

Economic Development Committee EDC-01-01(p1)

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Title: Economic Development Minister's Report

ECONOMIC DEVELOPMENT MINISTER'S REPORT TO THE ECONOMIC DEVELOPMENT COMMITTEE

WEDNESDAY 17 JANUARY 2000

Exceptional items only (since last EDC – 13 December)

1. Latest Economic Assessment

Employment/unemployment figures

New Labour Market Statistical information will be released on 17 January by the Office for National Statistics. I will give a separate verbal report if required.

Business Surveys announced

The Dun & Bradstreet Business Failures Survey, published on Friday 29 December 2000, indicated:

GB

- ☐ a 5.8% decrease in business failures in 2000 compared to 1999. The survey of GB businesses indicates that 40,847 businesses failed in total in 2000, whereas 43,365 businesses failed in 1999.
- ☐ considerable regional variation in business failure trends across Britain and especially between North and South England. In London the number of business failures in 2000 decreased by 21.8% compared to the 1999 figure. Significant falls were also seen in the South West (down 10.3%), the East (down 9.3%), and South East (down 7.7%). In contrast, business failures increased in the North East by 11.8% and rose by 1.1% in the North West.

Wales

- ☐ Wales recorded 1,692 business failures in the 2000, representing a decrease of 0.3% on 1999. All other regions, with the exception of the North East and North West (see above), showed a greater percentage decrease in business failures.
- ☐ Liquidations in Wales (431) in 2000 were 7.5% lower than in 1999, bankruptcies in Wales at 1,261 were 2.4% greater than in 1999.

Key points

- ☐ Wales still has the smallest **number** of failures of any GB region.
- ☐ The number of Welsh business failures in 2000 represents 4.1% of the GB total, compared to 4.6% of the stock of VAT registered businesses (start of 2000).
- ☐ Employment in Wales is increasing. The number of employee jobs in Wales increased slightly between June 1999 and June 2000 to stand at just over 1,019,000 (source: Employers Surveys, NS).

Index of Production and Construction

- ☐ figures for the third quarter of 2000 show a downturn in the index for almost all industry groups in Wales (the main exceptions being Machinery and Electrical and Optical Equipment);
- ☐ the equivalent figures for the UK are almost all upward;
- ☐ this could be a result of the volatility of the series for Wales (smaller sample) or a real downturn, too early to tell. The magnitude of the fall in this quarter is not as great as that experienced in late 1996;
- ☐ despite this, manufacturing output has shown strong growth over the last 2 years growing by 3.5% compared to 1.0% for the UK. Over the last five years, output has grown by 5% in Wales compared to 4% in the UK;
- ☐ Over the last two years, production output has risen by 1.5%, almost matching the growth of 1.9% in the UK.
- ☐ Overall production output is around 3% lower in Wales due to the continued closure of the Wylfa nuclear power station on Anglesey.

GDP measurement

Figures for the regional economies of the UK up to 1998 were published on 27 June 2000 by National Statistics (formerly the Office of National Statistics). The release included provisional estimates of regional gross domestic product (GDP) at basic prices and regional individual consumption expenditure.

Since there were significant conceptual and methodological changes since Regional GDP estimates were last published, these estimates cannot be directly compared with previously published figures. Figures for years back to 1989 have been recalculated using the revised methodology, and the effects are discussed in the section on revisions.

The National Statistics Press Release is annexed to this report.

2. Major issues

Corus

Since the First Minister made his statement to Plenary on 15 December, on the state of the steel industry in Wales, there have been a number of important developments.

There has been intense media speculation that the company is carrying out a major restructuring, although they have emphasised that no final decisions have been taken and no announcements will be made until at least the end of this month or early February.

The Assembly with the UK Government is vigorously pursuing a number of options for helping to improve the local business environment within which companies such as Corus operate within strict EC rules on State Aids to the steel industry. These include these items from the National Assembly:

Rates

Through the valuations process, substantial savings have already been made on the rateable value of Corus' businesses in Wales. Assembly officials have discussed the issues with the Company and discussions between the Company and with the Valuation Office Agency are continuing as a matter of urgency.

Training

With the Assembly, SE Wales TEC has prepared a package which could support Corus' training programme. This is being considered by the European Commission.

Environmental Protection

We are continuing to discuss in detail with Corus the support that might be given to Environmental Protection projects which conform with EC State Aids rules. We are actively appraising a project for the Port Talbot Plant.

R&D

The WDA is discussing with Corus and others, the possibility of establishing a technology facility in South Wales.

Land Transactions

Corus and the WDA are continuing discussions about the acquisition of surplus land to support the Agency's economic development objectives.

Employment Services

Advice and Information centres have been set up by the Employment Service (ES) on each of the 5 Corus sites affected by job losses: partner organisations are also in attendance, where appropriate. There is live access to the ES vacancy system at these centres.

3. Job news

Dewhirst Ladieswear

Following the announcement on 11 January by the Company that they were to close their Lampeter manufacturing operation, with the loss of 165 jobs, officials approached the Company to see whether there was anything further the Assembly could do to help: the local TEC has also now been in touch with them, and subsequently applied to the Assembly for the 165 redundancies at the Lampeter site to be treated as significant: this has been agreed by Assembly officials.

There is to be a meeting this afternoon between the Company, the Welsh Development Agency, the local Training and Enterprise Council, the local Business Connect office and the Careers Service, to discuss what assistance can be provided to staff at the Lampeter site.

My officials, together with officials from the agencies will continue to remain in close contact with the Company.

The Company has received Regional Selective Assistance in the past, but all offers are now out of conditions, and there is therefore there is no prospect of grant "clawback" scenario at the Lampeter site.

Vauxhall

Immediately following the announcement, the Welsh Automotive Forum undertook a telephone survey of Vauxhall suppliers to assess the situation: one major Tier 1 in West Wales does supply into Vauxhall's Luton plant, but since the shut down is being phased over 2 years, there will be no immediate impact on them.

Many suppliers supply Vauxhall's Ellesmere Port operation. In addition, many supply parts to the Frontera vehicle but, since the Frontera is transferring to Ellesmere Port, these contracts remain safe. The Vectra vehicle does not affect Welsh component suppliers – most are geared to the Frontera.

Gains

Pure Wafer Ltd

Pure Wafer - a new Welsh Company - was officially launched by the First Minister on 10 January 2001. It is a state-of-the-art silicon wafer reclamation facility in Swansea. The £34 million investment will ensure it will be the most modern plants of its kind in Europe and the only facility in the world capable of reclaiming the new generation 300 mm wafers. Pure Wafer, which is one of the largest start-up companies in the UK, has already secured £34 million venture capital funding and is set to create 110 hi-tech jobs. The top management team is already in place and recruitment for other key staff is under way

Other announcements

Assembly press release (4 January 2001) - welcoming Toyota's announcement to switch some production from Japan to its Deeside plant - 50 new jobs as part of the further 300 jobs forecast following company decision to invest in Deeside

WDA announcement (5 January 2001)- Plus Fixings Ltd - new HQ, Deeside Industrial Park, medium term creation of 25 jobs

WDA announcement (8 January 2001) - GE Power System's gas turbine bound for Baglan Energy Park represents a £300 million investment in the development of the power station and is expected to create up to 500 construction jobs over next 2 years.

Objective 2

Objective 2 was cleared by the Commission's ERDF (European Regional Development Fund) Committee on 19 December, completing the principal internal consultation within the Commission. Formal ratification is expected within the next 2 weeks.

Work on the Programme Complement has already begun and clear proposals on implementation are being worked up by the East Wales Partnership to put to the Programme Monitoring Committee

Tower Colliery

On 9 January 2001 I visited Tower Colliery, and was greatly impressed by the professionalism and commitment of the management and staff. I had a most useful discussion with the directors on a number of matters of concern to them, and will be following these up in the coming weeks.

WIDAB appointments

I am pleased to announce that just before Christmas I appointed North Wales business woman Sheila Drury OBE as the new Chair of the Welsh Industrial Development Advisory Board (WIDAB) and Richard Fowler and Nigel Wheeler as Members of the Board.

- ☐ **Sheila Drury** is Chair and former Chief Executive of Kemitron plc, an electronics business in North Wales. She has been a member of WIDAB for 6 years and is currently Chair of CELTEC. Sheila is also a member of the Equal Opportunities Commission for Wales and is Director for Wales of Investors in People UK.
- ☐ **Richard Fowler** is Managing Director of Robertson Research International Ltd in North Wales. The company provides research and consultancy to the oil and gas industries worldwide. Richard has many years of management experience at Board level in a highly competitive and fast moving global market.
- ☐ **Nigel Wheeler** is President and Chief Executive of Trikon Technologies Inc., a publicly-owned US company based in South Wales. He has had over 25 years experience in manufacturing management and has served as a Main Board Director for many years in a company that manufactures high-tech equipment for the production of silicon chips.

All three appointments take effect from 1 January 2001 and will be for a three-year term. The new Members will bring the Board up to its full strength of a Chairperson and 7 Members: 3 out of the 8 people on the Board now come from North Wales. Membership of WIDAB is unpaid and the time commitment is between one and two days a month. I'm sure all 3 will make a significant contribution to the work of WIDAB and I am delighted that Sheila will be able to join us at the next meeting when we discuss RSA.

Fiscal differentiation

The Irish experience

Officials visited Dublin last week to seek information on the ways in which the Irish Government had used fiscal variations as a means of stimulating the economy, meeting Finance Ministry and Environment Department officials as well as officials of Dublin Corporation and Dublin Docks Development Co. Irish officials were very helpful and open about their experience, giving pointers on best practice and relations with the European Commission.

While this information is still being assimilated, it is clear that the Irish Government has been using tax incentives in two ways - sectorally and spatially. A low rate of Corporation Tax for manufacturing industry, which has been in existence since the 1950s, was extended to include the financial services industry in the early 1990s, but is being shut down, following Commission direction- though the new general rate of Irish corporation tax will be only 12.5%.

Since 1986, the Irish government has had a series of incentives in place to encourage urban and rural regeneration in specific locations. Past Irish experience has informed current practice. Some schemes are in line with some of the proposals contained in the Chancellor's pre-Budget statement.

As well as gaining an insight into Irish policy, officials also gained valuable tactical tips on dealing with the European Commission.

Work on proposals for Wales is ongoing. The information gleaned in the Irish republic will help inform the continuation of the development of these proposals.

27 June 2000

Regional gross domestic product and consumption expenditure

Figures for the regional economies of the UK up to 1998 are published today. This release includes provisional estimates of regional gross domestic product (GDP) at basic prices and regional individual consumption expenditure.

There have been significant conceptual and methodological changes since Regional GDP estimates were last published, and thus these estimates cannot be directly compared with previously published figures. Figures for years back to 1989 have been recalculated using the revised methodology, and the effects are discussed in the section on revisions.

The provisional estimates for 1998 show that:

GDP per head of London and the South East, relative to the UK average, each rose by about 2 percentage points, whilst all other regions fell or remained about the same (Table 1).

London and the South East, each at 16 per cent of the UK total, accounted for around a third of the UK's GDP (Table 1).

London, the South East and East were the only regions to increase their share of UK individual consumption expenditure between 1997 and 1998 (Table 3).

Regional GDP, 1998¹

Per Head

Total Share of Per Head Index

Region £bn UK (%) £ UK=100

United Kingdom² 737.8 100.0 12,600 100.0

North East 25.5 3.5 9,800 78.8

North West & Merseyside 75.8 10.3 11,000 88.2

Yorkshire & the Humber 55.2 7.5 10,900 87.8

East Midlands 49.3 6.7 11,800 94.8

West Midlands 60.9 8.3 11,400 91.7

East 76.3 10.3 14,200 114.2

London 116.4 15.8 16,200 130.4

South East 116.2 15.7 14,500 116.7

South West 56.1 7.6 11,400 91.9

England 631.7 85.6 12,800 102.5

Wales 29.0 3.9 9,900 79.4

Scotland 61.1 8.3 11,900 95.6

Northern Ireland 16.0 2.2 9,400 75.8

1. Provisional GDP at basic prices

2. Excluding Extra-Regio and statistical discrepancy

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Gross domestic product by region

Tables 1 and 2 show the contribution each region makes to UK GDP. In 1998, both the South East's and London's GDP were about £116 billion, each accounting for about 16 per cent of total UK GDP. The region with the smallest share was Northern Ireland, at about 2 per cent (£16 billion). These regional GDP estimates are residence based, allocating the income of commuters to where they live rather than to their place of work.

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Statisticians

Regional GDP estimates for years back to 1989 have been revised, reflecting conceptual and developmental changes described under "Revisions" below. In addition, the provisional 1997 results published in 1999 have been revised due to new data becoming available for that year. Further revisions to 1997 and 1998 estimates will be published when Inland Revenue data for wages and salaries and other new data become available.

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Statfax – fax retrieval service

This release

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Regional GDP per head

In 1998 London had the highest level of GDP per head, over £16,200, followed by the South East and East at £14,500 and £14,200 respectively. No other regions were above the UK average of £12,600. Northern Ireland had the lowest regional GDP per head in 1998, at £9,400, followed by the North East at £9,800 and Wales at £9,900.

GDP per head of population, relative to the UK average, is highest in London, at 30 per cent above the UK average in 1998. This figure is the highest, relative to the UK, in the period 1989 to 1998.

Between 1997 and 1998, only London and the South East showed increases in terms of GDP per head, relative to the UK average.

Revisions

The estimates of GDP published today have been revised back to 1989. There are a number of key differences between these data and the last published Regional GDP estimates, both conceptually and in terms of data revisions. A fuller description of the changes and their effects will be published in a forthcoming Regional Accounts article in the August 2000 edition of Economic Trends, and are summarised below.

Changes in regional shares of UK GDP have generally been small as a result of the revisions. The main impact has been on the regional estimates of GDP per head. For most regions the old and revised series are very close. The revised series show reductions in GDP per head relative to the UK in London, the South East and Northern Ireland for years up to 1996, and an increase in the East. The South East and East now show similar levels of GDP per head, whereas previously the East had been estimated to be significantly below that of the South East.

The main changes leading to the revisions contained in these figures are:

1. Calculation of estimates on a Government Office Region (GOR) basis, rather than converting from Standard Statistical Region (SSR) based figures, with revised effects of commuting being reflected.
2. New and improved methodology for the regional breakdown of Owner Occupied Imputed Rents.
3. Calculation at basic prices (which includes taxes (less subsidies) on production), rather than the previously published figures at factor cost, which

excluded these taxes and subsidies.

4. Regionalisation at a more detailed industry level than before.

5. Allocation of exploration of mineral resources to Extra Regio as part of ESA95 implementation.

The effects of these changes are discussed individually below.

Commuting and GOR-based methods

The estimates published in January 1999 were calculated on the basis of SSRs, and then converted to GORs.

The main differences between the GORs and SSRs are that (a) Cumbria moves from the old North (SSR) to the new North West (GOR), with the remainder of the North becoming the North East (GOR), and (b) Bedfordshire, Hertfordshire and Essex are removed from the South East (SSR), to merge with the old East Anglia to form the new East (GOR).

The previous conversion from SSR to GOR figures relied on the available sub-regional estimates of GDP, which were workplace based, that is, the income of commuters was allocated to where they work, rather than where they live. The share of a region's Compensation of Employees (CoE) transferred to the adjoining region as a result of conversion from GOR to SSR was therefore workplace-based, rather than residence based. There was an implied assumption that sub-regional shares of a region's CoE would be the same, whether on a workplace or residence basis, and that commuting levels into London are proportionately the same from other parts of the South East (SSR).

Under the above assumption, about 23 per cent of the CoE of Rest of South East (ROSE) was allocated to Bedfordshire, Hertfordshire and Essex, and therefore transferred to East region. Subsequent research has shown that these counties account for about 31 per cent of the South East CoE on a residence basis.

The impact of making this change has been to significantly increase the CoE of East region, and a corresponding decrease for the South East, compared with the previously published estimates.

Owner Occupied Imputed rents

The methodology for allocating UK estimates of Owner Occupied Imputed Rents to regions has been significantly improved. Previously, these estimates were based on imputed rents based on the Family Expenditure

Survey (FES) for GB, but this source ceased to exist after 1995. A fixed percentage of the GB total was used as an estimate for Northern Ireland.

The methodology used for the estimates published now is based on house price information from administrative data supplied by the Land Registry (in respect of England and Wales), Registers of Scotland and the Northern Ireland Valuations of Land Agency.

The impact of this change has been to increase the levels for London and the South East, and decrease the levels for all other regions. For Northern Ireland, the North East and the North West, this change is significant in terms of the impact on GDP per head relative to the UK average.

European System of Accounts and Basic Prices vs Factor Cost

The estimates published here have been calculated for the first time fully and properly on the basis of the new European System of Accounts 1995 (ESA95). Previous ESA95-based estimates have been calculated on an ESA79 basis and converted to ESA95 by regionalising estimates of changes from ESA79 to ESA95.

As a part of ESA95 implementation, regional estimates of GDP are being published at basic prices for the first time. Estimates of regional GDP were previously published at factor cost, and excluded the effects of taxes and subsidies – these are included at basic prices.

This change has not affected regional rankings of GDP.

More detailed industry level calculation

As a result of the need for greater industry and geographical detail under ESA95 requirements, calculations are now based on more detailed industry splits than previously. A number of industries that were previously regionalised together have now been separated, leading to some changes of regional totals. In particular, this change has had an upward effect on GDP for Scotland due to improved regionalisation of mining and quarrying, which includes the petrochemical industry.

Treatment of Extra Regio

Extra-Regio describes that part of UK economic activity that cannot be allocated to a specific region. Previously, it only included "Continental Shelf" activity, but now also includes UK embassies and Forces stationed abroad.

Extra-Regio estimates have risen for all years from 1989 to 1997 as a result of allocating all relevant activities under ESA95. As a consequence, there are

downward effects on all other regions.

The GDP figures published today are the best estimates currently available, and are subject to further methodological improvement and thus revisions. We welcome comment on these changes, which can be sent to the address given in the background notes.

Individual Consumption Expenditure

Individual consumption expenditure measures the spending of UK residents whether in the UK or abroad. Figures for Government Office Regions (GORs) are only available for the years 1994 to 1998, and are published here for 1995 to 1998.

The highest individual consumption expenditures per head in 1998 were in London and the South East, the lowest in Northern Ireland and the North East (table 3).

BACKGROUND NOTES

Diversity of the regions

1. The regions of the UK are diverse in character and size in terms of population, income and expenditure. Annex A shows this diversity.

Regional Accounts

2. The regional accounts presented in this article are consistent with the national accounts published in the United Kingdom National Accounts 1999 (*The Blue Book*), which also defines the terms used.

3. A fuller article containing the figures published here will be included in Economic Trends August 2000 edition.

4. The GDP figures published here are based on the Government Office Regions (GORs), which are now the standard form of presentation of regional data. These regions differ from the Standard Statistical Regions (SSR). The main differences are as follows:

Cumbria moves from the old North (SSR) to the new North West (GOR).

The remainder of the old North (SSR) becomes the North East (GOR).

Bedfordshire, Hertfordshire & Essex move from the old South East (SSR) and are combined with East Anglia (SSR) to become the new East region (GOR).

The new South East (GOR) therefore excludes those three counties.

5. This release contains only a summary of the information available. Longer time series, industrial breakdown of total GDP and total regional compensation of employees information are available on request from: Regional Accounts Branch, Office for National Statistics, B5/03, 1, Drummond Gate, London SW1V 2QQ, tel: 020-7533 5793, fax: 020-7533 5799, email: philip.papaiah@ons.gov.uk.

6. Details of the policy governing the release of new data are available from the press office. Also available is a list of the names of those given pre-publication access to the contents of this release.

7. **National Statistics** are produced to high professional standards set out in the National Statistics Code of Practice. They undergo regular quality assurance reviews to ensure that they meet customer needs. They are produced free from any political interference. © Crown Copyright 2000.