention has shifted away from production subsidies to direct income support to underpin food production and an increasing focus on

paying farmers to produce valuable, but non-marketed, public goods and services, instead of pure subsidies. For example, with the new Glastir scheme, farmers will be paid for nature conservation, water management, soil and carbon management, energy production, maintaining access and protection of historical sites.

Food industry

We are committed to developing the Welsh food supply chain through market development, strengthening a positive food culture, and by promoting sustainability and efficiency. Under the Rural Development Plan, the Processing and Marketing Grant Scheme and Supply Chain Efficiency Scheme provide direct support to businesses in this sector. EU requirements place certain restrictions on the types of businesses that we can support.

Although the food industry is considered particularly important to rural areas of Wales, analysis of food business that are registered with our support schemes indicate that over one fifth are based in urban areas.

Tourism

We focus on marketing Wales as a visitor destination in the rest of the UK and internationally, developing tourist infrastructure and on grading and supporting hospitality businesses – both to provide information to visitors and to raise standards. For economic renewal, we will move investment funding for tourism from the former Single Investment Fund to be under direct management of our tourism team. The principles described in this document will be applied to future use of these funds, with an increased emphasis on supporting tourism infrastructure and improving environmental performance of the sector.

Social Enterprise

We recognise the positive contribution vibrant social enterprises make to a strong, diverse and sustainable economy. Social enterprises are becoming more, not less relevant in the modern economy – in providing solutions for new and citizen focused methods of delivering public services; in empowering local people and regenerating communities; and in delivering economic, social and environmental objectives. The Social Enterprise Action Plan (2009) sets out our vision of dynamic and sustainable social enterprises strengthening an inclusive and growing economy.

8. Continuing engagement and partnership

Our approach to developing a new direction has been one of very early stage engagement in the policy making process. From the outset, stakeholders' views have been sought and considered alongside evidence before proposals have been considered. The information we have used to develop the new direction for economic renewal can be found at www.wales.gov.uk/economicrenewal.

This approach has met with real enthusiasm and desire to continue to engage in this way going forward. We want to put this at the heart of future policy development.

We are determined that the engagement process will not stop simply because we have set out a new direction. We want people, businesses and partner organisations, as well as our staff and their Trades Unions, to be actively involved in delivery, ensuring that we make progress, and that our policies and programmes remain relevant and appropriate.

A hallmark of our engagement with the business community through the Economic Summits and the development of this new direction for economic renewal has been the realism shown by all parties. From the outset there has been recognition of each others' roles and strengths and realisation of what can be achieved and by whom. This is very much the culture and approach we want to maintain and build upon going forward, underpinning our focus on an enabling role, and the role of businesses

themselves in taking best advantage of the competitive infrastructure and environment offered.

Working with the social partners

In our review of the effectiveness of the Economic Summits held across Wales, stakeholders provided us with very clear messages around the way in which our engagement needs to evolve. It is clear that we need to learn from and build upon the experiences of the Economic Summits, which were action-orientated and where ongoing feedback was provided on progress. But we also need to engage more effectively in developing our longer term aspirations for the Welsh economy.

In this context, stakeholders have indicated the merit in having overarching social partnership arrangements. There is also a need to re-invigorate the Business Partnership Council model of business engagement, which enables both the employer (through representative organisations) and employee (through Trades Unions) voices to be heard clearly at the heart of Government.

The Business Scheme (2008), prepared under section 75 of the Government of Wales Act 2006, already sets out the basis upon which we should engage with business. The principles set out in the scheme, particularly around early engagement with business in the development of policies and regulation that affect their interests, remain both sound and highly relevant. However, we are aware that the scheme needs

to be embedded more fully across our Departments. We will work with partners to put in place a renewed approach to the Business Partnership Council.

Working with local authorities

We have had very constructive dialogue and engagement with local authorities as part of this process. Local authorities have a varied and critical role in economic development through activities such as planning and building control functions, management and development of transport and other infrastructure, and procurement of goods and services.

For economic renewal we are shifting our policy and delivery focus. As one of the main providers of public services, local government's work is inextricably linked with ours. It follows that we will need to work in close partnership to drive the action set out in this new programme.

We will work with local authorities to take this new direction forward, considering in particular how our priorities can be aligned and where we can work together for best effect.

Working with stakeholders to maximise impact locally, regionally and nationally

We recognise the benefits of engaging with businesses and other stakeholders on a regional basis. These benefits include assessing how we can add value by joining up across our activities, receiving feedback on how our policies and delivery mechanisms are working and understanding how our national programmes impact on regional and local issues and priorities.

Having a regional office structure is a key strength in our approach. We use a range of formal and more informal methods to talk to our regional stakeholders. We value the role that regional economic

fora play in drawing together expertise and opinion. These fora operate differently across Wales; we need to make sure that they meet the needs of stakeholders (including ourselves) in their regions and that best practice is shared between regions.

The Wales Spatial Plan provides a framework for engagement and planning at a regional level. It has played an important role in setting out the shared strategic direction for sustainable development in each part of Wales. The focus now is on delivery and prioritisation of scarce resource to maximise impact, particularly through investment and delivering wider benefits.

We will focus the Spatial Plan process on investment and a focused number of key delivery priorities identified with partners. We will streamline processes, as we have done in South West Wales where we are bringing together two Spatial Plan areas to simplify engagement and increase the capacity to deliver.

9. Delivering for economic renewal

Recent experience has shown that ability to accurately predict the economic future is limited and as a consequence we all need more than ever to be well-positioned to react to change. In order for our approach to economic renewal to evolve appropriately as global and economic conditions inevitably change, we must be able to swiftly identify emergent need and modify policy in the knowledge of what works best under different circumstances.

In addition, the new direction set out in this document signals a shift in our approach increasingly away from short-term, bespoke business interventions to more long term, strategic and structural investments. Implicitly, this will require a similar shift in monitoring and evaluation thinking and methods, and a departure from the tried and tested.

It has become clear therefore that we need to significantly change our approach to measuring progress, in the broadest sense. Alongside tracking the progress of a variety of socio-economic indicators, we have traditionally tracked performance in terms of activity or outputs measures, whilst undertaking monitoring and evaluation with varying degrees of frequency. The challenge must begin with identifying good practice and benchmarks from within and outside Wales, including how best to establish baselines, quantify impacts and outputs, incorporate assessment of wellbeing, and measure perceptions and satisfaction of stakeholders.

However, developing a fit for purpose approach needs careful consideration and wide-ranging input if we are to get it right. At the heart of what will be developed will be a commitment to making available regular and quality information upon which balanced assessments of progress can be made, as well as recognition of equality and diversity duties and sustainable development as an organising principle of the public sector in Wales.

We will publish a framework for measuring success in the Autumn.

We have set out here a comprehensive and considered approach to economic renewal for Wales. A truly new direction that builds upon Wales' strengths, recognises the challenges and opportunities that exist, and identifies clearly the role that government should play. The approach to economic renewal has been based on listening to people's views through extensive stakeholder engagement, analysis of activities in Wales and elsewhere and robust challenge.

The challenge now is delivery. Some of the new direction we can start to deliver on straight away, for example organisational changes in DE&T will be completed by the end of this year. Other elements will take more time if we are to get them right, and will be developed over the coming months. As a Government, we will develop an implementation plan and keep it under regular review.

