



Arbenigwyr mewn Busnes  
Experts in Business

## About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with business at a grassroots level. It undertakes regular online surveys of its members as well as a biennial membership survey on a wide range of issues and concerns facing small business.

## Summary and Recommendations

- The existing City Deals should formalise their governance arrangements, especially with respect to the private sector.
- Governance arrangements should be simple and transparent.
- Governance arrangements should reinforce and support existing structures for economic development.
- It is our view that if Wales is to embark upon a policy of regional economic development, this must go beyond the City Deal process and look towards establishing long-term regional governance with a statutory underpinning.
- Welsh Government should align its economic policy and local government “regions” to the regions identified by the City/Growth Deals.
- Welsh Government should empower local/regional government to deliver economic development, using the funds provided by the City/Growth Deals as leverage.
- In concrete terms, we believe that a move towards regional structures for economic development may merit revisiting where key policy levers lie.
- Local/regional governance arrangements should reflect the economic reality of the regions, using the most up-to-date data.
- Economic development within Wales’ regional economies should be balanced in terms of the internal make-up of each of the regions recognising the spatial impact of sectoral approaches.
- That arrangements are made for Mid Wales, which stands to be neglected in current arrangements.

## Economies of Wales

1.1. As the statistics in table 1 demonstrate, Wales' economic regions are varied in their economic makeup both as entities in their own right but also in terms of their constituent local authority areas. It is our view that a strategy for economic development in these regions, with the city/growth deal as a key tool to lever in policy interventions should recognise these economic realities. Similarly, any strategy or deal for Mid Wales should recognise the reality of the economy in this area.

**Table 1**

	<b>Population</b>	<b>GVA (£million)<sup>1</sup></b>	<b>Self- employment Rate</b>	<b>Active Enterprises</b>
"Cardiff Capital Region"	1,505,368	£28,043	11%	108,045
"Swansea Bay City Region"	691,961	£11,415	14%	55,260
North Wales	694,473	£12,822	15%	63,065
Mid Wales	207,284	£3,509	26%	29,805

1.2. Newly-released regional GVA statistics highlight which sectors of the economy are strongest in different regions of Wales, and similarly where there are disparities within regions<sup>2</sup>.

<sup>1</sup> From Regional Gross Value Added (income approach), 1997 – 2015, released March 2017 available at : <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgvaibyllocalauthorityintheuk>

<sup>2</sup> Ibid.

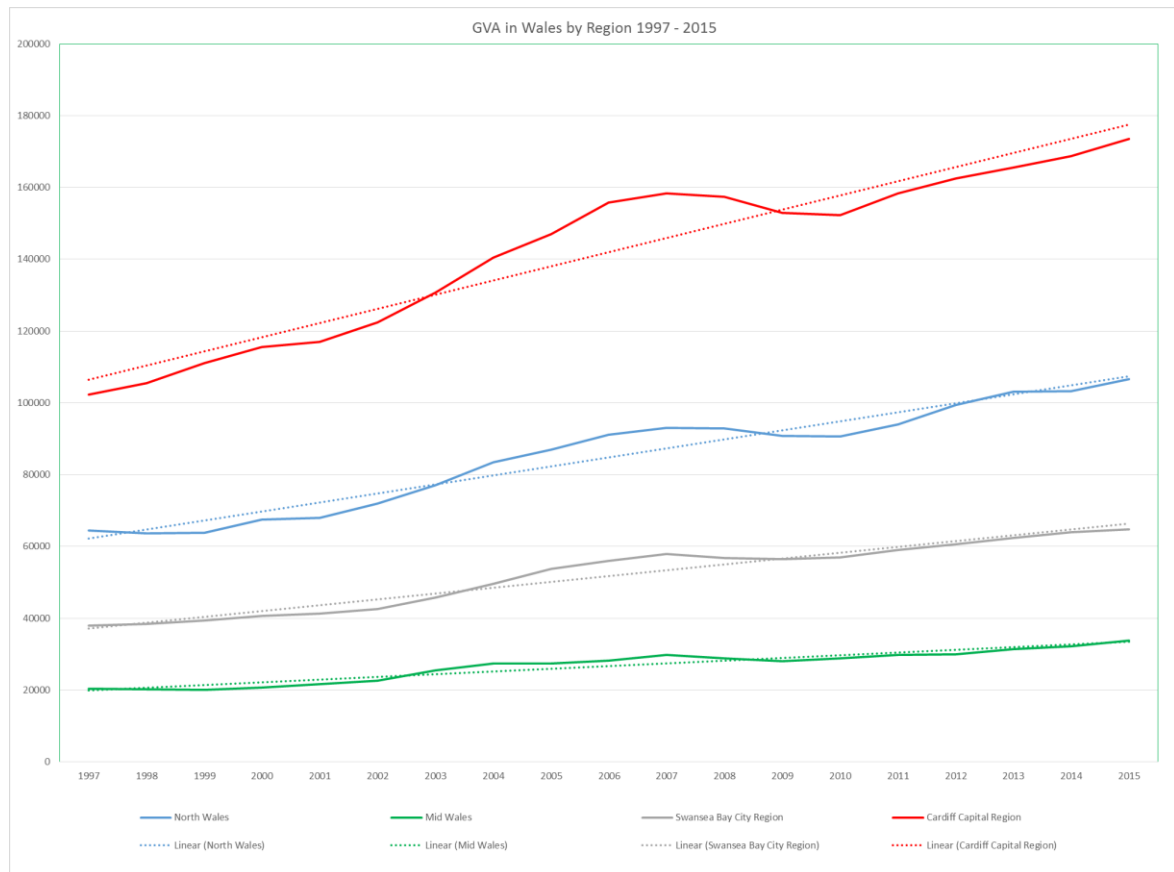


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- 1.3. Unsurprisingly, agriculture is a much stronger contributor to net GVA in Mid Wales than other regions, and manufacturing is a far more significant contributor in North Wales than it is to Swansea Bay City Region.
- 1.4. Elsewhere, the Cardiff Capital Region has Wales' strongest performing Local Authorities in terms of the contribution of the property sector to GVA (Cardiff), but also some of the weakest (Merthyr Tydfil, Blaenau Gwent)<sup>3</sup>. This may suggest that city deals focusing on industries or economic sectors which are locally uneven within a region may exacerbate inequalities within a region.
- 1.5. It is important to note that most of these regions are not homogenous and vary within each other as much as they vary against each other – indeed, of all of the identified regions, Mid-Wales is the most homogenous. This is likely to be both a potential strength, in that it is easier to identify policy interventions to support specialisation - but also a weakness, the larger and more varied regions have greater ability to create a varied and resilient economic landscape and leverage existing strengths.
- 1.6. Equally, within the North Wales region, the relative economic strength of the Gwynedd economy with respect to the neighbouring Ynys Mon/Conwy is similar in scale to the relative power of Flintshire in North East Wales. A Growth Deal which focuses on cross border trade, or the North East industrial corridor would likely neglect Gwynedd as an important driver of growth further west. Despite uncertainties arising from Brexit, it is also important that the North West's status as a gateway to links with Ireland is not overlooked.

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<sup>3</sup> Ibid. The full data offers a wide range of information not previously available on the local and regional economies of Wales across the period since devolution.



- 1.7. Patterns of economic growth since 1997 are also illustrative, with all regions and most local authorities in Wales retaining their position relative to the mean/median since 1997. As the chart above shows, North Wales and the Cardiff Capital Region are beginning to move away from the other two identified regions, and have been doing so since 1997. However, each of the regions identified by the City Deals/Growth Deals contain local authorities who perform above the Wales average, as well as those that are lagging – both in terms of position relative to the mean and convergence towards/away from the mean.
- 1.8. It is therefore vital that the policy interventions identified in the city deals are sufficiently balanced to promote growth across the entire region in question. For instance, a Cardiff Capital Region City Deal focused on financial and professional services will undoubtedly favour areas in the south of the region. This internal spatial element of city region policy is key to its ultimate success or failure as a project for 'regional' economic development.



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## Welsh Government Policy

- 2.1. FSB Wales is encouraged that Welsh Government is looking to align its economic policy to the regions as implied by the City/Growth Deals, as well as the proposed statutory footprint for economic development in the Local Government White Paper<sup>4</sup>, and potential restructure to the Economy, Infrastructure and Skills Department outlined by the Cabinet Secretary, Ken Skates AM<sup>5</sup>.
  
- 2.2. It is our view that if Wales is to embark upon a policy of regional economic development, this must go beyond the city deal process and look towards establishing long-term regional governance with a statutory underpinning. In our response to the Local Government White Paper we recommended the following:
  - There should be a clear and explicit economic development duty placed on the new regional bodies.
  - The new regional bodies should be given a suite of economic development levers to exercise this duty. Consultation should take place on what levers should be devolved.
  - Regionalisation of planning back-office functions should lead to a meaningful increase in service for SMEs.
  - Consideration should be given to the establishment of Joint Transport Authorities.
  - Local government finance reforms could include business rates retention, flexibility for regional authorities in relation to rates relief and the standardisation of billing processes across regional entities.
  - Regional bodies should have meaningful engagement with SMEs built in to their governance arrangements.
  - Any regionalisation of regulatory functions should be accompanied by a funded better regulation policy.
  - Welsh Government business support functions, including Business Wales should be mapped against the new regions

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<sup>4</sup> Welsh Government (2017) Local Government White Paper

<sup>5</sup> Cabinet Secretary for the Economy, Infrastructure and Skills Ken Skates in a speech at Coleg Y Cymoedd on 20 March 2017.



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- 2.3. We believe that this should empower governments nationally, regionally and locally to pursue regionally specific strategies of economic development, within a framework outlined by Welsh Government. These strategies should reflect the specifics of local economic geography.
- 2.4. However, in doing this, Welsh Government must ensure that regions have sufficient policy levers at their disposal to make a difference to economic outcomes. At present, the city deals/growth deals offer significant funds to leverage against, and a duty to pursue economic development will allow local/regional government to protect and fund services. There is not at present any sense as to whether Welsh Government will allow local or regional Governance structures to vary policy to meet local circumstance.
- 2.5. In concrete terms, we believe that a move towards regional structures for economic development may merit revisiting where key powers lie. The regional governance structures which are proposed in the Local Government White Paper should take on powers relating to transport, planning and economic development. In terms of finance, there is also an opportunity to revisit retention of Business Rates, currently unfeasible on a local level due to the distribution of rateable properties in Wales, but possibly more practical at a regional level<sup>6</sup>.

## Existing Governance Structures within the Deals

- 3.1. As part of the architecture of the City and Growth Deal process local authorities working collaboratively have to establish a regional business consultative forum of some sort. In North Wales, the pre-existing North Wales Economic Ambition Board has taken on the pre-emptive responsibility in this way and similar bodies are emerging in respect of the South East Wales and Swansea Bay city deals although these are at a much later stage of development and it remains unclear what these will look like and how effectively, the small business community will be represented within them.
- 3.2. Consequently, while FSB Wales welcomes this representative process, we feel that it is vital that any established forums are representative of their local economies. We know that around 99 per cent of Wales' business stock are SMEs employing around two-thirds of

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<sup>6</sup> At present there are only 5 net contributors to the rating pool in Wales, all other Local Authorities are net beneficiaries of the redistribution effect of the Local Government funding formula with respect to non-domestic rates. However, at a regional level, with some of the risk (and reward) pooled, a model of retention may be viable.



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the Welsh private sector workforce. Regional bodies should therefore be required to have due regard to this fact and establish their engagement bodies to be representative. There is a significant danger of these forums being seeded with figures and organisations unrepresentative of the wider business community, therefore not providing the intelligence needed to inform decision making.

- 3.3. Some elements of the proposed governance structures within the Deals are complicated and need to be better explained to external stakeholders to engender trust and confidence. This is particularly true where the businesses community – particularly small businesses - are engaged in the governance process.
- 3.4. These governance structures and business engagement bodies should not, wherever possible, seek to duplicate existing structures as this risks alienating the business community and undermining its confidence in the process. Further, where governance structures are 'mandated' by the Deal agreements, it should be considered how this engagement could positively benefit other areas of regional economic development decision-making to avoid duplication
- 3.5. Engagement also needs to go beyond formal representative committees. In the past the statutory consultation requirements local authorities discharge, for example around non domestic rates and the annual budget, have been poorly undertaken, with engagement rarely moving beyond a tick-box exercise. The new regional bodies should pro-actively engage with businesses in their towns and communities through a properly resourced stakeholder engagement programme.
- 3.6. Annual assessments or reports should be undertaken as to the effectiveness of engagement with the business community with forward proposals for engagement. This would promote transparency and engagement with the business community.