

Shared Endeavour:

Towards A Regional Economic
Framework for South East Wales,
Cardiff Capital Region

December 2021

Foreword

Our approach to economic development is centred on the principle that places matter, and a belief in the importance of delivering prosperity and the benefits of economic growth to all parts of Wales. South East Wales, the Cardiff Capital Region, is a vibrant economic, commercial and cultural centre. It is, though, a Region of contrasts. Wales' smallest region geographically, it is our largest by population, with almost half of the population of Wales, and home to nearly half of all businesses. Prosperous commercial centres sit alongside areas of considerable deprivation and areas of outstanding natural beauty. Towns and Valleys still striving against the impacts of deindustrialisation sit alongside internationally important research, innovation and technological excellence.

The Regional Economic Frameworks (REFs) co-designed with our partners are part of a commitment to a more regionally focused model of economic development, that is centred on the distinctive strengths of all Wales' regions. The Local Authorities of the Cardiff Capital Region have worked with Welsh Government to build on their engagement across the public, private, academic and third sector to draft this document. For a Region of such contrast and with Welsh Government, ten Local Authorities, Cardiff Capital Region, UK Government and numerous stakeholders actively looking to support its economic development, it is vital we have been able to recognise the challenges and opportunities in the Region to develop a common set of priorities that shape all our delivery efforts.

The REF seeks to outline these shared priorities to support inclusive and sustainable economic growth that maximises opportunities to address regional and local inequalities. It will help tackle inherent structural challenges by turning them into opportunities for a dynamic and distinct region.

The REF focuses on what needs to be done, our shared priorities for the region. It does not, and should not explore the allocation of roles and responsibilities. That discussion will come as part of the next phase of our joint working.

No single organisation has all the answers. A phased, collaborative approach, working together with stakeholders across the region, is vital to our success. We have worked closely to develop a single vision articulated in this REF. We hope this enables the greater alignment in economic development and strategic planning required between partners as the foundations for new approaches via Corporate Joint Committees.

To benefit from these combined efforts and opportunities, including the Cardiff Capital Region City Deal, potential Shared Prosperity Funds and the ongoing delivery from Welsh Government and our partners, we need to develop and deliver complementary and collaborative initiatives that benefit the people and places in Wales.

Welsh Government's Economic Resilience & Reconstruction Mission sets out our vision of a well-being economy which drives prosperity, is environmentally sound, and

helps everyone realise their potential. The REF can have a key role in ensuring activities at all levels align to focus our resources where they can have greatest impact.

This progress is notable and we're not strangers to working together in South East Wales. We can build upon good foundations where we have a record in co-investing and mutually supporting key strategic sectors, projects and programmes. Together Welsh Government, Local Authorities and the Cardiff Capital Region have supported the Compound Semiconductor cluster; are working closely in the development and delivery of the South Wales Metro; have adopted a challenge driven approach; are working together on the skills and talent the economy needs through the Regional Skills Partnerships; and have secured UK Research and Innovation and Strength in Places Funding. This is testament to the Regional strengths in emerging technology areas. But we're also working closely together to address our structural challenges by developing Strategic Sites and Premises funds, a Housing Viability Gap Fund and are working closely on initiatives designed to transform the Valleys and make real our ambitions of delivering prosperity and growth to all parts of the Region.

Our, joint, ongoing commitment is to give the people and businesses we serve every opportunity for achieving long-term economic wellbeing with dignity and fairness for all. We recognise that how we deliver is as important as what we deliver. This Regional Economic Framework is an important point on that journey. We want to continue working with our partners who have an interest in the regional economy to meet the challenges we face and grasp new opportunities.

Vaughan Gething MS, Minister for Economy

Councillor Anthony Hunt, Chair Cardiff Capital Region

Introduction and Context

Our Place

As the home of the capital city of Wales and over 1.5 million people, 49% of the population, and 48% of the businesses in Wales, South East Wales is a vibrant and diverse Region, at the heart of Wales socially, politically and economically.

The Region embraces a uniquely diverse population, economy and geography. Home to 10 local authorities with environments that vary from the cities of Cardiff and Newport, historic market towns and rural communities, to the post-industrial Valleys heartland and a 30-mile coastal belt, the Region has enjoyed significant regeneration and investment over recent decades, creating new business parks, quality housing developments and imaginative recreational initiatives; with landmark projects including the Cardiff Bay regeneration, major road and rail infrastructure works such as the A465 Heads of Valleys road and the successful reintroduction of passenger rail services to Ebbw Vale. The effects of this investment are clearly visible in a region that accounts for approximately 50% of the Welsh economy.

Drawing on a proud industrial heritage, the area is home to thriving financial and professional services businesses, a diverse public sector and a number of anchor manufacturing businesses in Aerospace, Automotive and Defence. There is clear expansion and diversification of the business base as exemplified by the emerging world-class clusters in high-growth industries such as Compound Semiconductors, Creative Industries, Fintech, Cyber and Life Sciences. With four universities, a well-skilled population with over 40% of the population possessing NVQ4 or above level qualifications, a vibrant capital city renowned for excellent cultural and sporting facilities – and an enviable combination of coastline, forests, valleys and parks – the Region regularly reports high levels of wellbeing and quality of life.

Collaborative delivery

The map below outlines the South East Wales / Cardiff Capital Region, hereby referred to simply as “the Region”. The Regional Economic Framework for the Region establishes a commitment to deliver a stronger regional voice through a regionally-focused model of economic development. It promotes collaborative economic development across the Region through an agreed vision and shared priorities for delivery amongst partners. Seeing our place clearly and understanding its strengths and assets, challenges and opportunities, focuses the collective mind around the big economic and societal challenges facing the Region:-

The Regional Economic Framework sets out to establish a shared set of economic priorities across the Region, providing strategic alignment and influence that brings people together and supports collaborative delivery. We stand proud of our Region; for its rich-sense of heritage and culture, awe-inspiring environments, proud communities and propensity for innovation and ingenuity, will be key to building sustainable, fair and resilient communities – that ensures no place is left behind.

Shared purpose

Despite these strengths and the success of investments made over the last 25 years, parts of the Region continue to be defined as some of the most economically deprived areas in Europe. There are established economic and social disparities between the prosperous coastal zone in and around Cardiff, Monmouthshire and the Vale of Glamorgan and the more disadvantaged inner city areas and parts of the South Wales Valleys. This juxtaposition of need and opportunity is a particular feature of the Region, together with the mutual interdependence between the capital city and its wider regional hinterland.

Whilst Cardiff built its wealth on exporting from the coalfields of the South Wales Valleys, the fortunes of the Valleys communities are now critically linked to the jobs, skills and housing markets of Cardiff and Newport. Understanding barriers to economic activity that exist for many groups within Wales is vitally important. Interventions must deliver inclusive growth for all citizens across the whole Region, enabling communities to be more self-reliant and integrated with the cities and towns of the Region. This means an approach to developing both the tradeable and foundational economies which is highly connected and embeds digitisation, sustainability and a commitment to the principles of fair work for all.

The Region can, and should, perform economically on a par with any region in the UK and internationally, albeit by focusing on its inherent strengths and unique assets and advantages. In the Region, we want to build willing coalitions; build capacity for innovation strengths and diffusion; develop our specialisms; and focus on the distinctive value and values that make our place special.

To ensure it does and to improve the economic prosperity of the whole Region, it will be important to:

- Be focused on the areas of comparative strength in the Region that can compete at a UK level and internationally;
- Remain open minded about good propositions where these exist – but recognise that communities that feel left behind will need additional support. This means levelling-up within our region through projects that will directly benefit communities;
- Scale impact through developing and localising supply chains, including where required investing in skills and innovation to enable this;
- Support entrepreneurial discovery through ‘Strength in Places’ style approaches to building clusters. This includes supporting R&D investment and growth with greater focus on commercialising applied research activity;
- Create the conditions for rich ecosystems that stretch and support key sectors within the economy. This might include support for skills, investment ready sites and premises, accessibility and good connectivity and investment support;
- Encourage and support entrepreneurship so that our population not only seeks employment but creates employment;
- Strengthen the foundational economy to support the resilience of the Regional economy, so that it is able to play an active part in local supply chains and can respond to societal challenges such as care, ageing, mobility, decarbonisation, health and wellbeing;

- Be committed to responsible investing, supporting sustainability, fair work, Real Living Wage and embedding the wellbeing of future generations;
- Step up actions on climate change, recognising it as a lever for large-scale growth, productivity and regional competitiveness;
- Ensure the Region has a first class and connected transport, digital and energy infrastructure; and
- Turn the large public sector base within the Region into an asset that adds prosperity to the Region through leveraging the Region's public sector asset base and spend and becoming increasingly 'mission-driven' in our approach.

Challenges & Opportunities

In making future progress, understanding the Region's key challenges and opportunities will be critical. These can be broadly grouped under three headings:

Connectivity

There is a need to improve Physical and Digital connectivity both within and beyond the Region for both people and businesses:

- **Distribution of job creation** – The Region needs a broader distribution of job creation and a focus on better jobs closer to 'home'. The Region can develop high-value supply chains and ensure better quality jobs to drive productivity and the sense of belonging people attach to their place.
- **Digital connectivity** – Digital connectivity is variable across the region with most authorities below average UK broadband speeds. Delivery of priorities set out in this document requires the appropriate digital infrastructure for a 21st century economy across the whole Region.
- **Better transport infrastructure** – Demand for better transport links continues to increase. The Region needs to develop the transport infrastructure that can overcome the urban, valleys and rural disconnect and open up opportunity in a way that balances the needs of a prosperous and green economy.
- **Quality, variety and affordability of housing** – House prices, development opportunities and household growth are highly variable across the Region. There is a need to invest in affordable and innovative 'smart homes', in flexible tenure homes and 'lifetime' property ladder mobility to accommodate projected growth.

Competitiveness

- **Lack of critical mass** – To maximise the opportunities within the Region, it needs to scale up the economy, working closely with all stakeholders, to ensure it is competitive with the UK's more prosperous city-regions and conurbations.

- **Below average GVA** – Labour productivity in the Region stands at 85% of the UK average and lags behind the majority of city-regions across the UK. Work on clusters, skills and innovation-led growth will be key to changing this.
- **Skill levels** – Qualification levels vary considerably in the Region from high levels in Cardiff, the Vale of Glamorgan and Monmouthshire to parts of the Region still having relatively high levels of people without any qualifications. These deficiencies present a potential barrier to growth in key industries and must be addressed.
- **Variance in employment and pay** – Unemployment rates and wage levels vary considerably across the Region and average gross wages in the Region are lower than the UK average, with 24% of employees in the Region being paid below the living wage. A focus on high value clusters and supporting fair work and employability can address these inequalities.
- **Investment in R&D** – The Region contains a highly regarded science base through its universities and innovative businesses collaboratively providing a strong foundation for developing new technologies and applications. Despite this, investment in R&D is comparatively low in the Region, with Innovate UK expenditure in Wales measured at less than a third of the average UK per head figure placing real importance on our efforts to mobilise public investment in R&D.

Resilience

- **Economic mix & diversity** – The increasing turbulence in the wider economic world has brought a sharp focus on the Region's resilience and highlights the importance of our capacity to adapt to longer-term structural economic transformation and change. The Region has an historic dependence on particular industrial sectors. Developing our alternate strengths in service delivery, including financial and public services, and attention on growth industries can diversify and build adaptability in the economy.
- **The lessons from past shocks** – Given levels of deprivation in parts of the Region, economic shocks such as Brexit and the suppression of the Covid-19 virus, have a significant impact on the local economy. The lessons from previous crises indicate economic resilience demands agility and innovation yet consistent policy responses.
- **The foundational economy** – There is a strong dependence on employment in the foundational economy across the Region with some 35% of jobs in education, healthcare, hospitality, and retail. These sectors act as critical pillars for job creation and stability, and for the employment of non-migrating graduates and therefore provide considerable resilience to the regional economy whilst being heavily community and place-based, providing a powerful enabler of collective consumption and local wealth creation.

- **Demographic change** – The Region has an ageing population, with 20% of the population aged 65 years or older. This is projected to increase to 25% by 2036, increasing demand for care related services, with potential impact on the workforce available to other sectors. The Region must also maintain efforts at retaining the large numbers of school leavers and graduates, creating employment and lifestyle opportunities for young people.
- **Climate change** – The need to take action against climate change is pressing. It presents a real decarbonisation challenge to the Region's existing industrial, housing and transport infrastructure, yet it also presents an opportunity to develop a thriving green economy.
- **Community** – The Region has considerable strength in its social fabric and community spirit. This provides scope to be optimistic regarding the Region's capacity to forge a strong and distinctive identity and to cope with the various challenges that lie ahead. The Region's high quality natural environment provides a wealth of resources and opportunities for tourism, health and recreation, as does its breadth of cultural and historical heritage.

Priorities

The Region has made a great start in addressing many of these challenges and opportunities. To build on this work the Region will focus on the following priority areas to guide our economic development:

Key Clusters

The Region will support the development of a strong economic and innovation ecosystem to develop clusters of excellence.

Building on our competitive advantage and opportunity within the economy we will strategically target these sectors to facilitate clusters that provide resilient and sustainable growth for future generations and where the Region can compete effectively on a national and international basis.

The Region will work to create the conditions clusters need to thrive across the whole area, both for the more established clusters such as the Cyber Security and the Compound Semiconductor cluster, and to support emerging industries, such as Fintech, AI and Data.

Climate Change, Sustainability and Resilience

The Welsh Government declared climate emergency and the increasing impact of extreme weather events highlight the importance of action against climate change. Progressive carbon-reduction targets provide opportunities for innovative economic activity, but will also challenge many firms. A greener economy is integral to a low carbon society. By investing in low-carbon and climate resilient infrastructure, nature-based solutions, renewable energy projects and sustainable homes the Region can add economic value, creating jobs and skills opportunities in new industries from renewables to repair.

A resilient economy will be a low carbon economy. The activity delivered within this framework needs to consider energy efficiency and sustainability at all levels. Beyond that it will focus broadly on two areas - the support to increase the efficiency of businesses in the Region and a specific focus on projects and businesses that can make a significant impact on decarbonising South East Wales. For example, Bridgend is engaged in trials with the Energy Systems Catapult to explore district heating innovations, the Valleys topography has encouraged investment in wind farms and other local authorities are exploring investing in low carbon energy sources that can provide reliable and cheap power and heating to citizens and businesses. Through our strength in compound semiconductors we have the capability to produce higher efficient solar power and lower the consumption of many energy systems.

The Region should consider the supply chain sustainability, business and personal resilience. This could look at export support, fair work, digital and flexible ways of working, infrastructure, skills and employability, digitalisation and create vibrant local business networks and supply chains.

Place and Connectivity

Places matter and we will seek to make real our ambition of delivering better jobs closer to home. We want to deliver a Prosperous Wales and we understand that for the people of the Region to benefit from this prosperity, for us to deliver better outcomes and improve peoples' lives, we must address the geographic inequality that exists. We will work with key partners to develop projects that inspire growth, spread prosperity, and create vibrant communities. This includes focusing on the health and vibrancy of our town and city centres and exploiting the benefits of geographically targeted programmes.

The region requires significant investment into strategic sites and premises that can support foundational growth, local supply chains and sector-specific developments. In addition, we need to unlock sites for domestic housing development to improve the quality, variety, and sustainability of local housing. This investment in the quality and sustainability of new and existing housing stock should seek to maximise its impact on local supply chains, creating opportunity to support the foundational economy and vital skills in the Region.

Connectivity is critical – both digital and physical. We need a reliable infrastructure that connects the Region, both within and wider afield, to boost productivity and

prosperity. This includes transport systems to enable people to move around the Region and beyond; appropriate business premises to allow the flexibility and space for companies to thrive; a digital infrastructure to make the Region one of the most digitally advanced in the UK; and an energy system that can respond to the needs of a modern, sustainable economy.

The Metro plans are a significant step in this direction and we will bring forward further proposals to maximise and unlock future potential offered by its development. We will ensure that we have road, rail, ports and air, as well as the energy and digital infrastructure (fixed and mobile) to connect us to the world to support a thriving modern economy across the Region.

Innovation, Research and Competitiveness

We have the opportunity to create an innovation led economy within our Region, by investing in the skills required and a placing a greater focus on R&D and innovation.

The Region must build on recognised strengths such as those in Compound Semiconductors as well as continue to support emerging innovation in key Tech strengths, including Fintech, AI/Data and Cyber Security.

Much of this relies on strong business and academic partners, so the Region must continue to work with business and academia to increase the number of enterprises that are innovating and adopting new ideas to open up new markets, improve productivity and promote increased knowledge transfer.

Businesses, the Regional Skills Partnership, FE and skills providers will be central to identifying and developing the skills to drive innovation and competitiveness in the Region. We will work with stakeholders to ensure skills requirements and delivery priorities of businesses are understood and that we have an inclusive approach to skills provision which enables more people to meet their full potential and raise skills levels to meet employer needs, drive productivity and create more resilient communities.