



# Wales: A Vibrant Economy

The Welsh Assembly Government's  
Strategic Framework for Economic Development

Consultation document  
November 2005



Llywodraeth Cynulliad Cymru  
Welsh Assembly Government





## Foreword



In recent years the Welsh economy has undergone a transformation. Over 100,000 more people are in employment now than were in 1999. Having been 30% above the UK average when the Assembly came into being, Wales' unemployment rate has fallen to and stayed at levels at or below the UK average. Average earnings have risen by more than 10 per cent in real terms over the same period, and one illustration of the successes of our dynamic businesses is that our exports have been growing faster than those from the UK as a whole.

We believe that building on these successes provides an opportunity to achieve even more economic progress. In particular, it provides an opportunity to support our more disadvantaged communities as they seek to realise their full economic potential. We will also continue to encourage and help firms in Wales to develop, as they must if they are to thrive and respond to the challenges and opportunities - such as those arising from the growth of China and India - of an increasingly global economy.

Devolution has enabled the Assembly Government to have more influence over the economic environment in Wales and offer more tailored support to businesses than ever before, backed by record investment in economic development and transport of over £1 billion per year. Our actions over the last few years have followed the agenda set out in *A Winning Wales*, the economic development strategy that has underpinned our progress so far.

The dramatic reduction in unemployment since devolution, and the forthcoming mergers of the Welsh Development Agency, Wales Tourist Board and ELWa with the Welsh Assembly Government, provides the right setting for revisiting our economic development strategy to ensure that it remains fit for purpose for the next phase. Moreover, it provides an opportunity to ensure that our economic development activities dovetail ever more closely with the action we are taking on the social and environmental dimensions of sustainable development, both nationally and in local areas throughout Wales.

This document is the first step in the process. It considers the challenges facing the Welsh economy and the progress that we have made already in addressing them. It sets out our vision for a vibrant Welsh economy delivering strong and sustainable economic growth by providing opportunities for all. And it presents our strategic framework for achieving this vision, including making best use of the funding available as a result of the current review of European Union's regional policy for 2007 onwards. In doing so it sets the broad economic development agenda for the Assembly Government as reshaped by the mergers, including the direction of future support to business.

Most importantly, the document seeks to engage the individuals, businesses, organisations and communities in Wales that will ultimately drive economic growth. This formal consultation will allow us to build on wide discussions already held with businesses, unions and other stakeholders, which have played a major part in shaping this document. The responses to the consultation questions set out in this document will play an important role in influencing our economic development policies and programmes. I look forward to hearing your views.

A handwritten signature in black ink that reads "Andrew Davies". The signature is written in a cursive style with a large initial 'A'.

Andrew Davies AM  
Minister for Economic Development and Transport

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# Our Economic Development Agenda

Our vision is of a vibrant Welsh economy delivering strong and sustainable economic growth by providing opportunities for all.

Our approach for realising this vision is built around Wales' core strengths: an increasingly skilled, innovative and entrepreneurial workforce; an advanced technology and knowledge base; strong communities; a stunning natural environment; and an exceptional quality of life. Our growing range of powers, short decision chains, close partnerships, local knowledge and willingness to engage will help us in building an ever stronger competitive advantage for Wales.

Our priorities in pursuit of our vision will be to:

- increase employment still further, so that over time the Welsh employment rate matches the UK average, even as the UK employment rate itself rises; and
- raise the quality of jobs, so that average earnings increase and close the gap with the UK average.

Our key actions for achieving these priorities will be:

- supporting job creation and helping individuals to tackle barriers to participation in the world of work;
- investing to regenerate communities and stimulate economic growth across Wales;
- helping businesses to grow and to increase value-added per job and earnings by:
  - investing in our transport networks and other economic infrastructure;
  - attracting more high value-added functions to Wales and supporting businesses and sectors with strong growth potential, notably through the new *Knowledge Bank for Business*;
  - further improving our skills base and using the opportunities created by the mergers to deliver more demand-led training tailored to the needs of businesses; and
  - helping businesses to become more competitive by supporting other drivers to business growth: entrepreneurship, innovation, investment and trade; and
- ensuring that all economic programmes and policies support sustainable development, in particular by encouraging clean energy generation and resource efficiency.

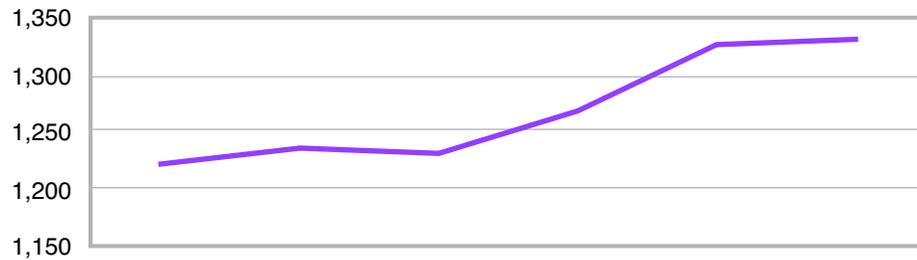
Our principles to guide us in this work will be:

- ensuring that the mergers of the WDA, WTB and ELWa with the Assembly Government deliver more effective and efficient services to Welsh firms and individuals;

- joining up policy agendas across the Assembly Government and meeting our corporate commitments to social justice, sustainable development, equality and the Welsh language;
- working in partnership to deliver improvements across Wales through the Spatial Plan;
- focusing support where it can make most difference; and
- promoting closer working between the public and private sectors on business advice and finance, to ensure that firms in Wales have access to world-class support.

# Progress in Delivering Strong and Sustainable Economic Growth

**Employment (000s)**



Source: Labour Force Survey (Annual averages)

**Unemployment (000s)**



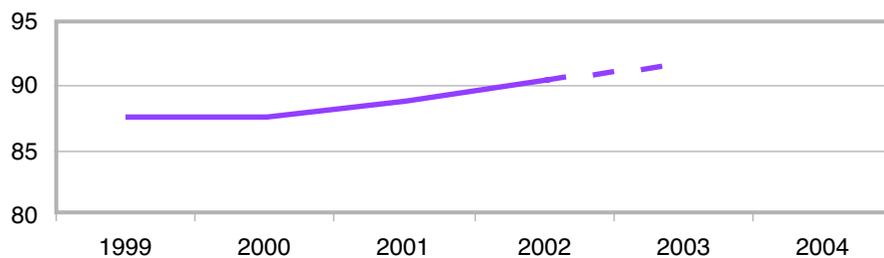
Source: Labour Force Survey (Annual averages)

**Full-time weekly earnings (£ 2004 prices)**



Source: Annual Survey of Hours and Earnings and the Retail Price Index

**GDP per head (EU25=100)<sup>1</sup>**



Source: Eurostat



# Executive Summary

## Strong and sustainable economic growth

1. Sustainable economic growth is what we need to raise prosperity across Wales and deliver improvements in quality of life. A strong Welsh economy not only provides employment and income for people now, it provides training opportunities, supports broader social and environmental development and sets the foundations for our future.
2. Wales' economic development needs to be seen in the context of the Assembly Government's broader strategic agenda set out in *Wales: A Better Country*. Economic development programmes need integrating with progress on the social justice, environmental, better health, community, language and learning agendas, both at an all-Wales level and regionally, via the Wales Spatial Plan.
3. The Assembly Government's vision is of a vibrant Welsh economy delivering strong and sustainable economic growth by providing opportunities for all. This strategic framework for economic development examines how we can achieve this vision. The approach it sets out focuses on encouraging sustainable growth through helping more people into work and helping to raise earnings for those in work by maximising the value created in the Welsh economy. The approach described reflects the aims set out in *Wales: A Better Country* to create more, and better, jobs.
4. As the earlier charts show, the Welsh economy has taken great steps forward since the Assembly Government was created. Employment has been increasing, unemployment falling, earnings rising significantly in real terms and the economy growing more strongly than in most other countries in Europe.
5. This document sets out the inherited strategic framework for the next phase of economic development. Reducing high levels of unemployment to today's comparatively healthy levels enables a greater focus on the next set of challenges – quality of jobs and the competition from the newly emerging economic giants of China and India. The strategic framework is not intended to be a detailed delivery plan; it instead describes, based on more extensive analysis than ever before, the Assembly Government's overall approach and the underpinning rationale for its activities.
6. It also marks the starting point for a wide consultation on the Assembly Government's economic development agenda, including making best use of funding resulting from the current review of EU regional policy and funding post-2006. The responses will shape the detailed implementation plan, budgets and delivery mechanisms in Wales after the mergers with the Welsh Development Agency, Wales Tourist Board and ELWa.
7. Central to the approach is the need to ensure that programmes and policies support sustainable development. This is achieved by integrating consideration of the social

and environmental impacts of policies with traditional economic analysis, and pursuing approaches that play to the strengths of the environment, culture, language and people of Wales.

## Increasing employment

8. Over 100,000 more people in Wales are in employment now than in 1999. This, coupled with rising earnings, has helped to raise and spread prosperity across Wales. Increasing the number of people in work has led to reductions in both the unemployment rate, which for most of the last two and a half years has been below the UK average, and the rate of economic inactivity<sup>2</sup>. The Welsh economy is the only one of the 12 constituent nations and regions making up the UK economy where the private sector's share of total jobs has increased since 1999.
9. The challenges now are to build on these achievements and help to draw more people into work, thereby further reducing unemployment and economic inactivity. In particular, although the economic inactivity rate has fallen significantly in recent years, and compares favourably with rates seen across most of mainland Europe, comparisons across the UK suggest further reductions are possible. Alongside helping individuals, this will also help to propel the employment rate in Wales closer still to that of the UK as a whole, and maintain that improvement even on the assumption of a rise in the UK employment rate.
10. There are many different reasons for economic inactivity, and for a large proportion a move into paid employment is not appropriate. For example, many contribute enormously to society through activities such as caring for family members and voluntary work, and a significant number are unable to take up employment due to work-limiting health conditions.
11. Above average levels of economic inactivity in Wales are concentrated in, but not confined to, certain areas – for example, the Heads of the Valleys in south Wales. However, it is striking that economic inactivity is seen to be most closely associated with characteristics of individuals, notably a low level of educational qualifications. In this context, the geographical pattern of high economic inactivity levels is to a large extent linked to high concentrations of people with lower levels of qualifications. It is these groups who have been affected most by global changes in the demand for workers with less advanced skills.
12. The success of the Assembly Government and its partners in reducing levels of economic inactivity - particularly in 'West Wales and the Valleys'<sup>3</sup> - has been based on a broad programme of support to influence the characteristics that leave people vulnerable to being economically inactive. Key to this has been action to help young people, as well as the existing adult population, to develop their qualifications and skills to meet the needs of employers today and in the future.
13. Early action is crucial here, since the pattern of low educational attainment and low skills has its origins in children's early years, and the evidence is that the older a child is, the

harder it becomes to help them raise their attainment. The Assembly Government is therefore investing more in the development of children from deprived backgrounds in their early years; and this is simply one dimension of the wider aim to break the cycle of deprivation. The new emphasis on broadening the 14-19 curriculum is also a key step, together with more comprehensive action on education and skills for all ages.

14. In light of the range of social, environmental and economic issues of relevance to economic inactivity, the Assembly Government's approach is broader than education, training and skills. Moreover, experience has shown that given the location of concentrations of above average economic inactivity, action by the Assembly Government tends to be most effective when carried out in partnership across the public, private and voluntary sectors as part of a local area or regeneration action plan.
15. The aim of these partnerships is to create the right opportunities to work and simultaneously to tackle the barriers and disincentives that can act to deter people from entering work, such as the provision of childcare and transport.
16. The most effective mix of actions will vary across locations. For example, improving transport infrastructure and services and opening up access to attractive employment opportunities may be of critical importance in rural areas. On the other hand, the need for support to help individuals manage work-limiting health conditions is concentrated in the valleys of south Wales and urban areas. Working in partnership with a range of local and national organisations across the public, private and voluntary sectors helps to tailor a coherent programme of support to the needs of the local area. The Spatial Plan groups can clearly play an important part in this process.
17. Although the precise blend of support will therefore vary, important elements will include:
  - support by the new department for Economic Development and Transport to businesses to stimulate the right employment opportunities;
  - effective, tailored education and training for individuals and employers, provided by local schools, colleges, private training providers and employers themselves, and supported by the new department for Education and Lifelong Learning;
  - the economic, community and environmental activities of local authorities;
  - high-quality, responsive and integrated local health services;
  - regeneration projects supported by the EU Structural Funds programmes;
  - the Assembly Government's 'Communities First' initiatives, which take an inclusive approach to regenerating deprived communities;
  - the UK and Welsh Assembly Governments' support for employees with health conditions to remain in work, including working with their employers; and
  - work with the UK Government to encourage those on incapacity benefits to enter work where possible (for example through the promising Pathways to Work pilots, and the Want2Work initiative supported by EU Structural Funds).

18. Coherent and wide-ranging action is increasingly important in the context of economic activity becoming less tied to particular locations. Maintaining and building strong, vibrant local communities is only possible if people want to live and work in them. As part of the co-ordinated action described above the Assembly Government will therefore continue to invest in communication networks and in improving the physical infrastructure and attractiveness of cities, towns and villages, in support of the local visions set out in the Spatial Plan.
19. One example of close partnership working within the framework of the Wales Spatial Plan is the recent development of a regeneration framework for the Heads of the Valleys. This long-term plan will cover the full range of issues holding back these communities from realising their full potential, and identify ways to overcome them wherever possible. It offers the genuine prospect of creating and sustaining a flow of private sector investment, providing a wider range of jobs and encouraging more people into employment – thereby making a positive difference to individuals and local communities as well as the wider economy.

### Raising earnings

20. Exports are growing faster than for the UK as a whole, investment in research and development is increasing, albeit from a low base, and business start-up rates are higher than levels seen in many advanced economies. On the back of these and other achievements average earnings in Wales have increased by more than 10 per cent in real terms over the last five years. These are all signs of vitality in the business sector in Wales.
21. Despite this progress, average earnings are still lower in Wales than in many other parts of the UK. This is largely the result of Wales having an overall occupational mix skewed away from senior management and professional roles; it is not generally the case that workers in Wales are paid significantly less than their direct counterparts in many other parts of the UK (excluding London and the south east of England). For example, Wales has proportionately more intermediate level jobs and proportionately fewer senior managers than the UK as a whole.
22. This occupational profile reflects the history of the Welsh economy, but is also linked to the mix of educational qualifications seen in the workforce as a whole. Encouragingly, there are signs that investment in education and training may be beginning to bear fruit, with a number of successful manufacturing and services companies choosing to locate their headquarters or other high value-added functions in Wales.
23. Research also identifies the lack of a large city or urban area as being an important factor underlying the lower earnings seen in Wales. Large cities and well-connected urban areas can act as powerful centres to drive economic growth. Businesses and individuals based there can benefit from scale and proximity effects, such as a strong supply of, and competition for, highly skilled workers. The policy responses are not straightforward as there is no easy way to increase economic mass and gain more from

agglomeration effects. However, investment in transport infrastructure should be of benefit in helping local areas across Wales form part of a wider regional economy, in the absence of any Welsh metropolis or classic metropolitan economy.

## Quality of life

Comparisons of earnings between Wales and other parts of the UK do not directly reflect differences in living standards, not least since the broader costs of living also vary geographically. Moreover, living standards are affected by many other factors, including the quality of public services and the local environment.

In this context living standards and the quality of life are higher in Wales than simple earnings comparisons suggest. For example, the Office for National Statistics estimates that under some measures the cost of living in Wales is about 6-7 per cent lower than the UK average. Nonetheless, increasing earnings is central to the aim of raising and spreading prosperity over time.

24. Earnings increases are sustainable only if they are underpinned by increases in the value created by workers. Where new and existing employers raise the average value-added per job, earnings increases will follow. This can be achieved through improving business productivity generally, creating innovative, high value-added products, processes and services, and getting more companies to base their head office, R&D units and other senior management functions in Wales.
25. This approach applies to all employers, not just high-tech and professional services companies. For example, businesses in established sectors such as agri-food have found competitive advantages, and have been able to increase value-added per job, through focusing on products that consumers are prepared to pay a premium for, such as those with strong branding. Focusing on ever higher value-added activities not only increases earnings but can also safeguard jobs, particularly in the face of the growing competition from companies with lower labour costs in India, China and elsewhere.
26. Support for indigenous businesses must be complemented by work to attract international companies to locate high value-added functions here. Increasingly, the same set of economic fundamentals is seen to be critical for each - principally:
  - helping to create an attractive, stable overall business environment; and
  - supporting key drivers for growth for individual businesses (notably innovation, enterprise, skills, investment and trade).
27. The Assembly Government's approach to raising average earnings levels and average value-added per job is therefore based around these two key themes, working with others, such as businesses, unions, the UK Government and local authorities where appropriate.

## Creating an attractive business environment

28. Macroeconomic stability is essential for long-term planning and investment by both individuals and businesses, and is therefore of critical importance to the overall business environment. Likewise, research also underlines the importance of competitive and flexible capital, labour and product markets. The Assembly Government has relatively few direct responsibilities in these areas. Nevertheless, it seeks to engage constructively with the relevant national or international bodies to ensure that the needs of Wales are understood and reflected in decision-making processes.
29. There are, however, specific business environment issues on which the Assembly Government and its partners inside Wales can have a direct impact – for example, ensuring when a new piece of regulation is introduced it is effective, well-targeted and that the compliance costs are minimised.
30. The Assembly Government has a key role in developing economic infrastructure, for example transport systems, to support business growth. Such infrastructure acts to open up new markets to Welsh businesses and support their productivity. The significant investment being made by the Assembly Government to enhance the transport system, and to widen access to, and promote the use of, high-bandwidth ICT<sup>4</sup> networks underlines the priority attached to this area.
31. Sustainable, integrated transport systems are critical not only to the economy. They can bring about social benefits, for example enabling people from high unemployment, isolated communities to have better access to jobs and services, and environmental benefits, giving people alternatives to the private car and reducing greenhouse gas emissions. A new Wales Transport Strategy will take this wide-ranging agenda forward, working through Regional Transport Plans and linking closely with the Spatial Plan.
32. In addition to this investment, the Assembly Government and its partners have a substantial programme of land reclamation and property development. Focusing on areas where private sector provision is weak, this seeks to ensure that there is a good supply of quality business premises throughout Wales. The Assembly Government and local authorities also help to ensure that housing provision, education facilities and the attractiveness of the local environment support sustainable economic development, with the planning system being important in this regard.
33. Partnerships across the public and the private sectors ensure that other essential infrastructure is also in place. In particular, the Assembly Government is active in facilitating investment in clean and renewable forms of energy generation. Coupled with support and advice on energy efficiency, this helps to provide commercial opportunities for firms in Wales whilst promoting the environment and sustainable development, and responding to specific challenges such as those posed by climate change. Actions such as these reflect a two-way connection between the environment and the economy: minimising the impact of development on the environment and maximising the positive benefits of a healthy, attractive environment to the economy.

34. The public sector is an important employer itself, and work by the Assembly Government to improve the efficiency and effectiveness of the public sector is therefore vital. A substantial programme of reform is underway here, with the mergers of the selected Assembly Sponsored Public Bodies with the Assembly Government a key element.

### Supporting key drivers to business growth

35. A number of factors can support business productivity and value creation across a range of sectors. The Assembly Government has a well-developed policy landscape to help businesses draw on these key drivers – specifically:
- **innovation**, where the Assembly Government's *Innovation Action Plan* sets out a wide-ranging programme to support innovation in firms and encourage stronger links with higher education, including through the *Technium* network providing incubator space for high technology firms;
  - **entrepreneurship**, since a strong culture of enterprise can have a significant impact on business creation and growth, which is supported through a broad range of business support activities first set out in the *Entrepreneurship Action Plan* (new developments building on this plan include the new *Knowledge Bank for Business* for firms with high-growth potential, which supports both the enterprise and innovation agendas);
  - **skills**, where there is an extensive policy agenda set out in the *Skills and Employment Action Plan* to improve the skills of new entrants to the labour market and of those already in work;
  - **investment**, which is encouraged through a range of advice services and grant and other finance schemes, such as Regional Selective Assistance, available to indigenous firms and also used to attract inward investment; and
  - **trade**, which can bring about benefits directly, through increased sales, and indirectly, through exposure to new technologies, healthy competition and best practices from outside Wales.
36. Targeted measures in these areas are complemented by the education system in improving average skill levels and making further progress towards an innovative, knowledge-based economy. This is seen most clearly in the roles of our higher education institutions in carrying out cutting edge scientific and other research, working with businesses to exploit this research commercially, and providing a strong supply of highly-skilled people.
37. In addition to the key drivers of business growth, the Assembly Government has identified a number of sectors that are widely agreed to be important for the future of the Welsh economy (including high technology, automotive, aerospace, agri-food, tourism, financial services and the creative industries). The Assembly Government supports the development of industry-led sector strategies where appropriate and engages in more general development work with sectors, clusters and broader groupings – for example, manufacturing or the rural economy.

## Addressing local priorities

38. Much of the discussion and the analysis in this national strategy focuses, naturally, on the Welsh economy as a whole. However, it is important to recognise key spatial differences within Wales in order to ensure that improved utilisation of local potential supports, and is supported by, the national strategic framework.
39. Moreover, understanding local differences and the development of particular areas can provide vital evidence on effective approaches to stimulate economic development at a national level. In the Welsh context, the strong economic growth seen in the Flintshire/Wrexham area over the last two decades provides valuable pointers as to potential approaches for achieving similar economic and social success in the Heads of the Valleys area in south Wales.
40. The presence of one or two large, high growth, high profile employers, such as Airbus, and the business clusters that form around them can be significant, as can public investment in European-scale business parks such as Deeside Industrial Park. As notable, perhaps, is the importance of proximity to a broader large scale metropolitan economic centre; in the case of Flintshire and Wrexham this has been with the Cheshire, Manchester and Liverpool area. For the Heads of the Valleys it will be as part of the industrial south Wales economy, with links to the west midlands of England and the M4 corridor to London. Economic fundamentals such as skills, access to technological developments and good economic infrastructure will be vital if the area is to contribute fully to a wider regional economy.
41. Employment and average earnings levels vary considerably across Wales, with levels in non-Objective One 'East Wales' generally higher than much of 'West Wales and the Valleys'. In north east Wales the employment rate is well above the UK average.
42. In the more rural areas of west and north west Wales employment rates compare favourably to other parts of Wales. Overall prosperity is, however, held back by the occupational mix, with average earnings being relatively low. In the valleys in south Wales the low employment rate is more significant, and combines with an adverse occupational mix to give rise to a zone of below average prosperity. Structural factors, such as a varying occupational and industrial mix, are again important in explaining many of the overall differences in earnings seen between local areas.
43. Since the occupational and industrial mix varies significantly across Wales, the types of support required will differ considerably too. For example, links with higher education, technology-driven companies and professional services firms may be seen as particularly important in Cardiff, Swansea and north east Wales. In contrast the agri-food and tourism sectors are proportionally larger in parts of mid and west Wales. National programmes should be available to all, but within the overall objective of each it should be possible to focus the programme according to local needs.
44. The Wales Spatial Plan, *People, Places, Futures*, highlights local differences and the relationships between regions. The area groups established to take forward the Spatial Plan are helping delivery organisations plan and prioritise their activities

regionally. Area Action Programmes are being developed for each of the six Spatial Plan areas in Wales. These will help each area achieve its potential in ways which are economically, socially and environmentally sustainable, building on the regional economic development strategies.

## Developing the framework

45. The Assembly Government's vision is of a vibrant Welsh economy delivering strong and sustainable economic growth by providing opportunities for all. The approach for realising this vision will be built around Wales' core strengths: an increasingly skilled, innovative and enterprising workforce; an advanced technology and knowledge base; strong communities; a stunning natural environment; and an exceptional quality of life. The Assembly Government's growing range of devolved powers, short decision chains, close partnerships, local knowledge and willingness to engage will help in building an ever stronger competitive advantage for Wales.
46. The Assembly Government's economic development programmes will be finalised following consideration of the responses to the consultation. However, building on the evidence and analysis presented in this document, certain strategic themes will feature strongly:
  - supporting job creation and helping individuals to tackle barriers to labour market participation in the world of work;
  - investing to regenerate communities and stimulate economic growth across Wales;
  - helping businesses to grow and to increase value-added per job and earnings by:
    - investing in our transport networks and other economic infrastructure;
    - attracting more high value-added functions to Wales and supporting businesses and sectors with strong growth potential, notably through the new *Knowledge Bank for Business*;
    - further improving our skills base and using the opportunities created by the mergers to deliver more demand-led training tailored to the needs of businesses; and
    - helping businesses to become more competitive by supporting other drivers to business growth: entrepreneurship, innovation, investment and trade; and
  - ensuring that all economic programmes and policies support sustainable development, in particular by encouraging clean energy generation and resource efficiency.
47. Within the existing policy landscape, however, policies will become more focused on those areas where the Assembly Government can make a real difference. In future, attention and resources will be increasingly concentrated on fewer, and more strategic, projects and activities. Resources targeted at areas in which Wales does have a strong natural and human capacity advantage will have more impact.

48. In seeking to make progress on these priorities the Assembly Government will ensure that the mergers with the WDA, WTB and ELWa lead to the delivery of services which are better joined-up and more focused on meeting business needs where they contribute to economic development. Important changes being made as part of the merger include:
- creating an influential new policy and strategy team to increase policy development capacity;
  - better account management for individual businesses;
  - bringing together finance programmes in one division to provide more coherent and better targeted support;
  - creating a single, strong marketing hub to improve reach and impact;
  - introducing the new *Knowledge Bank for Business* to provide more tailored support for businesses with high growth potential;
  - bringing together land reclamation and development, property management, ICT and economic regeneration activities to better integrate work to improve Wales' economic infrastructure;
  - developing a stronger regional presence; and
  - bringing together the inward investment and trade missions to provide a powerful international presence and put Wales, its products and its potential firmly on the world map.
49. More widely, the mergers offer an opportunity to better join up policy agendas across the Assembly Government, and ensure that our commitments to social justice, sustainable development, equality and the Welsh language are fully integrated into our work. In addition, the Assembly Government will pursue these priorities in ways that meet local needs through the Wales Spatial Plan.
50. This strategy will tie in with the Assembly Government's approach for making best use of the funding available from the review of EU regional policy. The Assembly Government is clear that investments made with any post-2006 EU funds should, as part of its broader economic development strategy, reflect the Lisbon reform agenda of prioritising jobs and growth – particularly in innovative, knowledge-intensive sectors. The Assembly Government will also seek to learn from experiences on the current structural funds, prioritising those projects with a strong evidence base and streamlining and embedding best practice in project management and delivery.

## Assessing progress

51. In line with the Assembly Government's determination to serve the people of Wales it will focus on achievements that directly improve the quality of life for individuals. Two high-level economic measures of success will be to:

- increase employment still further, so that over time the Welsh employment rate matches the UK average, even as the UK employment rate itself rises; and
- raise the quality of jobs, so that average earnings increase and close the gap with the UK average.

52. In addition, a range of economic and broader sustainable development tracking indicators will be monitored. These will be supplemented by key performance indicators for the post-mergers organisation. Specific targets for particular actions will be set where meaningful, realistic and measurable goals are identified.



# Chapter 1 Sustainable Economic Growth

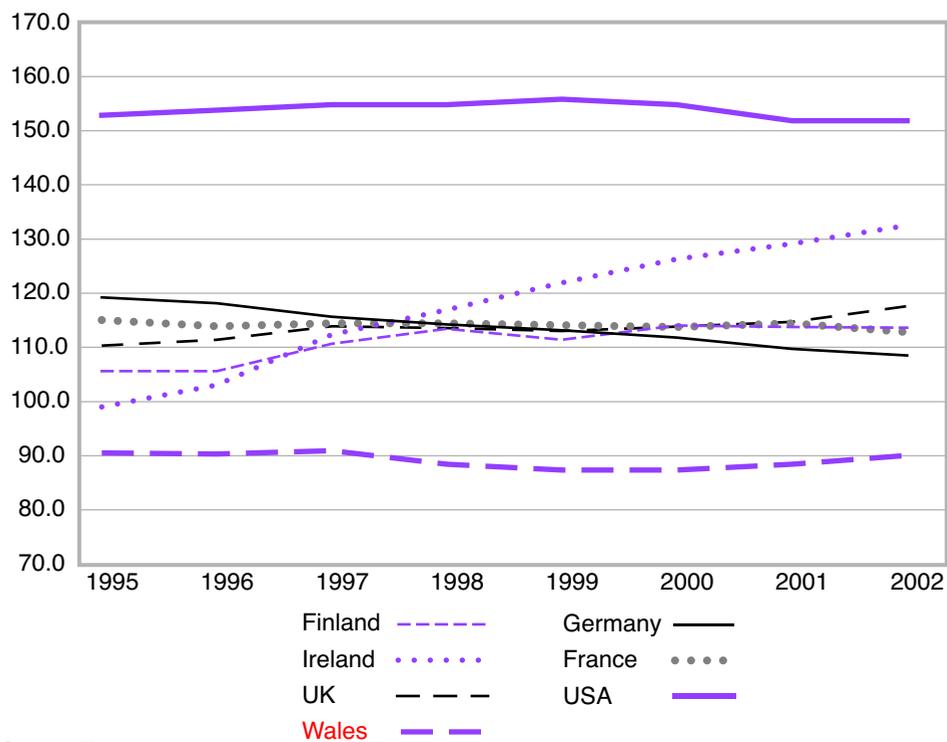
## Introduction

- 1.1 Efforts to increase prosperity and living standards across Wales depend critically on a vibrant Welsh economy delivering strong and sustainable growth, with employment opportunities and earnings growing steadily over time.
- 1.2 While the traditional measure of the total output of the economy is Gross Domestic Product (GDP), it does not capture the full impact of an economy on quality of life. For example, it does not take account of environmental degradation, or improvements in health as a result of scientific development. Nor does it consider issues of equity such as the distribution of wealth within a country.
- 1.3 The Assembly Government's focus is therefore on achieving strong and *sustainable* economic growth. Interwoven with discussion of economic issues, this strategic framework draws out the strong links that exist between the economic, social and environmental pillars of sustainable development. It also sets out a broad set of indicators that will be used to assess progress towards a strong and sustainable economy.
- 1.4 While GDP and Gross Value Added (GVA)<sup>5</sup> still provide a useful way of measuring the size of the economy, for most people in Wales employment prospects and earnings are the most relevant economic measures of their quality of life.

## Wales' economic performance

- 1.5 The earlier charts show that the Welsh economy has taken great steps forward since devolution. Over 100,000 more people are in employment now than were in 1999, and the unemployment rate has fallen to just below the UK average. Average earnings have risen by more than 10 per cent in real terms over the same period and, more generally, the Welsh economy is growing more strongly than many other countries in Europe.
- 1.6 Economic output per head has been lower in Wales than in other highly developed countries for a very long time. This is illustrated in Figure 1.1, which benchmarks GDP per head in Wales and selected other countries against the average for the 25 countries in the EU as a whole.

Figure 1.1: GDP per head (Purchasing Power Parities), EU25 = 100



Source: Eurostat

1.7 Welsh GDP per head dipped slightly in the late 1990s relative to the EU 25, although it has regained some ground since 2000 and in 2002 stood at around 90% of the EU 25 average. Estimates of progress since then see Wales continue on this rising path. In the UK as a whole, GDP per head saw a gradual relative increase over the period (pulled up by London and the south east of England). Faster increases were seen in Finland and Ireland. It is worth noting, however, that GDP per head in many European countries is still well below that of the US.

1.8 Care is needed in interpreting these data, since increasing economic output does not necessarily equate directly to higher incomes and prosperity. For example, a significant part of the increase in GDP per head in Ireland is due to foreign investment. While this delivers employment opportunities and wages for workers in Ireland, some of the earnings made by foreign companies in Ireland are transferred out of the country, with GDP overstating the overall benefit of their activity in Ireland to the country itself. In Wales and south west England inward migration among older age groups can depress output per head statistics because the size of the non-working part of the population is being boosted from external sources.

1.9 It is for reasons such as these that the Assembly Government focuses on employment and earnings, which directly impact on individuals' quality of life in a way that GDP, GVA or their 'per head' equivalents do not. A further measure of relative prosperity is household disposable income<sup>6</sup> per capita, which in Wales is around 88 per cent of the UK average, compared to GVA per capita which is around 80 per cent. Moreover, the Office for National Statistics estimates that the cost of living in Wales might be up to 6-7% lower than the UK average, which would serve to suggest that the real gap in living standards is smaller still.

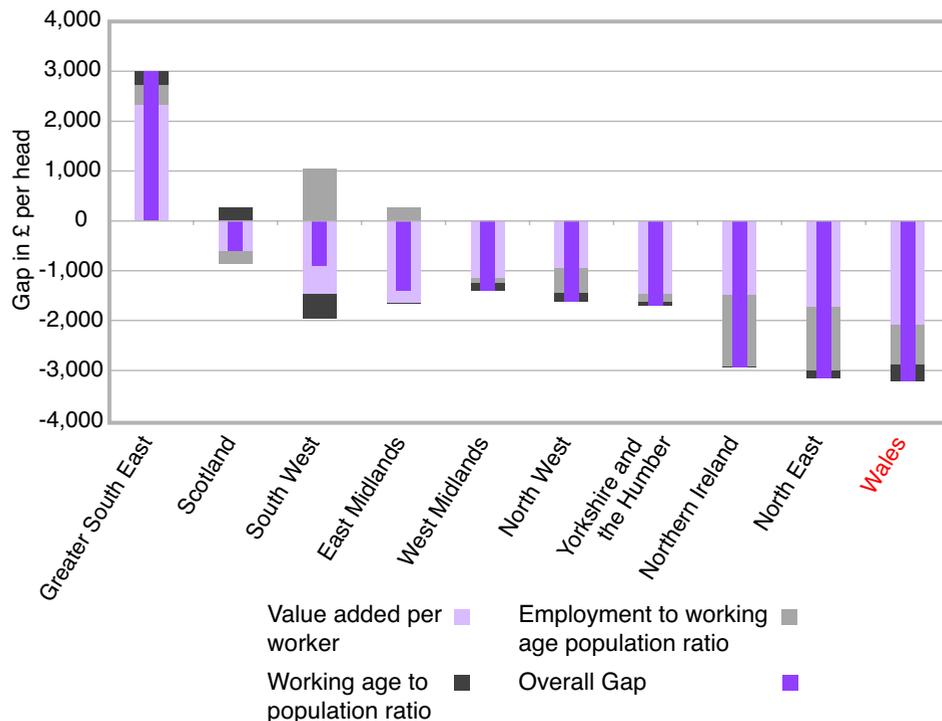
## Employment and value creation

1.10 Overall variations in GDP per head can be broken down principally into differences in:

- the proportion of the population that is of working age;
- the proportion of the working age population that is actually in work; and
- the market value of average output per job (which will largely be reflected in wages).

1.11 Figure 1.2 compares GVA per head across the regions and countries of the UK using this breakdown. It shows that GVA per head in Wales is similar to that in Northern Ireland and the north east of England, at around £3,000 lower than the UK average. Many of the regions of England have average GVA per head figures clustered around £1,000-£2,000 below the UK average. That average is pulled upwards by the 'Greater South East' (defined as London, the south east and east of England).

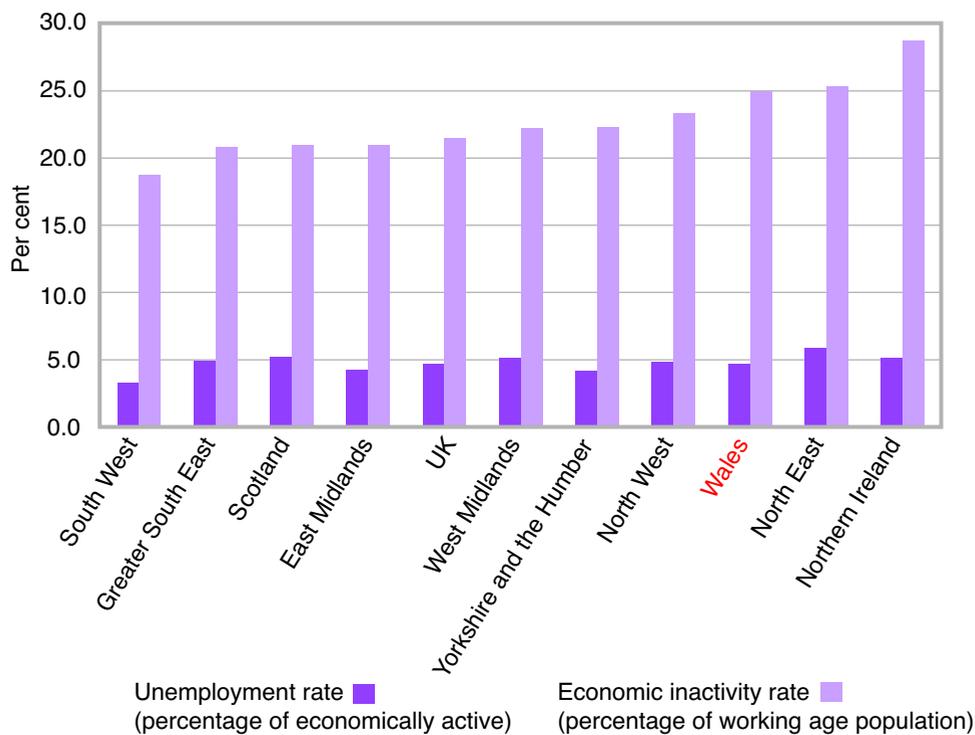
Figure 1.2: A component analysis of the GVA per capita gap across UK regions, 2001-2003 average



Source: Welsh Assembly Government calculations based on ONS data

- 1.12 A component analysis of the overall GVA per head gap between Wales and the UK as a whole attributes around 60-70 per cent of the total gap between Wales and the rest of the UK to lower average value-added per job. A further 20-30 per cent is attributed to a relatively low employment rate and around 10 per cent of the gap to Wales having an above average share of the population outside the normal working age range.
- 1.13 From this analysis two natural themes emerge for taking forward the Assembly Government's aim of achieving strong and sustainable economic growth:
- helping more people into work; and
  - helping to create an environment in which businesses can improve the adverse occupational mix, and increase average value-added per job with the consequent benefits for earnings levels.
- 1.14 Since around two-thirds of the gap in GVA per capita is attributed to lower average value-added jobs it could be argued that a similar proportion of the Assembly Government's effort should be targeted on this issue. Similarly, around one-third would be focused on continuing to decrease unemployment and economic inactivity. This would be to oversimplify the conclusions of the analysis, particularly as the picture varies across Wales. However, it does suggest that as the employment rate continues to rise, greater effort should be put into helping employers to increase the value-added per job, as well as attracting higher value-added activities (for example, cutting-edge research and development) to Wales.
- 1.15 As indicated above, good progress has been made in recent years in reducing the unemployment and economic inactivity rates. Figure 1.3 shows that the unemployment rate in Wales is now well below 5 per cent (having been around 7.5 per cent previously), and is also below the UK average. However, the chart also reveals that unemployment is a smaller factor than economic inactivity in explaining the overall differences in employment rates across the UK, and that economic inactivity in Wales is higher than the UK average (although it is at or around the rates seen in continental Europe).

Figure 1.3: Unemployment and economic inactivity across the UK, 2004



Source: Labour Force Survey

1.16 Encouraging higher participation in the labour market requires action to ensure that the right job opportunities exist and also to address particular barriers to labour market entry. The solutions to economic inactivity are not just economic; they encompass a wide range of social and environmental issues. Coherent and concerted action is therefore critical.

1.17 The public sector has a vital mission in helping to create a stable and favourable business environment that gives individuals and businesses the confidence to plan ahead and invest. It also has an important role in promoting factors that can drive growth in individual businesses – for example, skills and innovation. And it can help to address particular market failures, including helping the private sector to factor the impact of their activities on the wider environment and society into their decisions. However, since business growth and value creation is ultimately driven by individuals and businesses themselves, the commercial focus and expertise of the private sector comes more to the fore.

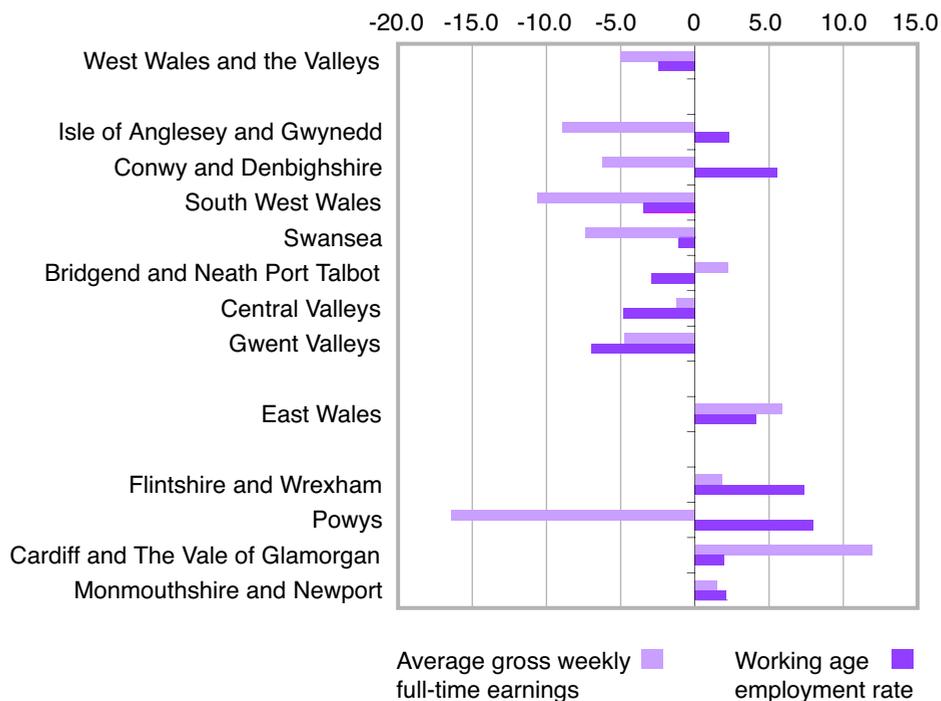
### Local economic growth

1.18 Within the national picture there are important and well-recognised differences in levels of employment and earnings.

1.19 As Figure 1.4 shows, employment is relatively high across ‘East Wales’. Moreover, in Cardiff, south east and north east Wales high employment is complemented by high earnings. However, earnings related to jobs in Powys are relatively low,

counterbalancing the positive impact of high employment<sup>7</sup>. The low earnings are due in particular to the type of sectors and jobs in mid Wales. The differences are also likely to reflect, in part, the lower overall cost of living in these areas.

Figure 1.4: Full-time earnings and employment rate, percentage difference from Wales average, 2004

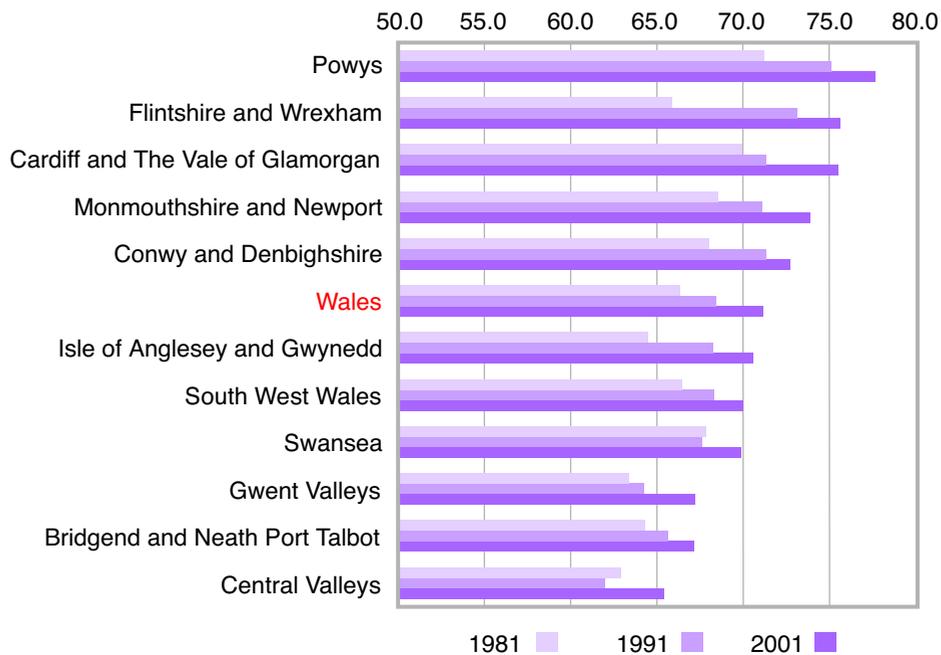


Sources: Annual Survey of Hours and Earnings and Local Labour Force Survey

1.20 In south west Wales and the valleys, both employment and earnings levels are seen to be relatively low. However, although earnings in north and north west Wales are relatively low the employment rate is above the Welsh average. This analysis has important implications for the targeting of programmes and resources. For example, increased job creation and increased participation in the economy is clearly important in the valleys and south west Wales. Elsewhere, although employment and economic inactivity are still important, greater attention should be given to trying to raise value-added per job and upgrade the quality of employment opportunities to increase earnings and match aspirations of the highly qualified, who might be natural candidates for emigration.

1.21 It is also important to examine the dynamic development of local areas over time, and not focus just on the current picture. Areas of Wales such as Powys, Cardiff and Flintshire/Wrexham have achieved significant economic success over the last two decades. In contrast, economic growth in the Heads of the Valleys and also, to a lesser extent, the western half of Wales has been slower and the earnings and employment growth has been less strong. These findings are illustrated in Figure 1.5, which sets out growth in the employment rate between the census years of 1981, 1991 and 2001.

Figure 1.5: Census working age employment rates, (per cent excluding economically inactive students)



Sources: UK Census

- 1.22 In the case of Flintshire/Wrexham the growth of key large employers, notably Airbus at Broughton, and successful development of a European-scale business park at Deeside have contributed to the turnaround seen since the low point in the early 1980s. Another significant factor appears to have been the ability of individuals, businesses and communities to take part in and exploit the huge choice of employment opportunities in Cheshire, Manchester, Merseyside and the north west of England, an area with more than 20 times the population of north east Wales itself.
- 1.23 Cardiff, with some 320,000 people, has been developing as a significant service centre and economic driver for the wider south east Wales economy, harnessing some of the benefits of scale and agglomeration to increase growth, although on a far smaller scale than north west England. The physical regeneration of the city – and the growth of the business and professional services sector, as well as retail – is easier to stimulate in Cardiff than in any other centre in Wales.
- 1.24 The lower parts of the valleys in south Wales are part of that growth around Cardiff and the M4 corridor. But further up the valleys, communities have been less able to share in that growth, although employment growth in some communities in the area did pick up noticeably in the 1990s compared to the 1980s.
- 1.25 Since 2001, north west and north Wales areas have joined Flintshire/Wrexham in seeing significant further growth in employment, suggesting that the north Wales economic corridor is acting to spread growth and prosperity. There has also been significant employment growth in parts of the valleys in south Wales, notably Merthyr Tydfil and Rhondda Cynon Taf.

- 1.26 A key challenge going forward is to understand how best the Assembly Government and its partners can help areas such as the Heads of the Valleys take off in the same way that Flintshire/Wrexham has over the last two decades. Clearly, the presence of large, prestigious companies can help provide employment opportunities directly and indirectly, as well as helping to raise aspirations and expectations and reducing the expectation to emigrate. However you cannot legislate for an equivalent of Airbus to appear in each part of Wales that needs a major economic boost.
- 1.27 It is increasingly apparent that large employers will only be attracted to an area if the fundamentals for growth are right – notably the strength of the skills base, the technology base, and the quality of the local transport and inter-regional communication systems and other economic infrastructure. More widely, there must be an attractive local environment with strong communities. These are, of course, the same fundamentals vital to stimulating economic growth from within the area itself.
- 1.28 The strategic framework set out in this document is not locally prescriptive. It identifies a number of critical local variations and highlights how priorities are therefore likely to vary across Wales. It also sets out the key national programmes that will underpin the national strategy. However, there will, as now, still need to be flexibility within delivery organisations to target resources and to tailor individual programmes to meet local needs.
- 1.29 The Wales Spatial Plan, *People, Places, Futures*, provides a new framework to help the Assembly Government and its partners develop and implement policies that reflect spatial differences and that build on local strengths. The groups charged with taking the Spatial Plan forward will shape the way in which the Welsh Assembly Government will tailor its work to meet local needs and priorities, through the area action programmes. The groups will also be well placed to translate this national framework into action at a local level, adapting lessons learnt to particular areas and integrating economic development alongside social and community development.
- 1.30 At a local level, local authorities have a duty to develop with partners a Community Strategy to promote sustainable development and the social, environmental and economic well being of local communities. The 22 Community Strategies in Wales set out a 10-15 year vision for each local authority area, linking into regional plans/strategies and effectively integrating the plans of the respective local authority with those of other agencies operating in the area. Community Strategy Partnerships, involving public private and voluntary organisations, work to develop and implement the strategies, and therefore have an important role to play in achieving sustainable economic growth locally.

## A sustainable economic future

- 1.31 Analysis of broader sustainability indicators highlights a range of other challenges facing the Welsh economy, alongside that of increasing economic growth. For example, the exercise to map Wales' Ecological Footprint suggested that the planet would be unlikely

to cope if consumption levels in Wales were matched across the world and current technologies did not change. Major technological and other challenges therefore lie ahead if we are to have a sustainable future.

## Sustainable development

The Assembly Government's *Sustainable Development Action Plan* for 2004-2007 sets out the need for action across the three pillars of economic, social and environmental development. The Assembly Government seeks to develop an economy that responds to sustainable development opportunities, minimises the demands on the environment and maximises the distribution of benefits. This work is accompanied by action on social justice to tackle poverty, poor health and the consequences of disadvantage, and by action to strengthen our cultural identity and improve the quality of our natural and built environment. Ensuring equality of opportunity and promoting openness, partnership and participation are central values to the vision of a sustainable Wales.

Sustainability runs much wider than considering current effects on the areas around us. Today in Wales we are still seeing the environmental and health impacts of heavy industry and mining in the 20th century. Similarly, our actions now will have lasting effects on future generations. Even though the most obvious inherited effects of heavy industry and mining have lessened as the old slagheaps have been removed, other issues (for example, environmental effects from farming, energy generation and transport) are becoming increasingly important. Sustainable development means ensuring that our actions support rather than undermine our future.

There is also an important spatial dimension to sustainable development. Some of the wider impacts of economic growth are localised and do not extend beyond Wales – for example, reductions in local air quality as a result of transport and industry. At the other end of the spectrum our carbon emissions contribute towards climate change, the effects of which may well be felt most in other countries.

- 1.32 These wider considerations do not conflict with the overarching strategy for promoting sustainable economic growth through increasing employment and value-added per job. Indeed, using resources more efficiently is core to economic growth, resource productivity and sustainable development.
- 1.33 There is a need, however, to ensure that individual policies within this framework support sustainable growth and encourage the innovation and technological development that will be crucial in shaping a sustainable future. Particular examples are in the area of energy generation, where clean coal, wind and wave power developments are strongly supported. Work in this area is particularly important in the context of climate change, given the significant emissions of greenhouse gases from the transport, business and energy generation sectors. Specific market-based incentives and, where appropriate, proportionate regulation can also play a role.

- 1.34 Through these actions the Assembly Government seeks to ensure that economic development activities are consistent with the five principles set out in the *UK Framework for Sustainable Development* – namely: living within environmental limits; ensuring a strong, healthy and just society; achieving a sustainable economy; promoting good governance; and using sound science responsibly.
- 1.35 In this context the Assembly Government will evaluate progress in raising employment and earnings together with assessments of wider sustainability outcomes. Contributing to the delivery of the environmental outcomes highlighted in the Assembly Government’s Environment Strategy for Wales will be a key part of this. Also important will be future work looking at further developing and addressing the current methodological limitations of:
- environmental satellite accounts, which provide information on the environmental impact of economic activity and on the importance of natural resources to the economy;
  - the Ecological Footprint, measuring the impact of consumption in Wales;
  - the Index of Multiple Deprivation, measuring a wide range of issues relevant to deprivation; and
  - the Index of Sustainable Economic Welfare, the development of which is designed to give an all-inclusive overview of the pace of sustainable growth.

## Chapter 2 Employment and Economic Inactivity

### Introduction

- 2.1 Increased total employment not only impels the Welsh economy to higher levels of GDP, it can help to reduce poverty, ill health and social exclusion. It can also help to raise educational aspirations and attainment for future generations. Its importance is underlined by it being one of the four main priorities outlined in the Assembly Government's strategic framework, *Wales: A Better Country*.
- 2.2 There has been good progress in recent years in increasing the total number of jobs in Wales and decreasing unemployment. Unemployment has fallen to levels just below the UK average, and is at its lowest since the mid 1970s. There has also been good progress in increasing the employment rate, which is now higher than in most of Europe although still lower than in many other parts of the UK, due to a higher proportion of the Welsh working age population not participating in the labour market.
- 2.3 There are wide variations between the sub-regions and local authority areas in Wales with economic activity rates in Powys and Flintshire higher even than the UK average and much lower rates in the Heads of the Valleys sub-region. Although there is nothing abnormally low in the Welsh economic activity rate by European standards, within the UK context it is one of the factors associated with the resistance to rapid relative improvement of Welsh GVA per head.
- 2.4 This chapter sets out the Assembly Government's framework for further reducing economic inactivity and unemployment and raising employment. It does so by building on the analysis of employment and economic inactivity included at Annex A. The main finding from this analysis, which is reflected in this chapter, is the need to focus on personal factors, most notably skills, in order to support individuals to find work appropriate to their circumstances. However, the spatial concentrations of high levels of economic inactivity, and the wide range of factors relevant to individuals, supports the need for coherent action taken forward in partnership at a local level.

### Increasing employment and reducing economic inactivity

- 2.5 The Assembly Government is committed to encouraging and assisting those currently unemployed or economically inactive to find work appropriate to their circumstances. Many of those who are economically inactive are not in a position to work. For example, they may have work-limiting health conditions or they may be caring for family. Extensive research, however, has led to an emerging consensus that a significant proportion could, with the right help, fulfil their desire to play a more active role in the labour market. It is important to ensure that support and opportunities are open to all those who are unemployed or economically inactive, since the person who knows best whether an individual is able to take up some form of work is the individual themselves.

- 2.6 Working in partnership across the public, private and voluntary sectors, the current approach is based around action on three fronts:
- developing employment opportunities for those not in work;
  - working with individuals to address barriers and disincentives that may at present prevent or deter people from working, such as health conditions and the availability or cost of transport and childcare; and
  - working with individuals on the verge of dropping out of the labour market, assisting them to stay in work or training despite temporary health difficulties, physical and mental.
- 2.7 This involves working with parents, teachers, employers and others (for example, health professionals), as well as individuals themselves to ensure that they actively participate in ongoing education, employment and training. The support required may vary considerably – for example, helping individuals to update and improve their skills or helping those currently in work who develop a work-limiting health condition to continue in employment where possible.
- 2.8 Research has underlined the importance of early action and the current well-developed policy agenda reflects that. This includes a programme of pre-school interventions focusing on childcare and parental support schemes in the most deprived areas. It also encompasses the full education strategy set out in *Wales: A Learning Country*, including the focus on embedding basic and key skills early on. Of particular importance is the development of flexible and tailored ‘Learning Pathways’ to prepare young people to participate in work, further training and education and contribute more widely to their communities.

## Developing opportunities to work

- 2.9 The analysis in Annex A suggests that an increase in the number of jobs available in an area of high economic inactivity will be of benefit to those unemployed but is unlikely on its own to bring large numbers of people out of economic inactivity and into work. If those economically inactive do not have the skill sets for the jobs, it could instead increase commuting or migration into the area. But without the right employment opportunities, it is very difficult to increase the economic activity rate.
- 2.10 The Assembly Government and its public, voluntary and private sector partners work closely together to facilitate business growth and support the creation of employment opportunities. A major part of this is a range of advice and support services available for new and existing businesses. Encouraging entrepreneurship in disadvantaged communities and under-represented groups can be particularly important since a thriving small business sector can help disadvantaged communities develop a more resilient and diverse economic base. It can also encourage social cohesion by enabling people to contribute to and share in the development of their own communities.
- 2.11 This support is complemented by significant grants available in the form of Regional Selective Assistance, Assembly Investment Grants, and in some contexts, EU Structural

Funds. Local authorities and voluntary groups play an important part in facilitating projects and co-ordinating action. Employers' attitudes are also critical; progress can only be made if there is a willingness to take on previously economically inactive candidates, and to play a part in the broader social justice agenda.

- 2.12 Together with businesses operating under purely commercial principles, social enterprises can help to generate employment opportunities. Social enterprises tend to have a community, ethical or social purpose and operate within a not-for-profit and social-ownership framework. Their local base can enable them to reach out more effectively than conventional businesses to people who have lost contact with the labour market, and in this context social enterprises and voluntary work may therefore be of particular benefit to older age groups. However, when public support is provided care is needed to ensure that social enterprises are offering services and employment opportunities that would not be provided, unsupported, by others.
- 2.13 The recent *Social Enterprise Strategy for Wales* recognises that social enterprises have an important role to play within the overall economic development strategy. It sets out a range of actions to help develop and nurture this sector so that it can play its full part in the Welsh economy.
- 2.14 Alongside direct support for businesses, an extensive programme of land reclamation and property development is being taken forward. By focusing attention on areas where private sector capacity and interest is low, this will seek to ensure that there is a strong supply of quality business premises that can be of benefit to local businesses as well as attracting those from outside the area. Specific work is often carried out as part of wider property and regeneration strategy for an area.
- 2.15 Transport is vital in opening up the commercial opportunities available in a local area. ICT networks and services are likely to be increasingly important, particularly for the more remote areas. In addition, helping community organisations to make the most of ICT helps to broaden opportunities for individuals and enable all communities to benefit from such developments and to integrate more with wider society.
- 2.16 More generally, people and businesses that are increasingly mobile will only remain in a place if it is an attractive location. This underlines the importance of much of the wider work of the Assembly Government and its partners. Housing is of critical importance here, not least because of the association between the quality of housing and the quality of employment opportunities. Other factors such education facilities, town and village centres and retail facilities, and the wider natural and built environment, also influence perceptions on locations. Improvements to one factor will not generate the full benefits unless complemented by action elsewhere. Targeting regeneration projects to support the local visions identified by local authorities and others in the relevant Wales Spatial Plan group are therefore the right way forward.
- 2.17 The Communities First Partnerships can play a part in this, as they give local people in Wales' most disadvantaged communities the chance to get involved in improving

their areas and their opportunities. Each Partnership is essentially a forum that enables people to influence and work with the organisations that provide local services, and thereby to improve their local community.

## Addressing barriers and disincentives to work

2.18 The analysis in Annex A demonstrates the close link between low skills and economic inactivity. If those who have not been in work for some time are to move into employment they must have, or be developing, the skills, confidence and commitment sought by employers.

2.19 The Assembly Government's strategy for improving the skills of those who could enter or are already in the workforce is set out in the *Skills and Employment Action Plan 2005 (SEAP 2005)*. It aims to:

- improve the mechanisms for workforce development;
- supply new entrants to the labour market with the skills needed for work;
- work with employers and employees to improve skills; and
- help more people into sustained employment.

2.20 Specifically, the Assembly Government and its partners assist those not in employment to develop the generic skills, such as communication and team working, that are increasingly valued by employers. Emphasis is also placed on ensuring that all have the functional literacy, numeracy and ICT skills commonly required. These activities are vital in building the skills base and confidence of individuals. Important support is provided by Careers Wales, which advises individuals of learning and career opportunities and thereby plays a key role in helping people of all ages to make successful transitions to learning and employment.

2.21 Alongside helping to prepare people for work the analysis in Annex A reveals the importance of addressing other potential barriers to work. The 2004 *Raising Economic Activity* report set out a range of actions to address a wide range of potential barriers to work, including health, transport and childcare.

### Community Focused Schools Childcare Pilot - Torfaen

The purpose of the Community Focused Schools Childcare Pilots, developed in partnership with Jobcentre Plus, is to test whether a lack of affordable, accessible childcare is a significant barrier to work for lone parents on income support. This will be done by providing affordable childcare for lone parents to enable them to enter employment. It will enable evaluation of whether the childcare barrier is real or perceived and whether, if it is removed, other barriers then come to the fore as being the main obstacles stopping lone parents working. It builds on the childcare tax credit introduced by the UK Government.

2.22 It is vital that all the different forms of support are brought together to provide individually tailored solutions and personal advice. This type of approach has seen to be beneficial in helping the long-term unemployed into work as part of the New Deal and Welfare to Work programmes run by the Department for Work and Pensions (DWP). The Assembly Government has worked in close partnership with the DWP and its agent, Jobcentre Plus, to ensure the development and implementation of the New Deal in Wales complements our own economic and social objectives. It will continue to do so as the New Deal is developed further, breaking down barriers around existing programmes and delivering a flexible provision which is responsive to meeting the needs of individual clients.

2.23 The introduction of new voluntary programmes – the New Deal for Disabled People and the New Deal for Lone Parents – has extended support beyond the traditional Jobseeker Allowance recipients to a range of economically inactive benefit claimants of working-age. Pathways to Work, the DWP pilot specifically aimed at helping claimants moving onto Incapacity Benefit to find work, adds a further dimension by providing intensive support from the health sector to help people manage a work-limiting health condition and return to work. A partnership with DWP and Jobcentre Plus is now extending the Pathways to Work pilots through the wider EU-funded Want2Work initiative.

### Want2Work and Pathways to Work

Want2Work aims to engage thousands of people on a range of incapacity and disability benefits to help them make the move into employment. It is delivered through a partnership between Jobcentre Plus, Local Health Boards and the Welsh Assembly Government. It provides a comprehensive package of support, including: advice and support from Jobcentre Plus advisers; access to a bespoke training package; access to two financial incentives - a Job Preparation Premium and a Return to Work Credit; and advice from a health professional working alongside Jobcentre Plus services. It is currently being delivered in wards in Merthyr Tydfil, Neath Port Talbot and Cardiff with the highest levels of economic inactivity in Wales, and plans are being developed for delivery of the initiative in North Wales.

The initiative follows the success of the Pathways to Work Pilot in the Bridgend and Rhondda Cynon Taf Jobcentre Plus district, where over 2,000 people have come off benefits and into work. The current Pathways to Work pilots target new and existing claimants of Incapacity Benefit. A comprehensive package of help is provided, including:

- support from a personal adviser and specialist employment advisers;
- tailored support to help individuals learn to manage their health condition;
- a £40 a week Return to Work Credit once they get a job so that it always pays to get back to work;
- for existing claimants, a Job Preparation Premium of £20 per week subject to their engagement in a work-focused activity; and
- work with GPs and employers to ensure people on Incapacity Benefit are not discouraged from working.

2.24 In Wales, the Assembly Government works with businesses, unions and others to promote and protect the health of workers. One such programme is the **Corporate Health Standard** which, amongst other things, helps to promote early interventions for those employees who are sick or injured to help them back into the workplace and thereby reduce slippage from ill health to becoming economically inactive.

2.25 Targeted health support is complemented by a wide range of action as part of **Health Challenge Wales**, which is a co-ordinated and sustained national effort to improve public health. For example, the **Inequalities in Health Fund** supports over 60 projects in the most disadvantaged communities across Wales, helping people to reduce their risk of heart disease through activities such as screening, risk assessment, rehabilitation and exercise. The projects include work with small businesses to help them improve the health of their workforce. Economic and wider spatial development can contribute to improving public health – for example, by helping to enable people to walk and cycle to work or engage regularly in other forms of exercise.

## Economic regeneration in practice

2.26 Partnerships with other organisations in the public, voluntary and private sectors seek to ensure that individuals currently not participating in the labour market have the opportunity and support to find employment suitable to their circumstances. An integrated approach to tackling economic inactivity and regenerating local economies and communities is at the heart of the preparation of a development strategy for the Heads of the Valleys.

### Case Study: Heads of the Valleys

The Heads of the Valleys Programme is a 15 year regeneration strategy being developed in full partnership with local stakeholders to tackle comprehensively the root causes of economic inactivity and other key issues in the area. It is being taken forward in the context of the Wales Spatial Plan, and the aim is that the Heads of the Valleys becomes a culturally rich, dynamic network of vibrant and safe communities helping to drive the success of south east Wales.

Particular initiatives within this Programme include:

- rolling-out the Pathways to Work pilots across the Heads of the Valleys and boosting this with additional support of the kind provided by Want2Work;
- providing special incentives to business to encourage the direct recruitment of economically inactive people through the new Regional Selective Assistance Premium Business Grant and other measures;
- reducing the barriers to those wishing to work by improving local integrated transport and the availability of childcare;
- working with local employers to highlight existing and projected skills gaps;
- providing free employee training to NVQ level III;

- establishing a special fund to help those with disabilities and special needs to access jobs;
- supporting action within the Further and Higher Education sectors to develop locally the full spectrum of modern education and training facilities, including the establishment of a university presence in Merthyr Tydfil and Ebbw Vale;
- building new hospitals in Ebbw Vale, the Cynon Valley and Ystrad Mynach in the borough of Caerphilly, as well as the continued modernisation of Prince Charles Hospital in Merthyr Tydfil and developing modern primary care and mental health facilities; and
- stepping up regeneration and environmental programmes to improve the natural and built environment in communities across the region.

Through working in partnership, the Assembly Government, local authorities, the UK Government and the voluntary and private sectors can come together to create a Heads of the Valleys Programme that can make a real difference to individuals and communities in this area.

## Working age population and migration

**2.27** The size of the potential workforce depends not just on levels of unemployment and inactivity, but also on the age distribution of the population and migration.

**2.28** The number of people of working age is expected to increase as a consequence of the raising of the retirement age for women between 2010 and 2020. After that the number is likely to decline gently. Although increases in the numbers of older people mean that the proportion of the population that is defined to be of working age will decline in Wales, the change is likely to be less dramatic than that seen in many other countries, and is likely to be offset to a degree by the trend for people to work for longer.

**2.29** The birth rate in Wales stands at around 1.7 per woman, and this on its own would lead to a declining population over the long-term. However, there is positive net migration into Wales which, coupled with increasing longevity, means that the total population in Wales is growing. Net in-migration is seen in particular amongst older people of working age and their dependants under the age of 16. In fact, this net in-migration of under 16s is larger than the net out-migration seen among those aged 16-24 in recent years. As a result, Wales has a larger population of young adults than its birth rate would account for.

**2.30** It is difficult to assess accurately the skills of those leaving and arriving in Wales, but the general experience across the UK is that more highly skilled workers tend to have a greater propensity to migrate. The positive net in-migration is therefore more likely than not to bring a net gain in highly skilled workers into the Welsh workforce. This can help to generate economic growth, but only if the Welsh economy can provide suitable employment opportunities. The challenge of increasing productivity and influencing the occupational structure of the Welsh economy, as discussed in Chapter 3, is important in this regard.

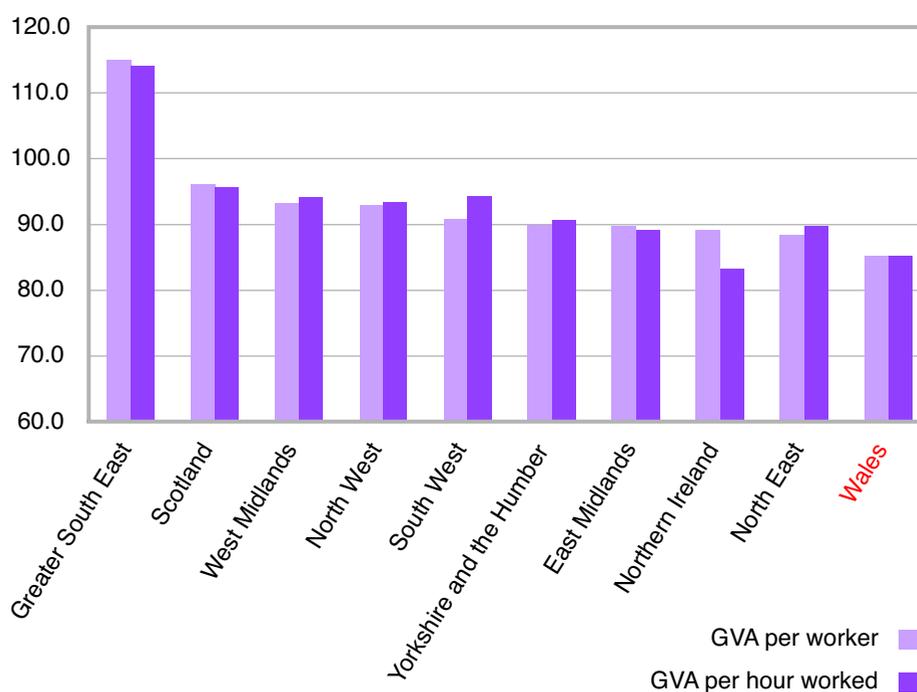
- 2.31 There are, of course, significant variations beneath the national picture, and at a local level declining populations, migration and changing population profiles can cause problems for local communities. For example, parts of west and mid Wales have seen significant in-migration in older age groups, which has implications for the health, transport and social services required in these areas. Local demand for goods and services may also change subtly but significantly, with implications for local businesses.
- 2.32 Likewise, a low birth rate has immediate implications for local education, health and transport services, as well as the local economy. Coupled with the significant migration trends of young adults, it also prompts questions over the future nature of individual communities.
- 2.33 The wider strategic agenda is important in helping to ensure that Wales and its local communities remain attractive to those born locally as well as being attractive to companies and individuals from outside. There is clearly an important role, too, for local authorities and organisations, assisted by the Spatial Plan groups, for whom the impact of demographic changes will be an important area of work.

## Chapter 3 Earnings and Business Growth

### Earnings and GVA

3.1 Long-term economic growth and earnings increases depend on raising the average value created per job. Chapter 1 demonstrated that the preponderance of low value-added jobs is the single most important factor in explaining why GVA per head in Wales and some of the northern English regions is less than the UK average. Figure 3.1 shows that GVA in Wales (or likewise, average earnings) is relatively low whether measured per worker or per hour worked.<sup>8</sup>

Figure 3.1: GVA per worker and per hour worked (UK average = 100), 2003



Sources: ONS Regional Accounts and Labour Force Survey

### Explaining the value-added gap

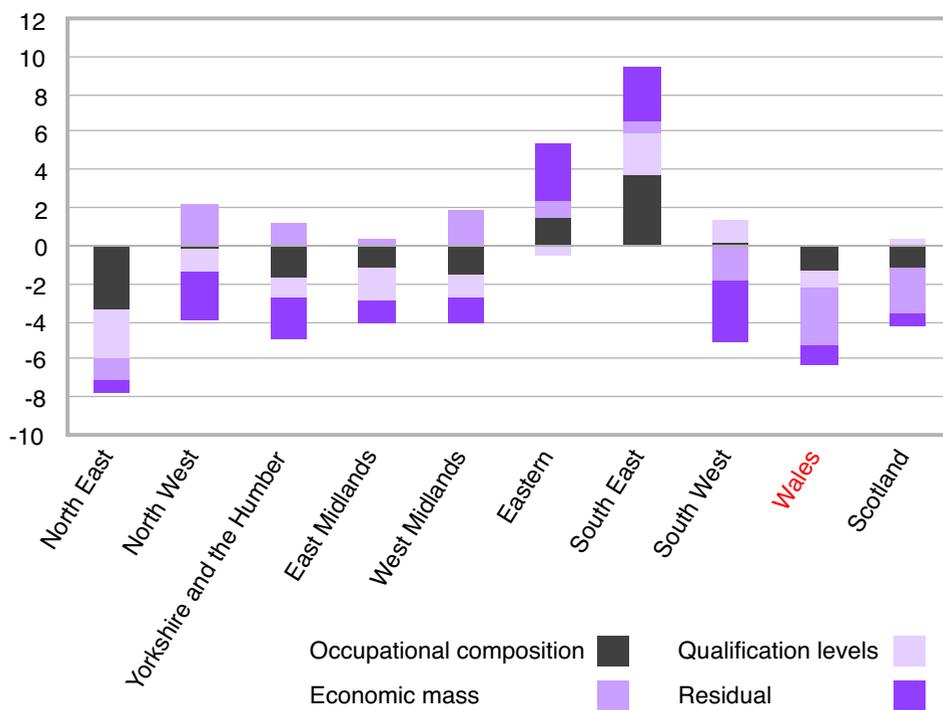
3.2 Many explanations have been advanced for the significant GVA per job gaps seen between countries and regions, with the skills of the workforce and the physical capital available to workers frequently cited.<sup>9</sup> However, the number of interrelated factors, the limitations in trying to accurately measure them, and the imprecise relationships between inputs and outcomes make it inherently difficult to identify the exact causes in full.

3.3 Nevertheless, valuable analysis<sup>10</sup> of variations in earnings across Great Britain (GB) suggests that most of the differences (and by extension the value-added per job differences) between the Wales and GB averages are due to three factors:

- an adverse occupational and industry mix, with relatively few high value-added jobs, whether in company head offices and R&D departments or whether in sectors with high rewards, such as financial or professional services;
- a correspondingly unfavourable qualifications profile in the workforce as a whole; and
- an inability to benefit from strong agglomeration effects, due to Welsh towns and cities being relatively small and much of Wales being sparsely populated.

3.4 Figure 3.2 illustrates these findings. It reveals that the agglomeration effect is more of an issue for Wales than for any other country or region of Great Britain. Agglomeration benefits are seen to be increasingly important, with the deeper labour and capital markets, spillover effects and increased competition found in large cities and regions helping to drive growth among businesses located there. The benefits derived from increased personal contact are likely to be particularly important for value creation in the services sector, which would help to explain why the value-added gap between Wales and other countries is seen mostly in the services sector, rather than manufacturing.

Figure 3.2: Decomposition of earnings differentials (percentage difference from UK average)



Source: Rice and Venables

## Agglomeration

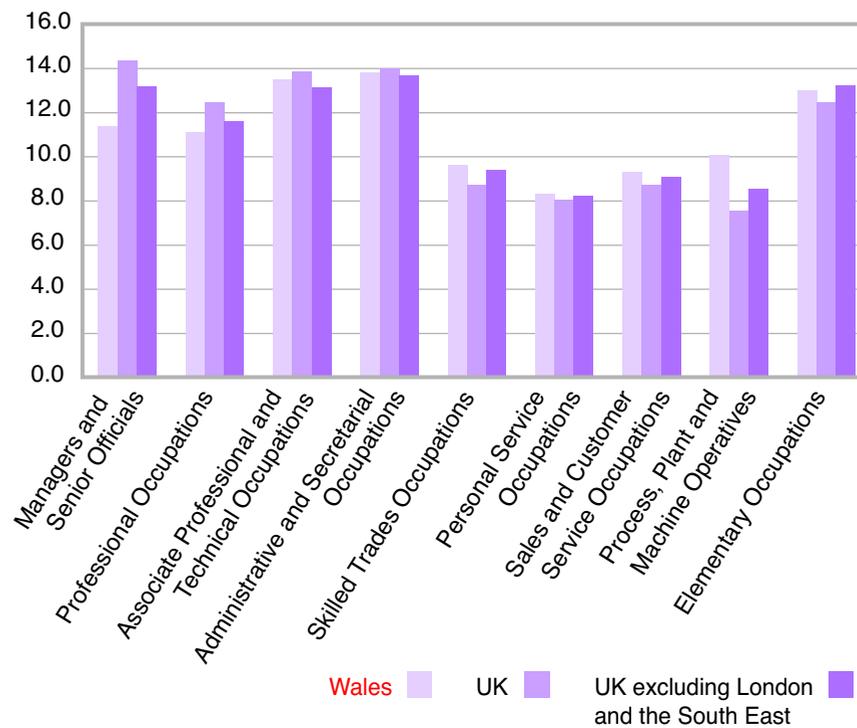
3.5 The consequences of agglomeration for policy making are not straightforward, since it is difficult to change economic mass in a positive direction in the short or medium term. Actions that will help, though, include investment in transport, which will help to bring communities together and create broader and more competitive markets.

- 3.6 The greatest potential for generating agglomeration benefits probably exists in south east Wales around Cardiff, Newport and the associated commuter hinterland, or more generally in the wider urbanised region of industrial south Wales which includes close to half of Wales' population.
- 3.7 To a lesser degree the Greater Swansea Bay region with a population of around one-third the size of the south east region also has potential for extracting more economic benefits from urban agglomeration. Important factors here will be the central urban regeneration around SA1, Llanelli Coastal Park, Llandarcy Urban Village and other urban and regional growth drivers such as the new IBM-backed Institute of Life Sciences.
- 3.8 Since Wales' population of 3 million people is relatively small in global terms, it will be important to draw on all of Wales' resources. However, our economic growth potential is also related to large population centres just over the border. While, with nearly 2 million people, south Wales is not an insignificant economic region it benefits significantly from its proximity to the Greater Bristol area, which has a similar population, and even more from forming part of the M4 corridor all the way to Heathrow airport and West London.
- 3.9 Similarly, significant external factors contributing to the economic success seen in north east Wales are the strong commuting, business and transport links to Chester, Cheshire, Merseyside, Manchester and Manchester Airport. North east Wales' population may only be around 300,000 but that is not an inhibition on getting the benefits of agglomeration when it forms part of an economic region of 7 million people. That scale effect cannot have been unhelpful to the growth of the aerospace complex around Broughton, to Unilever establishing its European IT headquarters in Ewloe, and to the presence of companies such as Fugro Robertson in Deganwy, because international IT or professional service companies need the kind of local airport and services that only a total population of several millions can support.

## Occupational structure

- 3.10 The finding that Wales has a relatively adverse occupational composition is borne out by other evidence. Figure 3.3 shows the proportion of workers in many occupational groups is similar in Wales to the rest of the UK (excluding London and the South East). However, it is clear that Wales has proportionally fewer managers and senior officials, but more process, plant and machine operatives. Since the former are generally better paid than the latter we would expect to see a read across into overall earnings differentials.

Figure 3.3: Proportion of employees in each occupational group, per cent, 2004



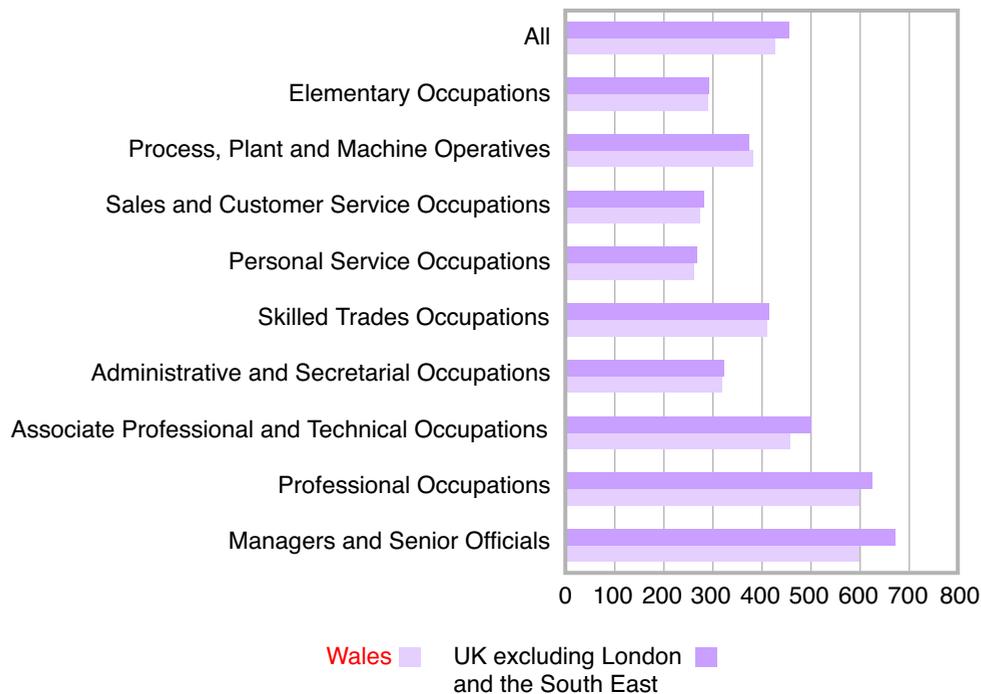
Source: Local Labour Force Survey

3.11 This indicates clearly the phenomenon usually described as the ‘branch factory’ economy, whereby the head office of a company with the most highly paid decision making jobs is at the eastern end of the M4 and the factory making the products or the call centre directly delivering the service is at the western end.

3.12 Recent developments, such as General Dynamics Systems at Oakdale in south Wales, EADS in Newport and Logica CMG in Bridgend, and those now getting off the ground such as the Institute of Life Sciences in Swansea should help to draw Wales away from the ‘branch factory’ economy.<sup>11</sup>

3.13 Figure 3.4 shows that within occupational categories workers in the three highest paid groups tend to be less well paid in Wales than elsewhere. Again, this is likely to be explained primarily by differences in the share of such jobs in Wales within these categories, rather than a Welsh worker being paid less than their direct counterpart in England. For example, Wales will have a significant number of managers, but taken as a whole these managers may not be of the same seniority as elsewhere, and are therefore less well paid (and less likely to have discretion over which lawyers, accountants, management consultants and advertising agents to hire). In other occupational groups few significant differences exist. However, the differences in the more highly paid occupations are seen to influence the overall earnings differentials.

Figure 3.4: Average full-time weekly earnings in the private sector, 2004 (£)



Source: Annual Survey of Hours and Earnings

3.14 As with agglomeration benefits, it is far from straightforward to identify policy responses that would have a strong impact on this situation. Attracting the more highly paid jobs to Wales will only happen if highly skilled individuals from outside want to come, or if there are sufficient people in the workforce in Wales with the skills to fill these jobs (if the jobs were to emerge in the Welsh economy).

3.15 The learning agenda is clearly important for the latter. For the former, attracting and retaining highly-skilled, mobile individuals relies on Wales being perceived as a desirable location with an attractive lifestyle and good amenities. This reinforces the importance of the wider strategic agenda of the Welsh Assembly Government, *Wales: A Better Country*, and the links with the housing, social justice, community, language, health, education and environmental agendas.

3.16 Alongside seeking to create the conditions in which average earnings will rise, the Assembly Government's commitment to social justice involves ensuring that all workers receive a fair reward for their contribution. Although the research suggests that Wales actually has a slightly smaller gender pay gap than the UK as a whole and many other countries, the issues of equal pay and equal opportunities are still of great importance.

### Earnings and business growth

3.17 Although improving Wales' skills base, occupational mix and economic infrastructure are therefore likely to be priorities for action, a wider set of core factors is likely to be

important for any country's long-term performance in raising value-added per job. It is on the back of increases in value-added per job that sustainable increases in earnings can happen.

3.18 The factors commonly recognised as being important for value creation and business growth tend to fall into two broad areas:

- creating an attractive overall business environment; and
- supporting the key drivers of innovation, enterprise, skills, investment and trade that can be important for business success.

3.19 Action on the drivers for business growth focuses in particular on addressing market failures that could hold back sustainable growth (for example, supporting businesses to invest in training for their staff, which they might not otherwise do to the same extent for fear of not reaping the benefits of the training if the staff involved left the company).

### Creating an attractive business environment

3.20 Creating a stable and favourable business environment is a prerequisite for encouraging sustainable growth. Without having the fundamentals in place individual initiatives to stimulate particular activities or sectors will never achieve their potential. Crucial elements of a favourable business environment include:

- macroeconomic stability;
- competitive and flexible product, capital and labour markets;
- an efficient and effective public sector; and
- good economic infrastructure, such as transport, ICT and utility networks, housing, educational facilities, retail centres and business premises.

3.21 Macroeconomic stability provides the bedrock of the modern economy, as without it businesses and individuals cannot plan and invest with any certainty. For many years Wales, and the UK more generally, had mixed fortunes on the back of macroeconomic instability. Over the last 5 or more years, however, a stable and strong macroeconomic picture has emerged as a result of reforms at a UK level. This stability gives businesses in Wales the strong foundations and certainty they need to invest and grow. Stable political, social and legal environments are also important. For example, our strong legal system provides the foundation for enforcing the patent system in the UK, which is critical for innovation and technological development.

3.22 Research also underlines the importance of flexible and competitive capital, labour and product markets. Flexible markets can be important in ensuring that growth is not constrained and that resources are allocated to where they can create most value. Competitive markets provide strong incentives for firms to be more efficient and to innovate in order to establish a competitive advantage.

- 3.23 In general, the Assembly Government has relatively few direct responsibilities in these areas, although it can and does seek to engage constructively with the relevant national or international bodies to ensure that the needs of Wales are understood and reflected in decision-making processes.
- 3.24 The UK as a whole is recognised as having a well developed competitive environment. Businesses in Wales can benefit from this in the long term, as has been proved by the growth of home grown success stories such as Redrow, Admiral Insurance, Rachel's Organic Dairy and Ifor Williams Trailers. Making the jump from serving a small local market in Wales to establishing a presence across the UK or Europe is the key step that some Welsh businesses find difficult to make. Others, such as those listed, either start with a UK-wide business plan or make the transition from local to UK-wide as a natural evolution of a business model. The existence of Wales-based success stories show that there is no inhibition of being able to create and run big companies in Wales. The challenge now is whether policies can be developed to increase the rate of birth and development of such companies.
- 3.25 The Assembly Government and its partners inside Wales can have a direct impact in ensuring that when a new piece of regulation is introduced it is effective, well-targeted and that the compliance costs are minimised. The merger of the selected Assembly Sponsored Public Bodies with the Assembly Government provides a particular opportunity to better integrate assessments of the impact of new regulations on businesses into the process by which regulations are drawn up. The Assembly Government will build on its existing work with businesses, unions and others to ensure that the most is made of this opportunity.
- 3.26 Alongside supporting a dynamic, value-creating, productive private sector it is vital that the public sector, as a significant employer, plays its part. The Assembly Government has initiated a major programme of reform, set out in ***Making the Connections: Delivering Better Services for Wales***, which aims to bring about improved public services for everyone in Wales by making services:
- more responsive to the needs of individuals and communities, particularly those who are vulnerable and disadvantaged;
  - more accessible to all, and open to genuine participation in decision making;
  - more coherent, working through simpler, more joined-up, transparent structures which inspire trust and enable real engagement;
  - more effective in preventing and tackling problems, maximising their safety and achieving sustainable solutions; and
  - more efficient in the way they are organised and use resources.
- 3.27 The mergers of the WDA, WTB and ELWa with the Assembly Government are an important element of this reform programme. The mergers will, in particular, simplify and better join up the development and delivery of the economic development agenda.

They will generate the strategic capacity necessary to drive change, and will help to streamline activities, improve flexibility and generate better value for money and savings for re-investment in improved front-line services.

- 3.28 The public sector also has a potentially significant role in stimulating business as a major purchaser of goods and services. Intelligent purchasing by the public sector - ensuring tenders are accessible to businesses in Wales - can strengthen the competitive forces in the economy, stimulating sustainable economic development and providing benefits to the public purse. The Business Procurement Task Force of the Assembly Government has sought to ensure that smaller companies are aware of the opportunities and are not disadvantaged in seeking to supply to the public sector. It has also sought to help smaller businesses that are successful in tendering make the most of their opportunity, and grow dynamically as a result.
- 3.29 The private sector can have an important role in providing public services where they can offer services more efficiently or innovatively than public sector providers, or where the public sector has limited expertise. Capital projects are routinely provided by the private sector and there is scope for private sector provision of services at the point of delivery to users, including some business support services traditionally provided by the public sector.

### Economic infrastructure and sustainable development

3.30 Transport systems are central to all aspects of sustainable development:

- to a thriving economy, with many Welsh businesses depending on fast, safe and reliable transport networks and services;
- to giving people in deprived communities better access to jobs and services; and
- to developing alternatives to the use of private cars and reducing greenhouse gas emissions.

3.31 In December 2004 the Assembly Government set out an £8bn long-term investment programme to deliver a first class integrated transport system throughout Wales. The investment will enable:

- enhancement of strategic transport arteries by increasing the capacity of the A55 corridor in north Wales, building a new, user-pays, M4 motorway section around Newport, and improving road and rail access to Cardiff International Airport;
- upgrading of rail services, including additional capacity on the south Wales valleys lines and the introduction of passenger services to Ebbw Vale and also in the Vale of Glamorgan;
- supporting new international and north-south Welsh domestic air services;
- investing in improved bus services and facilities, as well as community transport; and
- developing the potential of Welsh ports.

- 3.32 An effective system of road pricing could contribute significantly to economic development by enabling our transport infrastructure to be used more efficiently. Wales should be well placed to benefit from policy and technological development in this area.
- 3.33 These improvements should make an important contribution to improving the productivity of Welsh businesses, through reducing journey times for individuals and goods, and encouraging international trade. Moreover, by helping to bring cities and regions closer together this should help to create larger markets and help to generate greater agglomeration benefits. The transport strategy will continue to develop and seek to target its resources to achieve greatest impact, in line with the regional transport strategies and the Spatial Plan.
- 3.34 Alongside transport, ICT infrastructure is becoming increasingly important. ICT is an enabler rather than an end in itself, and the real benefits accrue only when it is adopted and used successfully to transform business processes, products and services. Wales needs to have advanced ICT infrastructure and development capabilities in order to ensure that it can adopt and exploit technologies created elsewhere, as well as within Wales. BT's decision to run a 21st Century Network trial in south Wales, the aim of which is to replace older, multiple networks with a single system, is likely to offer particular opportunities for Welsh businesses to exploit the technological developments in this area.
- 3.35 Considerable progress has been made in recent years in developing a supportive ICT infrastructure and development environment in Wales. However, there is much more to do if we are to ensure that Wales is genuinely at the forefront of successful adoption of ICT. The range of measures in place to enable and encourage individuals, communities and businesses in Wales to access and exploit world-class ICT infrastructure, applications and services will include:
- providing practical and tailored support to businesses to encourage investment in, and adoption of, ICT and to exploit the benefits of e-business;
  - promoting the opportunities offered to individuals, communities and businesses by ICT services, and assisting the development of the skills necessary to exploit these opportunities;
  - improving access to affordable, high-bandwidth ICT infrastructure;
  - using ICT to develop more individualised public services; and
  - establishing centres of excellence across Wales to develop next generation digital services and secure ICT infrastructure, to put Wales at the forefront of the development and use of new technology.
- 3.36 Other economic infrastructure - for example, business premises and housing - is also important. Efforts to stimulate the supply of high-quality sites and premises for businesses are based around developing derelict brownfield sites that would otherwise lie unused and contributing to wider regeneration of deprived areas. The public land reclamation and property development programmes seek to foster business start-ups and encourage businesses from elsewhere to relocate.

- 3.37 A good supply of business premises needs to be accompanied by a similar supply of good housing, which will be a key factor in encouraging the growth of high value-added, well-paid jobs in Wales. The Assembly Government's work with local authorities to ensure good education facilities, vibrant communities and retail centres, and attractive natural and built environments will also be important. The planning system, which provides a transparent, efficient and fair mechanism to identify options for development and evaluate particular projects, is of critical importance to this work. The transport and ICT infrastructure landscape supports economic development, as do secure, affordable, accessible and sustainable water, sewerage and energy networks. Wales will see over £4bn of investment in clean energy generation in the coming years.
- 3.38 Businesses are being encouraged to improve their resource productivity generally, including work by Carbon Trust Wales and others to improve energy and materials efficiency. Work in these areas can contribute to business profitability as well as help to tackle major sustainable development issues, including the challenges of climate change mitigation and adaptation. Work is underway to prepare an adaptation plan that will help to ensure that Wales can best manage likely impacts of climate change, such as a greater risk of flooding, prevalence of extreme temperatures, intense storms, pressure on water resources at certain times and threats to biodiversity.
- 3.39 Developing a low carbon economy in all its aspects, including transport, will become of increasing importance. Whilst businesses and other organisations are becoming more proactive in responding to the sustainability challenge, including recognising the benefits and importance of corporate social responsibility, much more needs to be done. A wide programme of work is set out in the 2004 *Sustainable Development Action Plan*. More detailed initiatives are included in the *Energy Route Map, Business and the Environment Action Plan* and *Energy Saving Wales*.

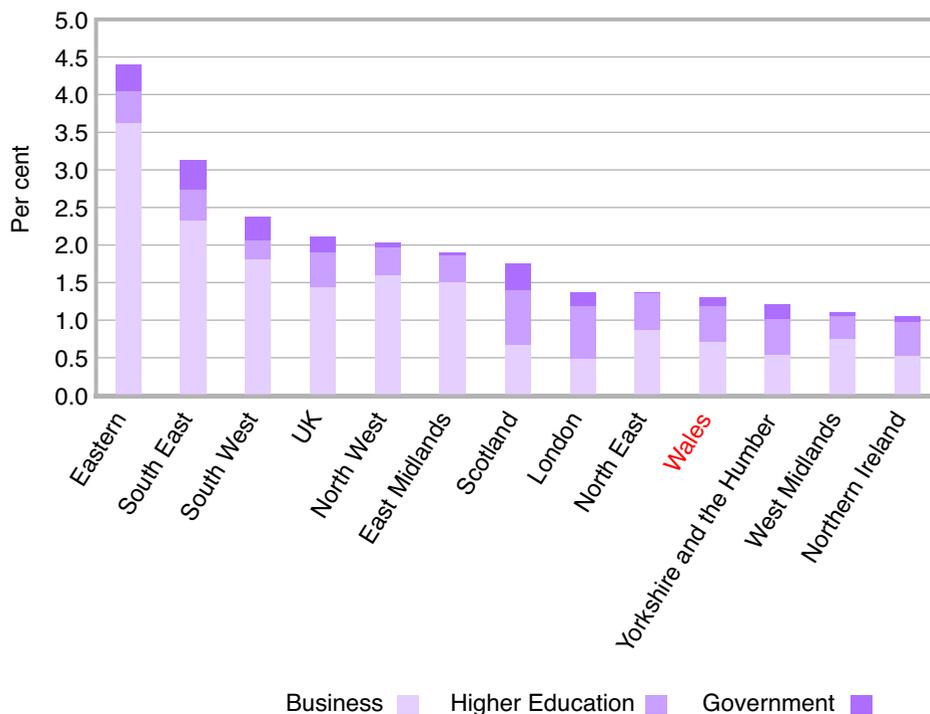
### Supporting business growth

- 3.40 The actions described above are key to establishing a favourable business environment that will allow businesses to thrive. However, in addition to creating a favourable business climate it is important that the growth agenda covers specific factors that can have an impact on value-creation by individual firms. Commonly identified factors that can drive business growth at a company level are:
- innovation;
  - entrepreneurship;
  - skills;
  - investment; and
  - trade.

## Innovation

- 3.41 For individual businesses, the development of new products, processes and services is key to establishing a sustainable competitive advantage. More widely, there is good evidence to demonstrate a strong link between innovation and R&D and business growth.
- 3.42 R&D can bring benefits not just to the business directly undertaking it, but also to other businesses in the sector and beyond. These spillover benefits provide a strong rationale for public sector intervention to promote innovation and R&D – through, for example, R&D tax credits and grants, and through encouraging co-operation between business and university research.
- 3.43 Universities have a vital role in generating the building blocks for innovation through their research projects, as well as in training highly skilled researchers. Significant progress has been made in recent years in encouraging universities to play an active role in stimulating economic development on the back of their research. However, much more can and must be achieved to really make the most of Wales' scientific and academic strengths. The same applies to spin-offs from government research institutes, although the Institute of Grassland and Environmental Research in Aberystwyth is probably the only major facility in Wales that could play a significant role by encouraging commercial spin-offs into specialist fields.
- 3.44 Total R&D investment as a proportion of GVA is lower in Wales than in many parts of the UK. Figure 3.5 shows that the main factor underlying this overall difference is proportionately lower R&D expenditure from the business sector in Wales, although government R&D expenditure still shows a concentration in South East, South West, Eastern England and Scotland.
- 3.45 However, R&D expenditure varies significantly across sectors - for example, over one-third of all business R&D expenditure in the UK is undertaken by the pharmaceutical and aerospace industries, which accounts for the high levels of R&D expenditure seen in particular regions of England. The headline differences in R&D expenditure seen in Wales are not therefore due to Welsh businesses being less innovative than their counterparts elsewhere. Rather it is the structural composition of the Welsh economy that gives rise to lower levels of overall R&D expenditure.

Figure 3.5: Research & development expenditure, 2003 (per cent of GVA)



Source: ONS

3.46 The *Innovation Action Plan* sets out the five broad themes to the Assembly Government’s agenda for establishing a strong culture of innovation in Wales:

- communicating the importance and benefits of innovation to business;
- supporting high growth businesses, in particular through the network of Technium centres across Wales that provide high-tech incubator space and strong links to research and expertise in higher education institutions;
- better equipping people to innovate;
- building the best innovation support provision (which will now include the creation of a specialist the *Knowledge Bank for Business* to provide tailored advice and support to businesses with high growth potential as set out below); and
- making the most of the capabilities in our Higher Education institutions, encouraging technology development, transfer and commercialisation, and closer links between academia and businesses more generally.<sup>12</sup>

### Knowledge Bank for Business

The establishment of *Knowledge Bank for Business* (KB4B) is a top-ten manifesto commitment of the Welsh Assembly Government, focusing on support for high growth companies in Wales. KB4B aims to provide tailored solutions to individual businesses to help them grow more rapidly.

The service offering will include diagnostic review and benchmarking, finance, innovation management, performance improvement, and training. KB4B will procure services from the private and public sectors, and represents a move away from the current programme-led culture to a model where the public sector seeks a return on its investment.

KB4B will also broker deals between the higher education sector and businesses, for their mutual benefit, to better leverage and build on the existing knowledge base in Wales. Focusing resources to accelerate growth of these companies can provide a significant economic impact and ensure greater value for money.

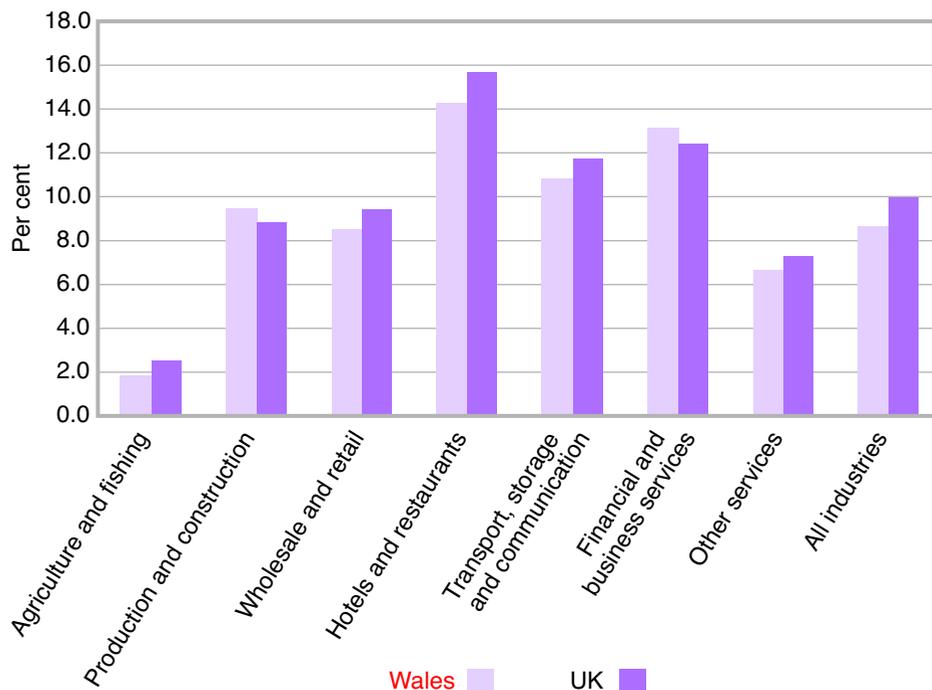
- 3.47 Encouraging innovation and building a knowledge economy will continue to be a key theme going forward. Developing a more focused science exploitation strategy will help focus our research base on areas of vital importance to the Welsh economy. This is likely to identify biotechnology and health, low carbon energy, and the challenges and opportunities posed by enabling sustained economic and social renewal as priority areas.
- 3.48 Alongside making the most of university research it is important that Wales can build on significant existing and emerging centres of technology development and innovation. Techniums are of course vital in this regard, but other important facilities include the Institute of Life Sciences in Swansea, The Centre for Advanced Software Technology in Bangor and ECM<sup>2</sup> in Port Talbot.
- 3.49 It will also be vital for businesses in Wales to look outwards to ensure that they are making the most of technological developments and other innovations from abroad. Due to Wales' small size, the vast majority of innovative developments will take place elsewhere. The challenge for Wales in this regard is to ensure that the benefits are diffused throughout the Welsh economy as quickly as possible.

## Entrepreneurship

- 3.50 A strong entrepreneurial culture is vital to the creation of new businesses and the expansion of existing ones. Through the pressures that entry and expansion can have on less productive incumbent firms to exit the market, and the resulting 'churn' in the business stock, high levels of entrepreneurship can have a positive influence on total economic output. At the same time, however, there is a need to help individuals, businesses and communities to manage the personal and social impacts of churn and make the most of these competitive pressures.
- 3.51 Traditionally, Wales has been viewed as having a less entrepreneurial economy than other areas of the UK, with some support for this being seen at a headline level in the VAT registration rate, which in Wales is over 20% lower than in England. However, closer analysis indicates that much of the difference can be accounted for by structural issues such as the industrial mix of the overall Welsh economy, which leads to a naturally lower overall VAT registration rate.<sup>13</sup>

3.52 This is illustrated in Figure 3.6, which demonstrates that VAT registration rates vary significantly across sectors. Rates in Wales are not uniformly lower than those in England. However, Wales tends to have greater representation in those sectors with naturally lower VAT registration rates, such as agriculture and manufacturing/production. Most new businesses are started by individuals with particular specialist work experience and the historical occupational structure plays a role here. (For example, it is not easy for individual steelworkers to start a new steelworks, however entrepreneurial they might be by inclination). More positively, surveys suggest that attitudes to entrepreneurship are at least as strong in Wales as elsewhere. For example, Wales accounts for 15 per cent of all UK graduate business start-ups.

Figure 3.6: VAT registration rate 2004 (per cent of stock at start of year)



Source: DTI Small Business Service

3.53 The strategy for building a stronger entrepreneurial environment in Wales was presented in the *Entrepreneurship Action Plan*, which set out a comprehensive set of measures to achieve improved competitiveness from a growing small business sector.

3.54 The key themes for developing the achievements of the Action Plan will involve:

- building the confidence of individuals and businesses to start new ventures and grow, through creating an entrepreneurial culture in society and through embedding enterprise opportunities in our education system – in particular by encouraging more ‘learning by doing’ experiences, through project work, team work, school-based businesses and participation in business idea awards schemes;
- increasing the business stock, through encouraging under-represented social groups to start a business (for example, women and ethnic minorities) and focusing in particular on new enterprises with the capacity and ambition to grow; and

- improving business growth and arresting the decline in VAT-registered businesses over the past decade by focusing resources on existing businesses with the capacity and ambition to grow, linking to the *Knowledge Bank for Business* advice and support programme for high-growth firms.

3.55 A wide range of business support and advice activities and programmes is provided through the Business Eye service gateway. Thousands of businesses benefit each year from the range of services on offer, which vary from answering straightforward queries about obligations arising from running a business right through to providing specialist advice and forms of finance.

3.56 These services will continue to be an important feature of the policy landscape in future. However, consistent with the desire to ensure that resources and efforts are focused on where they will add most value, programmes and resources will be targeted on businesses and sectors with strong growth potential. This will see the third theme described above being a particular priority.

## Skills

3.57 Significant progress has been made in recent years in increasing the skills of the population in Wales through encouraging participation in education and training. Positive developments in this area include:

- Wales has more students than ever before in higher education;
- increasing numbers of students are achieving grade C and higher at GCSE, A-levels and equivalents;
- half of all employers now offer off-the job training compared to around a third in 2002; and
- the number of “hard to fill” vacancies identified by employers has halved since 1998.

3.58 Particular achievements have been made in increasing the intake of Modern Apprenticeships (MAs) to nearly 15,000, and the proportion of people engaged in MAs in Wales is double that in England. The abolition of the upper age limit has meant that a much broader range of people have been able to benefit from an MA, in line with the Assembly Government’s commitment to social justice. If sustained, these achievements will have a significant impact on the overall skills profile of the Welsh workforce and the strength of the Welsh economy.

3.59 However, there are areas where Wales’ skills and qualifications profile could be improved further. For example, nearly 20 per cent of working age adults in Wales have no qualifications, a higher proportion than most of England and many other countries in the EU. By consequence, a smaller proportion of the working age population in Wales has intermediate and higher skill levels. This is illustrated in Figure 3.7, which compares the highest qualifications of the working age population across the UK.

Figure 3.7: Skills - Highest qualifications, percentage of the working age population, 2004

	Degree or equivalent	Higher education	GCE A Level or equivalent	GCSE grades A-C or equivalent	Other qualifications	No qualifications
United Kingdom	17.8	8.5	23.5	22.6	12.3	15.2
North East	12.9	8.8	24.0	25.4	11.9	16.9
North West	15.2	8.5	24.4	24.5	9.9	17.6
Yorkshire and the Humber	15.2	7.7	24.5	23.3	13.5	15.8
East Midlands	15.2	8.3	24.2	23.4	12.4	16.4
West Midlands	14.8	8.1	22.2	24.0	12.3	18.5
Eastern	17.2	7.8	23.1	25.7	12.1	14.0
London	26.5	5.8	17.8	17.1	18.3	14.6
South East	20.4	9.1	24.1	23.6	12.0	10.8
South West	17.2	9.0	25.4	24.7	12.9	10.7
Wales	15.2	8.9	22.9	24.8	10.8	17.4
Scotland	17.1	13.3	28.4	17.0	8.8	15.4
Northern Ireland	15.5	7.4	24.3	21.6	6.0	25.2

Source: Local Labour Force Survey

3.60 The most significant differences between the Welsh skill profile and the UK skill profile are that:

- the UK workforce profile shows the graduate share at around 2.5 percentage points higher than the Welsh workforce profile at one end; and
- the Welsh workforce profile shows the 'no qualifications' share at 2.5 percentage points higher than the UK profile.

3.61 The lower graduate share is seen to be explained primarily by the fact that a significant proportion of those from Wales with degree qualifications leave Wales because there are not enough sufficiently attractive jobs in Wales. This is the other side of the coin of the 'branch factory' syndrome noted earlier.

3.62 The *Skills and Employment Action Plan 2005* sets out a programme of action to strengthen the demand for skilled employment, balanced with a range of measures to improve the skills of the population. It identifies four priority areas, within which there are a number of important policies and programmes.

- **Improve the mechanisms for workforce development.** Action here includes improving the evidence base on skills needs through the *Future Skills Wales* research, and working with individual employers, Sector Skills Councils and training providers to develop the necessary training opportunities.

- **Supply new entrants to the labour market with the skills needed for employment.** The full learning agenda set out in *Wales: A Learning Country* is relevant here, with specific initiatives of importance being the focus on basic skills, Careers Wales and the Welsh Baccaulaureate.
- **Work with employers and employees to improve skills.** This is a key part of the agenda, with programmes such as Modern Apprenticeships, Modern Skills Diploma, Skill Build (focusing on key and basic skills) and the new Workforce Development Programme directly supporting employee training.
- **Help more people into sustained employment.** As discussed in Chapter 2, this encompasses co-ordinated action to tackle the welfare to work agenda, including the Want2Work initiative.

3.63 Of particular importance is the need to raise levels of literacy and numeracy. A detailed agenda for this is set out in the Assembly Government's basic skills strategy, *Words Talk, Numbers Count*.

3.64 At the other end of the spectrum, the Assembly Government is working with the Higher Education Funding Council for Wales and the higher education sector to take forward a range of actions to strengthen higher education in Wales through the *Reaching Higher* agenda. This identifies reconfiguration in the sector and widening access to higher education for all those who have the ability to benefit as the key priorities between now and 2010.

3.65 Increasing importance is also attached to improving the management skills and leadership qualities of senior executives. Numerous studies have identified differences in management skills as having a significant impact on individual business growth and, more generally, national levels of GVA per job. Improving management and leadership capabilities also contributes to entrepreneurship and stimulates appetite to embrace innovation. The Wales Management Council plays an active role in helping to promote both the importance of professional management development and the opportunities that exist for managers and leaders in Wales to develop their skill sets. This is likely to be an area that will continue to grow in importance over time.

## Investment

3.66 Higher levels of business investment are strongly associated with increased labour productivity. This is understandable since investment that increases the physical capital available to workers is likely to enable them to be more productive. Investment levels vary across sectors according to the nature of the activity. Manufacturers tend to have higher levels of investment in physical capital than service sector businesses, whose assets and investments are likely to be more in human and intellectual capital.

3.67 Many of the main governmental influences on investment, such as the tax system and key macroeconomic aggregates are not devolved. However, the Regional Selective Assistance (RSA) and Assembly Investment Grant (AIG) schemes give the Assembly Government the levers to make a vitally important contribution in enabling

certain investments to go ahead, and thereby helping to regenerate economically deprived areas. Support is also provided by *Finance Wales*, which receives funding from a mixture of public, private and EU sources and uses these resources to take shares in and make loans to businesses.

3.68 While RSA used to be given to projects expected to safeguard or create jobs, the review of RSA in 2004 led to its being increasingly focused on projects that contribute to increasing productivity and value-added per job, and in ensuring that the projects and businesses supported have long-term sustainable futures. Propping up a failing firm runs the risk of doing more harm than good to its workers and the economy in the long-term; the public sector should be investing based on the potential of the business, not just according to short term impacts. Accordingly, repayable RSA has also been introduced to help businesses looking for a 'hand up' rather than a 'hand out', and to offer better value-for-money for the public support.

## Trade

3.69 Businesses that trade internationally have been shown, on average, to be more productive and to pay higher wages. Similarly, businesses that increase their export intensity (the proportion of exports form of total sales) are also seen to increase their average value-added per job - although this is not necessarily caused by the increased exports. The links are more likely to be due to the fact that exports are a good indicator of a spirit of enterprise within a company, and often a strong innovative record as well (if the product or service was easily replicated then domestic firms in the export market would likely be meeting the demand). Exporting can also bring benefits to the firm through increased exposure to strongly competitive environments and to innovative products and practices from overseas.

3.70 In an increasingly global market the success of Welsh businesses in exporting is likely to grow in importance. It will become more difficult to rely on Welsh and UK markets alone. There can be a number of barriers to exporting however. The Assembly Government helps firms to overcome these barriers and make the most of their opportunities. With the help of these services Welsh exports are rising significantly, and faster than the UK average. The challenge will be to build on and accelerate this trend through helping individual businesses to make the most of their products and services and through further developing a strong Wales brand in the global marketplace.

## Wales in the World

A strong international identity provides a platform from which to pursue the economic objectives of increased trade, investment and tourism.

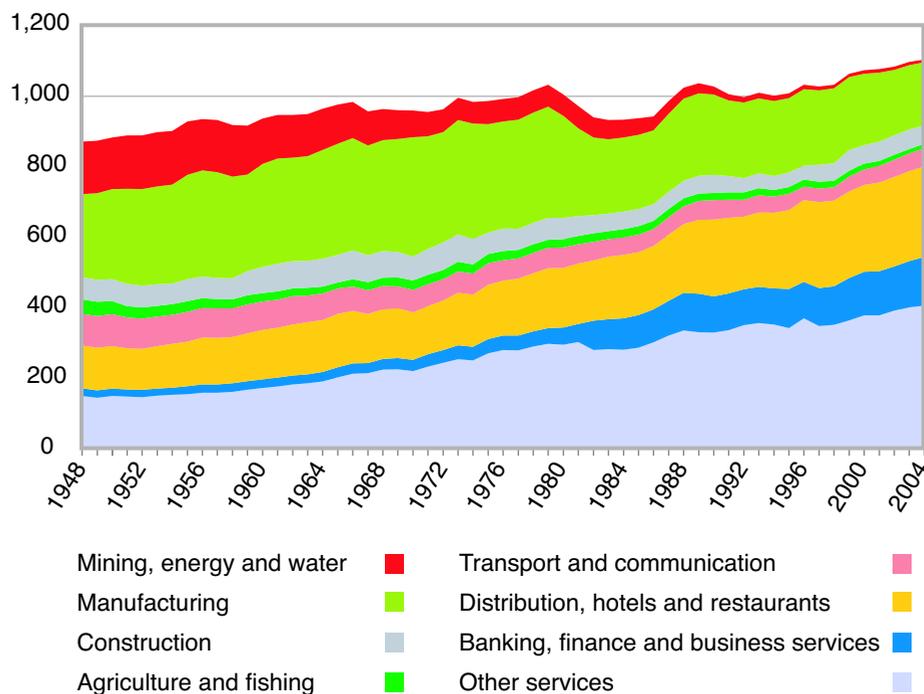
It is essential to continue to build that identity for Wales, and consistency is the key. Impact and recognition are strongest when the messages, language and images used are consistent. The Wales brand is being developed to reflect the people, places, products and spirit of Wales in a way which appeals as much to inward investors as to visitors, traders, overseas students and film-makers.

The merger of the key public sector bodies involved in promoting Wales internationally will ensure that a consistent Wales brand is disseminated from the heart of Government. The promotion of Wales in the world will be supported by the hosting of high-profile international events, such as the 2010 Ryder Cup and the Wales Rally GB.

## Sectors

3.71 As Figure 3.8 demonstrates, the industrial structure of the Welsh economy has evolved considerably over time. The share of total jobs coming from the service sectors is rising while the share of the total coming from manufacturing is falling, and in mining is declining sharply. Nevertheless, manufacturing clearly remains a vital part of the economy. Heavy and light manufacturing sectors are important for Wales as a whole, and for certain regions in particular, and the broad reduction in overall employment in manufacturing masks sectors within it that are growing strongly.

Figure 3.8: Employee jobs in Wales, thousands



Source: Compiled from employer surveys

3.72 Following analysis of the Welsh economy *A Winning Wales* identified an initial set of ten sectors widely recognised to be important for future economic growth:

- Automotive
- Aerospace
- Agri-food
- High technology
- Pharmaceuticals/bio-chemicals
- Financial services
- Creative industries
- Construction
- Hospitality, leisure and tourism
- Social care

3.73 Sector fora exist for a number of these sectors, and each is covered by a Sector Skills Council. There has been close co-operation with some of these bodies to prepare sector development strategies (high technology and creative industries strategies have now been published). Working with businesses in these sectors ensures that the strategic sectoral needs are understood and reflected in broader public support.

3.74 The group of sectors identified is not set in stone and there is already engagement with a range of other sectors and clusters – for example, energy and environmental-related sectors, which are of critical importance to the development of a sustainable economy. The initial set of sectors will be updated at a later date following more detailed sectoral and structural analysis of change in the Welsh economy.

3.75 There is no single blueprint for sectoral engagement, and support should be tailored to the needs of the relevant sectors. Private sector input is vital in this process and Sector Skills Councils and sector fora, where they exist, have an important role to play. There will be a need to evaluate how to maximise the contribution of the sector fora, and a current review of the effectiveness and impact of these organisations will identify best practice and inform the future approach.

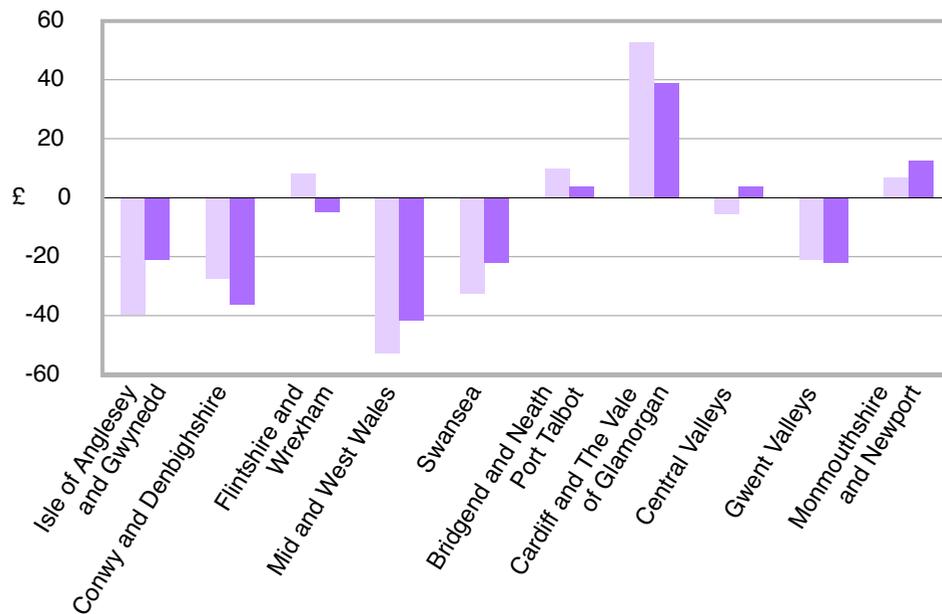
3.76 While there is no “one size fits all” manufacturing or services strategy, the nature of the challenges that confront many manufacturing sectors is such that a Manufacturing Task and Finish Group, comprising both industrialists and trade union representatives, was established in January 2004. It was charged with identifying the key issues for manufacturing businesses in Wales, such as infrastructure and work-based training, and making recommendations upon how public sector support for the sector could best be fine-tuned. The Group reported in May 2004 and its recommendations have already influenced a range of policies being developed. It has now been decided to create a manufacturing forum for Wales to take forward the recommendations of the group and to ensure that the public sector support remains both relevant and effective.

- 3.77 It is critical that the development of sector strategies links closely with the work of the relevant UK-wide Sector Skills Councils. Education and training providers, as well as overarching organisations such as the Higher Education Funding Council for Wales, need to be able to respond to the evolving needs of the sectors. In future, it will be important for sector strategies to fully integrate general business support and training measures, and the Sector Skills Agreements for Wales will be important in this regard. A key challenge for the new merged organisation will be to ensure that public support assists industry-led sector development through effective account management, and that it enables skills training to be tailored better to meet businesses needs.
- 3.78 Earlier analysis showed that occupational structure may be just as, if not more important for earnings than sectoral structure. Developing relevant skills is clearly an important way of influencing the future occupational mix of the Welsh economy. However, alongside this the Assembly Government will seek to develop a better understanding of whether and, if so, how, the public sector can directly influence occupational mix in an upward direction.

### Regional variations

- 3.79 As demonstrated in Figure 1.4, average earnings vary considerably across Wales. However, in line with the conclusions for Wales as a whole, it is clear that a significant part of the earnings (and value-added per job) variations within Wales are due to structural factors such as economic mass and occupational mix rather than like-for-like lower pay or productivity.
- 3.80 This is illustrated in Figure 3.9, which shows how earnings differentials across Wales would change if each area had the average Welsh occupational mix. For some areas it is seen that applying an average occupational mix reduces the disparities. However, significant differences remain, and this underlines the importance of local strategies and action plans taking account of the structural differences between areas.

Figure 3.9: Gross weekly earnings by sub-region, difference from Welsh average, 2004



Source: Annual Survey of Hours and Earnings

3.81 The framework and the key policy agendas set out in this chapter will be relevant to each and every area. However, the exact balance between different programmes will vary regionally in line with local differences and needs. Within the key design principles of the main delivery programmes, it may also be possible to tailor programmes to reflect regional characteristics. It is in these processes, and in advising on large local projects, that the Spatial Plan groups and others can play an important part in helping to ensure that this national strategic framework supports local economic growth.

## Chapter 4 Delivering on the Framework

### A framework for action

- 4.1 The vision of a vibrant Welsh economy capable of delivering strong and sustainable economic growth by providing opportunities for all will be widely shared. Achieving it requires co-ordinated action not just to encourage growth, but to ensure that economic development occurs alongside the other elements of our strategic agenda – namely improving quality of life for everyone through advancing social justice and improving the environment, health and education. Moreover, our national agenda needs to take account of regional differences and priorities by working with the Spatial Plan groups to tailor national programmes to provide local solutions.
- 4.2 The approach for realising this vision is built around Wales' core strengths: an increasingly skilled, innovative and entrepreneurial workforce; an advanced technology and knowledge base; strong communities; a stunning natural environment; and an exceptional quality of life. Our growing range of powers, short decision chains, close partnerships, local knowledge and willingness to engage will help in building an ever stronger competitive advantage for Wales.
- 4.3 The priorities in pursuit of our vision will be to:
- increase employment still further, so that over time the Welsh employment rate matches the UK average, even as the UK average employment rate itself rises; and
  - raise the quality of jobs, so that average earnings increase and close the gap with the UK average.
- 4.4 The key actions for achieving these priorities will be:
- supporting job creation and helping individuals to tackle barriers to participation in the world of work;
  - investing to regenerate communities and stimulate economic growth across Wales;
  - helping businesses to grow and to increase value-added per job and earnings by:
    - investing in our transport networks and other economic infrastructure;
    - attracting more high value-added functions to Wales and supporting businesses and sectors with strong growth potential, notably through the new *Knowledge Bank for Business*;
    - further improving our skills base and using the opportunities created by the mergers to deliver more demand-led training tailored to the needs of businesses; and
    - helping businesses to become more competitive by supporting other drivers to business growth: enterprise, innovation, investment and trade; and

- ensuring that all economic programmes and policies support sustainable development, in particular by encouraging clean energy generation and resource efficiency.

4.5 Important principles to guide us in this work will be:

- ensuring that the mergers of the WDA, WTB and ELWa with the Assembly Government deliver more effective and efficient services to Welsh firms and individuals;
- joining up policy agendas across the Assembly Government and meeting our corporate commitments to social justice, sustainable development, equality and the Welsh language;
- working in partnership to deliver improvements across Wales through the Spatial Plan;
- focusing support where it can make most difference; and
- promoting closer working between the public and private sectors on business advice and finance, to ensure that firms in Wales have access to world-class support.

## Developing the strategy

4.6 The priorities described above will set the broad economic development agenda for the Assembly Government after the mergers with the WDA, WTB and ELWa. Set out in Annex D are a set of consultation questions to engage all those with an interest in the development of more detailed operational plans for the new organisation.

### Economic Development in the Post-mergers Assembly Government

In July 2004 the First Minister announced that the Welsh Development Agency, Wales Tourist Board and ELWa would merge with the Welsh Assembly Government. These mergers will:

- simplify Ministerial accountability; and
- provide opportunities to improve services to users.

The mergers are a key component of a broader approach to improving public services as set out in *Making the Connections*.

These bodies will be formally merged with the relevant sponsor departments in April 2006. A key element in developing the merged organisation is to ensure that more efficient and effective services are provided to businesses, moving resources to the front line and increasing the capacity of account managers to be the main interface with companies. The way forward has been informed by consultation with business organisations, and new organisational structures and processes have been influenced by their needs. There will be increased openness and accountability, with business engagement informing the development of key performance indicators that the new Economic Development and Transport Department will be producing and publishing. *Wales: A Vibrant Economy* provides the strategic policy framework for economic development.

Important changes being made as part of the merger include:

- creating an influential new policy and strategy team to increase our policy development capacity;
- better account management for individual businesses;
- bringing together finance programmes in one division to provide more coherent and better targeted support;
- creating a single, strong marketing hub to improve our reach and impact;
- introducing the new *Knowledge Bank for Business* to provide more tailored support for businesses with high growth potential;
- bringing together land reclamation and development, property management, ICT and economic regeneration activities to better integrate work to improve Wales' economic infrastructure;
- developing a stronger regional presence; and
- bringing together our inward investment and trade missions to provide a powerful international presence and put Wales, its products and its potential firmly on the world map.

4.7 The responses received will be critical, not only in shaping the programmes, policies and actions but in directing the resources available into the priorities identified. This applies to funding available through the normal Barnett formula Welsh funding block, as well as the funding received as part of decisions reached on the future of EU Regional Policy. Further discussion on the future of the EU Structural Funds is included below.

4.8 Flowing from the national strategy will be the continued development of more detailed sub-strategies and action plans, covering policy areas such as innovation, enterprise and investment. Alongside this will be the evolution of regional economic strategies, taking the national strategy and tailoring it to reflect detailed regional and local differences and priorities.

## EU Structural Funds

4.9 Wales is benefiting from support of almost £1.5bn from the EU Structural Funds Programmes over the period 2000-2006. Coupled with match funding from the public, private and voluntary sectors, some 2,500 projects are receiving investment totalling more than £3bn, making a real difference to the futures of businesses, communities and individuals across Wales. Structural Funds are therefore an important part of the overall support available for the Welsh economy, and contribute significantly to the aim of achieving strong and sustainable economic growth.

4.10 Discussions on the future size, shape and focus of the EU budget and the Structural Funds Programmes from 2007 onwards are ongoing. There are currently uncertainties about the precise nature and size of any future Structural Funds support to Wales from 2007. There are also separate discussions covering the guidelines that govern

the support that can be provided to businesses directly. The Welsh Assembly Government is playing an active part in the discussions, working constructively with the UK Government and the European Commission to maximise the potential benefits for Wales.

4.11 Under the current draft proposals, 'West Wales and the Valleys', as one of the poorer regions in the EU, may be eligible for funding similar in scope to the current Objective One Programme. This funding is available for the regions with average GDP per capita below 75 per cent of the EU as a whole and the amount will depend on the precise position of the region relative to other EU regions. Under the proposals for European Structural Funds for 2007-2013 there are three broad objectives for which Wales, or parts of Wales, may qualify:

- Convergence Programmes, similar in scope to the current Objective One Programme, currently being used to help to regenerate local economies in 'West Wales and the Valleys';
- Competitiveness and Employment Programmes may be available for 'East Wales', to continue to promote competitiveness; and
- Territorial Co-operation programmes, helping to create strong networks and promote joint working with other Member States.

4.12 Despite these uncertainties, for Wales to make the most of the funding available early progress will be needed to identify the priorities and principles that will shape the allocation of resources. Resource allocation will need to be based on the priorities arising from the evidence base set out earlier and the priorities set out in the Wales Spatial Plan. In line with the Lisbon and Gothenburg economic reform agendas, priorities will therefore include skills, innovation and building Wales' economic infrastructure (notably ICT and transport networks and services).

4.13 The available funding will be devoted to building durable economies and communities that will thrive and drive strong and sustainable economic growth in the long-term. Investments should be made on the basis of future potential, and this theme of long-term economic capacity building will be the cornerstone of resource allocation.

4.14 One result of this approach is that future resources are likely to be channelled towards more strategic projects with greater critical mass and stronger lasting benefits. There is also a need to encourage innovative projects with the potential to be rolled out more widely across Wales. More detailed proposals on the use of the programmes potentially available to Wales are described below.

4.15 Should 'West Wales and the Valleys' be eligible for regional development funding, support is likely to focus on:

- **Promoting the knowledge economy** by fostering research, technology and innovation, building a stronger entrepreneurial environment, supporting the development of clusters/centres of excellence in key sectors and improving access to business finance.

- **Creating a favourable business environment** through strategic investments in the region's economic infrastructure, developing and implementing sustainable integrated transport solutions, developing a supportive ICT environment, encouraging businesses to invest in and exploit the potential of ICT, supporting the development of clean and renewable energy and encouraging energy efficiency, supporting waste management initiatives, and making use of the economic potential of our maritime and inland water assets in a sensitive and sustainable way.
- **Building sustainable communities** by developing integrated approaches to tackling economic, environmental and social problems in communities most affected by economic inactivity and deprivation.
- **Increasing employment and reducing economic inactivity** by improving the operation of the labour market and supporting the integration of disadvantaged groups.
- **Improving skill levels** both as a means of tackling economic inactivity and providing the skills for higher value-added employment. This will include supplying young people and new entrants to the labour market with the skills needed to in turn develop the skills and qualifications needed for more senior jobs in the economy.

4.16 In the event that 'East Wales' receives funding, strategic priorities are likely to be more limited than those above. They will focus, in the main, on encouraging innovation and knowledge-driven growth; enhancing the environment and promoting accessibility, improving the adaptability of workers and enterprises, increasing employment and raising skills.

4.17 Any territorial co-operation aspects or programmes will include fostering trade and tourism, encouraging joined-up environmental management and the co-ordinated use of infrastructure, and raising skills.

4.18 Streamlining the delivery of any future structural funds type programmes involves learning from the current and past programmes and embedding best practice in the management of programmes and projects. Priorities will include:

- simplifying the programme documentation;
- encouraging efficient and effective partnership working, including more regional collaboration;
- streamlining funding and delivery arrangements, including using existing public expenditure to match-fund strategic projects;
- prioritising projects for which a strong evidence base is provided; and
- embedding robust project monitoring and evaluation systems from the start.

4.19 Much remains to be decided in Europe on the future of the Structural Funds. The priorities and principles discussed here, however, are an important first step in determining how Wales can best use the funding that it does receive to help create

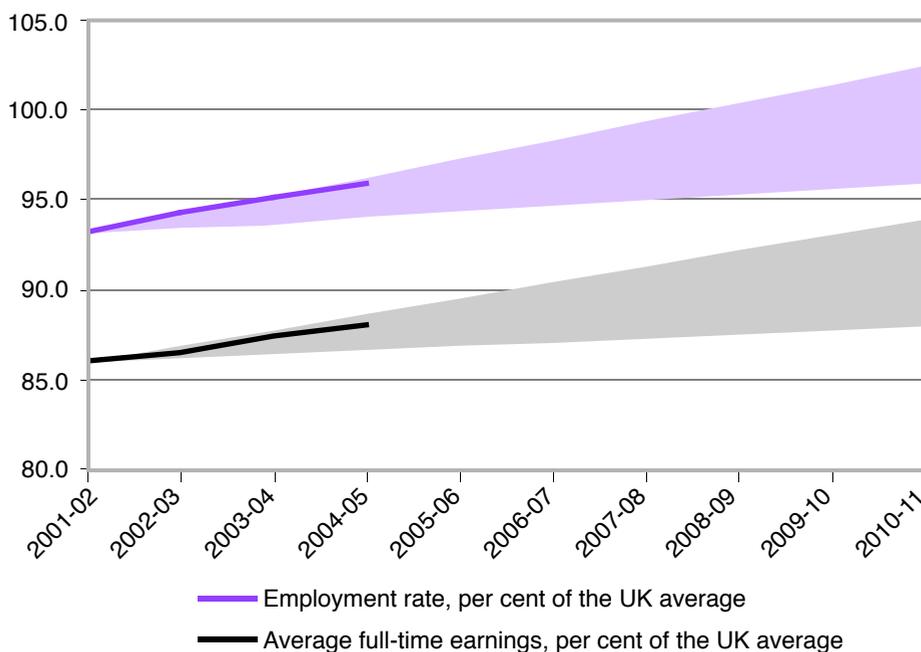
strong and sustainable economic growth. As with the economic development strategy more generally, specific consultation questions to aid the preparation of the final programme priorities are set out at Annex D.

## Chapter 5 Assessing progress

### Overview

- 5.1 The Assembly Government's aspiration, as set out in *A Winning Wales*, is to increase the standard of living in Wales so that within a generation it matches that of the UK as a whole. *A Winning Wales* identified a key step in achieving this aim as raising income per head from around 80 per cent of the UK average to 90 per cent. The Assembly Government has focused its efforts for realising its aspiration on increasing employment, and raising value-added per job and earnings, as these relate directly to improvements in the quality of life for people in Wales.
- 5.2 Significant progress has been made, with total employment increasing by over 100,000 and earnings rising by more than 10 per cent in real terms since 1999. These successes have been reflected in good progress in closing the employment and earnings gaps between Wales and other parts of the UK. Since baselines were established in *A Winning Wales* the employment rate in Wales has increased from 93.2 per cent of the UK average in 2001-02 to 95.9 per cent in 2004-05. Similarly, average earnings in Wales have risen from 86.0 per cent of the UK average to 88.0 per cent of the UK average. These improvements are set out in Figure 5.1.

Figure 5.1: Progress in increasing wealth and illustrative trends



Source: Local Labour Force Survey, Annual Survey of Hours and Earnings

- 5.3 The challenge going forward is to build on these achievements and propel the employment rate and earnings closer towards the UK averages. Progress in raising employment and earnings, and the rate of progress relative to the UK, depends not just on the actions of the Assembly Government and the UK Government but also the prevailing macroeconomic climate and global events.
- 5.4 In particular, the fortunes of individual global sectors will have significantly different effects across the UK according to exactly where the sectors are represented. For example, companies, particularly those in manufacturing, can be affected significantly by exchange rate fluctuations. Since the manufacturing sector is comparatively larger in Wales than in other parts of the UK, changes in the exchange rate may have more of an impact on the Welsh economy than on the UK as a whole.
- 5.5 For such reasons it is not possible to accurately predict the forward trajectory of the Welsh economy, or indeed of any economy. Nevertheless, the chart attempts to take some account of these inherent uncertainties by setting out illustrative future envelopes for increases in the employment rate and earnings, based on the significant progress to date. These envelopes show that the Assembly Government is on track to propel the employment rate to the UK average and earnings to more than 90 per cent of the UK average.
- 5.6 Together, these would raise income from employment to around 90 per cent of the UK average. Moreover, the cost of living is currently estimated to be some 6-7 per cent lower in Wales than in the UK as a whole. Taking this into account would put Wales within a few percentage points of the standards of living seen across the UK as a whole, and within touching distance of the Assembly Government's aspiration of achieving parity in the standard of living.
- 5.7 These trends in employment and earnings might logically be expected to be replicated in increases in relative levels of GVA per head. However, GVA data is only available after a time delay and establishing clear trends in GVA since 2001 is therefore not easy. Moreover, GVA measures not just remuneration for workers but also the value created through the use of physical capital such as machinery. Therefore, as Wales' knowledge economy develops and the economy moves increasingly away from its historical reliance on heavy industry towards high-technology manufacturing and services, levels of physical capital might be expected to decline. This could dampen growth in GVA without affecting earnings or employment. Despite difficulties of this kind in linking rises in GVA per head directly to the priorities of increasing earnings and employment, tracking improvements in GVA per head over time from its current level at around 80 per cent of the UK average towards 90 per cent will continue.

### Specific economic measures

- 5.8 Macroeconomic and sectoral trends in the UK, EU and global economies affect not just employment and earnings but also measures such as new business starts and expenditure on research and development. Moreover, deep-rooted structural issues, such as the occupational and sectoral composition of the Welsh economy, can have a dominant impact on specific measures.

- 5.9 For example, as discussed in chapter 3 Wales has lower overall rates of new VAT registered businesses. However, this primarily reflects the strength of the manufacturing and agricultural sectors in Wales - which tend to have lower business creation rates than service sectors - rather than a lower level in Wales than in the UK of entrepreneurship per se.
- 5.10 In this context, the most important task is to build positive and sustainable trends across a broad range of economic measures. Individual targets are appropriate for policies where significant influence can be exerted over and above the underlying macroeconomic trends and structural economic factors.

### What success will look like

- 5.11 The Assembly Government's approach to assessing the success of its economic development activities is based around:
- tracking progress in a range of economic indicators, notably employment, earnings and GVA, in absolute terms and relative to other parts of the UK and EU; and
  - robust objective-setting and evaluation of individual programmes.
- 5.12 Success will be apparent from objectives and targets for individual programmes being met, and from these being accompanied by positive trends in the economic indicators, taking into account broader structural and macroeconomic developments. In particular, assuming the macroeconomic conditions are largely favourable, success will be seen by the headline tracking indicators for employment and earnings continuing on a broadly upward trend within the illustrative forward envelopes presented in Figure 5.1.
- 5.13 Alongside the initial set of high-level tracking indicators set out at Annex B, a valuable insight is likely to be gained by breaking down many of those high-level indicators - notably the labour market indicators - by region as well as by gender, age and ethnicity.
- 5.14 These indicators broaden the narrower set of target-related measures set out in *A Winning Wales*. Good progress has been made towards most of the targets (see Annex C for details). However, the future focus on the broader set of tracking indicators, will provide a more balanced and appropriate way of assessing progress in the Welsh economy. Where appropriate, targets will instead be set for the impact specific policies are designed to have over and above the macroeconomic trends and structural economic factors.
- 5.15 The indicators have been developed to provide a broad and robust picture of the fundamentals of sustainable economic growth, and can be used both to look at progress over time and to benchmark Wales against other countries and regions. Together with performance and customer service indicators these will form the key success indicators against which the effectiveness of the whole economic development set-up after the mergers with the WDA, WTB and ELWa can be assessed.

5.16 Views are sought in the consultation on this set of tracking indicators; in particular whether any other metrics may provide a useful insight into key elements of economic growth.

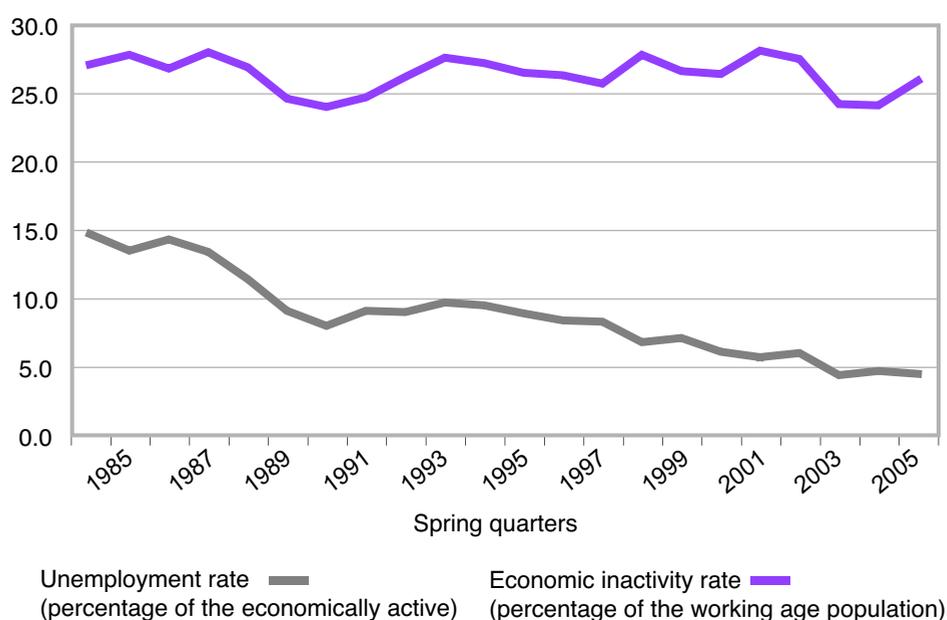
## Background Analysis: Employment<sup>14</sup>

### Employment, unemployment and economic inactivity

Figure 2.1 reinforces the point that economic inactivity is a more significant factor, in absolute terms, than unemployment in explaining low employment rates. From the chart it is clear that around 25 per cent of the working age population is economically inactive, compared with an unemployment rate of less than 5 per cent. The chart also reveals that while unemployment rates have declined steadily, economic inactivity rates have until recently remained high. Recent figures show significant year to year variations in levels of economic inactivity, with the overall net reduction caused in particular by more women taking up part-time and full-time employment.

In terms of absolute numbers, around 60,000 people are classified as unemployed in Wales, compared to over 400,000 classed as economically inactive. As Figure 1.3 in Chapter 1 showed, economic inactivity rates in Wales are higher than elsewhere in the UK, with the exception of Northern Ireland and the north east of England. If the economic inactivity rate in Wales fell to the UK average around 50,000 more people would be in employment.<sup>15</sup> Alternately if there were 50,000 more jobs in Wales, the economic inactivity rate would fall to the UK average, at least in principle.

Figure 2.1: Economic inactivity and unemployment rates in Wales (per cent)



Source: Labour Force Survey

In practice, a significant proportion of the 400,000 currently economically inactive are not in a position to take up paid work, as many suffer from work-limiting health conditions and/or have a valuable role in caring for family.

The evidence also shows that there are pockets (i.e. wards or housing estates) with relatively high levels of economic inactivity in areas of low unemployment such as Swansea, Cardiff, Newport and Wrexham, although not in Flintshire. This suggests that the higher levels of economic inactivity are not simply associated with a low level of demand for labour, which could therefore be corrected by an increase in the demand for labour attracting the economically inactive into work. In addition, job vacancy rates in areas of high economic inactivity are not significantly lower than in many other areas. There could be types of hard to fill jobs on the vacancy list, which economically inactive people living nearby cannot bid for because they do not have the skills required.

This is not to deny that more and better paid jobs could help communities with low levels of economic activity. However, it serves to highlight that the issues behind economic inactivity are not just about deficiencies in labour demand - they can be skill-based, whether it is specific trades and crafts or more generic skills such as literacy and numeracy, or more recently ICT. The evidence suggests that there is a relatively complex web of social, environmental and economic factors contributing to economic inactivity through their effect on the circumstances of families, individuals and communities, which can be isolated socially regardless of whether they are physically isolated.

Conversely, active participation in the labour market tends to bring benefits wider than purely economic, including promoting integration into society. Helping individuals to find work suitable to their circumstances can therefore contribute significantly to broadening opportunities, improving quality of life and achieving social justice for all.

Internationally, rates of economic activity in Wales are actually higher than in countries such as France, Germany, Spain and Italy. However, economic inactivity tends to be more concentrated in Wales, with proportionately more workless households than elsewhere. A significant part of the explanation for the high but dispersed economic inactivity on the continent is cultural – for example, reflecting the greater tradition of women caring for the family full-time, and a stronger culture of early retirement.

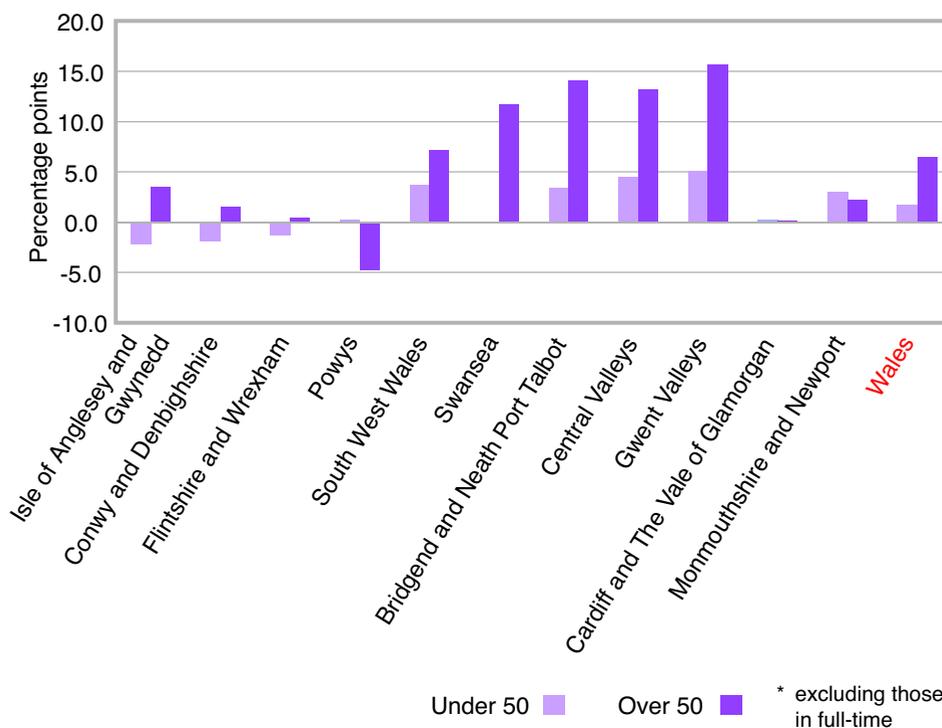
The nature of inactivity needs to be considered carefully. For example, there is a clear difference between a worker who has chosen to retire early living in comfortable circumstances and not wishing to work and an ex-labourer or single parent with few educational qualifications who would enter work if they could acquire the confidence, the skills, basic childcare support or transport to access the opportunities that exist.

The concentration of economic inactivity in parts of Wales is of particular concern, as it may act to reinforce the low skills, high social exclusion levels and poorer educational outcomes for young people, all of which give rise to adverse social and economic outcomes.

## Spatial concentrations

The clear spatial concentration of economic inactivity across Wales is illustrated in Figure 2.2. This shows the distribution of economic inactivity (above that which would be expected based on the UK average) across Wales, split into two age groups. For both groups there is considerable spatial variation, with the most prominent feature the high economic inactivity rates in the valleys of south Wales - in the older age group some 10-15% higher than the UK average. Complementary analysis reveals that excess economic inactivity in this older age group is particularly concentrated amongst men. Promisingly, however, it is in west Wales and the valleys of south Wales where most progress has been made in reducing economic inactivity since 1999.

Figure 2.2: Economic inactivity rate, excess over UK average, 2004\*



high economic inactivity rates among the older age group also have high economic inactivity rates among younger people. This, alongside other evidence, suggests that there is a vicious cycle of economic inactivity and social exclusion that risks perpetuating the problems faced by communities in these areas. Such concentrations support the need for locally-focused policy responses and coherent working in support of the Spatial Plan.

Part of the explanation for local concentrations of economic inactivity is historic – in particular, the decline of mining and the traditional manufacturing industries that were heavily represented in these areas. It should be noted, though, that those who are economically inactive come from a range of employment backgrounds, not just mining and heavy manufacturing. However, alongside this there is a growing consensus that employment prospects are more strongly influenced by personal factors, such as skills, than by where

they live. In this sense, although increasing the number of jobs or improving the natural and built environment in an area would help, it might not address the root causes of economic inactivity for individuals. Understanding how a lack of skills, self-confidence or even family factors can affect an individual's capacity and options in relation to the labour market is therefore critical.

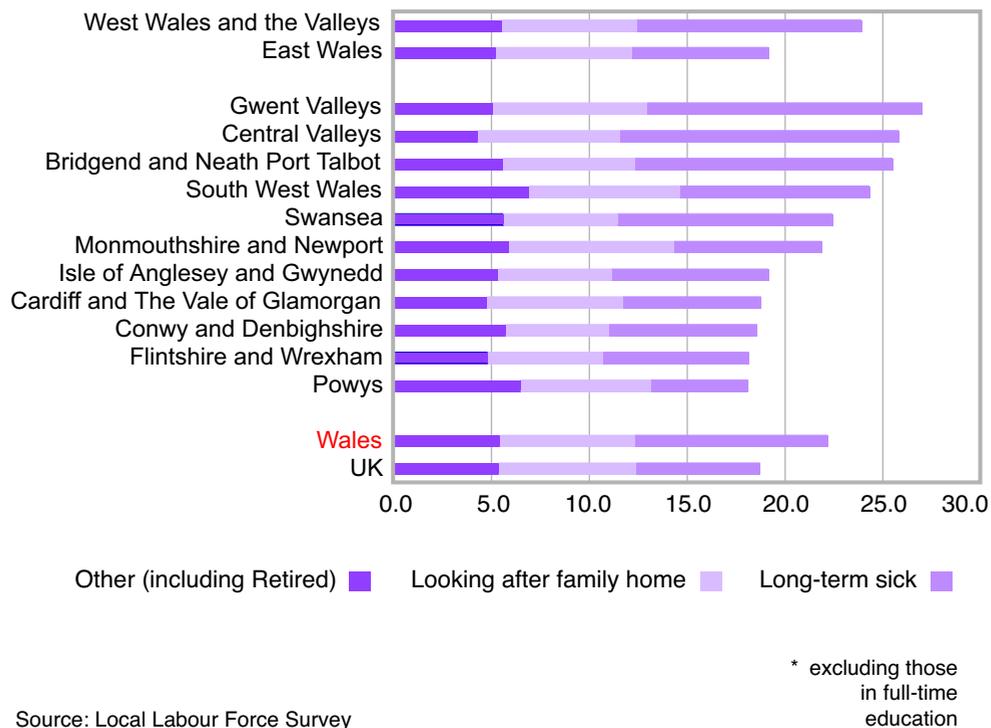
The importance of personal factors helps to explain how high levels of economic inactivity can coexist alongside relatively buoyant labour markets in areas of Cardiff, Newport, Swansea and Wrexham. This is now also emerging dramatically in the labour market pattern in London. Consideration of personal circumstances is also critical for targeting appropriate support for those currently economically inactive but who, with the right help, may be able to return to the labour market in some capacity.

### Understanding individual characteristics

Figure 2.3 presents survey data on self-reported causes of economic inactivity. The factor most commonly identified by respondents, particularly men, was a long-term work-limiting health condition, which is seen to account for much of the overall differences in economic inactivity between regions. Caring for the family home was highlighted as next most significant reason for economic inactivity, and was identified in particular by women. In contrast to health conditions, rates of economic inactivity due to caring for the family home were relatively consistent across regions.

Rates of economic inactivity put down to all other factors were smaller in comparison and again broadly similar across regions. Included within this 'other' category are early retirees, which helps to account for the slightly higher rates seen in, for example, south west Wales.

Figure 2.3: Economic inactivity rate by reason given, 2004\* (per cent of the working age population)



Most of those reporting a long-term limiting illness are likely to be eligible for some form of incapacity benefit. Indeed, a significant factor explaining the rise in overall economic inactivity in the early 1990s (see Figure 2.1) was an increase in the numbers claiming incapacity benefits. This increase in eligibility for incapacity benefits came about partly as a result of the individuals being encouraged to apply for incapacity benefits rather than unemployment benefit, which affected Wales significantly.

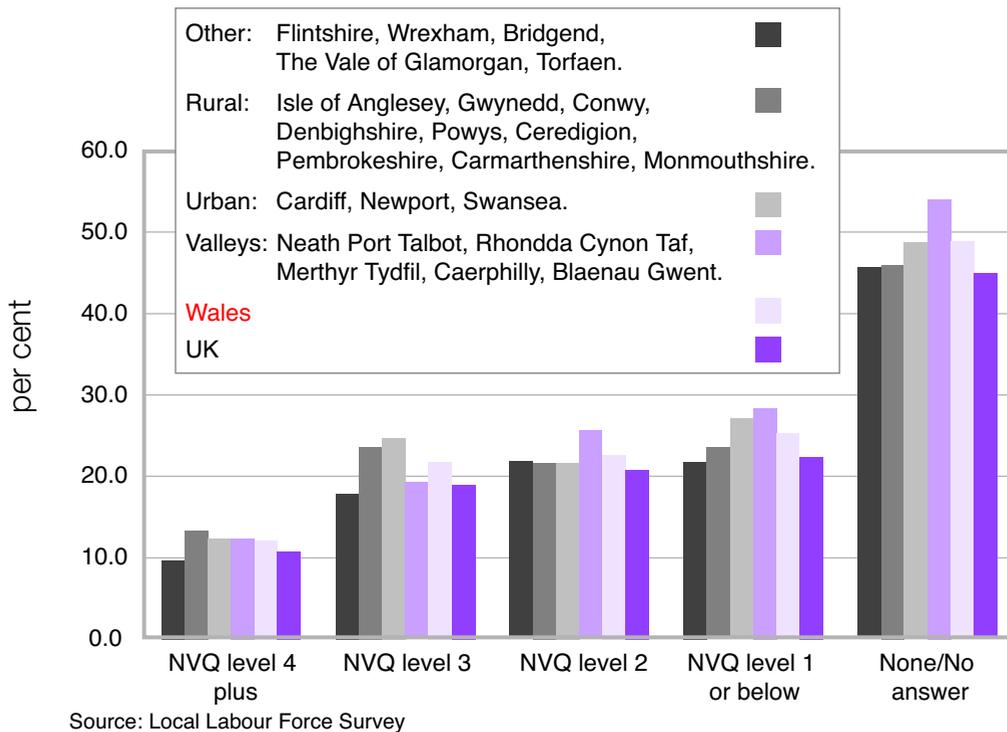
Ill health is undoubtedly more of an issue in some areas of Wales than in the UK as a whole. However, male economic inactivity rates rose at a time when objective measures of health improved. On many measures of ill health, Wales appears broadly similar to other regions of the UK, particularly in the northern regions of England. Yet Wales has a significantly higher rate of economic inactivity due to work-limiting health conditions. In summary, there is an inconsistency between the increase seen in the numbers eligible for incapacity benefits in recent decades and comparisons of health indicators across regions and over time.

Extensive research has led to an emerging consensus that a significant proportion of those on incapacity benefits could, with the right help, fulfil a wish to play a more active role in the labour market. As discussed in Chapter 2, the Assembly Government is therefore working in partnership with the UK Government and others in the public, voluntary and private sectors to develop tailored programmes of support.

Skill sets and educational qualifications are also important for understanding economic inactivity and labour market outcomes. In recent decades there has been an overall rise in demand from employers for highly skilled labour and a corresponding fall in relative demand for less skilled labour. This weakening of the demand for less skilled labour across the

developed world is seen to be reflected in higher unemployment and economic inactivity rates amongst groups with low skills. This is illustrated in Figure 2.4, which sets out rates of economic inactivity in different parts of Wales, according to individuals' highest level of qualifications.<sup>16</sup>

Figure 2.4: Economic inactivity rate by highest qualification, 2004 (percentage of the working age population in each qualification grouping)



The major difference apparent from the chart is the significantly increased economic inactivity seen amongst the groups with no formal qualifications (or who did not answer the question). As qualification levels rise economic inactivity falls across Wales as a whole, with the most significant jump being between no qualifications and level 1.

The chart also shows that the variations in economic inactivity rates between different qualification groupings are more significant than between different geographical areas. For example, it is true that a greater proportion of those in the valleys with no formal educational qualifications are economically inactive than in other areas of Wales. However, the difference in economic inactivity rates between these areas is around 5-10 percentage points, whereas the difference in economic inactivity rates compared to those in the valleys with level 1 qualifications is around 25 percentage points.

These trends in labour demand are likely to continue and therefore it will be increasingly important to ensure that everyone has the essential qualifications and skills needed to enter employment. Moreover, with increased competition from low cost industrialising nations with an ample supply of labour, such as China and India, it will be ever more important to improve qualifications and skill sets throughout the workforce.

This analysis does not say that raising qualifications across the population is the single way to combat economic inactivity. However, it does reinforce the need to ensure that the overall approach to address economic inactivity has a strong focus on improving skills and qualifications. This will be key to helping the economically inactive to be attractive to prospective employers, but also in improving the quality of jobs for which the economically inactive are qualified. Improving the quality and pay of the jobs that the economically inactive might move into is an important issue; the new jobs must provide options that are attractive compared to an individual's current circumstances.



## Economic Development Tracking Indicators

### High-level economic

- 1 GVA per capita
- 2 Household disposable income per capita
- 3 Employment rate
- 4 Average earnings

### Labour Market

- 5 Economic inactivity rate
- 6 Unemployment rate
- 7 Migration flows

### Value-added per job

- 8 GVA per worker and per hour worked

### Investment

- 9 Business investment as a percentage of GVA by sector [although at present a reliable data series is not available]

### Innovation

- 10 Gross Domestic Expenditure on Research and Development as a percentage of GVA
- 11 Proportion of sales accounted for by new or improved products

### Skills

- 12 Qualifications of working age population
- 13 Qualification levels of 16-19 year olds and 19-21 year olds
- 14 Proportion of the workforce in professional, technical, managerial and scientific employment

## Enterprise

- 15 'Total entrepreneurial activity', as measured by the Global Entrepreneurship Monitor
- 16 New VAT registrations and stock of VAT-registered businesses per head of working age population
- 17 Graduate business start-up rates

## Competition

- 18 Exports as a percentage of GVA

## Sustainable development

[It should be noted that a number of these indicators are still in a development phase]

- 19 Environmental satellite accounts
- 20 Income and employment deprivation measures
- 21 The Ecological Footprint
- 22 The Index of Sustainable Economic Welfare

Progress against *A Winning Wales* Targets

Target description	Target by 2010	2001 base	Progress against base
Increase net employment	Raise by 175,000	1,210,000	Has increased by 82,000 over base (4 quarters to Aug 2005)
Increase net employment in Finance and Business services	Raise by 20,000	119,000	Has increased by 21,000 over base (4 quarters to Aug 2005)
Increase stock of VAT registered businesses per 10,000 persons of working age	Raise to UK average	93% of UK average	Has decreased to 92% of UK average (using 2005 figure)
Increase business enterprise R&D expenditure as a % of GDP	Raise to >1%	0.4%	Has increased to 0.7% (using 2003 figure – no figures available for 2004 & 2005)
Growth in the value of exports	Match UK growth over the period	Wales: £7.1bn UK: £161.7bn	Has increased by 20.7% in Wales compared to 7.7% in UK (based on 4 quarters to Q2 2005)
Increase the proportion of Welsh businesses using e-commerce	Match UK average proportion	No robust 2001 figure available	Data previously used for measuring this target found to be flawed
Increase household disposable income per head of the population	Raise to 95% of UK average	87.9% of UK average	Has increased to 88.3% in 2003. (2004 figures not yet available)
Increase tourism expenditure in Wales	Raise by an average of 6% per annum over period	£1,911.9m	Has decreased by an average of 1.9% per annum (using 2004 figure) 2002 – down ave 6.1%; 2003 – up ave 3.2%
Reduce the proportion of adults of working age without qualifications	Reduce to 1 in 10 (i.e. <10%)	21%	Has decreased to 17% (using 2004 figure)
Increase the proportion of adults of working age with a level 4 qualification	Raise to over 3 in 10 (i.e. >30%)	22%	Has increased to 26% (using 2004 figure)



## Consultation questions

### Questions on the Strategic Framework for Economic Development

This document sets out the Welsh Assembly Government's Strategic Framework for Economic Development. Work is underway to prepare a more detailed strategic operational plan for the new Economic Development and Transport Department of the Welsh Assembly Government for April 2006 onwards, to tie in with the merger of the WDA and WTB with the existing Department. The strategic operational plan for the new EDT Department will be worked up closely with that for the new Education and Lifelong Learning Department, which is merging with the National Council for Education and Training in Wales (ELWa), ACCAC and the Wales Youth Agency.

Responses to the consultation questions set out below will form a key input into the preparation of these strategic operational plans. Formal responses to the consultation will be considered alongside views expressed in a series of consultation roadshows to be held around Wales to discuss issues of particular relevance to specific areas, sectors, organisations and groups. Views are sought from all those with an interest. Particular questions to help structure responses are set out below.

- Q1. Do you broadly agree with the priority areas identified in this document?
- Q2. Do you see any of these areas as being particularly important?
- Q3. Are there other areas that you think should be given greater prominence?
- Q4. What are currently the most effective interventions, policies and programmes?
- Q5. If certain areas were prioritised, where would you like to see less attention and action?
- Q6. Will the set of tracking indicators presented adequately capture progress in achieving strong and sustainable economic growth? If not, should certain indicators be removed or added?

### Questions on issues related to Structural Funds

As set out in Chapter 4, funding resulting from the current review of the European Union's regional policy will naturally be focused on the priorities arising from the analysis in this document. Although much remains to be decided on the EU's review, early consideration of key priorities and strategic approaches will help Wales to get most benefit from the resources that are at its disposal.

Therefore, based on the priorities described in Chapter 4 views are sought on the following issues.

- Q7. Are these the right priorities for the post-2006 programmes in order to develop the Welsh economy through embracing the Lisbon and Gothenburg agendas?

- Q8. How could strategic projects contributing to headline targets such as raising economic activity be identified and developed at an early stage in readiness for the start of the post-2006 programmes?
- Q9. The intention is to give greater emphasis to those projects for which effective regional collaboration has developed a project that will address the strategic needs of an area (for example, as in the Heads of the Valleys). How might such collaboration best be developed?
- Q10. How can we simplify funding streams and match-funding of projects for the post-2006 programmes?

## Contact details

Please send responses to the consultation to:

Strategic Framework Consultation Team  
Economic Policy Division  
Welsh Assembly Government  
Cathays Park  
Cardiff  
CF10 3NQ

Or by email to: [wave.consultation@wales.gsi.gov.uk](mailto:wave.consultation@wales.gsi.gov.uk)

Please contact the team on 029 2082 3050 if you have any queries.

Responses are sought by [28 February 2006](#).

Responses to this consultation may be published and attributed. If you would prefer for your response not to be published, or to be published but not be attributed, please state so in your response.



## Policy Gateway Summary

All significant new strategies and policies of the Welsh Assembly Government are required to be assessed against the corporate Policy Integration Tool in order to ensure that policy development occurs in a joined-up manner. The results below represent the agreed outcomes of the assessment of Wales: A Vibrant Economy. The assessment involved representatives from the Economic Policy Division; Welsh European Funding Office; Wales Tourist Board; Welsh Development Agency; Economic Advice Division; Training, Skills and Careers Policy Division; Public Health Strategy Division; Communities Directorate; Strategic Policy Unit; and Environmental Protection and Quality Division. *Those representatives agree this is an accurate overview of their collective comments.*

Wales: A Better Country Commitment	Overall Contribution						Explanation
	U	P	N	F	G	E	
Promoting the Economy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	The strategic framework is explicitly concerned with developing the Welsh economy and identifies clearly the areas on which improved economic performance will depend.
Action on social justice for communities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	In promoting economic growth and higher employment the strategic framework addresses the social justice agenda. Regeneration, involving working with relevant partners, features prominently.
Action in our built and natural environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	The strategy promotes sustainable economic development. The group recognised, however, that economic growth could have offsetting environmental consequences, and that these should be monitored closely.
Strengthening Wales' cultural identity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The strategy aims to promote a vibrant Welsh economy that addresses the needs of different groups across Wales. The recognition given to the tourism sector will help to support Wales' cultural identity.
Ensuring better prospects in life for future generations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Better prospects for future generations should be a direct consequence of success in creating a strong sustainable economy and providing people with the relevant skills needed for good quality jobs.
Supporting healthy independent lives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Many of the measures suggested will have an indirect effect in improving the health of people in Wales, for example through encouraging participation in employment.
Promoting openness, partnership & participation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The process of developing the strategic framework has involved, and will continue to involve, stakeholder groups across Wales.

**Key:** U – Undermining; P – Poor; N – Neutral; F – Fair; G – Good; E - Excellent

## Summary Comments

This is a high-level strategic framework and proposed actions intended to deliver the outcomes highlighted in the document will be developed through the consultation process. As such the document does not detail specific actions related to every single area, but instead reflects the importance of different issues and outlines the Assembly Government's broad approach.

## References

- 1 2003 GDP comparison not yet published; estimate here inferred from related data.
- 2 'Economically inactive' is a term used to describe people of working age who are not working and are not looking for work or are not available for work.
- 3 'East Wales' and 'West Wales and the Valleys' are the two main regions for which the EU publishes data.
- 4 Information and communication technologies.
- 5 GVA (Gross Value Added) differs from GDP only in that subsidies are added and taxes on products are deducted. The effect of this is to move from measuring market prices to measuring actual value creation. GVA figures are available on a sub-national basis and GVA is therefore particularly useful for the analysis in this document.
- 6 The amount of money households have available for expenditure and savings, taking some account of pension and housing costs.
- 7 Although it should be noted that a significant number of workers who live in rural areas such as Powys work in more highly paid occupations outside the local area.
- 8 The relative differences between areas tend not to vary depending on the measure of productivity. The exceptions are London, where workers often work long hours, and Northern Ireland, where part time work is less common (thereby increasing the average hours worked).
- 9 For example, see O'Mahony and de Boer, Britain's relative productivity performance: Updates to 1999 Final Report to DTI/Treasury/ONS, 2002.
- 10 Rice and Venables, 'Spatial Determinants of Productivity: Analysis for the Regions of Great Britain', CEP Discussion Paper No. 642, July 2004. Further information provided by authors. See also Graham, 'Wider economic benefits of transport improvements: link between agglomeration and productivity', 2005, and Combes et al, 'Spatial wage disparities: sorting matters', 2003 for a review of the wider evidence base.
- 11 Some of the above examples in defence systems development are thought to benefit from the proximity of the MoD Procurement Executive Headquarters less than one hour away in Bristol.
- 12 Further information on these areas can be found in the Assembly Government's 2004 report, Knowledge Economy Nexus: Role of Higher Education in Wales.
- 13 Care needs to be taken in interpreting differences in VAT registration rates, as for a variety of reasons VAT registrations do not directly reflect levels of business start-ups.

- 14 This chapter draws on and supports the analysis already presented in the Assembly Government's 2004 report, Raising Economic Activity Rates.
- 15 In the more detailed analysis presented later it is this conceptual group of 50,000 that gives rise to the above average (or excess) economic inactivity seen in Wales.
- 16 Broadly, NVQ level 4 is comparable to a university degree, level 3 to Baccaalaureate/ A-levels, level 2 to GCSEs, and level 1 to more basic qualifications.