

POLICY IN DEVELOPMENT

COUNCIL FOR ECONOMIC RENEWAL

ECONOMIC FRAMEWORK FOR INVESTMENT

DISCUSSION PAPER

Introduction

1. At the last meeting of the Council for Economic Renewal there was preliminary discussion on the paper presented by the Wales TUC, *Towards a Welsh Industrial Strategy*. This led to initial discussion in regard to an economic framework for investment. The Council agreed that this discussion would be returned to at the October meeting, following further consideration amongst the social partners and at the Council for Economic Renewal Working Group.

Purpose of this paper

2. The purpose of this discussion paper is to set the scene for an *Economic Framework for Investment*, which builds on Economic Renewal and its underpinning evidence base and supports the commitments in the Programme for Government. The Framework will bring together and shape continued action by the Welsh Government in the short and medium-term, across the relevant Ministerial portfolios, and support longer-term ambitions and priorities. It will identify the role of the Welsh Government and partnership working, with jobs and growth at the heart of the Framework.
3. This paper identifies the reasons underpinning an *Economic Framework for Investment*, the likely themes, principles and priorities, alongside suggested next steps.

Economic and Fiscal Context

4. There is broad consensus that the strategic, structural and current issues are complex and the challenges are not solely for the Welsh Government - the business community, social partners and other key delivery bodies all need to work together - and economic success depends upon ever greater resilience, creativity and agility.
5. The challenges facing the Welsh economy are twofold. First, there are deep-rooted structural issues which have developed over generations and continue to shape economic outcomes across Wales. These issues existed pre-recession and are well-understood; a productivity gap, the demographic profile, relative employment rates and spatial variations. Second, there are a wide range of strategic challenges being faced by Wales and other developed countries, for example, the increasing integration of the global economy, restructuring of employment across sectors, and the growing importance placed upon knowledge and skills.

POLICY IN DEVELOPMENT

6. A further factor impacting on the ability to address short-term barriers and invest for the future, has been a significant consolidation in fiscal policy by the UK Government, with a resulting reduction in spending across the UK. Fiscal policy is set to remain tight in the next few years, with organisations such as the Institute for Fiscal Studies predicting that the UK might face austerity measures for another five years or more.
7. Against this backdrop, and despite some recent encouraging signs, various respected forecasters expect the UK economy to recover relatively slowly; a disappointing prospect given how far adrift the economy remains from recapturing its pre-recession position. Austerity measures are impacting significantly upon the Welsh Government's budget at a time when needs have never been greater.

Government policy

8. Economic growth, sustainable jobs and tackling poverty are at the heart of the *Programme for Government* and delivery against these is the Government's over-riding priority. The economic evidence underpinning principles of economic renewal has not changed, as the evidence remains that investments in infrastructure, skills, innovation and improving the business environment are essential for positioning Wales to meet these medium to long-term structural and strategic challenges.
9. However, the more immediate challenge, the nature of which could not be wholly foreseen in 2009 during the Economic Renewal Programme, was the length and depth of the recession. Wales was not sheltered from wider economic currents and pressures, and given this fragility in the economic environment and the unpredictable events of recent years there has been a need for policies and actions to address the challenges as they arise.
10. In response, the Welsh Government has been mobilising the powers it has, providing pragmatic leadership, working with purpose and flexibility, making its resources stretch further and prioritising activities to mitigate some of the worst effects as well as deliver lasting impacts for businesses, people and places across Wales.
11. Alongside delivering against the longer term commitments in Economic Renewal, such as strengthening the interface between planning and economic development; producing a strategic infrastructure plan for Wales; and prioritising sectors through better targeted interventions, the Welsh Government has also been taking wide-ranging action to improve upon the current position of the economy in Wales. For example:
 - Making it easier for business to access finance e.g. through the Wales Economic Growth Fund, which in the first phase allocated more than £30m to around 120 business projects across Wales, with the potential to create around 1800 new jobs and safeguard around 1600;

POLICY IN DEVELOPMENT

- Making it easier to start and grow a business e.g. through the Business Start Up Service, which during the last year was accessed by over 9,000 individuals, resulting in the creation of over 2,270 enterprises and 3,200 jobs;
- Using targeted business rates relief to support businesses across Wales, for example through the Enterprise Zones Business Rates Scheme we have offered around £800,000 in support to businesses currently employing over 1,200 people;
- Supporting job opportunities through the Jobs Growth Wales programme, which has already helped create in excess of 4,000 job opportunities;
- Promoting international trade and investment - the latest UKTI inward investment figures for Wales show the number of jobs created and safeguarded in Wales increased by almost 100% on the previous year (7,047 new and safeguarded jobs during 2012/13).

An Economic Framework for Investment

12. The economy in Wales, as elsewhere, appears to now be in the early phase of recovery, but uncertainties remain as to the future course of that recovery and much of the damage caused by the recession remains to be undone.
13. Continued global economic uncertainty and constant change is the 'new normal' dynamic for the economy. The ability to continue to respond effectively in the short-term whilst also laying strong foundations for sustainable growth for the future therefore remains imperative. The balance of the Welsh Government's policies and interventions has evolved in recent years to reflect the fast changing times and challenges faced, and critical to this has been listening and responding to the needs of business and stakeholders.
14. In an increasingly competitive global economy, with many more businesses being footloose than ever before, Wales needs to have a general business climate that is attractive and conducive to investment. Recognising this, and drawing upon the advice from the private sector has led to the development of work on City Regions, Enterprise Zones, Local Growth Zones and Business Improvement Districts - a spatial approach to focusing efforts across the Welsh Government and working in partnership. This builds upon the principles of economic renewal, but represents a new dimension to economic policy and delivery in Wales.
15. The Regional Aid Guidelines and the UK Assisted Areas map are currently under review. The frameworks for European Structural Funds are being developed together with an accompanying Economic Prioritisation Framework. These will shape the manner and means by which European funding is used to support economic development across Wales over the next decade or so, and should broadly reflect Welsh Government priorities for investment.

POLICY IN DEVELOPMENT

16. All of the above suggests that an *Economic Framework for Investment* could:

- Capture and provide a clear narrative for the policies and actions delivered by the Welsh Government in recent years to support the economy and businesses through the downturn and into recovery;
- Identify the policies and priorities that will provide an important role in positioning Wales for the opportunities and challenges that will exist as the global economy grows;
- Provide a signal of future direction for economic policy in Wales, building upon the principles of economic renewal and recognising the new global environment for investment;
- Identify clearly the role of the Welsh Government and the scope and need for close partnership working in and across Wales;
- Utilise levers such as new financial models, alignment of funding sources and European Structural Funds to maximise outcomes;
- Enable delivery to be monitored against key performance measures.

Themes, principles and priorities

17. Economic growth, sustainable jobs and tackling poverty remain the Government's overriding priorities, and will be central to an *Economic Framework for Investment*. It will emphasise that working with businesses, social partners and other key stakeholders, the Welsh Government will continue to address the short-term challenges as well as deliver lasting benefits for people, businesses and places across Wales.

18. The development of a new *Economic Framework for Investment* will be an evolution of the principles of economic renewal. It will recognise that there has been significant change in recent years, from downturn through to recovery, significant fiscal tightening, the need for direct and targeted intervention to support the economy, and the emergence of new, complementary thinking in terms of economic policy for the future.

19. The Framework will set out the key challenges for the Welsh economy around the themes of people, business and place; the need to:

- Increase employment rates and improve the skills base - **People**
- Improve productivity and increase business competitiveness - **Business**
- Encourage agglomeration and improve infrastructure - **Place**

20. Key to delivery within these themes will be ensuring that business, the Welsh Government and key stakeholders, are working together, to make sure that

POLICY IN DEVELOPMENT

investments are aligned and designed to have lasting and greatest impact. Close and effective partnership working and a clear understanding of the Welsh Government's role and priorities will be essential in targeting and co-ordinating action.

21. The *Economic Framework for Investment* will need to identify how the key challenges will be met - the priorities for action. These are likely to include:

People

- Improving skills for employment and progression
- Higher education, support for growth industries and high skilled employment
- Jobs Growth Wales
- Apprenticeships
- Training programmes
- Training & employment opportunities for workless households

Business

- Procurement, maximising the benefit of public sector spend
- Supporting the Welsh supply chains through anchor companies
- Energy business growth, efficiency, reliability and costs
- Encouraging innovation and science
- Support for strategic sectors, businesses and entrepreneurship
- Business rates and Access to Finance
- Promoting international trade and investment.

Place

- Connecting economic hubs / major infrastructure to drive growth across Wales
- City Regions and North Wales border links
- Enterprise Zones and Local Growth Zones
- Next Generation Broadband and Digital Wales implementation
- Natural Resources Wales and green growth
- Promoting Wales as a destination for business, tourism and events
- Planning policy and ensuring a strong property / land offer.

Suggested next steps

22. Council members are asked to:

POLICY IN DEVELOPMENT

- Comment on the proposed approach and discuss the key issues;
- Agree to the next steps:
 - A workshop will be held in November to progress the development of a draft *Economic Framework for Investment*;
 - A draft *Economic Framework for Investment* will be brought to the next meeting of the Council for Economic Renewal.