

ECONOMIC DEVELOPMENT & TRANSPORT COMMITTEE

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Venue: Ladywell House, Newtown
Title: A view of the impact of recent closures on the local economy and the wider issue of manufacturing withdrawal in Mid Wales.

Welsh Assembly Scrutiny Meeting of the 26th May 2005.

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Introduction

My name is Jeremy Wright; I am head of Economic Development in Powys County Council. This statement is a statement of my own opinions and has not been endorsed or approved by any Council Committee.

1.1 The economy of Mid Wales is not easy to read and I take as my starting point the fact that for the first time in recent memory there is effectively full employment in the region. Employment high spots which endured for years in, for instance, Ystradgynlais and Llandrindod Wells, have diminished to rates of unemployment that are normally acceptable in a western economy. Unemployment has always been a key feature and measure of the lack of economic prosperity. A clear and unequivocal target for those agencies geared towards economic improvement e.g. the WDA and the local authorities. Along with the UK government, we have been very preoccupied with reducing unemployment and it has been a primary motivator in deriving regional policy and the levels of intervention for the last 60 years. But here in mid Wales we have seen a steady decline in actual unemployment for those wanting to work (as opposed to those who are not active for whatever reason). The statistics need more work – for instance the trend for more female employment at the seeming expense of male employment and it would be useful to have a clear understanding of the needs of manufacturing in terms of gender split. This may be more important as the demographics of the area unfold.

1.2 However, the issue is, and has always been in reality, that of the level of wages. The issue for rural Wales is that wages persistently remain low – not only to the UK averages, but within Wales itself. In a recent article in the Welsh Economic Review, (Appendix 1) Professor Peter Midmore confirms this view in stating “low wages rather than absolute lack of work contribute to lagging rural economic performance and that strong population growth from in-migration has done little yet to contribute to the solution”. He goes on to suggest that the rural economy needs to retain more of its own wealth production internally to precipitate take off speed.

- 1.3 There is a need to add to this brief analysis, the demographic characteristics of the region. The population is moving towards an older persons weighting in its profile and we have the strong belief that there is “a demographic time-bomb” creeping up on us. That is to say an increasingly aged population, due to increased life-expectancy and decreased fertility which is observed over the whole country, exacerbated in the case of Powys by the continuing steady outward emigration of young adults and inward migration of early retired and older people. Appendix 2 shows the trends based on our current understanding and is stark in offering an interpretation of the future where the age structure could have a real impact on the potential of the area to forge a self sustaining economy.
- 1.4 Mid Wales traditionally suffers from the issue of sparsity and distance from markets. This, combined with the low wages, has resulted in a government support network in a formalised structure, first by Mid Wales Development which was succeeded by the DBRW and now the WDA. That, of course, is undergoing further reorganisation with its merger into WAG. These agencies have fitted in with the then current philosophies of the appropriate level of intervention with the most recent incarnation being focussed on entrepreneurship and sustainability rather than, as in the past, the provision of large, single employers.
- 1.5 At the same time the area has been in receipt of European monies through the ERDF under Objective 2. We are coming to the end of the second tranche of that programme with considerable uncertainty of what may be available, post 2006, to support regional development again.
- 1.6 It could be argued that with a full employment, the need for intervention by public agencies to support Mid Wales has diminished. But in reality the level of activity together with the incidence of low pay suggests that the economy still needs support. This is further evidenced by the level of rents in the area which tend to be low. The capitalist economy relies on the rental return in the market to be at a level that makes the capital investment worth pursuing. New build and refurbished build in Mid Wales do not warrant a level of rental which would support the capital investment in the first instance. In other words, the only way that successful rented accommodation can be created is through some kind of public subsidy. In this regard the WDA has acted well over the years to provide sites and premises, to encourage developers. It has been a successful outcome.
- 1.7 So the simple analysis for Mid Wales in 2005 is that it still “suffers” from low pay and low rent with no real prospects that it is breaking out of the cycle of a need for support. Indeed, it could be suggested that the lack of progress towards a self sustaining economy in mid Wales means that, in relative terms, mid Wales is slowly slipping backwards despite the levels of intervention. There could, of course, be other factors at work – that the level of intervention has been too low to enable the economy to hit take off speed, or sparsity, which militates against a self sustaining market economy, and the distance

from markets, are genuine and persistent barriers to creating a modern, sustainable economy.

- 1.8 In these circumstances any threat to continued support is real and, for instance, the potential loss of European aid post 2006 support through Europe diminishing is a great concern. In addition, the implied threat of centralisation of a WDA to Cardiff could equally bring a reduction in concentration on Mid Wales and its particular needs and aspirations.
- 1.9 There is also disparity emerging in the level of likely modern infrastructure available in Mid Wales as opposed to other parts of Wales. The emergence of broadband as a critical feature of modern business is to offer an entirely new form of infrastructure. In the past (and currently) mid Wales has always argued strongly of the need for improved road and rail connections, if economic performance was to be improved. Minor improvements have been achieved to roads in various places, but the substantial links into England or to the north or south of Wales have not been created. In 'Winning Mid Wales' document the need for investment in the highway infrastructure is a key feature. Rail access has not been improved either although it has been sustained despite continual threat. The opportunity that Broadband brings is to offer genuine communication for businesses at a distance from their markets and their associated suppliers and customers. It is a new phenomenon that we ought to be able to exploit, particularly as congestion grows in the South East and else where in the UK. Two years ago there were only two exchanges enabled for Broadband in Powys, but as of today only 11 exchanges have not been enabled – designated by BT as uneconomic. Those 11 are part of a Wales wide bid, to bring all exchanges in Wales up to standard.
- 1.10 But Mid Wales is not showing any propensity to take advantage of this new opportunity. The latest figures demonstrate that the take up for Broadband is relatively low. The attached newspaper cutting (Appendix 3) from April 2005 shows the take up across the UK and highlights a growing divide between the haves and have-nots. It notes in particular that Wales is slowest in taking up opportunities with 7 of the 10 "least wired" constituencies in the UK. This is further examined in a BBC report where it is interesting to note that 3 out of the top 5 "most connected" constituencies are in Cardiff. A case of two nations in Wales perhaps? Opportunity Wales has now arrived in Mid Wales with the contract being awarded to the County Council to develop commerce's ability to exploit Broadband and facilitate greater wealth production. Hopefully that will encourage a greater take up of the opportunity of broadband and consequent growth in the economy.
- 1.11 It is key to the future. The next generation of internet protocols will be able to carry significantly greater levels of data at higher speeds and those locations that achieve it first will have a competitive advantage. Mid Wales does not look as though it will be in that vanguard and its natural disadvantages will be amplified in the future rather than diminished.

- 1.12 The agencies involved in increasing prosperity and opportunity are alert and alive to the needs to promote and lobby for resources and opportunities. The recent publication of the Mid Wales Partnerships 'Winning Mid Wales Strategy' to echo the 'Winning Wales Strategy' is an example of this. As is the Skills and Employment plan and the development of the Spatial Plan. It offers a perspective and scope to fit the opportunities in Mid Wales within the national contexts. These documents offer analysis and solutions, but do not diminish the need for continued support.
- 1.13 Into this mix must be placed the changing shape, format and character of agriculture. The move away from the complexity of the CAP to the single farm payment would, on the face of it, seem to offer a guarantee to sustain the countryside and offer continued support to tourism which is a major driver of economic growth in the area. At the same time it means the continued shedding of labour and a dilution of the contribution of agriculture to the economic model. It does emphasis tourism as an economic driver, and whilst Powys has a serious outdoor product to offer, it is one that is subject to individual choice and fashion and subject to quality by the providers.
- 1.14 In these circumstances the opportunity for manufacturing as a major driver of economic development has always been seen as a significant goal. It is true to say that manufacturing as a whole offers both skilled and higher-level wages than service industries and provides a format in which service industries can thrive. The drive by the agencies has always been to offer opportunity for manufacturing for those reasons. Newtown and the Seven Valley have been successful over the years in attracting and sustaining a wide variety of industries and this helps to sustain both the economy and full employment.
- 1.15 However, the location of Mid Wales has invariably meant that those manufacturing plants that have been achieved are often subsidiary to main plants elsewhere. For instance, a major employer in Newtown, Control Techniques, is in fact a subsidiary of an American company called Emerson. Its choice of investment will be on a global strategy rather than a local one. The local closure of Elliots reflects a change in the national needs of that company rather than a particular local issue. The Mid Wales units are often the first to shut in any such rethinking at a national or global context. The eternal hope for the development agencies was that these branch enterprises would have a strength and purpose of their own able to withstand the changes in globalisation. In practice this is not true, although by persuading companies to buy property rather than rent has, on occasion, meant that the withdrawal was necessarily slower and more deliberate, offering a "cool down" period for the local economy.
- 1.16 At a recent seminar on the Mid Wales Partnership's "A Winning mid Wales" participating manufacturers made comment that the location did not particularly disadvantage them, but they were subject to the impact of UK , European level or global decisions by their parent companies and vulnerable to change. Some cited lower wage levels in the area as a positive advantage,

but the current full employment was giving rise to some difficulties in recruitment. Other points raised at the same seminar covered

- Housing – its availability and cost
- That manufacturing in mid Wales often relies on the commitment of individual business owners / managers
- The availability of skills in the labour force both now and in the future
- The demographic time bomb
- That the local market tends to be low tech., low volume, niche and there should be wider advertising to offer the facilities of mid Wales to a wider audience
- The longer term impact of globalisation i.e. China as a key manufacturing nation and
- speculation that mid Wales should focus on those aspects it can do well and are distinct features of the area and economy e.g. health tourism

1.17 The closure of Elliots, releasing some 70-80 people onto the market, whilst in its self a very poor outcome for those employees directly, may well have bought some incidental relief to other companies. The full employment position referred to earlier, is beginning to produce a lack of skills and the need to import labour. There is also comment from manufacturers of the need for training and the reality of a smaller pool of young people to choose from as more and more of them leave the area at the beginning of their careers. There is evidence of this in both the Severn Valley and in Brecon. But ironically the full employment does not seem to have created a circumstance where there is a significant increase in wage levels. The figures we have to hand suggest that the average wage level in Mid Wales still remains well below that of the average for Wales.

1.18 This short analysis suggests that despite a support economy through agency help over the last 30years and the arrival at effective full employment, Mid Wales stills needs a support mechanism of public sector intervention to help it compete on anywhere near equal terms with those more buoyant and self sufficient regions, not only within Wales, but also the UK and Europe. V4

Appendix 1

Extract from the Welsh Economic Review.

Realising the Potential of Wales' Rural Economy *Professor Peter Midmore, School of Management and Business, University of Wales Aberystwyth.*

Wales is a more rural country than England. That provides one rationalization, among many others, for devolution; policies can be designed to suit rural circumstances better, taking local understanding - and preferences into account. Depending on definitions, improving the performance of the rural economy is much more important for Wales. In general terms, the areas around the M4 and ASS corridors are performing at least as well as the UK average, so, together with the Valleys, the rest of the interior of Wales provides the main obstacle to achieving the headline GDP targets guiding the Assembly's economic strategy.

Economies, and particularly rural economies, are not easy to define. There are distinguishing characteristics, such as industrial structure (rural activities tend to be more based on primary, land-based sectors), demography (countryside populations are older), culture (lifestyles are different), and of course population density. On the last feature, "rural Wales" would consist of local authority areas with less than 50 residents per square kilometre (the OECD definition), forming a contiguous area from the Northwest, all of Mid and West Wales, and the far Southeast.' This rural block, however, is far from homogenous, especially in economic terms. Economists often try to represent the systems that they study as a set of simultaneous equations, showing the interdependence between sales and purchases of different sectors. But for rural economies, and this is particularly relevant in Wales, there is hardly any integration at all. They are more like dependent satellites of nearby metropolitan economies, with few of the variables in the set of equations having any value other than zero.

This presents a headache for policymakers, since efforts to stimulate economic growth leak away much more quickly than they would in an urban context. Reliance on inward manufacturing investment as the source of new employment is often inappropriate given its vulnerability to closures, and given that SMEs can be major employers in scattered communities with small workforces. Hence, a primary objective for rural regeneration should be to build local self-reliance as much as possible. Low population means that there will always be considerable external dependence, but as much as possible of the external revenues should be retained locally to build up a resilient structure of businesses and employment.

A more reflective policy, based on this principle, should develop from a review of the current extent of rural economic problems, an assessment of future potential, and a brief examination of the policy benchmarks set out by other, similar regions. The statistical base is not good; one of the problems of a sparse population. Table 1 shows some summary indicators of the economic situation for most of rural Wales (for many indicators, Carmarthen, Ceredigion and Pembrokeshire are combined; income figures for Monmouth are amalgamated with the highly urban Newport

unitary authority area; and even at this level, there are huge gaps in information on wages).

These summary figures show that low wages rather than absolute lack of work contribute to lagging rural economic performance, and that strong population growth from in-migration has done little yet to contribute to the solution. These figures also fail to show variations within this area of Wales. The most extreme example is Anglesey, where a high concentration of disadvantage in urban Holyhead drags down what would otherwise be a more respectable accomplishment.

More insightful detail can be brought together from the simple structure of a Strengths and Weaknesses, Opportunities and Threats (SWOT) analysis. Strengths clearly include the quality of the natural environment, both in landscape and biodiversity. Against that background, resonances of the culture of small communities with distinctive lifestyles are an attraction for visitors, for those who move in more permanently, and for the indigenous population. The quality of educational provision is high, with several universities, good performance by schools, and adequate vocational training. Although small in size, the quality workforce is an asset provided that the right match of employment opportunities exists, and there are localised clusters of manufacturing. There are clear competitive advantages in tourism and niche food processing.

Offsetting this, for much of the area transport and communication is very difficult. Perhaps as a result, there is no cohesive identity, and the rural interest is neglected, and often invisible. Agricultural incomes have been slowly but steadily declining, and with it the influence of the once powerful farm lobby. The quality of tourism provision is poor, and far fewer resources are devoted to supporting its upgrade than in other areas of development. Compared with other parts of Wales, it has been difficult to attract inward investment. There are no agglomeration economies, and the lack of critical mass

Table 1: Rural

	GVA per head as % UK £	Population (‘000)	Net migration as % of total population	Activity rate in working population (%)	Wages (£/week)
Isle of Anglesey	52	68	-2.7	68.1	..
Gwynedd	63	117	2.5	79.9	393.40
Conwy and Denbighshire	62	203	6.9	77.5	353.10
South West Wales	62	362	6.0	71.3	..
Powys	69	126	7.0	83.0	371.20
“Rural” Wales	62	876	5.2	75.5	..

Source: Office for National Statistics.

Note: All figures are for 2001 except migration, which is for 1991-2001.

in labour and other markets means that it is hard to match supply and demand to generate internal linkages. All of these influences, in combination, make rewarding careers for young people thin on the ground, and contribute to the demographic 'hole' in the rural population between school leavers and the middle aged. An aspiration gap in terms of drive and vision seems to occur, reflected in the small numbers of high-growth SMEs.

Opportunities then exist for tourism development, mainly in the specialised areas of culture, landscape and environment. Policy shifts to environmental management in farming, where specific connections to tourism can be exploited, will expand this potential, and also where food can be linked, niche agri-food marketing could be improved. Because of the large distances between scattered businesses, many opportunities which could exist to improve internal linkages are simply unrecognised. However, improved networking, perhaps by making greater use of ICTs, could realise them. Also, there is still much scope for attracting lifestyle in-migrants in the high value end of ICT development, particularly as Broadband is increasingly connecting the Welsh countryside. Many existing in-migrants have business skills which are untapped, and more could be made of the higher education establishments' new commitments to working to enhance their local economies and to spin out technology transfer.

Some clear threats relate to uncertainty from the implementation of the latest round of CAP reform and EU expansion. Decoupled farm payments may have the many different effects, of which at least the possibility of significantly reduced output exists, jeopardising many upstream and downstream linkages. Other developing effects of globalisation, particularly the flight of manufacturing industry to Southeast Asia, will undermine many enterprises unless they have a significant competitive advantage. Similar impacts may be felt from the centralisation of public sector and utility activities. Modern lifestyles (especially those of in-migrants) may erode the social capital base of communities - ironically, since often that is a significant component of the initial attraction. And finally, uncertainty about changes in the fee basis for higher education could limit the effectiveness of these institutions as fertile growth poles in otherwise sluggish markets.

There is no template for successful rural regeneration, as the specific circumstances of each area vary so much. The search for neat, workable definitions has always foundered because there are many different types of "rural". Contrast, for example, some areas of Powys close to the English border with the Lleyn Peninsular, or North Pembrokeshire. There are, however, common principles which are recognisable in examples of some impressive development performances in rural areas of Europe and North America. First, competitive advantage needs identifying and then robustly exploiting, in order to increase the flow of external income. This requires considerable flexibility in response to changing market conditions. Secondly, as much of possible of these earnings needs to be retained in local incomes, by "plugging the leaks". This requires

businesses to network collaboratively, sharing information informally as a means to benchmark their performance, and also continually searching for and developing synergies where they exist. Thirdly, both of these processes need to be underpinned by robust social capital, and "institutional thickness"; the latter is a concept developed by Amin and Thrift (*Globalisation, Institutions and Regional Development in Europe*, Oxford University Press) which expresses the degree to which networked firms can interact with supportive public institutions whose aim is to develop and embed entrepreneurial dynamism.

On sober reflection, rural Wales falls far short with regard to these principles, but the gap is at its widest in respect of institutional thickness. Its clearly distinctive problems are not dealt with comprehensively, but are split between all four of the economic forums which are charged with regeneration, three of which have a majority urban population. Local authorities, and the Assembly Sponsored Public Bodies with an economic remit, are inward looking and defensive, and consequently there is no structure which allows local public leaders to play a key role in vision building and coordinated intervention. The one framework which offers most to development of rural social capital, business networking and particularly tourism development, the European Commission's LEADER Plus initiative, will cease in 2006, as the framework of regional policy is tilted eastwards.

Can the Welsh Assembly Government be persuaded that greater effort should be made to revitalise local government, reorient public bodies to make their rural remit more effective, and refresh their own strategies? Since most of the governing party represents urban constituencies, and all of the Cabinet are from Greater Cardiff, one might suspect that their appetite for action was faint. One argument, though, might work. Because participation rates are substantially above average in rural Wales, relatively modest improvements in productivity could have a more marked effect on Gross Value Added. The potential that is displayed by similar rural regions elsewhere suggests that an improved and innovative economic focus, responded to by businesses, could raise wage levels substantially. With a 12-14% improvement, the rural GVA gap would be well on the way to being covered. With a roughly similar population, half of the Wales gap would disappear, leaving only the more intractable difficulties of the Valleys to be dealt with.

Endnote

1 Isle of Anglesey, Gwynedd, Conwy, Powys, Ceredigion, Pembrokeshire, Carmarthenshire Monmouthshire.

Appendix 3 -Internet map reveals the broadband divide

By Richard Wray

There is still a significant divide between the internet haves and have-nots across England and Wales, according to a new map which charts web access across the two countries.

Point Topic, a consultancy that specialises in internet issues, has analysed take-up of high-speed broadband internet services and mapped its results along constituency lines.

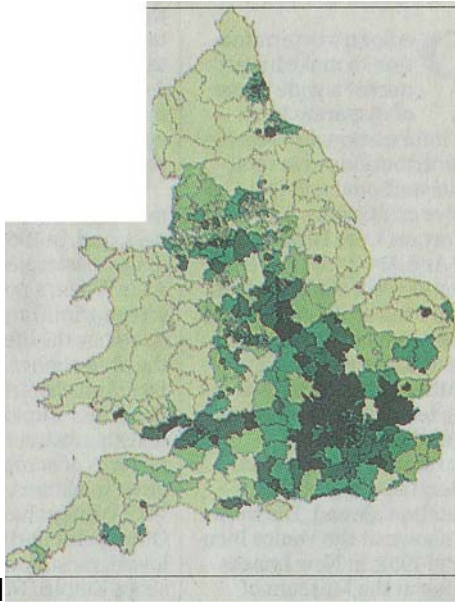
"There are two digital divides in England and Wales," explained Point Topic's founder Tim Johnson, "a geographic one and a social one. The geographic divide is closing fast but the more serious issue is the social digital divide."

Point Topic's research shows that in affluent urban areas such as north London - where broadband is available through BT's phone lines and cable networks Telewest and NTL, up to a third of households have broadband. In poorer areas fewer than 10% have broadband.

As internet access is increasingly used in education these areas risk being left behind in the push for a 'knowledge economy'. The research also shows an age gap, with only 8.8% of households headed by someone who is 75 or older having any form of internet access. The divide is perhaps most severe in Wales. The central and north Cardiff constituencies have the highest penetration of broadband internet access at 37% of households, but seven of the 10 least wired constituencies in England and Wales are to be found in the principality.

Plaid Cymru's Adam Price, contesting one of the 10 worst supplied areas, Carmarthen East and Dinefwr, as its incumbent MP, described the digital divide as 'clearly very severe'.

'Broadband is a prerequisite for a thriving economy in the 21st century,' he added, saying the present government has failed to make use of technologies that would open up rural areas to broadband.



Household Take-up % of households with Broadband
(darkest 25.5 – 37.8%; lightest 2.4 – 19.4 % (includes Powys))

Most rural parts of the country rely on BT's lines for broadband internet access. Last summer the company announced it would place broadband technology in most of its telephone exchanges, opening up high-speed web access to more than 99% of Britain. However in some remote areas it is not economical to install broadband equipment. A spokesman for the company said yesterday it is working on wireless solutions to help to bring broadband to areas without coverage, such as parts of Wales. The Welsh assembly is also looking at obtaining funding to help remote parts of the country get wired-up.

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