

AGENDA ITEM 2

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

CABINET

15th DECEMBER 2015

BASELINE ECONOMIC ANALYSIS FOR SOUTH EAST WALES

REPORT OF DIRECTOR OF REGENERATION AND PLANNING IN DISCUSSIONS WITH THE CABINET MEMBER FOR ECONOMIC DEVELOPMENT & PLANNING - COUNCILLOR BEVAN.

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1 PURPOSE OF THE REPORT

- 1.1 The purpose of the report is to inform Members of a Baseline Economic Analysis for the South East Wales region. The Analysis provides a very strong evidence base to support investment and development activity, both within Rhondda Cynon Taf and across the region, maximising potential opportunities from City Deal and other funding mechanisms to support the sustainable economic growth of the region.

2 RECOMMENDATIONS

It is recommended that the Cabinet:

- 2.1 Endorse the findings of the Baseline Economic Analysis for South East Wales.
- 2.2 Agree that it should be used to inform further work both within Rhondda Cynon Taf and across South East Wales, to develop economic opportunity.

3 REASONS FOR RECOMMENDATIONS

- 3.1 The findings of the Baseline Economic Analysis provides a clear assessment of the economy of the South East region.
- 3.2 The Analysis can be used to focus activity and resources to support the development of the region.

4 BACKGROUND

- 4.1 As part of the work of the South East Wales Directors for Environment and Regeneration (SEWDER), there is a recognised need for greater regional co-ordination to ensure that limited resources are targeted effectively to deliver maximum impact on the economic growth of the South East Wales region.
- 4.2 To support this approach the SEWDER Business Group, chaired by Rhondda Cynon Taf CBC, commissioned an economic analysis of the region which would bring together and analyse the wealth of information that already exists across the region, but which is not sufficiently co-ordinated, to provide a fully integrated economic picture. This report will also provide part of the evidence base for the development of the regional Strategic Development Plan and provide a focus on a clear rationale for economic development activity.
- 4.3 AECOM were awarded the commission to undertake this work.

5 BASELINE ANALYSIS - KEY FINDINGS AND CONCLUSIONS

- 5.1 The key findings and conclusions of the Analysis are as follows;

Economic Performance: Recognising the Challenge

- The current economic position of the region is challenging and across a wide range of indicators such as GDP, employment, wages and R&D activity the region is underperforming compared to the UK average. More importantly the gap in economic performance to the UK is widening.
- It will be essential to utilise public resources and private investment available across South East Wales to maximise economic impact.

Collaboration: Making the Best Use of Resources

- The current round of EU funding is likely to be the last of significant scale and there are significant challenges from the continuing reduction to public sector budgets.
- There is a clear need for public sector partners to work together and target resources effectively based on a clear understanding of the needs of the region. This will require effective governance arrangements to be defined through mechanisms such as the City Deal.

- Closer collaboration with Welsh Government on areas such as design and delivery of business support provision, links with key sector teams and work around developing export markets and inward investment will be vital to the growth of the region.
- Businesses have identified the following areas as key for growth and enterprise in the region - access to finance, infrastructure investment, broadband, premises availability, business networks and support and the supply of skills and labour.

Demand Led Growth: Engaging the Private Sector

- The role of the private sector in defining the requirements to encourage growth and investment will be key to a development strategy and the wider success of the City Deal.
- There is a need to engage and involve the private sector in discussions on opportunities for investment, identifying private sector development partners and working with landowners within the region as well as collaborating with Welsh Government on inward investment

Key Sectors: Supporting Growth Opportunities

- The identification of key niches and specialisms is critical to improving the competitiveness and productivity of the region.
- There is a significant opportunity offered by the Capital Region to benefit the whole of South East Wales.
- The region has some real strengths in certain clusters of the economy that can make a significant contribution to increasing productivity and employment growth including Finance and Professional Services, Energy and Environment, Advanced Materials and Manufacturing, ICT and Life Sciences. The Analysis identifies specific actions for supporting these clusters which are being considered as part of the work of the SEWDER Business Group.
- Increasing collaboration between businesses and research and higher education institutions will be vital given the presence of high value added activity in the manufacturing and service sectors

Supply Chain: Maximising the Benefits of Infrastructure Investment

- The Analysis identifies that the significant investment in transport and wider infrastructure projects across the region provides major opportunities to address the gap in economic performance and maximise the benefits to residents and businesses.
- It will be essential for the region to have a support system which will allow businesses to capitalise on the direct and supply chain opportunities that result from this investment and the Analysis recommends developing sector experts to identify opportunities in investment project supply chains.
- To take advantage of the significant benefits offered by investment , it will be crucial to addressing the skills gaps, which businesses currently identify as a major constraint to growth.
- A clear priority for business is the rollout of broadband and mobile connectivity, with access to superfast broadband being identified as one of the top three factors in supporting business growth.

Balancing Needs: Addressing Inequalities

- There is a significant spatial imbalance in economic performance across the region and it will be important to consider different solutions to support businesses, including social enterprise development.
 - The future scope of business support activity needs to recognise the key role that small and micro businesses can play in economic activity across South East Wales. The Analysis identifies the importance of face to face support and networking, and concludes that there is a key role for local authorities across the region to play in continuing support for businesses.
- 5.2 The table at 5.3 summarises the key strengths of the region that have been identified as part of the analysis and how these can be built upon, taking advantage of opportunities to develop and grow the economy of South East Wales.

5.3

STRENGTHS OF SOUTH EAST WALES REGION	OPPORTUNITIES FOR GROWTH
Manufacturing specialisms	Businesses in the region have developed a competitive niche
Diverse economic base with key clusters developing	Appropriate marketing and exploitation of key clusters should generate investment and employment growth
Valued local authority business support	Tailored business support to meet the skills gaps evident in key sectors. Closer collaboration with Welsh Government on design and delivery of support
Three Enterprise Zones	Access to government funding to stimulate growth in skilled employment
A strong tourism offer	Develop tourism further with a stronger regional identity and multi-faceted offer
Cardiff with a growing knowledge economy and financial and professional services sector	Cardiff City Deal will give greater control over funding
Faster than UK ten year employment rate growth and substantial recent business start up rate	Continue supporting social enterprise and micro firms as a means of helping the development of disadvantaged areas
Presence of some strong R&D activity and other strategic assets	Collaboration across boundaries to ensure opportunities are seized upon in a strategic manner
Existing and planned investment in major infrastructure	These can provide greater access to new employment opportunities for all of South East Wales but need to ensure all can benefit

5.4 An Executive Summary is at Appendix 1.

6 EQUALITY AND DIVERSITY IMPLICATIONS

6.1 An Equality Impact Assessment is not needed with regard to the reporting the findings of the Baseline Economic Analysis for South East Wales. However, specific projects that arise as a result of this Baseline will need to consider any implications as part of their development.

7 CONSULTATION

7.1 The report was produced on behalf of the South East Wales Directors of Environment and Regeneration which includes representation from the ten local authorities.

7.2 A part of the work to establish the Baseline Analysis, Aecom undertook consultation with private sector organisations across South East Wales to understand the needs of and challenges facing businesses.

8 FINANCIAL IMPLICATION(S)

8.1 There are no financial implications aligned to this report.

9 LEGAL IMPLICATIONS OR LEGISLATION CONSIDERED

9.1 There are no legal implications aligned to this report.

10 LINKS TO THE COUNCILS CORPORATE PLAN / OTHER CORPORATE PRIORITIES/ SIP.

10.1 This has a clear link to the;

- Economy pillar of the Prosperity outcome within the Single Integrated Plan which identifies that is necessary to provide the right environment for growth and investment to create a strong sustainable economy which can act as the foundation to making Rhondda Cynon Taf a more prosperous place to live.
- "Improving our Communities" one of the six agreed Improvement Priorities within the Corporate Performance Report.

11 CONCLUSION

- 11.1 The findings of the Economic Baseline now provide a clear analysis of the regions current economic performance. It will inform the development of a regional business strategy and Strategic Development Plan, as well as supporting opportunities to secure funding for initiatives which will contribute to the sustainable economic growth of the South East Wales region.

Other Information:-

An Executive Summary is at Appendix 1.

Scrutiny Committee:-

Public Service Delivery, Communities and Prosperity Scrutiny Committee.

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APPENDIX 1

Baseline Economic
Analysis for South
East Wales
Executive Summary

September 2015



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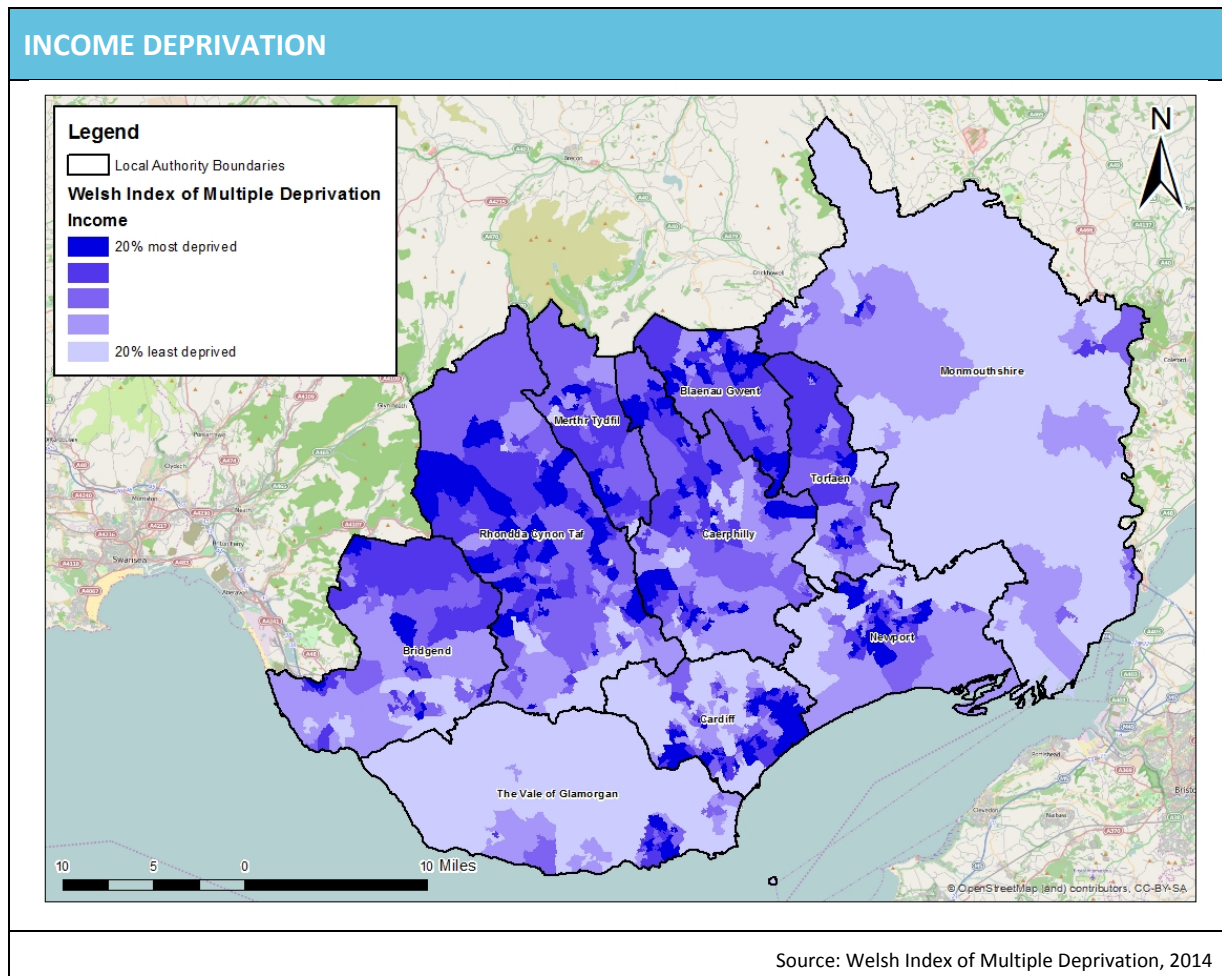
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INTRODUCTION AND CONTEXT

AECOM was commissioned to undertake a ‘Baseline Economic Analysis’ for the South East Wales Directors of Regeneration and Environment (SEWDER) Business Group. This study provides the baseline assessment that will inform the regional business strategy. This is the Executive Summary.

SEW covers ten unitary authorities and has a population of almost 1.5 million which equates to 48% of the population of Wales¹. There is great disparity within SEW particularly between the more prosperous coastal areas and the more deprived Heads of the Valleys area. The following figure illustrates the income domain of the Index of Multiple Deprivation and is one way to illustrate the disparity.



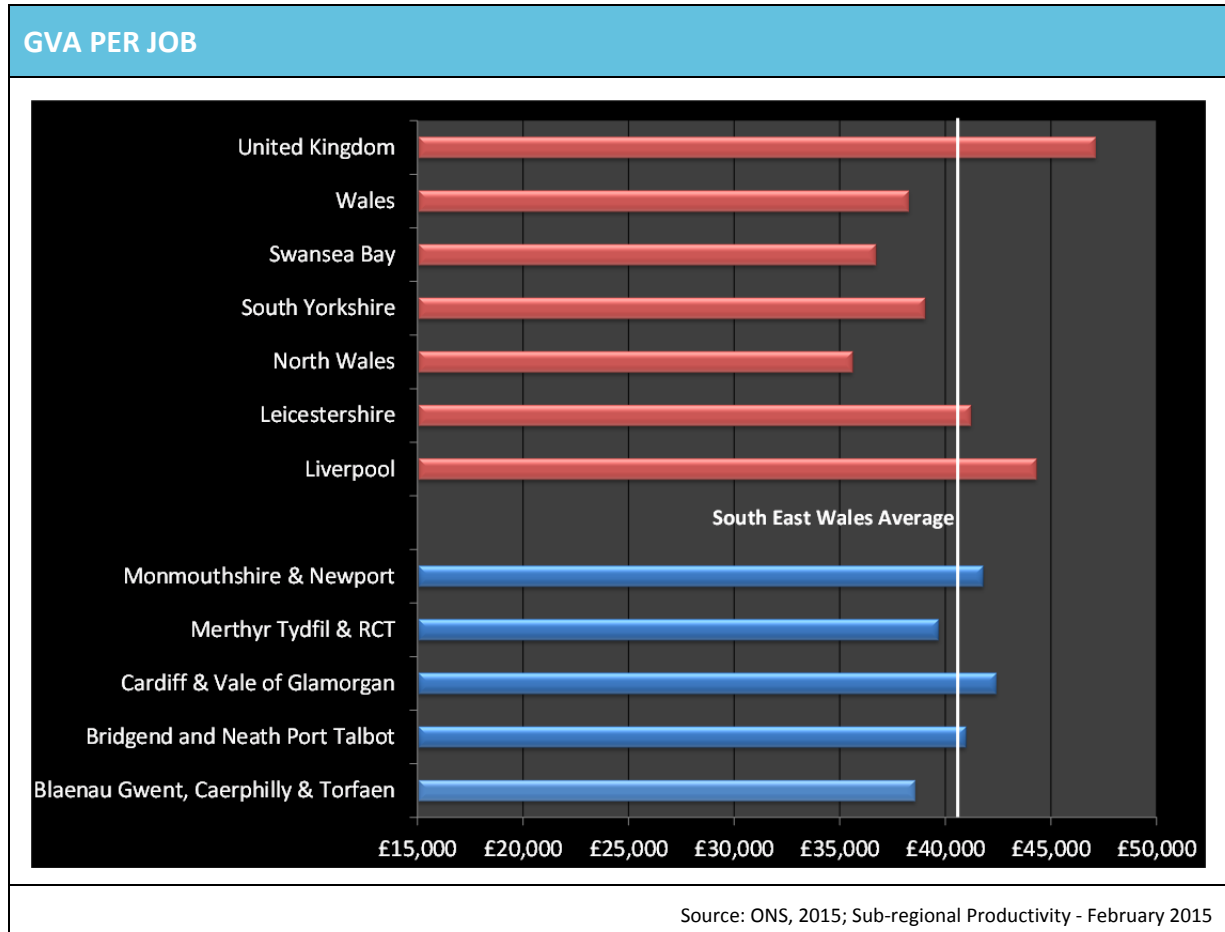
There is a decreasing pot of funding to tackle these disparities and challenges. The ten local authorities are seeking to work more closely with each other and the private sector in order to pool resources and deliver greater levels of economic growth and positive outcomes for the city region.

¹ Source: ONS, Mid-Year Population Estimates, 2013



ECONOMIC STRUCTURE: KEY FINDINGS

The economy of SEW is very important in the Welsh context generating just under half of the Gross Value Added (GVA) of Wales. However, compared to rest of UK and the comparator areas, GVA growth has been slower and overall output is only about 80% of the UK average.



There are a wide range of factors that help explain the productivity gap. The Government’s productivity framework identifies five factors that are seen as the drivers of productivity. Consequently, policies designed to increase productivity are often targeted at these drivers (as illustrated overleaf), each of these have been explored in this study.



Monmouthshire is the most competitive place in Wales, followed by Cardiff. Despite this they are only ranked as 156th and 178th (out of 379) in the UK placing them both just in the top half. At the other end of the scale, Blaenau Gwent is the least competitive location in the UK. It is one of four Welsh localities ranked in the bottom ten places (which also include Caerphilly and Torfaen)².

The employment rate in SEW (69.1%) is below the Welsh (69.5%) and UK (72.1%) rates but has experienced greater growth over the last ten years. The employment rate varies significantly within SEW from 64.7% in Blaenau Gwent to 74.6% in Monmouthshire³.

A quarter (25.2%) of the employment base in SEW is in Cardiff. Overall there is a large reliance on public sector employment with over a quarter (27.8%) of jobs in this sector, which is substantially higher than the UK average (19.0%). Within SEW it ranges from 23.8% in Monmouthshire to 35.4% in Merthyr Tydfil.

Earnings in SEW are substantially lower than the UK. For example, average gross full-time earnings of people working in SEW are £23,749 compared to £27,195 across the UK. The gap in wages between SEW and the rest of the UK is also widening⁴.

There exists wide variation within SEW, with full-time earnings ranging from £20,080 in Merthyr Tydfil to £26,823 in Bridgend. The differences between the areas is predominantly down to the type of jobs available with earnings being lower in areas with higher levels of low skilled occupations. This is particularly true in areas which have historically had a reliance on manufacturing and engineering. Additionally, tourism employment is quite high in some of the areas with low average earnings and this is characteristically low paid and often seasonal.

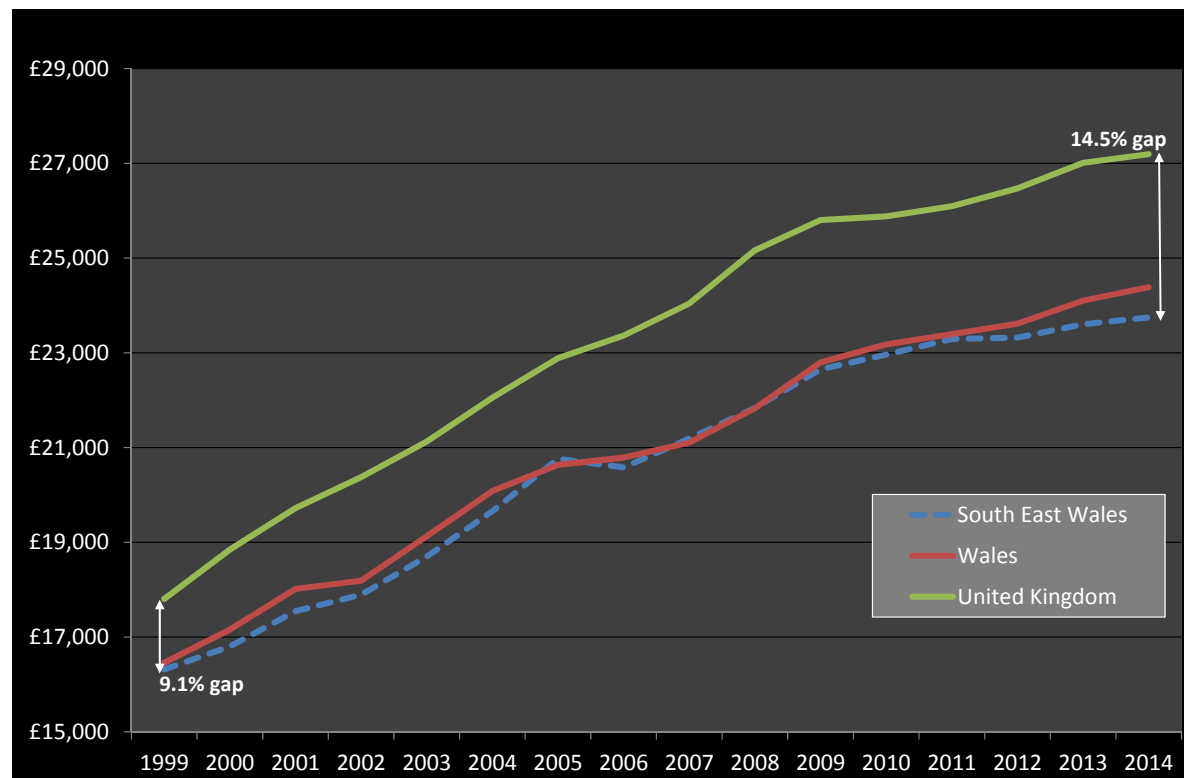
² Source: UK Competitiveness Index (2013)

³ Source: ONS, Annual Population Survey, 2014

⁴ Source: Annual Survey of Hours and Earnings, 2014



AVERAGE FULL-TIME GROSS ANNUAL WORKPLACE BASED EARNINGS



Source: ONS, Annual Survey of Hours and Earnings, 1999 to 2014

There are almost 46,000 businesses in SEW, of which over a quarter (27.8% or 12,800) are in Cardiff. The number of businesses grew by 2.4% in SEW between 2010 and 2014. This is below the UK rate (5.7%) but substantially higher than the Welsh rate (0.4%)⁵.

At a broad level, employment in SEW is clearly drawn from its industrial heritage. SEW has a particular strength in manufacturing with 11.5% based in the sector (compared to 8.5% in the UK). SEW also has particular strengths, as compared to the UK, in health (16.6% of employment compared to 13.5%) and public administration and defence (7.5% and 4.8% respectively). Conversely SEW underperforms relative to the UK as a whole in terms of information and communication (2.0% compared to 4.0%) and professional, scientific and technical industries (5.2% compared to 7.9%)⁶.

A more detailed assessment illustrates that SEW has a diverse industrial base with 62 2-digit sectors (out of 88 sectors) employing 1,000 people or more. Despite this the ten largest employment sectors represent almost three-fifths (58.0%) of total employment.

Social enterprise is also an important sector. Across Wales there are over 3,000 social enterprises that generate about 2.6% (£2.2 billion) of economic output. These organisations have a high presence in deprived communities⁷.

⁵ Source: ONS, Inter-Departmental Business Register, 2014

⁶ Source: ONS, Business Register and Employment Survey, 2014

⁷ Mapping Social Enterprise Activity in Wales, Welsh Assembly Government, October 2009

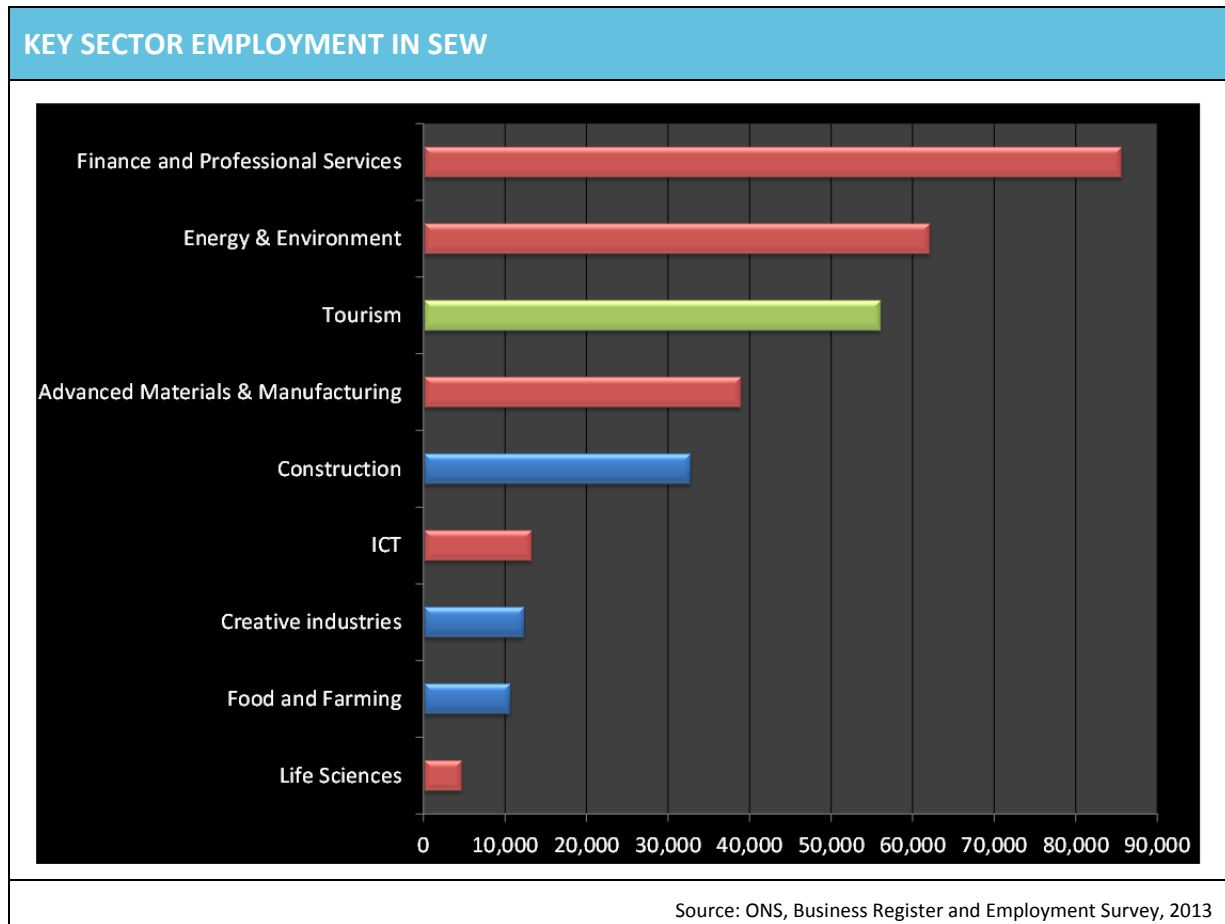
ECONOMIC STRUCTURE: IMPLICATIONS

- Cardiff will be the key driver of growth for SEW. Capitalising upon the growth opportunities here to benefit the wider SEW city region will be critical.
- Much of this growth will be in the financial and professional services and other sectors that large swathes of the sub-regional labour force do not have the skills base for. Up-skilling continues to be a key area where the public sector can play a major role in contributing to growth.
- Maintaining the diverse employment base alongside growth in key and developing sectors is an opportunity that will help support a wider range of skillsets.
- The reliance on public sector employment is a concern as it is expected that employment here will continue to fall over the coming years. Unemployment and inactivity will rise unless replaced with new employment in the private sector.
- GDP growth has been slower than experienced in comparator areas. Liverpool, for example, has experienced twice as much growth despite having a much lower employment base. This is partly due to the different economic structure of the two areas but also suggests that SEW has had less success in driving productivity than elsewhere. Productivity drivers should be focussed upon throughout the delivery of the strategic framework.
- SEW has experienced relatively high levels of employment growth over the last ten years. Despite this, an additional 28,500 people would need to move into employment in SEW in order to match the UK rate.
- The employment rate growth is positive, especially when compared to performance elsewhere, however it would appear that this has emanated from the strength of manufacturing in terms of strong clusters and good performance but this is countered by a high proportion of low paid, low value-added jobs.
- The high proportion of micro and small businesses means in many parts of SEW there is a reliance on this type of business creation for employment growth. This has implications for the type of business support offered to support these businesses.
- There exists a continuing and growing economic divide between the best and worst performing locations in the UK. Place-based competition is increasingly global in nature and areas must find their own niche and economic model to adapt. SEW should look to focus on its key sector strengths to continue to develop its niche.
- Low workplace based earnings could be used as an opportunity to promote the area as a cost advantage for new investors. However, there should be aspirations to raise this in the medium and longer-term.



KEY SECTORS: KEY FINDINGS

The Welsh Government has identified nine priority sectors for Wales. Each sector has its own panel made up of private sector businesses advising on opportunities within the sector. The following figure illustrates employment levels across SEW in each of these. Research undertaken by the University of South Wales⁸ identified five potential clusters that could exist within SEW, these are highlighted in red. Tourism is highlighted in green as it is identified as a priority sector elsewhere.



In order to prioritise and target sector support, sub-sectors were identified which demonstrate the greatest growth potential (current and future based on employment), economic importance and geographical spread across SEW. Two sub-sectors were assessed in each of the five broader priority sectors (i.e. 10 sub-sectors in total).

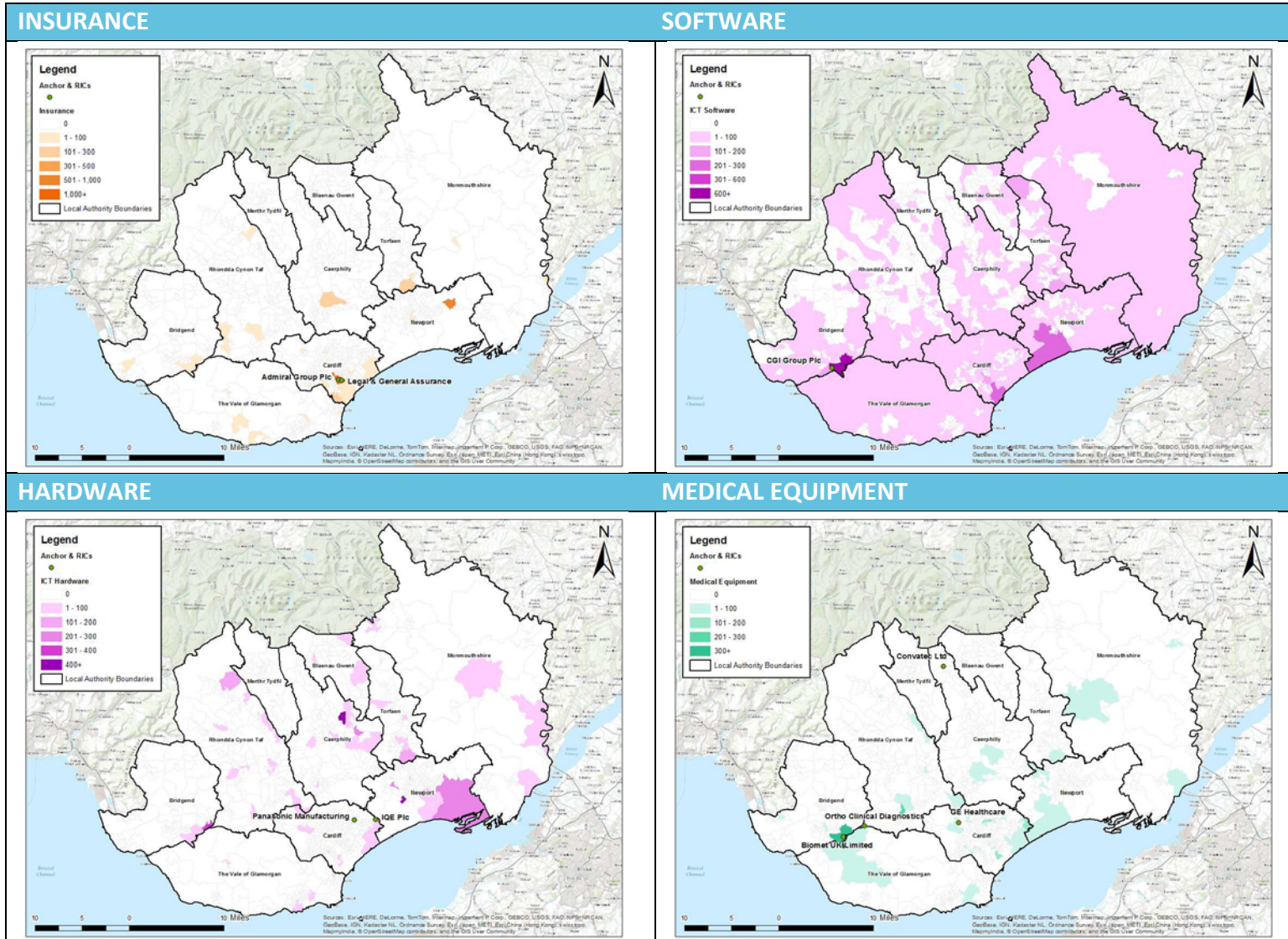
The 10 sub-sectors were then assessed against a wide range of factors in order to prioritise them. The following table summarises this analysis.

⁸ Auditing the Cardiff City Region Economy: A Clusters-Based Approach, Centre for Enterprise Cardiff School of Management Welsh Economy Research Unit (2014)

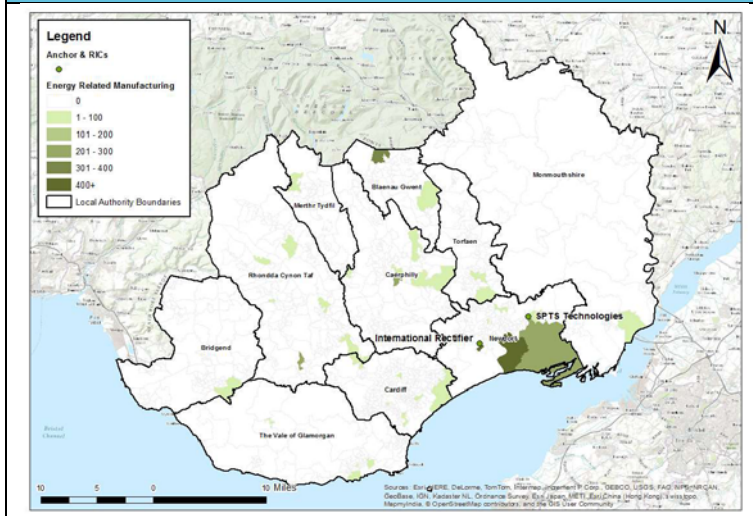

SUB-SECTOR ANALYSIS SUMMARY (EACH CATEGORY RANKS SUB-SECTOR 1-10, WHERE 10 IS THE HIGHEST)

Broad sector	ICT		Financial Services		Life Sciences		Advanced Manufacturing		Energy and Environment	
Sub-sector	Software	Hardware	Insurance	Non-Traditional Finance	Pharmaceuticals	Medical Equipment	Aerospace	Automotive	Recycling	Energy Related Manufacturing
Current and future potential for success (weight of 2)	18	20	16	6	14	12	3	3	8	10
Spread across SEW	20	17	17	8	2	6	4	10	12	14
Availability of key infrastructure	4.5	2	10	9	1	7	8	4.5	4.5	4.5
Availability of institutional support to upskill local workforce	10	6.5	9	6.5	1	8	2.5	2.5	4	5
Ability to promote indigenous firm creation and growth	9	6	10	8	2	7	5	3.5	1	3.5
Ability to promote exporting activity or import substitution	4	10	7	1	8	9	2.5	2.5	5	6
Complementary with existing policies	7	9	10	8	1	5	4	3	2	6
Total	72.5	70.5	79	46.5	29	54	29	29	36.5	49
Ranking	2	3	1	6	9	4	9	9	7	5

The following maps illustrate employment levels in the five most highly ranked sub-sectors.



ENERGY RELATED MANUFACTURING



KEY SECTORS: IMPLICATIONS

- The above sub-sector analysis has led to the creation of a ranking system in order to identify sectors to focus upon for short, medium and longer term actions. Specifically those higher in the ranking can be deemed to have a higher policy priority in the short term for action, rather than this process designating these sectors as being of greater absolute importance to the SEW economy.
- One of the aims has been to generate an economic development policy agenda which includes all the areas which offer potential across the region. Any interventions therefore also need to maximise the cluster in question across all the assets in the city-region, rather than just specific sites.
- The five mostly highly ranked sub-sectors identified are: Insurance, ICT Software, ICT Hardware, Medical Equipment, and Energy Related Manufacturing.
- Specific actions for supporting these sub-sectors are identified in the main report.

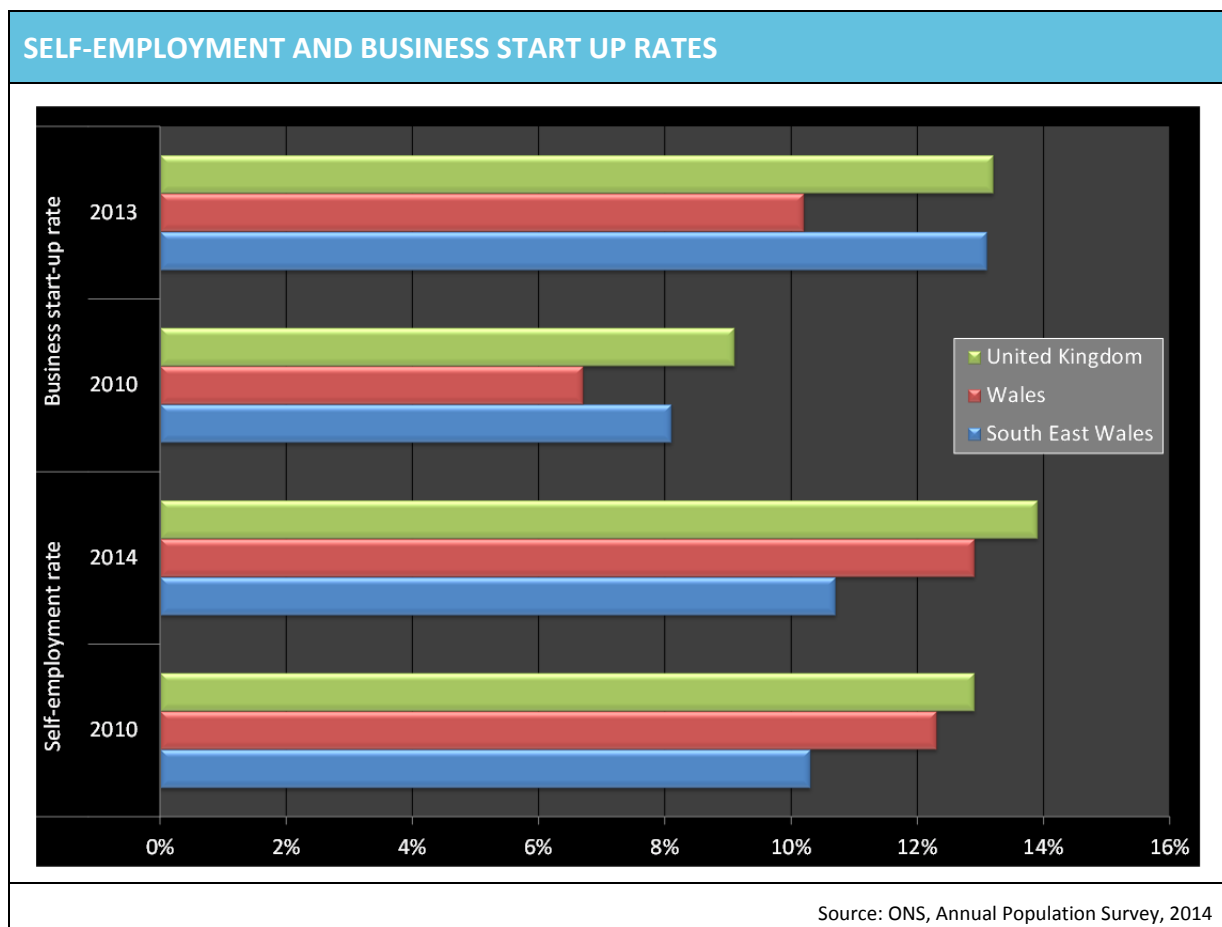


ENTERPRISE, INNOVATION AND INVESTMENT: KEY FINDINGS

Business start-ups are an indicator of the level of entrepreneurialism in an area. There were almost 5,800 business start-ups in SEW in 2013, this is a 43.3% increase from the previous year and 58.2% increase from 2010⁹.

The rate of business start-ups (% of business stock that are new) is 13.1% in SEW, this is above the Welsh average (10.2%) and similar to the UK (13.2%). Within SEW, the start-up rate ranges from 10.1% in Monmouthshire to 15.9% in Merthyr Tydfil.

Another measure of entrepreneurial activity is self-employment. Although self-employment has increased steadily between 2005 and 2014 in SEW, the rate (10.7%) is below the Welsh (12.9%) and UK (13.9%) averages. Within SEW, self-employment rates range from 7.0% in Newport to 15.8% in Monmouthshire.



One year business survival rates in SEW (92.5%) are high compared to Wales (92.3%) and the UK (91.2%). However, three year survival rates (55.8%) are lower than in Wales (56.4%) and the UK (57.1%).

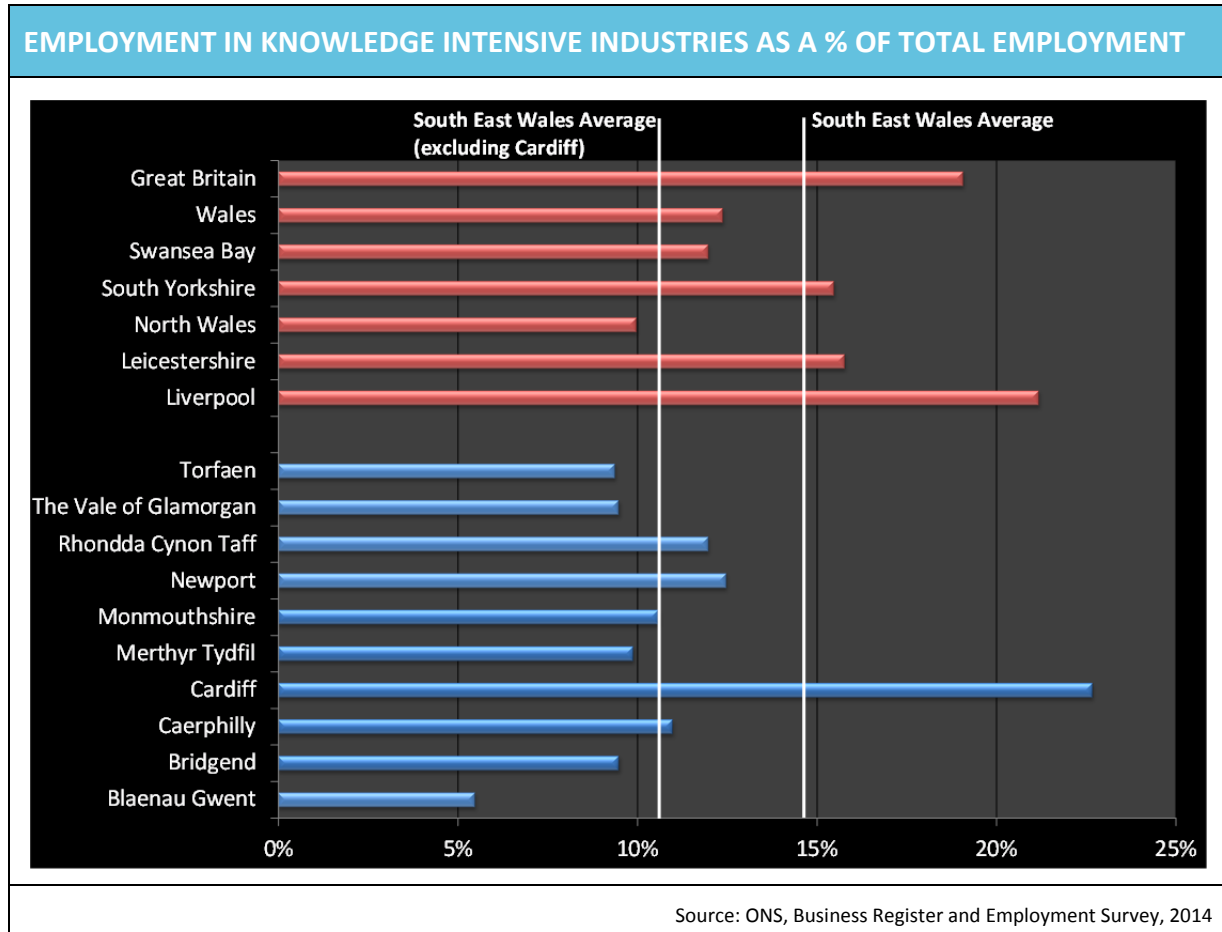
Bridgend (88.7%) has the lowest one year survival rates, whereas, Blaenau Gwent (96.0%) has the highest. Newport (50.6%) has the lowest three year survival rates, whereas, the Vale of Glamorgan (59.7%) has the highest.

⁹ ONS, 2013; *Business Demography 2013 - Enterprise Births, Deaths and Survivals*



Welsh businesses spent approximately £369 million on R&D activity in the UK which is lower than every other region of the UK with the exception of the North East of England (£309 million). It is less than half (46.2%) of Scotland’s expenditure¹⁰.

The following figure shows levels of employment in knowledge intensive industries as a proportion of total employment. This sector is strong within Cardiff (22.7%) and higher than the national average (19.1%) and all the comparator areas. Cardiff is skewing the average for SEW with the remaining nine areas having a rate substantially below the national rate and the Welsh average¹¹.



Between 1990 and 2013 there were 102,500 patent applications made in the UK by people/businesses based in the UK. Of these, 3,565 were made by those in Wales, equating to 3.5% of total applications.

Wales attracted 79 foreign direct inward investment projects in 2013-14, creating or safeguarding 10,441 jobs. This is above Northern Ireland (50) but lower than all other regions of the UK: Scotland (122), London (656) and England excluding London (840)¹².

Although these figures are indicative only as not all investment projects are measured, Wales seems to be performing reasonably well as it generates 4.5% of the foreign direct inward investment projects across the UK but only makes up 3.7% of the business base.

¹⁰ Source: ONS, 2014

¹¹ Source: ONS, Business Register and Employment Survey, 2014

¹² Source: UKTI, 2014

ENTERPRISE, INNOVATION AND INVESTMENT: IMPLICATIONS

- Entrepreneurial activity is of increased importance in a climate of high public sector cuts. Likewise SME's are the biggest creator of new jobs and this is more pronounced in SEW. Targeted business start-up support and developing a culture of enterprise is therefore essential.
- Increasing levels of enterprise will lead to higher levels of productivity which would increase demand for goods and services creating further business opportunities. This in turn would facilitate the creation of further employment opportunities.
- Innovation can also lead to job creation. Innovation is most likely in business clusters and as such supporting those key sectors identified earlier should be a focus of any activity in this regard.
- Increasing collaboration between business and research/Higher education institutions is worth further consideration given the presence of high value added activity in the manufacturing and service sectors and high quality research in complementary sectors.
- Innovation and investment is required to reverse the 'talent drain' and provide more graduate opportunities.
- Some businesses are still unable to access private sector finance. Following the loss of sources such as the Local Investment Fund there is a need for other small business funding vehicles.
- Evidence suggest that businesses within SEW have a greater focus on serving customers in close proximity to their location and there is less "exporting" of services and products to the wider UK and global markets.

BUSINESS SUPPORT: KEY FINDINGS

There currently exists a large number of organisations providing business support but with diminishing resources available in local authorities.

The relationships between business support organisations and with businesses need to be strengthened to make the best use of limited resources and ensure solutions are demand led.

Businesses within SEW are still feeling cautious about medium-term prospects due to the impacts of the recession.

Businesses highlighted technological change and innovation and further digitisation of the economy as being potential drivers of the economy. 'Threats to energy supply and security' was also frequently reported. Businesses suggested a need to exploit natural energy capabilities particularly to harness the tidal volume of the Bristol Channel through a barrage or tidal capture schemes as well as the opportunity to use green energy and technology to provide a manufacturing centre of excellence in SEW.

Skills deficits and limited access to finance are two of the main factors that employers feel will constrain growth in the area. Other key concerns included a 'failure to innovate' and 'infrastructure weakness'. In particular respondents suggested that SEW suffers from inadequate connectivity to London. Businesses also mentioned the perceived lack of a business quality airport.

The key priorities highlighted by businesses for public sector investment were:

- Physical infrastructure such as the M4 relief road, Cardiff Airport, Metro.



- Skills, education and training needs improving at all levels but basic skills was seen as the priority.
- Innovation, technology and ICT / digital. In particular businesses felt there is a need to focus investment on real strengths in science and technology and aiming to be world class in a limited number of areas rather than spreading investment too thinly.
- Strategic priorities were highlighted particularly in relation to frustration around slow and overcautious decision-making by officials and Ministers. Businesses broadly support the idea of a City Region growth strategy as long as the main focus is on taking action and achieving the vision rather than governance structures.
- Other priorities highlighted include: building an enterprising population and reforming the planning system.

BUSINESS SUPPORT: IMPLICATIONS

- A number of business needs have been identified. These need to be tackled in order to retain and encourage business in the area.
- A closer relationship on business support issues between SEW partners and Welsh Government is needed with a clear governance and roles defined.
- Recognition of the need to strengthen the links with the private sector to understand their needs and give them a clear voice in determining what support is provided.
- A clearer approach to diversify SEW businesses target markets both geographically and sectorally to reduce reliance on local customers. This needs to be developed in parallel with a clear strategy on inward investment to be developed in partnership with Welsh Government.
- SEW partners need to take difficult decisions as to the 'what' and 'where' questions of business support, its spatial targeting and the balance between growth and addressing economic and social inequalities.
- Employers are seeing significant skills gaps in the available workforce which will continue to impact negatively upon the productivity of local businesses and as such needs addressing. Businesses may even seek to locate elsewhere if skill gaps are not addressed.
- Public sector cuts are likely to lead to further reductions in the business support available. Whilst new programmes are being developed including Business Wales there is a need to ensure that these offer the correct type of support to specific areas and businesses. Collaboration with providers of the service by the existing public sector providers is essential.



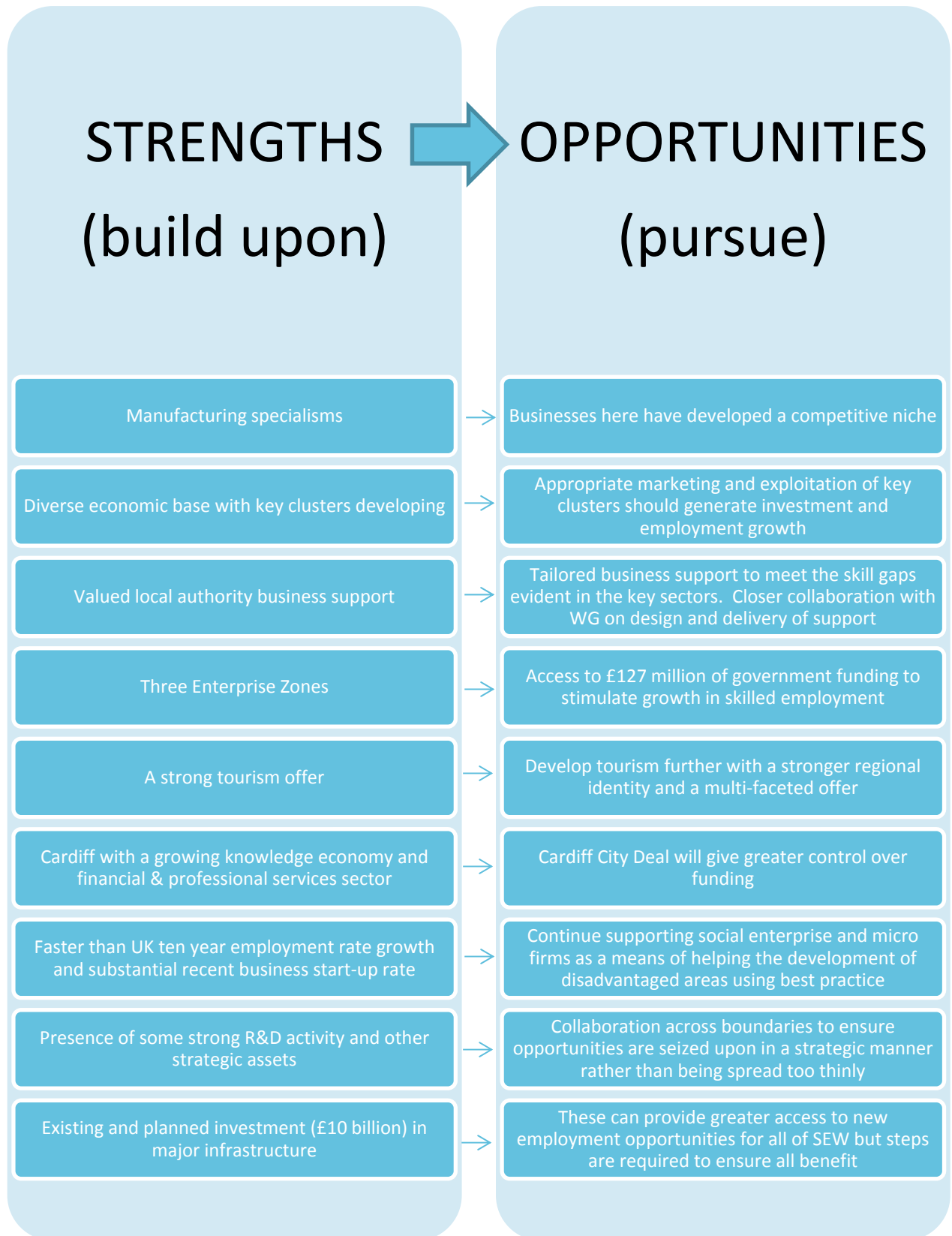
CONCLUSIONS

As set out earlier, the productivity framework identifies five factors that are seen as the drivers of productivity. These have each been assessed and the following summarises the analysis in relation to each:

- **Investment:** *Indicatively* Wales performs reasonably well as it generates 4.5% of the foreign direct inward investment projects across the UK but only makes up 3.7% of businesses.
- **Innovation:** This is low across SEW particularly in relation to the level of R&D expenditure, longer term business survival rates, and employment in knowledge intensive industries (with the exception of Cardiff).
- **Skills:** The skills base is consistently cited as a weakness.
- **Enterprise:** Although the business start-up rate has increased rapidly over the last four years, levels of self-employment are low.
- **Competition:** SEW on the whole performs poorly in terms of competitiveness with only Monmouthshire and Cardiff ranked in the top half of the UK Competitiveness Index.

The following SWOT summarises this analysis. The strengths and weaknesses relate to the internal SEW “environment”, with the opportunities and threats relating to the wider context and external influences. There exist a great number of strengths that can be maximised further and opportunities that should be pursued including:

- Physical infrastructure projects such as the M4 relief road, Cardiff Airport, and the Metro can increase employment and provide greater access to new employment opportunities across SEW. It could provide the required platform for economic growth. These projects could also benefit tourism, housing development, regeneration, and other economic development.
- Development of a City Deal for Cardiff by March 2016 is a key mechanism by which SEW will have greater control over where and on what different funding streams are targeted. Influencing the content of the deal to get the best deal for business is a key role for the SEW business group.
- Collaboration across local authority boundaries to ensure opportunities are seized upon in a strategic manner rather than being spread too thinly. This could include the identification of premises that supports inward investors and the development of key strategic sites and premises focused on areas of greatest impact. Collaborative business support provision across the area would also be beneficial and as part of this an initial assessment of the people and financial resources currently employed across the ten authorities would be a helpful step in planning future provision.



WEAKNESSES (address)

A substantial proportion of manufacturing is low skilled / low value added

There exist low skill levels, a lack of basic skills and employers with skill gaps

Transport links within the Valleys and to Cardiff, and links to London are generally poor

The economic recovery has been slow as compared to elsewhere increasing disparities

Over dependence on public sector employment

Predominantly low levels of 'competitiveness', entrepreneurial activity, employment and wages

Lack of speculative development and little or no investment in the promotion of key strategic development sites

Business markets are much more focussed locally with little exporting activity

'Talent drain' with graduates moving out of the area

Business support duplication across SEW and weak linkages/collaboration with WG

THREATS (minimise)

Mismatch between skill needs and the profile of SEW population leading to businesses relocating

Reducing public sector resource and impacts on business support

Over-reliance on Cardiff e.g. people in the Valleys unable to access jobs in Cardiff

Many would-be business starts are still struggling to access private sector finance

Widening disparity between earnings (and quality of life) in SEW and the rest of the UK

3-year business survival rates continue to lag national average

Enterprise Zones displacing employment rather than creating new opportunities

Lack of regional governance / strategic direction

Lack of critical mass in the private sector to encourage new businesses, innovation or skills development

Increased congestion on the M4 restricts economic growth / businesses relocate



Concluding Comments

The objective of this commission has primarily been to bring together economic intelligence to inform wider strategic planning and the economic development of SEW. The following summarises the findings and makes key conclusions. In addition, some high level recommendations are made for future actions and focus for the SEWDER group.

Economic Performance: Recognising the Challenge

The current economic position in SEW is challenging and shows significant disparities on both external and internal comparison. Across a wide number of indicators the sub-region underperforms compared to the UK. Most importantly the gap in economic performance compared to the UK is widening. In this context it is essential that all public resources and private investment available is used to maximise economic impacts, with a focus on securing advantage for local business and the workforce.

Collaboration: Making the Best Use of Resources

Wales has benefitted from significant economic regeneration funds in recent years. The current round of structural funding to 2020 will likely be the last of significant scale as the focus moves to new EU member states. Continuing cuts on public budgets are only likely to increase the challenges of supporting businesses and the workforce.

Therefore, public sector partners need to work together to get the most out of resources and target these effectively based on a clear understanding of needs. There is a need for effective governance to be defined through mechanisms such as the City Deal. This will give local actors a clear mandate and resources to support businesses directly and provide the wider conditions for growth through investment in other areas including infrastructure, skills and housing.

Closer collaboration with Welsh Government is critical on areas including the design and delivery of business support provision (e.g. Business Wales), closer links with key sector teams, work around developing export markets and inward investment. Given that much of the resource for business support lies within Welsh Government control they have to be a central partner in efforts to support business but need to be informed and influenced by the knowledge and experience held within the ten authorities.

Recognising the key areas that business identify as key for growth and enterprise is important in determining the most effective role for SEW to play. These areas cover access to finance, infrastructure investment, broadband, premises availability, business networks and support, access to public sector decision makers and delivery bodies and the supply of skills and labour. It is within these later areas that SEW can bring most influence and direct delivery to bear. Examples of actions here include joint work on sites and premises bringing together organisations assets to offer a more co-ordinated and comprehensive offer to businesses.

Demand Led Growth: Engaging the Private Sector

The role of the private sector in defining what is needed to encourage growth and investment is central to the success of any strategy for business development and the wider success of the City Deal. There is a need to engage and meaningfully involve the private sector in discussions and decisions on where and what to invest in.

Engaging the private sector needs to be organised from both an internal and external perspective looking at existing and potential investors. Externally the SEW group needs to work to proactively target investors and collaborate on inward investment with Government.



Key Sectors: Supporting Growth Opportunities

Public budgets are shrinking whilst global competition is increasing. In this environment identifying key niches and specialisms is critical to improve competitiveness and productivity.

There are a significant number of opportunities that can be exploited, none less so than the growing confidence and strength of Cardiff. The city, as the economic driver of the city region has the ability to benefit the whole of SEW. It has a growing financial and knowledge based economy, a high profile university and some excellent cultural assets. More widely SEW has some real strengths in certain sectors of the economy that can make a major contribution to improving productivity and employment growth.

The key sectors analysis led to the creation of a ranking system in order to identify sectors to focus upon for short, medium and longer term actions. The top five ranked sub-sectors identified were:

- Insurance,
- ICT Software,
- ICT Hardware,
- Medical Equipment, and
- Energy Related Manufacturing.

Specific actions for supporting these sub-sectors are identified in the main report.

Supply Chain: Maximising the Benefits of Infrastructure Investment

Significant investment is being made in transport and wider infrastructure projects in SEW, Wales and the UK. This presents major opportunities to address the gap in economic performance and maximise the benefits to SEW local residents and businesses.

Allied to this is the need to have an effective system of support to allow businesses to capitalise on the direct and supply chain opportunities that result. Part of the solution here is addressing the major skills issues that are a major constraint on growth. Other work should look to develop sector experts to determine the real opportunities for businesses that exist in investment project supply chains.

Balancing Needs: Addressing Inequalities

Whilst there are sound opportunities for economic growth, much of SEW does not currently benefit. As much of the analysis notes there is a real spatial disparity in economic performance and large areas and populations with limited economic and social development opportunities. Different solutions, including social enterprise, are needed and have already been developed to support businesses in these areas and efforts should be made to continue these where there is a clear economic and social benefit.

Whilst physical infrastructure and the resulting economic stimulus will provide some means of addressing this disparity, it does not provide the solution to what in many cases are the results of much wider structural economic change at the global level. Realism is needed as to what can be achieved with the resources available.

Recognising the central role that small and micro businesses play in economic activity across SEW both within growth and deprived areas is important to the shape and scope of future business support. Allied to this is recognition of the role the area's geography plays. With a widely dispersed business community, delivery of business support is challenging. Whilst ICT can be utilised to deliver



solutions to businesses and aid their growth, the role of face to face support and networking is not to be underestimated. There is a clear role for SEW local authority partners to play in continuing support for businesses in these areas based on their experience and relationships.

Moving it on: Practical Actions

Taking the above recommendations into account, the SEWDER Business group need to formulate an effective and targeted strategy for joint activity by the public and private sector. The primary objective is to support businesses and enable them to access new opportunities at home and abroad. This will offer new employment opportunities across a range of occupation and skill levels.

One of the key areas in which SEWDER can contribute is the provision of the intelligence and evidence that they hold through their work with businesses and analysis of published data including this work. This should inform the wider provision of business support delivered by actors including the Business Wales model.

Collaboration on business support and more widely economic development across SEW is challenging both politically and organisationally. However it is essential given the widening gap in performance, the spatial distribution of economic and social need and opportunity and the reduction in resources available across SEW. Difficult decisions will need to be made as to where and what to allocate resources to, however these need to be taken if further powers are to be devolved and the City Deal is successful.

As well as co-ordination and debate amongst the ten authorities there is a need for the SEW partnership to negotiate with Welsh Government and Whitehall with one voice in order to provide a clear view on the specific issues that businesses face, the types of solutions that providers including Business Wales and others deliver, and most importantly gain a fair share of Government support for the city region.

