

The National Economic Development Strategy

In search of economic growth, social justice, sustainable and balanced development

A CONSULTATION DOCUMENT

Contents

1. Introduction

2. The Analysis

3. The Vision

4. Policy Priorities

4.1 Closing the Regional Productivity Gap

4.1.1 Sector Specificity and Clusters

4.1.2 Education, Training & Skills

4.1.3 Entrepreneurship

4.1.4 Internationalisation

4.1.5 Infrastructure

4.2 Tackling the Activity Gap

4.2.1 Employment and economic activity

4.2.2 Community Regeneration

4.3 Ensuring Spatial Balance

4.4 Better Government

5. Implementation

6. Targets- Measuring Success

Appendices

2010 Benchmarks

UK Regional Economic Indicators

Proposed Timetable

1. INTRODUCTION

This consultation paper is designed to inform the development of a National Economic Development Strategy for Wales (NEDS).

Economic prosperity is not an aspiration that can, or should, be pursued in isolation – improved national prosperity and wealth brings with it the opportunity for improved life chances, the opportunity to improve the health of the nation and our social fabric, as well as the challenge of ensuring that our natural environmental assets are not depleted for future generations.

The political and economic map of Wales is changing. This presents us with an unprecedented opportunity. We have a democratically elected Assembly for the first time, the Welsh Development Agency has been enlarged to lead the drive for economic development and entrepreneurship across Wales, and skills are the domain of the new Council for Education and Training in Wales. On top of this over the next six years we have the opportunity presented by European Structural funds, as well as maximum regional state aid derogations under European Union (EU) competition rules.

Our analysis points to a number of important policy areas where the Assembly and its partners can intervene and make a positive impact. The nature of the intervention available to governments in a market economy means that the policy emphasis is inevitably on the supply-side, though, where appropriate, demand related measures have their place. This means ensuring that we have the people, infrastructure and knowledge to ensure we have competitive firms who can exploit markets both nationally and internationally.

The Welsh economy does not exist in a vacuum – it is an integral part of both the United Kingdom and the European Union economies. Increased market liberalisation and technological advancement and innovation means that the Welsh economy is increasingly affected by global trends and shocks.

Some of the most successful nations and regions have made remarkable progress in transforming their economies and offer considerable guidance as to how this can be achieved. At the heart of this success are policy delivery mechanisms focussed on innovative institutional solutions which focus on the production of world class research and technical skills.

The First European Commission Cohesion Report noted that whilst the prosperity gaps among Member States have reduced, disparities *within* Member States have increased. Wales faces a number of opportunities and challenges over the decade ahead, associated with our membership of the EU, not least:

- The enlargement of the EU to the east, prompting further reform of the Common Agricultural Policy, creating a competitor zone for Foreign Direct Investment, as well as providing new markets for Welsh goods.
- Possible membership of the Euro-zone- boosting investment, trade and entrepreneurship, but perhaps also acting as a centralising force in Member State economies.

- The booming economy of the Irish Republic, providing lessons for Wales and potential spill-over effects.
- The Objective 1 programme for West Wales and the Valleys.

Many of the factors that influence economic development take place outside Wales and are decided at UK or European Union level. Issues such as interest and exchange rates, social security and taxation are all decided elsewhere. Other issues are decided at a local level where it would be difficult or inappropriate for a national organisation such as the Assembly to intervene. It is essential, therefore, that the Assembly works effectively with organisations such as central and local government, the business sector, development agencies, voluntary groups and community organisations..

Our policies must complement those determined at other levels of governance, but must be interpreted on the basis of what works for Wales, through identifying and reinforcing our strengths and conquering our weaknesses.

The power of the public sector in economic development is real but limited as much economic activity takes place in the private or social sectors. The main role of government is to set the right competitive environment for economic development, remove barriers to growth and participation, and ensure that the people of Wales have the ability to benefit fully from enhanced prosperity. Through an active regional policy we also have the opportunity to ensure a more balanced pattern of development across the territory of Wales.

Any economy is in a constant state of flux. Jobs are constantly being created and lost and new companies are formed while others cease trading. This "churning" is an essential part of a healthy, dynamic economy which is continually adapting and modernising. The process takes place regardless of government intervention and should be encouraged while recognising that there may be short term difficulties caused by major shocks which require specific assistance. The Assembly needs to ensure that the people and communities affected by such changes are given every support to respond quickly and effectively.

There are four other key challenges which must be addressed by the Assembly:

- Ensure that resources follow policy priorities.
- Ensure a good fit between our planning and economic development policies to provide a cohesive spatial framework which maximises competitiveness and cohesion.
- Manage economic change, stemming decline and providing incentives for growth industries.
- We also need effective partnerships between the public, private and voluntary sectors: all have a part to play in the future development of the Welsh economy.

The National Economic Development Strategy is intended to guide National Assembly policy and resources, the work of our sponsored public bodies and to inform our partners in business, local government and the voluntary sector.

For a limited period (2000-06) Wales has qualified for a number of European support packages which provide a unique opportunity to restructure the economy. Nearly two thirds of the Welsh population live in the Objective 1 area which provides the highest level of support. Around £1.2 billion of European Union Structural Funds plus associated match funding will provide the impetus for change. The European funding packages agreed for Wales address different issues and territories:

- **Objective 1: areas where development lags behind**
- **Objective 2: industrial areas and regions in decline**
- **Objective 3: range of human resource issues including training, equal opportunities and exclusion.**
- **Rural Development Plan: tackling rural disadvantage**
- **Community Initiatives:** LEADER+, URBAN II, INTERREG III interreg/index.htm

, and EQUAL

In addition, we also have the new regional state aid coverage following the publication last year of the Assisted Areas map. This map determines the areas of Great Britain eligible for regional investment grants for industry.

Total expenditure on regional industrial assistance in Wales, delivered principally through Regional Selective Assistance, over the map's seven year lifetime is expected to be up to £140 million per year, helping an area with a population of over 2 million out of the 3 million total population of Wales.

West Wales and the Valleys will qualify for Tier 1 assistance. Projects in Tier 1 areas can qualify for the highest levels of investment aid and provides the possibility of operating aid and other fiscal variations, subject to European Commission and Treasury approval, which the National Assembly are actively pursuing.

Background

The starting point for this consultation document was the draft NEDS which was published in July 1999 by the European Task Force to inform the Structural Funds process. The publication of the strategy was also trailed last year in betterwales.com.

The informal consultation period for NEDS started last September with the formation of a small consultative group. During the intervening period, the National Assembly have met with a range of individuals and organisations to discuss the framework and priorities. In addition, we have created a wider network of individuals and organisations who have been invited to comment on working papers "real time" (the "virtual group"). To date, over 100 organisations and individuals have been contacted.

This document launches a 3 month formal consultation period during which we invite and welcome comments on all aspects of the paper. A number of key questions have been posed at various stages to prompt a response though these should by no means be considered limiting. The final strategy will be published in the summer.

Next Steps

During the consultation period we will actively engage with relevant stakeholders through further meetings of the informal consultative group, communication with the wider "virtual group", discussion with appropriate Assembly committees and continuous updates from emerging consultation processes on issues such as sustainable development, spatial planning and information & communication technology.

In addition, it is planned to establish a "Futurology" group of academics, business people and representatives of key development agencies to help us

develop further our vision for the future. We intend to hold a major conference to link the NEDS agenda to sustainable development. We also intend to actively seek peer review from other regions, UK and overseas, where economic development policies have been successful. This will be further informed by research such as the forthcoming report from the Institute of Welsh affairs which identifies the characteristics of successful regions and city regions world-wide.

The final strategy will start to take shape during the consultation period, informed by the responses we receive. We will turn this into an implementation plan which will prioritise the policies, identify lead agencies, consider resources and set objectives or targets. We will work closely with our partners to ensure that the strategy is widely accepted and reflected in their own planning. The proposed Economic Policy Board will help to inform this process and the future development of the strategy.

2. THE ANALYSIS

If we are to build policy on a firm foundation, we must have a clear picture of where we are now, how we got here, and what internal and external factors are likely to influence future directions.

Recent Past

Wales has already undergone a period of huge structural change. Over the past 30 years the economy has absorbed between 150,000 and 200,000 jobs from the decline in manufacturing and deep coal mining. This is a phenomenal achievement in a workforce of just over 1 million and demonstrates our capacity to adapt.

We are also in a period of sustained employment growth with the number of employee jobs in Wales increasing by 29,400 in the two years to September 2000 . However, the Welsh economy is still under-performing. GDP per head is low in relation both to the UK and Europe. Some of the key features of the Welsh economy are:

- Low economic activity rates
- Inactivity in the working age population concentrated in particular groups
- Low pay and generally low productivity jobs
- Low proportion of Gross Domestic Product (GDP) in high growth, high value-added sectors.
- Sharp variations in economic performance within Wales
- A relatively low number of businesses for the size of our population

Wales trails the UK and European Union in economic terms. So naturally the most deprived areas in Wales are way behind the leaders, not only in the Objective 1 areas but also in Powys and pockets of the relatively prosperous areas of north and south east Wales.

Our performance in attracting inward investment has been excellent, with Wales consistently winning a bigger proportion of foreign direct investment than the UK relative to our share of the population, particularly in the conurbations of North East and South East Wales. The eastern half of Wales has economic

output not dissimilar to the UK. Welsh manufacturing productivity is above the UK average and our people have demonstrated an impressive capacity to respond flexibly to a modernising economy. We have a number of fledgling industries with great potential for the future, there are areas with good transport and other linkages, and natural features which make Wales an attractive place to be and do business.

Despite this, the performance of the Welsh economy has been poor relative to other UK regions on most objective indicators. We have proportionately fewer people in employment and our skewed economic and occupational structure means that average productivity is lower than in many other regions. While people in equivalent jobs in Wales have similar productivity levels to their counterparts in the rest of the UK, Wales remains overly dependent on declining or low value-adding industries. There is a lack of head offices, Research and Development laboratories and local decision-makers. Certain skills are in short supply and a relatively high proportion of people are effectively excluded from the workforce.

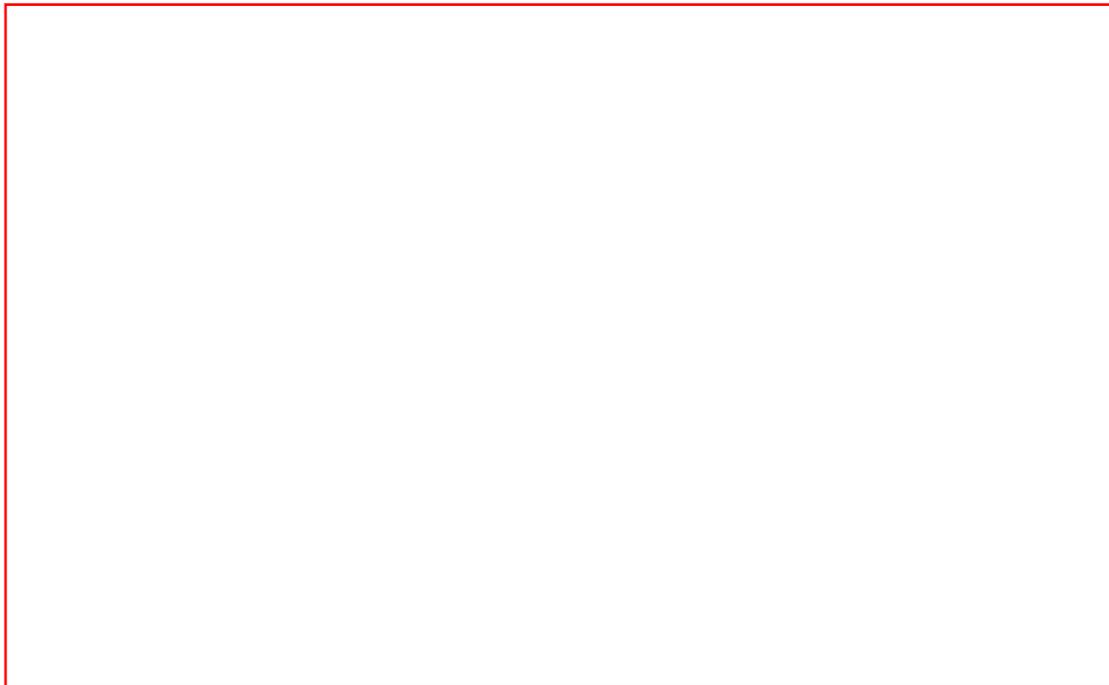
The National Assembly's determination to improve the performance of the Welsh economy stems from the existence of a set of problems that are both long-standing and difficult to remedy: these were recognised by the decision to grant Objective 1 assistance for West Wales and the Valleys.

Current Welsh Economic Performance

GDP per head has traditionally been the standard summary measure of economic performance. GDP per head in Wales, expressed as percentage of the figure for the UK as whole, has been in the low- to mid- 80s since at least the 1960s (diagram 1 shows the position over the last decade).

Whilst over the last five years the rate of growth of Welsh economic output per person has been below that for the UK as a whole, over the longer term the issue is more one of a long-established gap than of a differential rate of growth.

Diagram 1



Welsh performance can - perhaps more usefully - be compared to those regions that have inherited a similar industrial structure. On the basis of contribution of industrial sectors to GDP in the mid to late 1970s, the regions "North East" and "Yorkshire and Humberside" are the obvious comparators. Figures for these regions (along with results for Scotland) are also shown in diagram 1.

Whilst some comparator regions have also performed poorly, the record of Wales relative to the UK is clearly unsatisfactory. This poor performance has multiple manifestations, as illustrated by the data shown in tables 1 and 2.

Table 1: The Economy of Wales - A Profile

	Period	West Wales & Valleys (OBJ 1)	East Wales (OBJ 3)	Wales	UK <i>UK=100</i>
GDP per head# (1)	1998 (11)			79.4	100
GDP per workforce job# (2)	1996	89	101	94	100
Household disposable income per head (3)	1998	N/A	N/A	85	100
Average hourly earnings** (4)	1999	86	90	88	100
					<i>rate</i>
Economic inactivity (working age) (5)	1999/2000	28%	20%	25%	21%
Employment rate (6) (working age)	1999/2000	67%	74%	69%	74%
Claimant unemployment Rate (7)	Oct 2000	5.1%	3.3%	4.3%	3.5%
Change in workforce jobs (FTEs) ~ (8)	1981 – 1995	-6%	+12%	+3%	N/A

Working age population with no qualifications (9)	Spring 2000	22%	16%	20%	16%
Business density^ (10)	1999	230	277	247	318

Sources

(1), (2) and (3) ONS Regional accounts and National Assembly calculations. (4) New Earnings Survey (5), (6) Labour Force Survey (LFS) (7) Benefits Agency administrative system (8) Annual Employment Survey, Agricultural Census and National Assembly calculations (9) LFS (10) DTI and National Assembly calculations. (11) GDP data for Welsh regions is not yet available for 1998.

Notes

Most recent available figures for the sub-Wales areas. [See also note 1 on page 1?].

*Average hourly earnings for all full-time employees. GB = 100.

-Results on the basis of the NUTS boundaries are not available. Figures given are for "best-match" old counties.

^Businesses registered for VAT per 10,000 adult population, excluding agriculture.

"West Wales" comprises the unitary authorities of Anglesey, Gwynedd, Conwy, Denbighshire, Ceredigion, Pembrokeshire and Carmarthenshire. "The Valleys" comprises the authorities of Swansea, Neath Port Talbot, Bridgend, Rhondda Cynon Taff, Merthyr, Caerphilly, Blaenau Gwent and Torfaen. Together, "West Wales and the Valleys" makes up the Objective 1 area. "East Wales" comprises all the remaining unitary authorities in Wales.

Table 2: Contributions of Sectors to GDP 1997

	Wales	UK
	%	%
Agriculture etc	1.8	1.5
Mining and quarrying	0.6	0.6
Manufacturing	27.3	20.5
Electricity, gas & water supply	2.2	2.2
Construction	5.3	5.1
Wholesale and retail	10.2	11.8
Hotels and restaurants	3.4	3.1
Transport, storage and communication	6.0	8.0
Financial intermediation	3.5	6.1
Real estate, renting & business activities	14.2	19.4
Public administration and defence	6.2	5.3
Education	6.0	5.4
Health and social work	8.6	6.4

Other services	4.7	4.8
Total	100.0	100.0

Source

ONS Regional Accounts

Notes

Contributions are shown including certain subsidies. Agriculture is the sector most affected. It is estimated that removing the value of direct subsidies would reduce the contribution of agriculture by about 1% at both Welsh and UK levels. Removing the value of indirect support would further reduce the contribution by between 0.5 and 1.0% to effectively zero.

Excludes adjustment for Financial Services Indirectly Measured.

The main features highlighted by tables 1 and 2 include:

- Low activity rates.** In recent times between one-third and one-half of the overall discrepancy in GDP per head has been a consequence of lower activity rates in Wales. Much the largest part of this discrepancy is accounted for by differences in activity of the working age population, with differences in the proportion of pensioners making only a small contribution.
- Inactivity amongst the working age population concentrated in particular groups.** Compared with the UK as a whole, Wales has high rates of inactivity for both men and women. However, over a long period, activity rates have been rising for women. The Labour Force Survey (LFS) shows that high Welsh inactivity is largely attributable to high reported levels of long-term sickness, typically amongst the middle aged (45 plus) with few qualifications and from manual backgrounds. This problem is concentrated geographically, particularly in the ex-mining communities in the Valleys. Annex 3 demonstrates that Wales has lowest economic activity rates of all the regions of the UK except Northern Ireland.
- Low pay and low productivity jobs.** Wales' poor relative performance in terms of output per job (except in manufacturing and certain other key sectors) results more from industrial structure and occupational mix (which tend to be related), than from lower productivity in equivalent jobs. These same factors are reflected in relatively low wage levels. Average earnings in Wales are currently over 10% adrift of the UK average – and 4% short of the average for the UK excluding the South-East. (Insert point on qualification attainment) An example of the adverse industrial and job mix is provided by the low representation in financial and business services. The table above reveals the need for Wales to benefit from higher levels of employment in tradable services. Annex 3 demonstrates that manufacturing GDP in Wales is actually higher than that of the English and UK averages. The Table above reveals the need for Wales to benefit from higher levels of employment in tradable services. There is also a significant gender pay differential within Wales. The average woman's wage is 78% of the average man's. This is better than the GB average of 74.5% but is nonetheless substantial.
- Variation within Wales.** The variation in economic performance within Wales is significant. Two-thirds of the population of Wales lies within the Objective One region, "West Wales and the Valleys", with an average GDP per capita just 73% of the UK average (Table 2). In the Valleys area, activity rates, output per head, and average wage levels are all low compared both to Wales and the UK as a whole.

In more rural parts of West Wales, activity and employment levels are generally higher than in Wales as whole (except in some of the coastal resort towns), but output per head and average wages remain low. This indicates that any job losses in agriculture may have been at least offset by gains in other sectors. Even within the more prosperous parts of Wales such as Cardiff and Newport, there are substantial concentrations of, low incomes, low economic activity and social exclusion. This is highlighted by the concentration of Objective 2 and Transitional areas in the inner city areas of Cardiff and across much of Newport. Local areas with unemployment and economic inactivity significantly above the national average include the valleys (especially the Merthyr Tydfil and Blaenau Gwent areas), Anglesey, Pembrokeshire, and the former slate quarrying valleys of north-west Wales

- **Low business density.** Compared with the UK, Wales has low business density and low rates of business formation. There is also some evidence of low levels of innovation. It is not clear whether these factors are simply a consequence of the economic and occupational structure or whether "enterprise culture" factors are affecting the Welsh economy even after allowing for structure. As can be seen from Annex 3 Wales has the lowest level of new VAT registrations as a proportion of stock in the whole of the UK.

A comparison of Welsh performance with that of the regions and nations of the UK also shows that Welsh skills attainment is middle ranking. However, our proportion of the working age population is lowest of all regions except the South West, unemployment rates, whilst only 1% above the UK average (ILO definition) remain amongst the highest in the UK and we continue to lack a sufficient share of Research and Development expenditure.



Chart 1- The Prosperity Gap

The chart above shows measures of GDP per head of population, per head of working age population, per head of workforce and per head of employed population.

The first bar, shows GDP per head for 1998 relative to the UK. The second bar, shows GDP per head of working age population. This says that a small part of the GDP gap with the UK (2.5 percentage points out of about 20 percentage points) is explained by the fact that we have a higher proportion of people who do not contribute to GDP because they are retired.

The third bar shows GDP per head of the economically active (employed plus unemployed). The difference between this bar and the previous one shows how much of the GDP gap is 'explained' by working age inactivity (i.e. it is how much GDP per head would increase if activity rates were the same as in the UK and relative average output per person was unchanged). Using the Labour Force Survey measure this would reduce the GDP gap by 5.3 percentage points (87.2 – 81.9).

The fourth bar shows output per person employed (productivity). The differences between it and the previous bar show the effects of unemployment. On either measure unemployment explains only a tiny fraction of the GDP gap.

Finally the last bar also shows the importance of the productivity gap. Using the LFS measure Wales has a productivity gap of 11.9 percentage points compared to the UK average.

If it were the case either that Welsh employment rates were the same as those in the UK and the additional jobs all were as productive as the current Welsh average, or that output per person of those currently employed reached the UK average and employment rates stayed constant, the GDP gap with the UK would be substantially narrowed. Any policies which raise relative GDP per head in Wales must show their effects through changes in employment rates and/or productivity growth. Based on the 1998 LFS figures, Wales would need an additional 100,000 jobs to bring economic activity rates into line with those in the UK. Using average Welsh GDP per employed worker this measure alone would raise Welsh GDP per head to around 86% of the UK average.

Determinants of Welsh economic performance

It is important but difficult to distinguish the causes of poor economic performance in Wales from the symptoms. For instance, whilst the industrial structure is an important determinant of low productivity, it is in turn shaped by a number of factors. These include the pattern of natural resources, the location of markets, and the skills of the workforce. However, analysis is complicated by complex economic links (so that, for example, our low business density may itself contribute to a climate unfavourable to business formation) and the importance of inheritance (so that industrial structure can reflect accidents of history as well as more fundamental factors).

In addition to a stable macroeconomic environment, which is a prerequisite, the ultimate determinants of economic performance will include:

- **Human capital.** Education and training, together with motivation, culture and natural abilities, shape the productive capacity of the population. For various reasons, the "market" is not always well-suited to the role of supplying education and training.
- **Competition & Market Failure.** The general view is that the degree of competition and the openness of an economy to the rest of the world are critical factors in economic success. While competition and the operation of free markets are good for economic development, it can fail to operate properly, and well-targeted remedial action by governments can improve outcomes. The persistence of regional disparities is itself a demonstration of the failure of markets which, if operating efficiently would ensure regional convergence.
- **Natural resources and geography.** Features such as the attractiveness of an area as a place to live and work and proximity to markets play an important role. These are now far more significant than factors such as mineral reserves and the fertility of the land. The perceived peripheral location of much, if not all, of Wales is likely to be an important factor in a firm's location decision, although improving transport links together with electronic communications are reducing actual peripherality (both Ireland and Scotland appear to have overcome their peripheral locations).
- **Financial capital.** Investment is needed for economic growth to take place. In developed economies, the availability of capital is not usually a constraint on development, although it is sometimes argued that market failures affect particular sectors.
- **Social capital.** The social context is a crucial influence on a region's capacity for economic development. The existence of a reliable legal framework is important as are attitudes, for example, to labour market participation, innovation and enterprise. These attitudes can be affected by inherited economic and cultural factors leading to either a virtuous or vicious circle of growth or decline. The systems for the creation and transfer of knowledge, in which the public sector inevitably plays a major role, are vital. These intangible inputs of culture, knowledge, trust and enterprise are where the public sector can have an impact on growth.

Technological changes, and other factors that produce changes in the economic structure, do not alter these basis principles. But they can affect the appropriate balance between policies of different kinds.

Developments in information and communication technology (ICT) provide the most obvious current example of technological step change. Such

developments have direct implications for skills development and might be expected to shift the balance of policy on access towards the provision of electronic data transmission infrastructure.

These developments could, in the future, render policies focused on supporting employment through subsidising property or capital equipment less relevant. In so far as "new economy" companies are more geographically mobile, then the case for enhancing the attractiveness of particular locations (perhaps involving environmental improvements and other regeneration activities) could acquire additional weight. In addition, policies to encourage the development and application of knowledge will become key to economic development in the knowledge-based economy of the future.

Planning the for the Future

We must build on our strengths and address our weaknesses in the light of the economic changes and challenges we anticipate over the next 10 years.

It would be a high risk strategy to try to predict in detail the social, economic and technological changes that will shape the decade ahead. But we can and must take a view on the way in which the world economy will develop and the implications of this development for Wales:

- location will become less of an issue as the world economy is likely to become more integrated through trade, investment and communications. This provides Wales with an opportunity to overcome traditional perceptions of peripherality.
- investment in science and innovation will create ever more products and services, new skills demands, and entirely new industries. The links between business and academia in Wales should become more important.
- the Internet as a business and leisure tool will continue to spread around the world through continued steep falls in the cost of technology and communications, and the creation of both wireless and broadband infrastructures. Communications systems will change radically;
- all societies will need to invest more in education and training to increase the skills of their workforces. These skills will need to be continually updated; Demand for unskilled labour in advanced economies will continue to fall. Up-skilling in Wales must be a priority.
- very large multinational companies will be a key feature of the global economy. At the same time, self-employment and more flexible ways of working are likely to rise, and employment growth will be highest in small companies. We in Wales must harness these trends and ensure that we can help businesses to form and grow.
- the exploitation of knowledge and technology along with high value-added services and manufacturing are likely to be the main economic drivers of the future.
- the share of manufacturing in total output will continue to decrease in advanced economies, though certain manufacturing sectors will grow and the boundaries between manufacturing and services will become increasingly blurred; despite this, manufacturing is likely to continue to be an essential part of the Welsh economy so it is essential that the sector is efficient and modern.
- pressures on resources and the environment will accelerate the trend towards more sustainable technologies, products and processes. The demands of resource productivity require far reaching changes to the way we manufacture and use basic products, such as cars and domestic appliances;
- the growing populations and wealth of emerging economies will create new markets and new sources of competition;

- every business in Wales will face new competitive challenges as well as, for many, opportunities to sell in far distant markets. Exports will play a vital part in increasing the demand for Welsh goods and services.
- our population is ageing. Half of the economically active in Wales will be aged over 40 by 2005. This will have an impact on carers, service provision and work-leisure balance.

These trends provide huge challenges for Wales. We are starting from a relatively weak base in a number of these areas while in others we will need to ensure that we make full use of any advantages we may have.

3. Our vision

Putting Wales First commits us to creating an enterprise economy. It recognises that this is the key to high employment, the generation of wealth and the provision of high quality public services. If we are to achieve the economic success that Wales deserves we must have a clear path to follow and clear objectives. Our vision for Wales in 10-15 years:

Key objectives

The key objectives of our economic strategy are to:

Improve regional productivity by:

- Ensuring that Wales benefits from new employment in higher value sectors of economic activity.
- Ensuring that Wales has the skills and capacity to adapt to changing requirements and opportunities available in higher value-added services and manufacturing.
- Generating a more enterprising economy where people are willing and able to exploit opportunities.
- Marketing Wales as a world-class location for business and as a destination for tourism, and to develop new markets for our products.
- Providing modern infrastructure.

Boost economic activity by:

- Removing the barriers in the way of those who want to work.
- Overcoming social or economic exclusion and peripherality
- Promoting individual and community empowerment, equality of opportunity, participation and sustainability.

Ensuring balanced territorial development by:

- Being committed to minimising the prosperity gap that exists within Wales.
- Promoting spatial planning policies across rural, industrial and urban areas.

Key challenges

In developing our strategy, we need to meet a number of important challenges:

- **Sustainable Development** – can we meet the needs of the present without compromising the ability of future generations to meet their own?
- **Equal Opportunities** – are we getting the best out of the talents of all of the people of Wales and rewarding those talents fairly?
- **Tackling Social Disadvantage** – how will our proposals contribute to reducing deprivation, isolation and exclusion?

We also need to ensure that relevant public services meet the needs of their customers.

These are the cross-cutting themes to which the Assembly is committed in all its policy making. These themes are both essential to and dependent on a prosperous future for Wales.

To meet the challenge, key drivers of the strategy will include:

- A New Strategic Clusters Programme
- A Business Birth Rate Strategy
- An Enhanced Export Strategy
- Re- Skilling, entrepreneurship education, and developments in the schools curriculum
- Higher and Further Education innovation linked to business development and increased research and development
- Community Development Programme
- Refocussed Inward Investment Programme
- Strengthened Public/ Private partnerships

4. POLICY PRIORITIES

The demand for an early improvement in the prosperity of Wales means that we simply cannot wait for markets to work. We need to accelerate development

and build on current helpful trends.

There is an urgent need for forward thinking and analysis that can identify the broad markets and technologies from which future value can be derived. This is not about picking winners. It is about predicting social and market conditions of the future and then ensuring that Wales has the infrastructure (including social and human capital) to be able to make the most of these opportunities. We will be continuously monitoring trends, research and forecasts and reviewing our view of the future accordingly.

Skills, training and education: the Assembly can act to fill gaps in provision, influence content and conduct research. This can be targeted not only on the employed to increase productivity (and wages) but also on the unemployed/inactive to reduce barriers to entering the labour market. Two key issues are reducing the proportion of the population with no formal skills/qualifications and ensuring that people acquire skills or are provided with training to enable them to adapt to changing requirements in the workplace. The education system should instil and nurture work-based skills to ensure that young people are suitably equipped to become good employees or entrepreneurs, promoting the subject choices needed for Wales in the future such as engineering, science and mathematics.

Employment- The National Assembly's employment policies will be consistent with European Union "policy pillars"- promoting Adaptability, Entrepreneurship, Employability and Equal Opportunities. Our policies are based on lifelong learning and ensuring that people who want to work can. This agenda is assisted by business support and entrepreneurial policies which will be used to create employment opportunities in growth sectors.

Knowledge economy/ICT: our policy here should be to assist start-up and growth firms in emerging markets with skills, advice, finance, etc. where traditional support is lacking (often due to poor information about new products and markets). Infrastructure is another area which may require Assembly support, for example science parks, digital networks, incubator units building on successful projects in places such as Swansea and Bangor. This could help in the creation of clusters of "new economy" industries.

Innovation: Wales does not have a good record in this area and assistance could be aimed at encouraging innovation including research and development (by providing training, advice, reducing costs of entry/exit), existing firms to grow (identifying markets, reducing recruitment & training costs) and encouraging inward investors.

Entrepreneurship: We need to back talent and those people with ideas by providing the support structure. This support needs to be focused on those individuals in businesses with growth potential in high value-added industries. Nurturing entrepreneurship will entail a cultural shift, as well as improving the business environment for new and developing businesses, we need to ensure that cultural change begins early, in the schools.

Sites and Premises: The severe shortage of commercial and industrial property at competitive rents in parts of Wales can inhibit economic development, for example by restricting the speed of response to inward investment opportunities.

There are also a number of more general areas where policy could be targeted to encourage economic activity and improve competitiveness. Policies to improve the environment (to make Wales an even better place to live), to offer incentives to locate business in Wales, to improve health, develop transport infrastructure and to ensure that the spatial planning framework is business-friendly could all play a part.

Policy Priorities

Closing the Regional Productivity Gap

Sector Specificity and Clusters

Education, Training & Skills

Entrepreneurship

Internationalisation

Infrastructure

Tackling the Activity Gap

Employment and economic activity

Community Regeneration

Ensuring Spatial Balance

The policy priorities outlined above are the main areas where the Assembly and its partners can have an impact on the economy of Wales. These priorities are important to all. But the priority they are accorded may vary from place to place according to the structure and needs of the local economy. Also, the relative importance of each of the priorities is likely to change over time as particular needs become more pressing or are addressed. Beyond this, there is also a need for major cities, towns and rural regions to develop their own vision for their long term future which could form the framework for local action from the relevant agencies. The local authorities have a key role to play using their new community planning powers.

These measures are a mixture of existing policies, current proposals, options for new policies or refocusing of existing ones. The implementation of these policies will fall to a range of organisations including the Assembly, ASPBs and local government.

Public policy intervention in this context needs to be justified in terms of its contribution to overcoming the two fundamental causes of the prosperity gap.

4.1 CLOSING THE REGIONAL PRODUCTIVITY GAP

4.1.1 Sector Specificity and Clusters

Objective: To ensure that Wales benefits from new employment in higher value sectors of economic activity.

To ensure that we make optimal use of our resources for economic development, we need a sectoral dimension to our economic plan which identifies potential key industries of the future. Some industries have been identified as being of global importance in the future:

There are a number of these sectors in which Wales has or can gain some form of competitive advantage and which we see as helping to drive future economic growth. These sectors include;

- Aerospace,
- Medical & diagnostic equipment and products,
- Biotechnology, e.g. organic semiconductors; Bio-electronics; Bio-metrics;

- Renewables,
- Environmental services,
- Telecommunications. e.g. Peta/yotta bit routing devices;
- ICT/software. e.g. Wearable computing; Robotic agents; Display technologies; Battery components; Quantum computing.
- Customer contact centres,
- Optronics,
- Niche tourism
- Media, creative and culture related sectors.

These sectors are important because they are high value-added and knowledge intensive. In addition, location is not an important factor for many of them.

A recent report identified a number of these sectors as being an important feature of the Welsh economy. The geographical spread of the industries involved is uneven, however.

Certain sectors emerge as strategic clusters. For example media and broadcasting is identified as a sector with potential especially in the Cardiff area where the industry is well networked. It is also important in Caernarfon. Wales is also strong in a number of more established sectors such as metals, automotive components, electronics, plastics and agriculture and food. These are sectors where modernisation is particularly important. We should build on them by establishing Wales as a centre of excellence for manufacturing.

We are also particularly well placed to exploit the excellent natural environment of Wales to attract visitors, as a resource or as a means to develop growth industries such as renewables, high value-added agriculture, sustainable processes, products and technology and a range of leisure and business activities related to the environment. These industries will be of real significance to rural Wales. The markets are potentially enormous:

The essence of a cluster strategy is the effective combination of two characteristics – identifiable expertise (derived from existing higher and further education or production experience), and market potential. Seeking to build clusters on one without the other simply will not be effective. For example, Wales has considerable experience and expertise in coal extraction. But there is little market potential in a declining sector although Wales could conceivably capitalise on this experience through consultancy or training for others. Similarly, there is considerable market potential in software engineering, but relatively little established expertise in Wales. So developing a software cluster would then be a long-term venture, requiring significant prior investment in skills development.

The WDA cluster development strategy is the main policy tool at the moment though Wales Trade International is seeking to establish links between Welsh Small and Medium-sized Enterprise (SME) clusters and similar clusters overseas. The National Assembly will also be exploring the possibility of fiscal variation for certain key sectors with both Brussels and Westminster.

We believe that a strategy developing spatial clusters is important for the future of Wales. This will be linked closely to the planning framework and local circumstances.

The National Assembly plans to build on this pioneering work by working with the Agency to establish industry-led Cluster Groups to ensure dynamic policy making, project development and delivery for the key growth sectors of the Welsh economy. Strategic clusters will be identified to build on existing strengths and to take maximum advantage of market and technological opportunities in order to add value to commercial activity in Wales. Early actions will include mapping existing clusters, a strategic review of future markets and technologies and the development of five-year action plans for each cluster. We will arrange for this work to start during the consultation period and for early results to be fed into the final strategy.

Example: Potential Measures to Grow Renewables

Sector and Cluster support: An Exemplar

A recent report commissioned by the National Assembly, looking into the potential for renewable energy sector, makes a number of proposals for the development of the sector and for potential cluster development, proposals include:

- 1. Support and encouragement for local authorities and local action plans to help them to formulate their own renewable energy development strategies and targets and to help them to include renewable energy in an appropriate way within their structural funds proposals.**
 - 2. Provide capital support to the establishment of demonstration small and medium scale biomass generation plants utilising Welsh developed advanced thermal conversion technologies.**
 - 3. Support the preparation of the forestry and agricultural sectors for new opportunities that will arise from the emerging biomass technology and support the establishment of biomass fuel supply chains.**
 - 4. Support initiatives that help businesses (and especially SMEs) prepare to form part of the renewable energy supply chain, including training and research and development activity.**
 - 5. Support initiatives that ensure that new buildings, business parks and other infrastructure are built in a sustainable manner utilising renewable energy sources wherever appropriate.**
 - 6. Support high profile demonstration/educational projects – such as the development of Baglan Bay Energy Park.**
- The report also calls for the creation of a Sustainable Energy Agency to help provide focus, assistance and co-ordination.**
 - A reduction in reduction in Business Rates or in corporation taxes for the renewable energy sector which could provide a significant incentive to attract and develop renewable energy in West Wales and the Valleys areas during 2000 – 2006.**

4.1.2 Education, Training & Skills

Objective: Ensure that Wales has the skills and capacity to adapt to changing requirements and to improve productivity and wages.

The foundations for future employability are laid in schools which provide pupils with the basic work and life skills. Much of the adult skills agenda will be driven forward by CETW with an essential contribution from the higher and further education sectors. The Republic of Ireland's experience is particularly relevant here as they invested in skills, especially of young people, over a prolonged period and are now reaping enormous rewards.

Training is not only important for the young and those in work. Higher skill levels will also help the unemployed and the inactive to return to or enter the labour market. Processes should be created to ensure that investment in education produces additional economic benefits. Priority will be given to:

- Raising basic and generic skills** - issues include the relatively high proportion of people with little or no qualifications and a lack of basic employment

skills such as literacy, numeracy and ICT. Policy will focus on:

- Strengthening links between industry and schools, perhaps through a new scheme to encourage firms to sponsor schools are potential models.
- The introduction of a Welsh Baccaalaureate to broaden the skills and knowledge of school leavers.
- Ensuring adult numeracy, literacy and basic skills programmes can be delivered flexibly online and via employers.
- Implementing the Skills Task Force recommendation for free tuition to Level 3 for all.
- **Boosting vocational skills** - ensuring that employees (and future employees) are equipped with the key skills that business requires is essential (such skills include management, communication, IT, problem-solving and languages). Addressing skill shortages in areas such as management skills is also important. Action here will result in us:
 - Expanding modern apprenticeships and providing programmes for the provision of links into the world of work.
 - Implementing the Skills Task Force recommendation of a centre of excellence for management training to develop current and future managers.
- **Promoting lifelong learning** - 80% of our 2010 workforce are already in jobs. We need to ensure that their skills and knowledge are regularly updated. This will require a culture change and is a long term objective.
- **Increasing adaptability** - skill requirements change over time as a result of changing technology, new ways of doing business, new opportunities and new products. We must ensure that our programmes are regularly reviewed for continuing relevance and modified in the light of important changes.
 - the lifelong learning agenda needs to ensure that people have the skills and confidence to be adaptable and enterprising.
- Entrepreneurship should be introduced to mainstream activity in schools and colleges as recommended by the Entrepreneurship Action Plan Implementation Plan (EAPIP).
- **Promoting innovation in further and higher education and exploiting their knowledge base more effectively:** these sectors play a central role in producing highly qualified people. They provide a significant part of the advanced technology base of a region, attract research and development and inward investment and are a key source of technology and advice for indigenous companies. They have the potential to act as a significant source of new companies with growth capability. We will:
 - Promote entrepreneurial activity in higher and further education
 - Create a fund to back innovation projects with private sector.
 - Promote closer links between industry and higher and further education.
- **Strengthening the science and technology base in Wales:** this links to both industry and higher education. We need to develop the research capability in education – potential for new clusters, attracting new firms, and providing well-qualified researchers and scientists. Action here will focus on:

- Facilitating early development in schools through changes to the national curriculum
- Ensuring that funding is targeted on supporting these aims.
- Business support measures are used to attract commercial R&D.
- Introducing technology schools to improve workforce skills where there are skills gaps (e.g. technician, intermediate skills).
- Creating technology centres in universities to act as magnets for funding, talent and projects and would be able to reap economies of scale.

4.1.3 Entrepreneurship

Objective: Generate a more enterprising economy where people are willing and able to exploit opportunities.

The Welsh Development Agency, CETW and the higher and further education sectors will have a major role to play in the drive to create an economy and society that attaches real value to entrepreneurship. Important strands in our programme of action will include:

- **Transforming attitudes** - we need to raise awareness of the importance of entrepreneurship and the opportunities it can bring. The Entrepreneurship Action Plan recommends:
 - developing a national awareness campaign to generate more positive attitudes and perceptions towards entrepreneurship within Wales, leading to development of new entrepreneurial activity.
 - promoting entrepreneurship as part of careers guidance and subject choices in the school curriculum.
 - providing potential entrepreneurs with a taste of enterprise in a safe environment.
- **Sharpening business support** - The EDC's proposals for strengthening business support would rationalise the existing network of services and provide enterprises with easy to reach and use services which are largely demand-led. Building on this:
 - We need to continue to support those existing businesses and sectors with a future in Wales to help them innovate, modernise and stay competitive (e.g. the advanced electronics and automotive sectors).
 - Fiscal variations (where possible), business rates and grant aid (especially RSA) must be targeted to support business development priorities.
- **Promoting growth firms** - Wales tends to create fewer firms for its size than other areas of the UK and fewer firms grow into medium or large enterprises.

Putting Wales First commits us to implement a birth rate strategy for new businesses as recommended in the Entrepreneurship Action Plan to increase the rate of new firm formation in Wales to a level closer to the UK average.

Research, especially from the USA, has shown that much of recent employment growth is generated by small businesses. Therefore, it is essential that

enterprising small firms with growth potential are allowed and encouraged to grow. Estimates suggest that up to 15% of small Welsh businesses have the potential to grow and develop. We must therefore:

- Remove barriers to growth by providing appropriate finance (currently being addressed by Finance Wales), marketing information and skills (WDA, Business Connect and the private sector) and the ability to recruit and retain skilled people (support for graduate recruits, help with recruitment costs, job subsidies).
- Promote incubator units and funding for small and micro-businesses to help overcome start-up costs.
- Use projects such as Fast Growth 50 to identify growth firms. Singapore, for example, identifies and supports "Promising Local Enterprises".
- **Supporting new products and new ideas** – we need to encourage people with new ideas or products to turn them into commercial ventures. The existing actions we can focus on are:
 - The Wales Innovation Fund which provides venture capital investments up to £500k.
 - The WDA programme to create innovation centres across Wales (technium centres) to encourage research, innovation and business development.
 - They are also working to promote commercial research and development which may have links with Assembly schemes and HE/FE spinouts.
- **Reducing barriers to trade** – We also need to consider measures that reduce unnecessary regulations and restrictions to business activity and encouraging competition and competitiveness in Welsh firms. The impact of the environment, business rates, taxes, red tape and paperwork. on business must be considered. The Assembly is working to ensure that the planning system supports our economic aims and is not seen as a burden by business. The National Assembly is also pursuing fiscal variations that could improve the environment for businesses in Wales

Much of this agenda is not devolved. However, the Regulatory Reform Bill (which is currently at the Committee stage) requires UK Ministers to seek our consent for any deregulation proposal affecting our powers, and to consult us on any such order affecting Wales, whether on a devolved matter or not. It also gives us the power to issue statutory codes of practice to ensure that enforcement authorities carry out their duties in the fairest and most transparent way. The Bill therefore gives us proper input into the deregulation process for the first time.

4.1.4 Internationalisation

Objective: Market Wales as a world-class location for business and as a destination for tourism, and develop new markets for our products.

The Welsh economy is heavily influenced by trends elsewhere, particularly Europe and the rest of the UK but also throughout the world. We are affected by economic and industrial trends, changing tastes and government policy. Wales will not prosper by serving the domestic market alone in a world served by global companies producing products and services for the global consumer.

Internationalisation of our business sector will be encouraged by:

- **Branding** – of Wales as a location for both business and tourism. This requires two different strategies. Firstly to market Wales as a dynamic economy and ideal business location. Secondly to market our environment, attractions and leisure facilities to tourists. Current initiatives that we can develop are:
 - Wales Trade International which is charged with establishing a brand for Welsh products.

- WDA inward investment marketing .
- Promotion of Wales as a tourism destination via the WTB strategy "Achieving our Potential".
- **Internationalisation of companies** – this can be achieved through building on policies to :
 - promote sector "cluster" groups of companies which exchange information, bid together for contracts, share experiences, etc.
 - organise seminars and workshop programmes.
 - undertake one-to-one meetings with experts trading in overseas markets.
- Offset Business Opportunities – a requirement of some national governments that offshore defence contractors reciprocate business awarded by making investments and/or purchases of an equal value;
- Use Welsh Export Awards to help raise the profile of exporting and provide marketing incentives.
- **An export strategy** – Wales Trade International are developing a widely owned framework within which Team Wales' efforts can be focused to best effect through a variety of activities including:
 - Seminars, workplace visits, identifying opportunities, trade missions, joint ventures, market intelligence, publicity, etc.
- **Inward investment** – Refocusing inward investment . The inward investment effort is led by the WDA but involves a range of economic organisations including training organisations, local government and the Assembly. Key policies and actions include:
 - targeting inward investment in tradable goods and services
 - encouraging Welsh suppliers to meet global standards, including meeting the needs of inward investors in Wales.
 - ensuring adequate infrastructure and business premises to meet their needs.
 - developing bespoke packages of support relevant to business needs (such as recruitment, training, supply chains) and local opportunities.
- **Networking** – there are a range of networking issues from technical/ICT to human contact. Actions include:
 - Accelerating the use of electronic commerce throughout Wales to access and serve external markets, supporting the export potential of companies through benchmarking and by demonstrating opportunities to non-exporting companies in exporting sectors.
 - Capitalising on representatives overseas and in Wales to help Welsh companies to identify and exploit new opportunities for collaboration and commercial development.
- WTI will significantly increase the number of subsidised trade missions designed to assist small and medium enterprises explore the sales opportunities for their goods and services in selected overseas markets.

- Promoting collaboration and communication between companies including active networks of company managers is the most effective way of spreading best practice and persuading people to think strategically. Our experience with the various technology fora and supplier development chains bears this out.

Reducing barriers to trade - policy measures include:

- assisting companies to develop the marketing skills needed to identify and exploit new business opportunities.
- encouraging younger people in Wales to become more outward looking and to develop tradable skills (actions might include working with appropriate organisations to provide bursaries for study abroad, after-school language clubs and enterprise training for language students).
- establishing links with and publicising globally successful Welsh individuals as role models and supporting the creation of Welsh alumni groups abroad.
- **Tourism** – we need a new, more focussed tourism strategy based on top quality market research and new media promotion. The image of Wales should be based on culture, heritage, leisure facilities and our environment. Tourism has been set challenging targets for future growth in Putting Wales First.
- The Wales Tourist Board are already in the process of implementing "*Achieving Our Potential - A Tourism Strategy for Wales*" which covers the period 2000 to 2010.
- There may be scope to review that and, perhaps, accelerate certain aspects.
- **Niche markets/clusters** – linked to networking activities to encourage internationalisation through the creation of Welsh cluster groups in particular industries to share knowledge and experience and, where feasible, collaborate in bidding for overseas contracts.

4.1.5 Infrastructure

Objective: *Overcome social or economic exclusion and peripherality through the provision of modern infrastructure.*

While developing the skills and talents of the people of Wales is at the top of the agenda, it is essential to create the right conditions for sustainable development by ensuring that businesses operating in Wales have access to the most modern physical infrastructure available:

- **ICT broadband** – Broadband allows greater access to the internet and facilities such as digital TV, online banking and shopping. The UK is aiming for a higher proportion of businesses and homes linked to broadband than any other G7 country. In Wales we already have a scheme, supported by WDA with BT, which aims to provide Welsh villages, towns and cities with broadband linkages. We need to create much wider access and consistent access charges. Research from US suggests take-up of broadband is, as yet, relatively low.
- **ICT infrastructure** – Infrastructure is essential to attract forward-looking businesses and to reduce the effects of peripherality in parts of Wales. Policy priorities include
 - improving PC and internet access (provision to small businesses or schools/organisations e.g. libraries).
 - extending mobile phone coverage.

- attracting the so-called "internet hotels" to serve growing demand for server storage space.
- public sector policies - the Wales Tourist Board are developing a 'Destination Management System' which is an ICT-based tourism information, marketing and booking service for Wales. It is an excellent example that could be employed elsewhere both to demonstrate public sector commitment to ICT and to encourage its use.
- **Public transport** – much of the public transport infrastructure is now in the private sector. However, public policy can still have a significant impact:
 - Many schemes now promote bus use and rural transport. More may be needed to improve provision and access.
 - Freight Facilities Grant and Track Access Grant helps to shift goods from road to rail.
 - Our proposed spatial planning framework will need to link public transport with economic development in order to maximise access and minimise environmental impacts
- **Transport links and accessibility** –broader than just public transport we need to consider a range of issues, many of which are long term. Foremost amongst them are reducing congestion, removing bottlenecks and upgrading sub-standard routes. There are other issues such as air, road and rail links as well as prevention of flooding and the location of distribution centres which may impact on both economic development and the ability of people to work.
 - The Assembly is currently developing a transport framework to tackle many of these issues head on.
- **Energy** - Supply to industry is important but there are broader issues:
 - the need to promote wider use of cleaner fuels, renewable energy and energy efficiency.
 - using our energy know-how will be a key strand of our sustainable development policy – minimising energy consumption from non-renewable sources while maximising environmentally-friendly economic growth.
- **Sites and premises** – Work on this is primarily carried out by the WDA. Policy on sites and premises will need to be location-specific and linked to the spatial planning framework. The needs of rural areas are different to those of urban and priorities in heavily industrialised areas will need to be distinguished from those for areas with less infrastructure development. Issues will include bespoke factories, strategic sites, brownfield/greenfield sites incubator units, techniums. There are important linkages here with sustainability issues.

4.2 TACKLING THE ACTIVITY GAP

4.2.1 *Employment and economic activity*

Objective: *Remove the barriers in the way of those who want to work*

Increasing the economic activity rate to a level similar to the UK (without a fall in productivity) would create an extra 100,000 jobs and cut somewhere between a third and a half of the GDP per head gap between Wales and the UK.

Though many of the measures are not devolved there are still ways in which we can focus or strengthen policy and actions. The aim is to break the cycle and

culture of worklessness. We will pursue a range of actions:

- We can financially assist specific groups or specific areas but not a general scheme.
- We can use ICT more as an information source (e.g. vacancies, standard letters, CVs), training tool or communications link (mentors, careers guidance).
- Provision for the care of children and dependants should be improved by using Tier 3 funding and RSA, and introducing/enhancing support structures.
- We can ensure improved provision of public transport
- **Stemming the flow of people into inactivity** – prevention is better than cure so we need to take early action to stop young people becoming inactive. Our policies will include:
 - reducing truancy and careers advice in schools.
 - assisting the transition to work by helping young people into training or jobs.
 - reducing risk of moving onto long term sickness benefits.
 - job retention schemes.
 - Job matching to help unemployed back into work.
- **Breaking down the barriers to work** – we need to ensure that there are no barriers preventing those who want to work doing so. These barriers are likely to consist of a range of personal and financial circumstances which limit an individual's ability to work. Action here will include:
 - Extra provision of and assistance with care of children and dependants.
 - Greater access for the disabled.
 - Overcoming exclusion.
 - Assistance with job search.
 - Promotion of credit unions.
 - Ensuring access to Transport
 - We also need to focus on confidence building measures for those people who have been excluded from the labour market.
- **Making work pay** – low wages and loss of benefits on returning to work form a substantial disincentive to re-entering the labour market for many. The National Minimum wage, tax credits, increased wages through economic growth are key factors in affecting this.

The long term solution to this is likely to be greater economic prosperity but we can introduce schemes to ease the transition from benefits to work for particular groups of individuals.

4.2.2 Community Regeneration

Objective: *Promote individual and community empowerment, grass roots development, equality of opportunity, participation and sustainability*

We need to widen the circle of winners at both individual and community level. Local authorities must take the lead in community regeneration building on the needs, enthusiasm and support of community groups and interests. They are now required to develop ambitious community action plans for their areas to promote economic, social and environmental well-being. Local Authorities are in the best position to set priorities for action at a local level within the overall framework set by the Assembly. Other key players will be the Welsh Council for Voluntary Action and local councils of voluntary service, whose members co-ordinate a wide range of voluntary activities at the community level.

- **Communities First** – this is a new programme, currently out to consultation, to assist the 100 most deprived communities in Wales. It contains a range of success criteria for economic development:
 - a full range of services exists to enable all those of working age to achieve their potential in the labour market
 - local economic activity is promoted to secure local trading, exchange and circulation of wealth
 - support for local business and commerce exists to encourage growth in private, community and social enterprise
 - accessible and affordable transport links exist to widen employment and commercial activities
 - community-driven processes exist to provide links with the mainstream economy for those who have difficulties with the school to work transition and those who experience later-life disconnection from economic activity.
- **Community enterprise** – will be promoted by:
 - Pursuing the Entrepreneurship Action plan recommendation to train "social entrepreneurs" to generate community businesses.
 - Boosting the capacity of Finance Wales to support social enterprises.
- **Capacity building** –ensuring that community and voluntary organisations have the people and resources to undertake their business.
- **Social infrastructure** – developing local services including childcare, leisure and housing.
- **Health** – we must recognise the links between health, economic activity and prosperity. Health & safety at work is also an essential theme – estimates suggest that the annual cost to Wales of lost time, healthcare and benefits amounts to around £1 billion. Also linked to this is occupational health policy to aid recovery and enable the sick to work. This is of particular importance in Wales where we have a relatively high proportion of the population out of work and claiming some form of incapacity benefit.

4.3 ENSURING SPATIAL BALANCE

4.3.1 Spatial planning

Objective: Ensure a balanced pattern of territorial development in Wales which maximises cohesion and competitiveness.

Detailed research work is underpinning development of an outline spatial planning framework by Autumn 2001, with completion of the full National Spatial Planning Framework being targeted for Spring 2003.

There is a strong and developing relationship between the Assembly's commitment to sustainable development, NEDS and work on the emerging National Spatial Planning and Transport Frameworks. Joint working has already informed the drafting of these documents and will be a strong feature as we move to implementation, monitoring and review.

This approach needs to encompass the work of our partners and key stakeholders, ensuring that we are all working 'with the grain', whilst having mechanisms in place to resolve any conflicts. It should ensure that we make smooth progress towards achieving our overarching vision for Wales, for growth compatible with sustainable development.

Spatial Planning has emerged strongly at European level with the European Spatial Development Perspective (ESDP), prepared by the Committee on Spatial Development and agreed by the Member States in May 1999. The ESDP has policy themes relevant to Wales:

- supporting polycentric and balanced spatial development.
- promoting dynamic, attractive and competitive cities and urbanised areas.
- encouraging indigenous development, supporting diverse and productive rural areas.
- strengthening urban-rural partnerships.

The ESDP will be implemented through mechanisms such as INTERREG IIIA which covers links between border areas, and INTERREG IIIB, for trans-national spatial planning collaboration. It also affects the current and future allocation of Structural Funds and will be a key factor in identifying where residual aid is spent in Western Europe after new entrants from the East.

Explicit mechanisms such as LANDMAP can help to establish priorities between environment and economy – to tackle a recurring problem of proposals for locating new employment on sites of high landscape or conservation value – and promote understanding of the issues involved.

Statistical indicators such as the Welsh Index of Multiple Deprivation provide a useful tool to identify particularly deprived regions or hotspots. The analysis allows us to identify those areas with a particular problem such as low incomes, low employment, poor education & skills, etc. This then enables resources to be targeted where needed and through the appropriate interventions.

Ultimately, however, such land use and spatial targeting decisions may require tough choices based on political priorities. Implementation of NEDS will have profound spatial implications, for example:

- Closing the prosperity gap between West Wales and the Valleys and East Wales.
- Targeting those areas of greatest need within these areas as well as disparities between them.
- Assisting urban and rural development based on local strengths and needs.
- Infrastructure development.
- Targeting economic inactivity by ensuring that employment opportunities are related to need.
- Developing strategic clusters.
- The national Assembly is actively exploring fiscal variations that may assist urban and rural physical regeneration.

These factors will need to be reflected in the targets and monitoring for NEDS to ensure that we are improving. This will also require the local stakeholders to play a full part in identifying areas of need and helping to implement solutions within the national framework.

4.4 Better Government

Objective: *Ensure that relevant public services meet the needs of their customers.*

From National Assembly programmes to local government activity we are committed to delivering Best Value. The main emphasis is on eliminating waste, focussing services on those that work and improving responsiveness and efficiency.

The Assembly has a key role in co-ordinating economic development activity and liaising with relevant stakeholders. The Assembly can use its procurement policies to lead on issues such as e-commerce and act as an exemplar organisation for other issues such as training, equal opportunities and sustainability.

The main role of the public sector is to "do government well". In other words, we must concentrate on the things that we are best placed to do such as setting the overall framework for growth, overcoming market failures, reducing bureaucracy and other barriers to trade, providing education, building appropriate infrastructure such as transport and communication links and helping to ease the impacts of major economic change.

This contrasts with the role of the private sector which focuses largely on wealth creation, entrepreneurial activity and the generation of new jobs. The strength of the voluntary sector is to act where there are gaps in provision or where flexible, prompt, local action is required.

The National Assembly will also establish an office to improve the relationship with the "social partners"- employers and trade unions.

5. IMPLEMENTATION

The key to our strategy will be the effective implementation of our policies. The difference between regions which regenerate their economies successfully and those that do not is not necessarily the range of measures or programmes in place but the effectiveness of implementation.

There are two components to this:

- working with our partners to ensure that the right policies are used in the right place.
- ensuring that resources follow need and priorities.

We have a wide range of partners and a wider range of spending programmes to support our policies and their implementation.

During 2000-01 the National Assembly will spend, directly or indirectly, some £8.1 billion in Wales. Of this, some £263 million is devoted directly to economic

development activity, though policy areas such as education, health and transport clearly have a massive impact on our economic performance and prospects. This effort will be enhanced by the availability of substantial EU structural programmes.

The Assembly budget for the next three years has increased substantially and will grow to over £11 billion for 2003-04. The economic development budget will grow to £486 million. The Strategy will inform spending decisions over a much longer time frame and will help to re-tune our budgets. The current overall spending plans and the detailed economic development budget for the next 3 years are attached at **Annex 1**.

Some of the key expenditure areas for the forthcoming year (2001-02) are shown in the following table:

Table 3

	2001-02 £m
Welsh Development Agency	132
Wales Tourist Board	20
Council for Education & Training Wales	363
Regional Selective Assistance	45
Pathway to Prosperity	32
Welsh European Funding Office	135
Enterprise Development & Support	12
Tir Gofal/Agri-environment	19
Environment, planning & transport	294
Lifelong learning	12
Higher Education Funding Council	313
Communities First	20

This demonstrates that we are already concentrating substantial resources in priority areas. In addition, as the figures in Annex 1 show, we are also investing far more on crucial areas such as education, transport and health, all of which are vital if we are going to achieve our economic goals. The Assembly's own budgetary effort will be further enhanced by European Structural Funds for Objectives 1, 2 and 3 which boost our spending capacity by around £200 million a year on average until 2006. The community initiatives (INTERREG, EQUAL, URBAN and LEADER) on average add a further £8 million of European money per year. The Rural Development Plan will also bring additional resources to Wales

Spending priorities will change as particular problems are identified and solved. Budgets will, therefore, need to be flexible in future so that expenditure can

be diverted towards areas of greatest need. We need a dynamic resource allocation system. The best way to achieve this and inform the process is to have a clear business plan with priorities for action based on sound analysis. We are confident that our strategy will serve this purpose well.

An example of the implications for finance from the strategy relates to overcoming inactivity.. Based on empirical data, an average net cost per net job created is approximately £17,500. The total cost of creating 100,000 jobs would average out at £175 million per year. This is a crude figure because it may understate the cost per job to Wales and not all of these jobs would necessarily come from public sector support. It does, however, indicate the scale of the issue.

In implementing the strategy it is helpful to consider our agencies, programmes and policies in a matrix.

Table 4

Principle Agencies and Programmes	Policy Priority
All	4.1.1 Sector Specificity and Clusters
Council for Education and Training Wales/ Further & Higher Education/, Objectives 1 and 3	4.1.2 Education & Skills
Welsh Development Agency, Further & Higher Education, business Support Review, Business Birth Rate Strategy	4.1.3 Entrepreneurship
Welsh Development Agency, Wales Tourist Board, National Assembly for Wales	4.1.4 Internationalisation
Welsh Development Agency, National Assembly for Wales, Local Government	4.1.5 Infrastructure
All	4.2.1 Employment and economic activity
Objectives 1,2 and 3, LEADER, URBAN, Communities First, Local Regeneration Fund	4.2.2 Community Regeneration
All	4.3 Ensuring Spatial Balance
All	4.4 Better Government

To implement the Strategy, the National Assembly will work in partnership with a wide range of public, private and social sector organisations. Many of the

required actions will take place in areas beyond the Assembly's control or at a local level where the Assembly is not best placed to implement policy. It is vital that all of the relevant organisations, businesses and individuals sign up to this eventual strategy and contribute to its success.

There will be a need for continuous updating of the strategy to map progress against targets and to ensure that implementation is effective. The economic policy board proposed by the EDC Business Support Review could have a crucial role to play here in providing a forum for discussion, a monitoring and evaluation capability and a link between the Assembly and key stakeholders.

6. REACHING TARGETS – Identifying and Measuring success

The existing targets for economic development are laid out in betterwales.com. These are summarised in Annex 2. Some of the main quantifiable targets include 150,000 new jobs to be created (115,000 in Objective 1), increase the employment rate to close the gap with the UK, GDP per head in Wales should reach 90% of the UK average by 2010 (over 80% in Objective 1 area), 35,000 new businesses to be created, maintain inward investment levels, business R&D to grow faster than the UK average.

Since the GDP target was set for the SPD, the basis of calculating GDP has changed and the data has been revised leading to a downward revision of Welsh GDP per head compared to the UK.

The fall in the revised figures is due partly to methodological changes and partly to revised data. A major factor was the profits data in Wales compared with the UK. This led to Welsh GDP/Head falling below 80% of the UK level for the first time in post-war history. This does not change the assumptions about the Welsh economy but does mean that the statistical gap is bigger. If we are to achieve the 90% target we need the Welsh economy to grow faster than the UK over the period. The latest available GDP/head data are for 1998 (provisional) and show that the Welsh figure is 79.4% of the UK level. To close this gap by 2010 would require Welsh GDP per head to grow on average by just over 1% per year faster than the UK.

This is a demanding, yet meaningful and important target. If we look at existing regional performance as measured by GDP in the UK (Annex 2) it is clear that Wales currently languishes as one of the "poor three" alongside Northern Ireland and the North East of England- all other UK regions are either clustered around 90% of UK GDP or, in the case of the South East of England, have GDP figures far above the UK average.

GDP as a high level indicator has certain flaws in that it fails to capture new economy, quality and sustainability changes. We need to develop a set of targets which capture those variables that we wish to see improve – incomes, employment, job quality, technological progress, use of ICT, skills, etc.

It is very difficult to use GDP to steer the economy because it is a lagging indicator and is often a number of years out of date. Also, there are many components of GDP and factors affecting it which are outside the control of the Assembly.

Therefore, although GDP is likely to remain as a key economic indicator, we need other targets and indicators that (a) we can measure, (b) are relevant, (c) influenced by our policies and (d) up to date. Targeting economic activity would be one way around this as data is updated regularly, it measures one of our main problems and getting more people into jobs will raise GDP anyway.

A suitable headline target might therefore be to raise economic activity rates to UK levels by 2010. Using the Labour Force Survey data for 1998 (to match the latest GDP data) Wales would need an extra 100,000 jobs to bring the activity rate up to UK levels. This would bring Welsh GDP per

head up to 86% of the UK. This activity based indicator could be complemented by key indicators of value added and competitiveness, including better paid jobs

Some alternative high-level indicators include the Index of Sustainable Economic Welfare and the Index of Multiple Deprivation though both of these have problems either due to subjective weighting, data availability, time series or comparison with other regions.

Key target and indicator Mix

GDP related targets for improvements in productivity (Research and Development, higher level skills, firm formation) and activity (activity rates, unemployment) will be important, the menu above needs to provide the right mix for us to optimise chances of achieving 90%.

Increasing demand for Welsh products has a major impact on GDP – estimates from work by the Welsh Economy Research Unit (WERU) suggest that GDP will increase by 1% for every 6.8% increase in overseas exports or every 1.9% increase in total exports to the rest of the UK and overseas.

There is also the issue of geographical targeting and spatial balance. We already have separate targets for the Objectives 1 and 2 regions, given the divergence in productivity and activity related gaps in different parts of Wales it may be appropriate to establish key sub-regional targets.

Finally, targets must be internally consistent. There is a wide range of policy targets in use elsewhere - the European programmes and sustainable development are probably the two most relevant to the National Economic Development Strategy. For example, targets are included for CO₂ emissions (fall 20% by 2010) and traffic growth (zero growth by end of Objective 1). A table outlining the main economic development benchmarks for 2010 (and any subsequent revisions) is attached at Appendix 2.

7. EVALUATION- Analysing Success, Learning From Mistakes

A rigorous programme of policy evaluation will be needed to ensure that policies are meeting their objectives and to enable more effective decision-making for the allocation of resources.

Economic Policy Board – if the National Economic Development Strategy is successful it will be a "live" process which will require fine-tuning and adaptation to changing circumstances. The proposed Economic Policy Board will have explicit responsibility for ensuring ongoing evaluation of National Assembly for Wales economic development programmes. Also, a number of the policy areas will need to be worked through in more detail.

Research - there are a number of areas where more research is going to be needed. Examples include policies that work elsewhere, economic impacts of policy changes, future industrial trends, impact of "new" technologies and industries. This area of work will need to be linked closely to evaluation to create a feedback mechanism for policy development.

Statistics - if we are to plot improvements we will need a suitable statistical base to measure the key baselines and trends. The Assembly's Statistical Directorate is currently reviewing the requirements for economic statistics in Wales and this will need to be closely linked to the NEDS strategy. Issues being considered include improving the quality and timeliness of existing statistics e.g. an enhancement to the annual Labour Force Survey in Wales is already agreed; and expanding the statistical base. Possible additions are new indexes to measure trends in the service and distribution sectors to add to the index of production, and in the longer term quarterly (as well as annual) GDP figures. These would eventually allow more detailed monitoring of recent economic trends.

In terms of forecasting, the Assembly currently has no in-house capability for forecasting economic trends. This information is purchased from commercial suppliers. Economic forecasts are subject to periodic revisions as economic conditions change and there can be significant disparities between the different forecasters estimates (for example, for 2001 forecasts for Welsh GDP growth vary from 2.0 to 2.4%). This makes it difficult to map the future with any degree of certainty.

Futures

In addition to a policy board they may be scope for a "think-tank" to explore future trends and novel or more radical policy solutions and how they might (or might not) be applied in Wales (Futurology group or Foresight Wales?).

ANNEX 1

NATIONAL ASSEMBLY FINAL BUDGET				
2001-02 – 2003-04				
Expenditure Groups	2000-2001 Plans 12 April 2000	2001-2002 New Plans	2002-2003 Indicative Plans	2003-2004 Indicative Plans
HEALTH AND SOCIAL SERVICES	2,986,559	3,248,758	3,559,598	3,840,814
LOCAL GOVERNMENT	2,712,018	2,852,418	3,022,717	3,194,917
HOUSING	530,425	562,987	585,701	594,231
ENVIRONMENT, PLANNING AND TRANSPORT	275,830	294,315	350,553	379,485
AGRICULTURE & RURAL DEVELOPMENT	231,057	258,411	247,242	247,647
ECONOMIC DEVELOPMENT	263,164	409,584	449,169	485,824
EDUCATION AND LIFELONG LEARNING	877,452	932,370	975,554	1,032,049
CULTURE, SPORT AND THE WELSH LANGUAGE	55,475	56,505	59,950	62,865
OTHER	142,966	1,074,183	1,146,253	1,229,174
TOTAL ASSEMBLY EXPENDITURE	8,074,946	9,689,531	10,396,737	11,067,006

	2000-2001 Plans 12 April 2000	2001-2002 New Plans	2002-2003 Indicative Plans	2003-2004 Indicative Plans
ECONOMIC DEVELOPMENT				
RSA-Projects & Business Improvement Support	61,201	44,551	48,933	61,151
Environment, Innovation, Evaluation etc.	1,037	693	593	593
SMART Wales	3,252	3,352	3,352	3,352
International Trade		5,066	6,066	7,066
International Relations		1,104	1,104	1,104
Innovation Design and Technology	1,759	1,759	2,259	3,759
Carbon Trust Wales		1,500	1,750	1,750
Enterprise Development and Support (Tier 3)		11,850	12,850	13,850
RSA AND OTHER BUSINESS SUPPORT	67,249	69,875	76,907	92,625
Pathway To Prosperity Fund	10,397	5,643	5,793	5,693
Pathway To Prosperity Fund - Match Funding	0	23,000	18,000	19,000
Euro Facilitators		500	500	500
Pathway To Prosperity Fund - Finance Wales	0	3,350	4,250	4,500
Pathway To Prosperity Fund	10,397	32,493	28,543	29,693
Welsh Development Agency	127,952	132,481	136,031	142,231
Cardiff Bay Development Corporation	16,819	18,019	16,019	15,819
Wales Tourist Board	15,436	20,086	20,236	21,586
Venture Capital	270	0	0	0
Miscellaneous European Support Services	400	400	400	400
Welsh European Programmes Partnership	3,000	0	0	0
Labour Force Survey		871	650	650
Evaluation, Research and Publicity	120	120	120	120
Other Economic Development	3,790	1,391	1,170	1,170
European Regional Development Fund	19,046	92,621	99,221	110,051

European Social Fund	0	33,000	58,000	58,000
European Structural Funds Programme Support	0	718	542	779
FIFG		800	1,300	1,470
EAGGF	2,475	8,100	11,200	12,400
WEFO – European Funding	21,521	135,239	170,263	182,700
ECONOMIC DEVELOPMENT – TOTAL	263,164	409,584	449,169	485,824

Annex 2

2010 TARGETS:

CURRENT 2010 TARGET	REVISION
<p>Output per head must have risen from around 83% of the UK average in the mid-1990s to at least 90%, generating an additional £5 billion at 1997 prices. With the assistance of Objective 1 resources, output per head in the Valleys and the west of Wales should have increased from about 73% of the UK average during the mid-1990s to over 80%. Our energy sector must have been encouraged to make greater use of clean energy production technology and our businesses' environmental management performance must be second to none.</p>	<p>Proposed revision to benchmark to have achieved annual GDP growth in Wales of 1% more than in the UK each year on average. Otherwise no change.</p>
<p>The total number of new businesses should have risen by 35,000 and the number of jobs should have grown by 135,000. 110,000 of these additional jobs should be located in the Valleys and West Wales. The percentage of people of working age in employment must have increased, reducing the gap between Wales and the UK; and in the west of Wales and the Valleys the percentage should have caught up with the rate in the rest of Wales and the UK as a whole. The proportion of the population aged 50 to 59 (in the case of women) and 50 to 64 (in the case of men) who are economically inactive should have fallen from around 40% in 1999 to less than 30%.</p>	<p>Proposed revision to include "Business Birth Rate matches that for UK" and increase job targets to 150,000 more people in employment; 115,000 more in Objective 1. Other measures unchanged.</p>

CURRENT 2010 TARGET	REVISION
<p>Inward investment should have been maintained at late 1990 levels. Welsh companies must make full use of a world class telecommunications infrastructure. Welsh representation in the knowledge-based sectors must be far higher. Business R&D should have grown faster than in the UK as a whole over the decade. The level of innovation throughout the diversified Welsh economy must be amongst the best in the UK.</p>	<p>Replace inward investment benchmark with "A significant increase in inward investment over late 1990 levels, with a higher share of added value jobs". Other measures unchanged.</p>
<p>We must be far more international in outlook. Wales must have a higher profile, clearer national identity and greater influence than today. The tourist industry must attract a much higher share of overseas visitors and more students coming to the UK should attend our higher education institutions. The number of Welsh companies exporting and having links with businesses world-wide must have grown. EU and UK policies must be better tuned to our needs and surveys of opinion makers and the business community abroad must show that our market profile is higher. Made in Wales branded products must be associated in the international marketplace with high quality, advanced technology, reliability and good design.</p>	<p>On benchmark for tourism, NEDS should include a figure related to GDP growth. Proposed revision to exports benchmark to achieve increase of 25%, with extra orders secured by Welsh businesses of £500m. Other measures unchanged.</p>

ANNEX 3

UK Regional Economic Indicators												
GDP/Head	Manufacturing GDP per Employee		Population of	Economic Activity	ILO Unemployment	Long Term Claimant	Household Disposable	Gross Avg Hourly	Proportion of working age pop'n	VAT Business	Business Survival	Business Enterprise
			Working Age	Rate	Rate	Unemployment	Income/head	Earnings for FTEs	with highest qualification at	Registrations	Rates	R&D
Index UK=100	£000s	Index GB=100	% of total pop'n	%	%	% of unemployed	Index UK=100	All Inds & Services	NVQ Level 4 or above	% of Stock	% surviving 3 yrs	% of UK Total
1998p	1997	1997	1999.0	Aug-Oct 00	Aug-Oct 00	Nov-00	1997p	£/Hour 1999	1999	1998	1995	1999

North East	78.8	36.1	100.7	61.1	75.5	8.7	22.2	85.9	8.9	17.0	6.2	57.0	1.5
North West & Merseyside	88.2	35.8	99.8	61.0	76.4	5.7	20.2	92.5	9.4	20.5	6.8	58.0	13.1
Yorkshire & Humberside	87.8	34.4	95.9	61.2	79.0	6.4	20	92.2	9.1	19.5	5.6	59.7	2.7
East Midlands	94.8	33.8	94.2	61.5	80.5	4.8	19.8	94.9	9.0	20.0	6.7	60.0	7.4
West Midlands	91.7	30.6	85.5	61.0	77.8	5.9	24.1	91.9	9.4	19.1	7.1	58.3	6.4
East	114.2	36.0	100.5	61.3	82.4	3.9	19.6	110.3	9.9	21.2	7.8	62.0	22.6
London	130.6	44.0	122.7	64.9	76.6	6.9	26.4	117.9	13.4	29.0	13.7	59.6	6.5
South East	116.8	39.2	109.3	61.5	83.3	3.2	18.9	112.3	10.7	25.0	8.7	62.8	25.8
South West	91.9	33.3	92.9	59.7	83.2	4.2	16.8	101.5	9.2	23.4	6.2	63.6	7.8
England	102.6	35.5	98.9	61.6	79.6	5.2	#N/A	101.9	10.2	23.0	7.6	#N/A	93.9
Wales	79.4	36.4	101.6	59.8	74.3	6.5	19.2	87.4	8.9	20.3	4.2	61.7	1.8
Scotland	95.6	39.7	110.7	62.3	78.7	6.9	20.6	92.1	9.3	24.8	4.8	61.7	3.5
Northern Ireland	74.1	#N/A	#N/A	60.4	71.3	6.0	#N/A	90.0	8.7	19.2	4.3	76.2	0.9
UK	100.0	35.8	100.0	61.6	79.0	5.5	21.8	100.0	10.1	23.0	6.8	61.0	100
		(GB)	(GB)										
Wales UK Ranking	10	4	4	11	11	9	3	11	=10	7	12	=5	10