

AGENDA ITEM 2**RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL****CABINET****16 DECEMBER 2014****REPORT OF THE DIRECTOR OF REGENERATION AND PLANNING****Author: Jane Cook Director of Regeneration and Planning****ECONOMIC DEVELOPMENT OF BUSINESS CLUSTERS; progress report.****1.0 PURPOSE OF THE REPORT**

- 1.1 To outline the regional business cluster work completed to date, and consider its further development.

2.0 RECOMMENDATION

It is recommended that:

- 2.1 The cluster work undertaken is endorsed and the further development of this project is supported.

3.0 BACKGROUND

- 3.1 In December 2011, the South East Wales Regional Partnership Board asked the Directors of Environment and Regeneration to advise on the essential components for a vision for **South East Wales: a thriving region, visible internationally and distinctively Welsh**. Since that time, the Directors have provided updates to the Leaders.
- 3.2 The Welsh Government has raised the need for greater regional coordination, particularly to concentrate limited resources to deliver regional impact. A range of different policies, programmes and projects are seeking a more regional focus. There is a need to ensure that these are brought together and do not duplicate effort and activity.
- 3.3 At its meeting on 14th October 2013, the Regional Partnership Board considered the Regional Strategic Framework and agreed that the 10 South East Wales Local Authorities should also consider and endorse the framework individually. This has been completed.
- 3.4 When Cabinet endorsed the South East Wales Regional Strategic Framework in November 2013, it was noted that its approval provides definition, clarity and substance to other regional documents and helps discussions with Welsh Government about how local government's priorities for South East Wales

support, and relate to, the Wales Infrastructure Investment Plan, future European Programmes 2014-2020 etc.

- 3.5 Since that time, the South East Wales Directors of Environment and Regeneration (SEWDER) have progressed work under the themes of People, Place and Business, as identified in the Regional Strategic Framework.
- 3.6 Rhondda Cynon Taf is leading, supported by Cardiff Council, on the Business theme for SEWDER. A Business Officer Group with representation from all 10 South East Wales local authorities has jointly funded and directed a detailed piece of work, which has been completed by the University of South Wales, Cardiff Metropolitan University and Cardiff University.
- 3.7 This work has analysed the strengths of different business sectors across the Cardiff Capital Region; where these strengths are located; and how they might be exploited through joint working by local authorities to facilitate a range of cluster developing support arrangements. The report also recommended regional priorities to be taken forward as part of an overall business action plan.

4.0 THE BUSINESS CLUSTERS

- 4.1 The cluster work is aimed at identifying key business opportunities to support growth in the regional economy. It establishes a basis for influencing policy, supporting businesses, informing potential EU funding bids, and thus developing clusters across the region.
- 4.2 There is a growing body of research which is relevant to the development of clusters. The nature of competition in industry is changing with greater globalisation, more emphasis on innovation and a greater need for flexibility. Within this climate of change, clusters can potentially provide productivity gains through the use of specialist services and local sourcing; innovation gains through enhanced supplier / customer integration and proximity to local knowledge centres; and increased new business formation, due to better knowledge of niches and new opportunities.
- 4.3 Clusters can go beyond sector based agglomerations to become self sustaining and adaptive competitive systems. This needs to be the goal of cluster development initiatives to support their growth and development.
- 4.4 Current principles identified through research, emphasise the need for multidisciplinary and interactive knowledge processes through governments, universities, and relevant industries. This is not just about the linear information exchange, but collaborative development which stimulates and enables innovation.
- 4.5 The drivers of innovation may come from a variety of single sources, or may develop through collaborative working. The varying levels of complexity involved in such interdisciplinary and interactive processes and collaborations, highlight the importance of clustering enablers. There are different types of clusters needing different types of development and support, and the work led

by the University of South Wales outlines the types of interventions which are appropriate within the Cardiff Capital Region area.

4.6 To determine the potential for cluster development within the Cardiff Capital Region area, the Welsh Government 9 priority sectors were selected for analysis, to ensure that local authorities provide an integrated approach within the national policy context. The Welsh Government's Key Sectors are:

- Advanced Materials and Manufacturing;
- Construction;
- Creative Industries;
- Energy & Environment;
- Food & Farming;
- Finance & Professional services;
- ICT;
- Life Sciences;
- Tourism.

5.0 DATA ANALYSIS

5.1 The first stage of the cluster work was data collection using Standard Industrial Classification of Economic Activities (SIC) codes to capture information about the nine different sectors. From this analysis it became clear that five of the sectors were most dominant, in terms of employment, GVA and with a view to growth potential. Sub-sectors were also identified, which could become key growth areas, if clusters were properly facilitated.

5.2 These five sectors, and their ten subsectors, were:-

- **Advanced Materials and Manufacturing**; aerospace and automotive;
- **Energy & Environment**; Energy related manufacturing and recycling;
- **Finance & Professional services**; insurance and non traditional finance ;
- **ICT**; hardware and software;
- **Life Sciences**; pharmaceuticals and medical equipment.

5.3 The second part of the data analysis was to identify and interview experts from a range of industry, government and institutional (e.g. Universities, Chambers of Commerce) stakeholders for each of the sectors identified as being important to the region. This was achieved through a Multi Sectoral Qualitative Analysis (MSQA), a Network Analysis and a Keystone Company Analysis. This allowed more detailed analysis of sectors, cluster type activities and future potential for network building via cluster facilitation.

5.4 This analysis was considered alongside the raw data and it was concluded that cluster support requirements identified in the research, differ by sub-sector. Specifically, different sub-sectors require different policy approaches, depending on the ideal cluster type identified for that sector to grow successfully. Consequently, each sub-sector's needs must be considered individually. Given the scale of the work, further prioritisation was therefore necessary.

5.5 A weighting was applied with the current and future potential of a sector, and degree of spread across the City region, being weighted more highly than the other five factors. The weighting applied and the results of this analysis (which used the data analysed in the study, particularly MSQA responses and the statistical data), are shown in the table below:-

Totals (Each Category Ranks Sub-Sector 1-10 where 10 is highest scoring and 1 is lowest scoring)	ICT Software	ICT Hardware	FPS Insurance	FPS Non Traditional Finance	Life Sciences: Pharmaceuticals	Life Sciences: Medical Equipment	Advanced Manufacturing : Aerospace	Advanced Manufacturing : Automotive	Energy and Environment : Recycling	Energy and Environment : Energy Related Manufacturing
1. Current and Future Potential for Success (Weight of 2)Totals	18	20	16	6	14	12	3	3	8	10
2. Spread Across the City Region (Weight of 2) Totals	20	17	17	8	2	6	4	10	12	14
3. Availability of Key Infrastructure (e.g. Enterprise Zones or Equivalent) in CCR	4.5	2	10	9	1	7	8	4.5	4.5	4.5
4. Availability of CCR Institutional support (e.g. universities) to skill up local workforce to be able to benefit from employment growth in local areas	10	6.5	9	6.5	1	8	2.5	2.5	4	5
5.Ability to promote indigenous firms creation development and growth in CCR	9	6	10	8	2	7	5	3.5	1	3.5
6. Ability To Promote Exporting Activity or Import Substitution	4	10	7	1	8	9	2.5	2.5	5	6
7. Complementarity with Existing Policies	7	9	10	8	1	5	4	3	2	6
Overall Total	72.5	70.5	79	46.5	29	54	29	29	36.5	49
Overall Ranking (Where 1 is first choice for CCR Policy Support and 10th is last choice)	2	3	1	6	9	4	9	9	7	5
Please Note: Ability to Promote Wider City Region Concept by covering all 10 Uas with at least one UA would require ICT sector to be re-broadened out to widest definition to include Merthyr Tydfil activities										

6.0 ANALYSIS RESULTS

6.1 From the weighting and prioritisation process, these priorities were identified for the Cardiff Capital Region area:-

- Insurance;
- Medical equipment;
- Energy based manufacturing;
- ICT hardware;
- ICT software.

6.2 The sub-sectors chosen are those determined to have the greatest potential to generate economic benefits.

6.3 In Rhondda Cynon Taf there is a concentration of the majority of sectors/sub sectors with the following exceptions – Finance and Professional services (Sector) – Non traditional finance/Insurance (Sub sectors), sub sectors of automotive and ICT Software.

7.0 TAKING THE CLUSTER WORK FORWARD

7.1 Given the resources required to develop this work, one of the five sectors has been chosen to pilot this approach. ICT has the advantage of a good spread across the region, is timely with the roll out of superfast broadband, and is likely to favour electronic communication.

- 7.2 Each of the 10 South East Wales Local Authorities has undertaken further analysis of ICT companies that are located in each of their geographical areas. This analysis considered businesses within the sub sectors, which have 5%+ growth rate in employment, turnover or profit.
- 7.3 A detailed regional survey of the individual businesses has now been launched. The results of this will be further analysed and from this it will be possible to develop collaborative actions, particularly around growth potential, supplier development, skills, training and networks. These actions will be cluster enabling, which will enable the benefits of cluster development, including productivity gains, innovation gains and increased new business formation, as noted above.
- 7.4 Supporting business clusters and the actions that are being developed will sit alongside the other planned activity in the Business Support strand of the Regional Strategic Framework.
- 8.0 **CONCLUSION**
- 8.1 The collaborative cluster development work completed to date within the Cardiff Capital Region area, is complementary to the Welsh Government's sector approach. It will allow the benefits of cluster development to be captured within the region to support sustainable economic growth.

