

Enterprise and Learning Committee

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Inquiry into the implementation of Economic Renewal

1. Purpose

The purpose of this paper is to provide the Enterprise and Learning Committee (ELC) with written evidence to assist with its inquiry into the implementation of Economic Renewal: a new direction.

2. Overview

This paper summarises the progress made so far on implementing Economic Renewal: a new direction. It demonstrates how the work we are delivering is underpinned by the five Economic Renewal priorities; highlights the whole government nature of the programme and sets out our intentions for the next stage of delivery.

3. Vision

The vision for Economic Renewal is to transform the business environment in Wales and make our country one of the best in the world to live, work and play. To achieve this we need the best conditions for the private sector to flourish and grow. This is because in the final analysis it is business that generates wealth.

Given the new reality of public finances, we are committed to making sure that every penny of public money invested in the Welsh economy is used to the best possible effect. This is why after an extensive process of engagement we charted a new course ahead in Economic Renewal: a new direction.

This approach is needed precisely because the world is changing, and will change even faster as we emerge from recession. One major objective of 'Economic Renewal' involves switching government money to support the economy as a whole – investing in our infrastructure, skills and Research and Development.

4. Background

Following its launch on the 5th of July, the implementation of Economic Renewal: a new direction began immediately, with an ambitious timescale for action to deliver the policy. This new approach is to tackle the real economic challenges faced by Wales. Simply carrying on with an economic support model from the 1980s is no longer an option.

Put simply, the Welsh economy has not met our expectations. To continue with the same approach is not acceptable. To drive up performance and GVA we need a new approach that tackles the systematic issues in our economy and that is what Economic Renewal: a new direction is about. It is a new direction to focus our resources where they will have the greatest impact and push Wales up the value chain. This means investing in infrastructure, skills

and R&D. Crucially, it means focussing on the sectors where there is the biggest potential growth.

The launch of the policy followed an extensive and innovative period of engagement with the private, public and third-sectors on the strengths and weaknesses of our previous approach and the challenges and opportunities we need to address to improve our prosperity.

5. Highlights of delivery to date

Since we launched the policy we have worked tirelessly to implement it, from reorganising our department through to creating a new finance offer. Actions so far include:

- Re-organising the Department for Economy & Transport to create a more focused and streamlined department.
- Launched the 'Employers Pledge', a £17.5million investment (with investment from ESF) to help low skilled workers improve their numeracy and literacy skills.
- Transformed our finance offer to a new model of support where the old grant culture makes way for one of repayable investment. The advantage of the new system is that repayable business finance can be used again – recycled to assist the birth and growth of new and growing enterprises.
- Created a new R&D support offer that includes repayable finance up to seven years in exceptional. Repayment will generally be triggered where R&D projects are successfully commercialised within five years of project completion, or where the enterprise sells its Intellectual Property rights or is itself sold or acquired.
- Abolished the IBW and FS4B brands.
- The Creative Industries Panel has been recruited and is in place chaired by Ron Jones.
- Announced a revised the Local Investment Fund that will be able to offer funding of up to £10,000 to meet up to 40% of the cost of capital investments such as buying new equipment or extending business premises. The previous limit on most funding applications was £5,000.
- Re-aligned the use of European money (WEFO) to match the approach of Economic Renewal and to increase funding for infrastructure developments.
- Finished gathering evidence for our review of overseas offices.

- Launched a new scheme to help bring broadband services to rural communities across Wales with initial funding of around £2 million. It will enable individuals and communities in Wales' remaining broadband 'not-spots' to approach service providers directly, with support of Assembly Government funding. This is the first step to creating a 'Next Generation' Wales.
- To deliver a more coordinated approach to infrastructure investment our Infrastructure Group has been established, bringing together infrastructure officials drawn from Transport, ICT, Property, Regeneration and Housing programmes.

6. Priorities for next three months

Highlights of some of our actions in the coming months include:

- Remaining Sector Panels will be up and running by January.
- Finishing reviews on overseas offices, regional centres and incubation centres.
- Fully staffing new structures.
- Launching new Entrepreneurship campaign to encourage new businesses.
- New communication and marketing campaign to publicise new Welsh Assembly support for business.
- Publish a new infrastructure plan to coordinate investment.
- Procurement options for Next Generation Broadband
- Launching a Youth Entrepreneurship Action Plan

7. Key principles for delivery

Implementing *Economic Renewal: a new direction* means that the Government is taking on a new role; one which is clearer about the rationale for action and ensures that resources are focused on priorities with the widest impact. Delivering this is a task for the Assembly Government as a whole, not just the Department for the Economy and Transport (DE&T), as the policies of all Departments have a significant impact on economic development and the general environment for business in Wales.

8. Policy Priorities

Economic Renewal: a new direction will facilitate a stronger and more sustainable economy through investing in infrastructure, skills, research and development and improving the conditions within which all businesses operate. The five policy priorities are:

- Investing in high quality and sustainable infrastructure;
- Making Wales a more attractive place to do business;
- Broadening and deepening the skills base;
- Encouraging innovation;
- Targeting the business support we offer to help us gain competitive advantage.

a) Investing in high quality and sustainable infrastructure

Wales needs modern, sustainable infrastructure to underpin economic growth and the wellbeing of the people of Wales. People need to be well-connected within and beyond Wales, and to have access to the right facilities and services where they live and work.

Our Commitment

The key commitment for infrastructure is that all businesses in Wales have access to next generation broadband by the middle of 2016, and all households are enabled by 2020. We committed to form a new infrastructure team, to fully integrate infrastructure planning and delivery, to examine the options to develop a Wales Infrastructure Plan, to review our land holdings and develop our approach to premises for business.

Progress on Delivery

Progress has been made in delivering **Next Generation Broadband** in a number of locations by encouraging Internet Service Providers to supply customers from the Fibrespeed network. We have commenced discussions with the ICT market this Autumn, through recognised supplier forums. A programme delivery team has been established, and the work is underway with a view to procurement in early 2011.

A new **Infrastructure Group**, bringing together infrastructure officials drawn from Transport, ICT, Property, Regeneration and Housing programmes, has been established. The new Group is providing more effective delivery of priorities, with previously difficult areas being accelerated, for example land being made available for social housing.

Preliminary work is underway in developing a **Wales Infrastructure Plan**. Officials are exploring the option of using powers under the Planning Act 2008 for the Wales Infrastructure Plan.

We are continuing to use our existing funding tools to support modern infrastructure development, such as the JESSICA fund. We are developing new ways of funding 21st Century Infrastructure, and working to redirect the value of our assets to finance digital and wider infrastructure improvements. We are undertaking detailed reviews of our property holdings, and advice is being prepared for ministers to determine how to maximise the contribution these assets can make to our policy intentions.

b) Making Wales a more attractive place to do business

We need to develop the conditions which not only allow, but actively help people and businesses to flourish sustainably. Business conditions are a prime driver of investment decisions and play an important role in business start-up, survival and growth.

Our Commitment

We committed to create a more responsive and efficient planning system, to put in place a package of reforms to make public procurement more accessible so that businesses, small and large, can compete for public sector procurements and ensure the impact of regulation on businesses is taken into account.

What we have done already

We are undertaking a review of **planning policy** for economic development to examine how the planning system can help deliver economic renewal in Wales. We are undertaking research on improving the planning application process in Wales. We will implement the resultant recommendations through improved guidance, promoting cultural change in planning and improving the operation of the system.

A supplier reference panel has been established to deliver our commitments on **Procurement**. The online supplier qualification database and a new single National Procurement Website are in the final stages of development and will be operational shortly.

We are improving the coordination of our processes that lead to **regulations** that impact on business. These will help us better assess the impact of our policies.

c) Broadening and deepening the skills base

The foundation of any economy is its working population and education and skills at all levels are vital for economic growth and prosperity in Wales. The need for skilled people has been a strong message from businesses and wider stakeholders – going from early years through basic and higher levels skills.

Our Commitment

We have committed to building a genuine partnership with employers on workforce skills at all levels, getting our young people motivated and ready for the world of work, and having the skills provision in place so our workforce is able to thrive. Delivering this is a shared responsibility for us as a Government, learning providers, employers and individuals.

Progress on Delivery

The **strategies** “For Our Future” and “Skills that Work for Wales” set out our vision for building skills in Wales, from early years right through to higher level skills. *Economic Renewal: a new direction* reaffirmed the importance of delivering these strategies, and the need for strengthened employer engagement so that demand shapes the supply provision.

On the 15th Sept we announced our Employers Pledge, supported by £10m from the European Social Fund. The investment will raise the skills of 30,000 people working in businesses and organisations of all sizes across Wales. It is expected that 1000 employers will sign up over the next four years. Improved skills in turn will bring direct benefits to the organisations they work for.

Across Wales the network of private training providers along with further education and higher education institutions have developed strong links with thousands of Welsh businesses, and in some cases businesses from around the world. These relationships are just one way that employers voices are heard. The Wales Employment and Skills Board also has a remit to engage employers and advise on the skills and employment system and brings regular challenge and advice on skills policy and delivery. Going forward with the sector panels being established now, we will be actively engaging with employers and provide further intelligence and input.

We are further strengthening the **Apprenticeships** programme, including Shared Apprenticeships, an Apprenticeship 'clearing house', and the Young Recruits, and Pathways to Apprenticeship programmes.

We are developing plans to ensure information, advice and guidance relates to robust LMI and enables individuals to make appropriate choices. Giving individuals better information upon which to make decisions is a better route than directive planning of provision and will drive the supply of provision so it relates more closely to economic needs.

We are continuing to help individuals retrain in response to redundancy and businesses respond to the economic downturn. **The Redundancy Action Scheme (ReAct)** helped nearly 16,000 people between 1 October 2008 and 30 April 2010. **ProAct** awarded funding for 247 applications by companies. The total commitment for the 247 companies is over £27m and is supporting 10,560 individuals.

We are continuing to provide funding for training to companies that have identified a specific growth opportunity, through **Skills Growth Wales**. To date, 66 applications have been reviewed with 10 awarded funding totalling over £930,000, supporting over 1,000 individuals. A further 42 companies are developing training plans and if approved the number of individuals covered by these plans will be nearly 6,000.

We have boosted support for the strategically important digital technology sector with a £13m investment. Software Alliance Wales (SAW) will target support to ICT businesses and professionals working in the industry to ensure they keep abreast of the rapid pace of technological developments. It also aims to increase higher-level ICT skills across all business and industry sectors.

We are investing in management and leadership in Welsh businesses with a 5 year £65 million ESF funded project to develop the right skills to compete successfully in the 21st century global economy. Improved management is central if we are to drive up economic performance.

The Workforce Development Programme and Employer Hotline continue to act as a gateway for employers to access these and other programmes including Leadership and Management Workshops, the Enhanced Leadership

and Management Skills (ELMS) programme, the Employer Pledge Programme, ReAct and discretionary funding to support bespoke needs.

The skills system is dynamic and there is always a need to build capacity of the provider sector to respond to emerging needs. The Sector Priorities Fund Pilot Project is a means through which, working with Sector Skills Councils, we are exploring how solutions not currently available through the mainstream system can be developed.

d) Encouraging innovation

Research and development play an important role in stimulating innovation, and innovation is a key driver of economic growth and long-term wellbeing. Wales must move towards a more R&D intensive and knowledge-based economy where the right conditions exist for innovation.

Our Commitment

We stated in *Economic Renewal: a New Direction* that Research funding will be focused on the four priority areas, where Welsh HE institutions have the best opportunity to maximise their research performance and economic impact: Digital economy (ICT); Low carbon economy (including climate change mitigation and adaptation); Health and biosciences; and Advanced engineering and manufacturing. We have committed to establishing a National Science Academy.

Progress on Delivery

One Wales committed us to creating **Research Centres of Excellence** building on existing centres of expertise in Welsh Higher Education, and developing pan-Wales research collaborations. This will create the critical mass of research experience in Wales necessary to successfully compete for national and international research work. An example of this going forward will be the R&D work in HE which will need to support the aims of the recent UK government approved Low Carbon Economic Area in Wales which will lead on the development of hydrogen transport and storage technologies.

The **National Science Academy** will promote the take up of science, technology, engineering and mathematics – STEM subjects – at all levels to ensure Wales has a continuous pipeline of people graduating from colleges and universities with the appropriate qualifications and skills.

We began the review of our **business incubation facilities** immediately after the launch of *Economic Renewal: a New Direction*, and that review is nearing completion. Ministers will be making a decision shortly on how we will support business incubation in the future.

A new funding offer to support **R&D** has been developed and is available to businesses. As well as closer links between business and Higher Education Institutes, businesses can now access finance that will be repayable up to seven years after the final phase of R&D has been completed. This means

that businesses will now only repay funding once they have been able to use their research.

e) Targeting the business support we offer

We need to concentrate our resources where we can add the most value, acting as an enabler for the economy as a whole rather than a significant direct deliverer of services to individual businesses.

Our Commitment

We are developing a sector-based and more strategic approach to business support, and developing our role as an expert facilitator and enabler. The six key sectors which we are targeting are:

- ICT
- Energy and Environment
- Creative industries
- Life Science
- Advance materials and manufacturing
- Financial and professional services.

Progress on Delivery

We are recruiting recognised experts from within the sectors to form the **sector panels**. The Creative Industries Sector Panel is already in place and is chaired by Ron Jones. It will hold its first monthly meeting on 18 October. The remaining panels will be operational by January. The panels' remit will be to provide Ministers with advice on the sector, on opportunities for and the needs of the sector, including the skills base, and help develop and advise on the implementation of policies. The panels will report both to the Deputy First Minister and to the Economic Renewal Committee as appropriate.

To ensure that the benefits of the sectoral approach will be delivered, **integrated sector teams**, located across Wales, will be in place by December as part of the new structures. The teams will take a holistic approach, providing sector intelligence, advising on business development, R&D, Infrastructure requirements, supply chains, skills, access to finance, foreign direct investment and trade to develop competitive advantage. They will work with the sector panels to develop the Sector Action Plans.

The new arrangements for **Business Finance** offered by DE&T came into force on 1st September. Businesses in Wales (or who wish to be in Wales) can now access a more targeted and focused proposition for business. This includes relationship management, skills support, repayable finance targeting the six key sectors, the regional fund, start up and entrepreneurial support. The repayments will be used to fund the next wave of business investments and so create a source of funding for more businesses in the future.

The Single Investment Fund (SIF) is being wound down, with final legacy applications being considered under the previous conditions for business support. We are considering applications that were already in the pipeline at

the time of the launch of the new policy direction. New applications were accepted until 31 August providing they were at an advanced stage of discussion.

Business support for sectors such as tourism and food have moved to Assembly Government departments which have specific knowledge of those sectors. For example, support for **food businesses** will now be provided through the Department for Rural Affairs; the Department for Heritage will provides support for **tourism businesses**; and **social enterprises** can now access support from the Department of Social Justice & Local Government.

Working with Local Authorities we have raised the threshold for the **Local Investment Fund** to £10,000 to provide a more responsive offer to meet local needs. Organisations can apply for this and other forms of funding from their local authority.

To support youth entrepreneurship, self employment and high-quality potential start-ups, we are revising the current **start up service**. We are evaluating the EU funded start up project, and we plan to have new contracts in place by autumn 2011. Until then the current service will continue to be delivered.

We are undertaking **communication and marketing** activity on entrepreneurship and start up support during the autumn. This includes the launch of *Big Ideas Wales* to encourage youth entrepreneurship, and a start up campaign during and around Global Entrepreneurship Week in November.

7. Structures for Delivery

Economic Renewal: a new direction requires a fundamental change in the skills and capabilities needed to deliver this new policy direction. To be able to deliver this it is vital that our people have the right skills in the right posts. To do this we are undertaking a restructure within DE&T.

Consultation with staff was carried out from the publication of *Economic Renewal: a new direction* until 14 September. Following consideration of staff feedback, the final structures were published on the 28 September. The matching process is underway and will be completed by December. By this point the operational arrangements of DE&T will be fully established to deliver the new way of working.

8. A framework for measuring progress

A framework for measuring progress will be published shortly, and this will address the commitment given in *Economic Renewal: a new direction* to outline the principles by which the Welsh Assembly Government will seek to track, monitor, evaluate and report on progress.

Concluding comment

Over the past three decades the economic climate and global trade have been transformed. To survive and thrive in this new world, we too must

change. Economic Renewal: a new direction means we are now in tune with the challenges of a fast moving globalised economy.

This is not a policy document gathering dust on a shelf, but a plan for action that is already underway. We are now well advanced in our implementation and on target for the major organisational and operational changes to be in place by December. We would like to thank all our staff for working tirelessly to achieve this.

The success of this new approach will rely on our continued close engagement with businesses and partners across all of Wales. The close collaboration and consultation with partners was strength of Economic Renewal: a new direction.

Advice from outside the Assembly Government, especially from those with a proven track record in business will make our programme stronger. We are working with Richard Parry-Jones (previously group vice president-Global Product Development, and Chief Technical Officer of at Ford Motor Company), there will be more round-table events with key partners, and we will be drawing on the expertise of the Sector Panels. It will be their role to guide and challenge us to make sure we deliver.

We have an ambition that lasts beyond the implementation phase of this programme: the benefits of this long-term approach take precedence over short-term headlines. The previous system worked in a previous era; but we agree with the consensus in the business community that it is time for change. This government believes the change we have set in train will help Welsh business drive our country's economy forward.