

THE CHALLENGE

A Report by the Welsh Conservatives' Economic Commission

INTRODUCTION

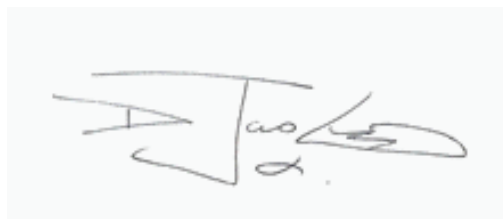
The Welsh Conservatives' Economic Commission was established in 2008 to develop policies that would drive forward the economy of Wales, currently languishing at the bottom of the UK prosperity league table. During the Commission's period of review, the UK economy was hit by the deepest recession since the 1920s, with over 88,000 private sector jobs lost in Wales during this economic downturn. The Commission therefore had to change its focus not only on revitalising the economy of Wales but also on examining how the business sector could be supported to recover from the recession. There are undoubtedly areas which some may consider should have been given priority, such as the upgrading of Cardiff Airport or other more specific regional projects. However, the Commission believes that the recommendations contained in this document reflect the main priorities that could make a real difference to the overall economy of Wales over the next decade.

The Welsh economy must be driven by the private sector and every business in Wales has a vital part to play in that. That is why the Commission believes that business rates should be permanently abolished for the majority of small firms across Wales and that levers, such as grants, to encourage business growth should be available to all firms, regardless of the sector in which they operate. After the failure of three successive Assembly Governments led by Labour, we need to encourage entrepreneurship and innovation to create a flourishing Welsh economy that is driven by the skills and talents of its people. In particular, we need to maximise the potential of the SME sector in Wales, from the small local corner shop that may benefit from lower business rates and take on an extra employee to a new high technology spin-off that is selling its products internationally. We also need to ensure that large businesses attracted to Wales, especially those from the manufacturing sector, are firmly embedded within a new innovation ecosystem.

We are recommending that Welsh Conservatives should lobby for electrification and further development of the new high speed rail link to be built from London to South Wales and that there may be a better case for this line to be upgraded prior to the proposed Birmingham/Manchester high speed line. Wales also needs to ensure that it fully maximises the benefit obtained from any UK Government support for superfast broadband infrastructure. We also believe that business development and skills should be directed by one Minister so as to ensure a clear direction for the development of the Welsh economy, one that hitherto has been missing from government. More relevantly, that provision must ensure that any form of business development or support mirrors the needs of the business and is flexible enough to be able to respond to the dynamic that comes with an enterprising culture.

Finally, we believe that our main recommendation, namely that of reducing corporation tax for Wales, is the radical step required following years of economic decline in which we remain firmly rooted to the bottom of the UK prosperity league table. Indeed, the Commission is of the opinion that this is the only major policy that can engender the massive step change needed to turn around the nation's economic fortunes.

Wales is currently the poorest region in the whole of the UK. However, if the Welsh economy can grow at two per cent more per annum than the UK average, then by 2019 – the end of the fifth Assembly Government – the relative prosperity of Wales will be at 90 per cent of the British economy. The Commission believes that the Welsh Conservatives should, if elected, set themselves this ambitious challenge for Wales and, through the policies recommended in this document, begin the journey towards the creation of an entrepreneurial and innovative economy that is fit for a 21st Century Global economy.



Professor Dylan Jones-Evans
Chairman, Welsh Conservatives Economic Commission

RECOMMENDATIONS

- **CORPORATION TAX** - If elected, the Welsh Conservative Party should seek immediate discussions with the UK Government and the other devolved administrations about the feasibility of reducing corporation tax in Wales to encourage investment and create vital employment at a time when the economy is recovering from recession.
- **BUSINESS RATES** - A part of the economic development department's budget should be used to directly support rate reductions for the vast majority of small firms in Wales. This will ensure that no small business having a rateable value of less than £12,000 will pay business rates in Wales.
- **BUSINESS PARTNERSHIP COUNCIL** – The BPC should be reformed and made formally responsible for agreeing and measuring strategic economic development objectives. A senior representative from the Welsh business community would chair it, demonstrating the critical role business will play in the future of our economy.
- **WORKING WITH THE PRIVATE SECTOR** - The Welsh Assembly Government must ensure that the private sector is fully involved in delivering its strategies. Opportunities should be created for Welsh businesses to work more closely with the public sector and ensure that the private sector can play a major role in improving public services and, more importantly, create wealth and employment in the economy as a result of this involvement.
- **FUNDING FOR SMALL BUSINESS** - Unlike the narrow sectoral approach of the current Labour-Plaid Government, the Welsh Conservative Party should make the new repayable grant system available to all sectors of the Welsh economy and all sizes of businesses. It is vital, as the nation struggles to come out of recession, that every business that needs finance to grow and create employment within their local economies is given every opportunity to do so. However, this should not mean abandoning SMEs within our poorest communities and, in particular, there will still be a need for grants in the Convergence region of Wales, especially for start-ups and for innovation-based projects that are higher risk and would not be in a position to agree terms on repayable loans.
- **PUBLIC PROCUREMENT** - A proactive culture of preference for Welsh companies should be encouraged within public procurement practices to help develop the indigenous SME sector. The Commission therefore recommends that WAG should set targets, as the US Federal Government has done through its Office of Government Contracting, for spending its annual budget with local small firms.
- **SMALL BUSINESS SUPPORT** - All business support services should be contracted out but those deliverers should be fully accountable for results and contracts withdrawn if they are not delivered. All support to business will also be merged into one central contracting service, such as the human resource development advice that is currently based in DCELLS and the support for tourism businesses that is currently within the Department for Heritage. This will minimise duplication of business services and cut down on red tape.
- **ENTREPRENEURSHIP** – The private sector led Entrepreneurship Action Plan should be reintroduced to act as a focal point for encouraging new business start-ups across Wales and in developing social enterprise as a key part of the delivery of that strategy.
- **REVITALISING MANUFACTURING** - The Commission believes that a coherent approach by WAG could herald a revival for manufacturing again, especially if companies have the right management, the right products and the right skills in place, and the exchange rate remains competitive to drive export activity. The Welsh Conservatives should therefore look to implement the manufacturing strategy for Wales immediately and provide support for the manufacturing sector to develop in the future.

- **STIMULATING INNOVATION** - If Wales is to improve its innovation performance over time then the sum of the parts – government, industry and academia – must be greater than the whole. Therefore, the Welsh Conservatives should look to establish a Welsh regional innovation system, which will be directed under a separate private sector led Innovation Council for Wales.
- **GOING INTERNATIONAL** - New policies in Wales should be developed to identify and map key global communities of practice and then make companies better aware of these communities. International network development should be supported and there should also be an increased focus on internationalisation as the economy needs more firms to consider markets outside Wales if they are to grow, including greater co-operation with UKTI.
- **SKILLS** - Business development and skills should go hand in hand within any enterprise support network and there should be a seamless approach by government to the delivery of support in this area. The Welsh Conservatives should therefore create a new Department for Business and Skills that will enable a clear strategic approach to be adopted.
- **ELECTRIFICATION OF RAIL AND HIGH SPEED RAIL LINKS** - Given the years of underinvestment into the rail network in Wales, the Commission believes that the Welsh Conservatives should work alongside colleagues in the South West of England to lobby the government to make the Great Western line a priority for investment in electrification infrastructure and high speed rail links.
- **HIGH SPEED BROADBAND** - It is critical that the Welsh Assembly Government ensures that every community in Wales receives the promised UK Government funds to build a "digital hub" with a fibre optic internet connection in every community by 2015. WAG should also explore a number of options to deliver super broadband solutions across Wales, such as working alongside smaller companies in the marketplace, many of whom can offer a more competitive price than telecommunications giants, especially if they are allowed to run their own cables through existing ducts and telegraph poles. Wales needs to match the UK Governments commitment and make us the fastest country in Europe for broadband by 2015 with a guaranteed universal standard of 2 Mbps.

THE WELSH ECONOMY SINCE 1999

“Wales has the lowest GVA/head of any of the UK regions, despite the devolution dividend and billions of pounds of European funding.”

During the first Assembly Government, a target was set to increase Wales's prosperity to 84 per cent of the UK average by 2002 and to 90 per cent by 2010. At the beginning of devolution in 1999, Wales had 77.3 per cent of the UK's prosperity levels (figure 1) but instead of closing the difference, the policies of successive governments have resulted in a widening gap. Since 1999, the GVA in Wales has grown by only 44 per cent as compared to 53 per cent for the UK as a whole. As a result, the latest data shows that Wales' current position relative to the rest of the UK stood at 74.3 per cent, the lowest of any UK region. This is despite the 'devolution dividend' and billions of pounds of additional European funding for the West Wales and the Valleys region. If the Welsh economy had kept pace with the UK average, then an additional £2.8 billion would have been generated during this period.

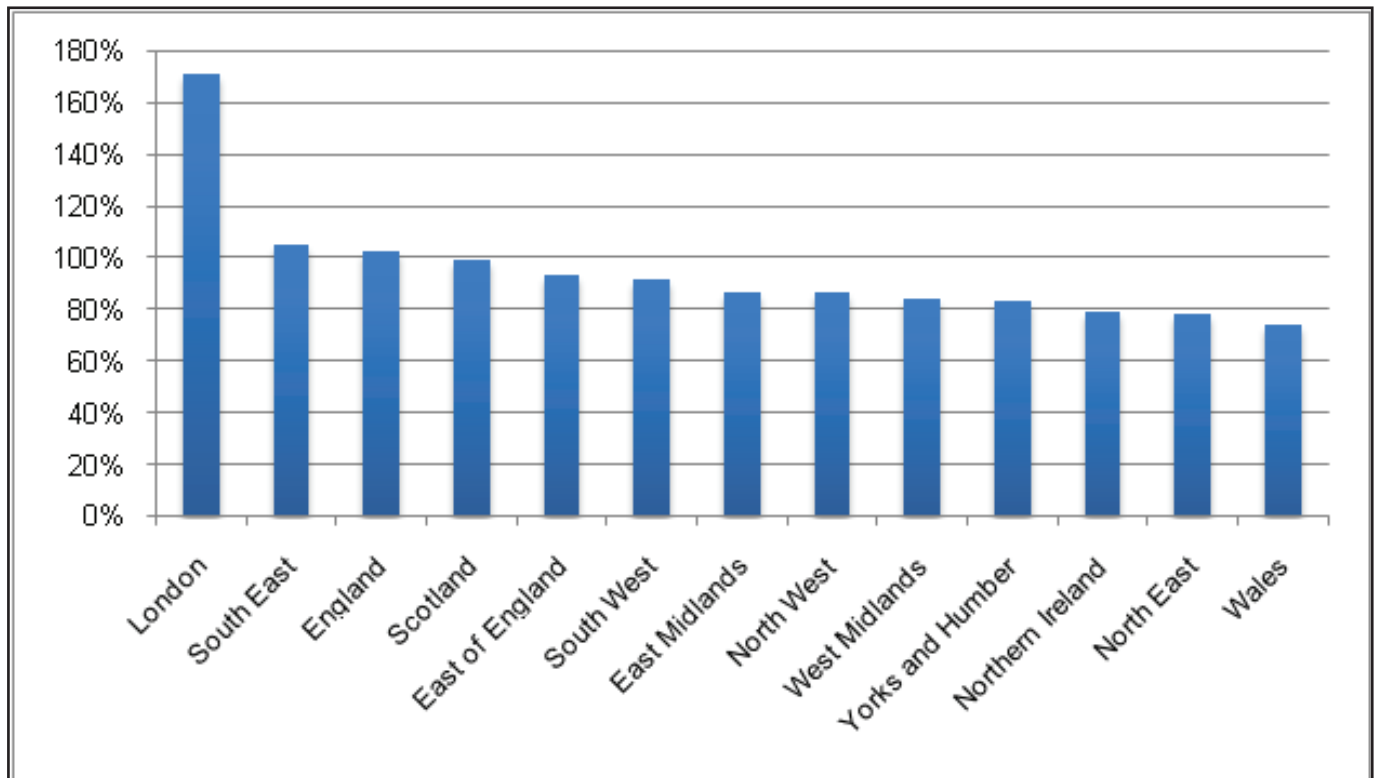


Figure 1
Regional GVA/Head 2009 (UK=100) ¹

Two of the poorest areas in the UK are based in Wales namely Anglesey and the Gwent Valleys. Recent data from the European Commission² suggests that West Wales and the Valleys may well be eligible for a third round of European funding as the only region in the whole of the UK that is currently below the qualifying threshold of 75 per cent of the EU average prosperity. This is in contrast to the other areas of the UK that have received Objective 1 funding between 2000 and 2006 (figure 2). In fact, South Yorkshire is now at 90 per cent of the EU average, Merseyside is at 83.2 per cent and Cornwall at 75.2 per cent. In contrast, West Wales and the Valleys is at 73.4 per cent of the EU average of 25 nations, which now includes the former communist countries of Central and Eastern Europe.

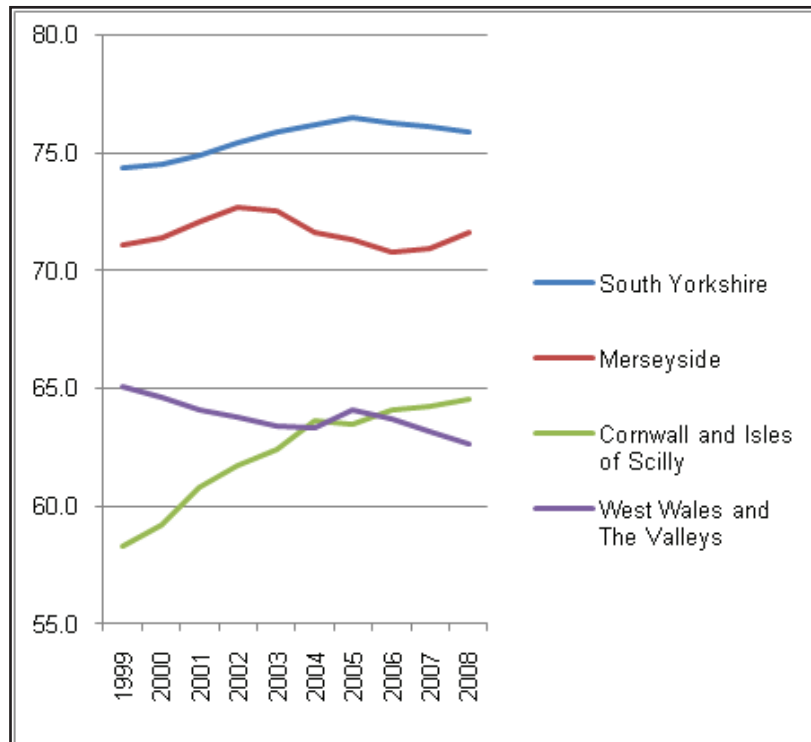


Figure 2
Objective 1 UK sub-regions (2000-2006)
GVA/Head 1999-2008 (UK=100)³

If an examination is made of industrial sectors, then we find that the performance of manufacturing has declined from 25 per cent of the Welsh economy in 1999 to 17 per cent in 2008,⁴ with tens of thousands of well paid jobs lost across the country in this key sector. Wales has also experienced the lowest increase in average full time weekly earnings of any UK region since devolution. As a result, whilst people in Wales earned £2,500 less than the UK average in 1999, this difference had increased to £4,280 by 2010.

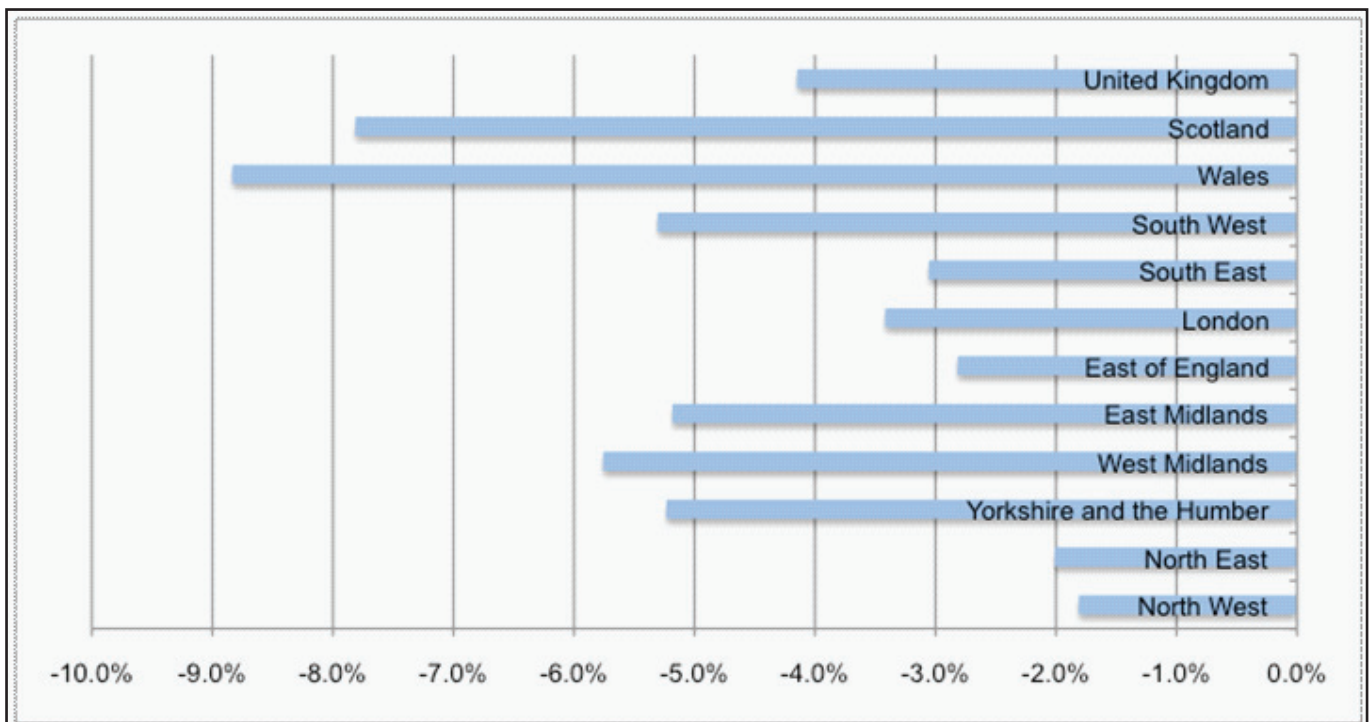


Figure 3
Percentage decrease in private sector employment 2008-2010, by UK region

Wales has the highest unemployment rate of any of the four home nations in the UK and despite programmes such as Pro-Act, that were introduced during the economic downturn, the Welsh Assembly Government presided over the highest percentage fall in private sector jobs of all the UK regions of 8.8 per cent. During the last recession, 88,000 jobs were lost in the private sector in Wales.⁵ In contrast, the public sector, during the same period, lost 2,000 jobs.

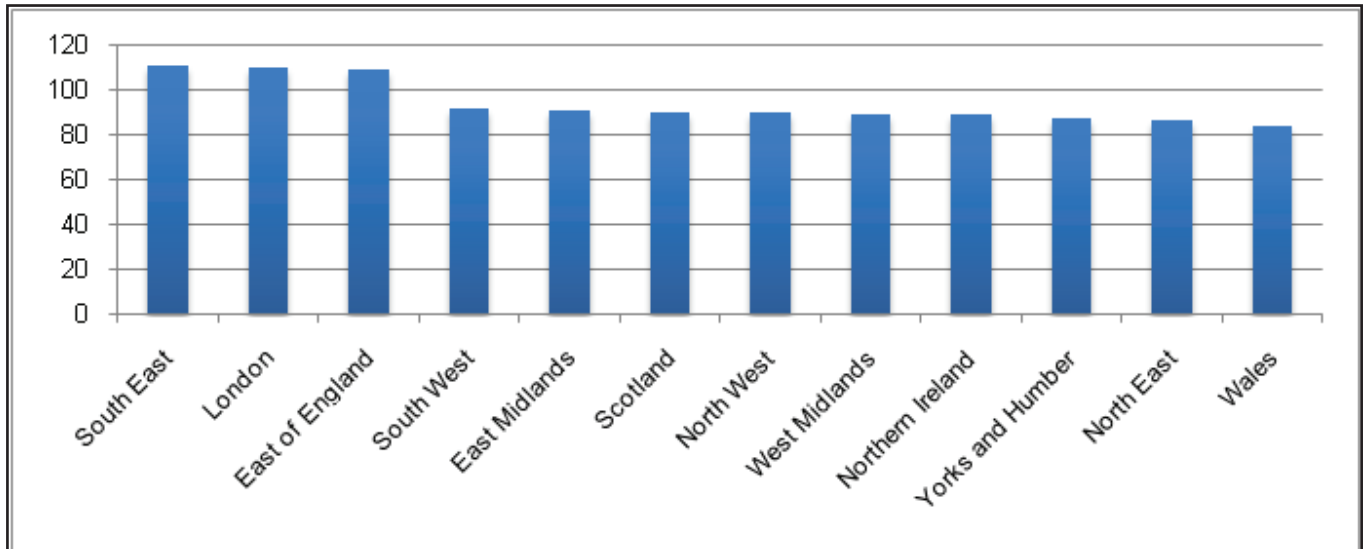


Figure 4
UK Regional Competitiveness Index 2010

If we examine the competitiveness of Wales PLC (figure 4), then recent data suggests that we now have the least competitive economy in the UK, having fallen behind the North East of England in 2010.⁶ Whilst Cardiff is slowly emerging as a competitive city relative to others across the nation, the four least competitive localities all lie in the South Wales Valleys area. Blaenau Gwent remains the UK's least competitive locality, followed by Merthyr Tydfil, Caerphilly and Rhondda, Cynon Taff (RCT). In all four cases, there is little evidence that this will change in the future with the competitiveness scores worsening relative to the UK average for Blaenau Gwent and RCT in the last year, and only improving marginally for Merthyr Tydfil and Caerphilly.

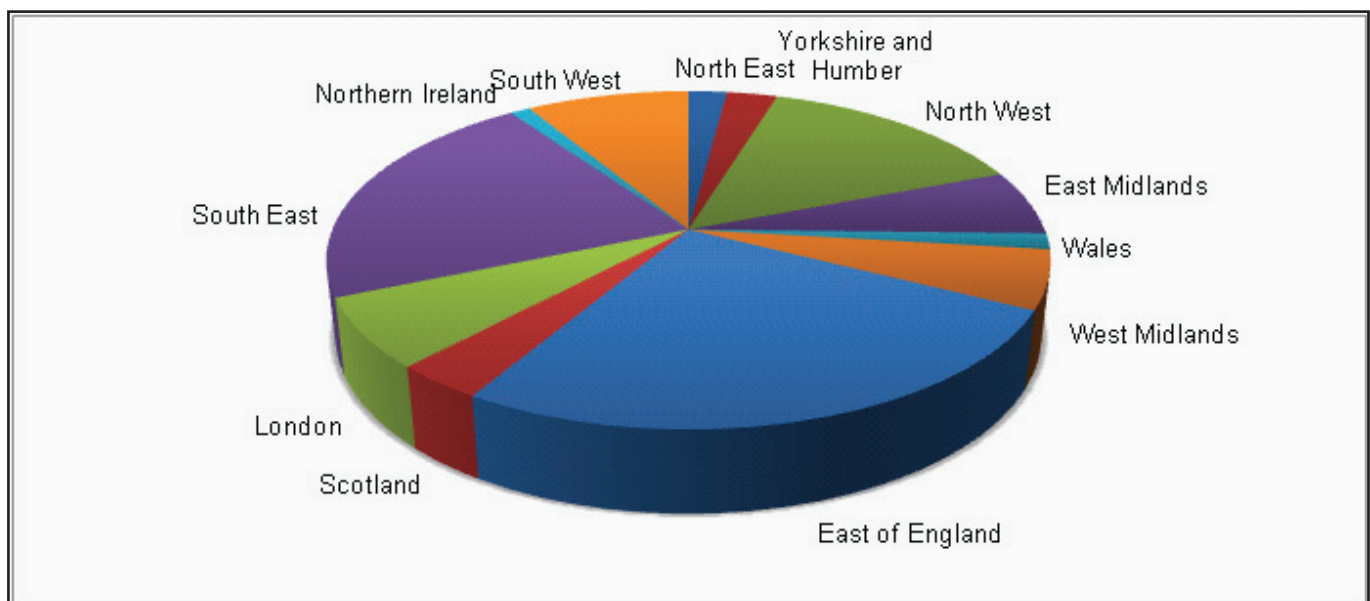


Figure 5
Regional Share of Business Expenditure on R&D, 2009⁷

The development of innovation and entrepreneurship is key to a modern competitive economy, yet statistics show that in terms of R&D expenditure and the number of new starts, there are still considerable structural problems in the economy. Business expenditure on research and development (BERD) for Wales in 2009 was £321 million, slightly up on the £313 million recorded in 2007. Despite this growth, Wales remains a small player in the private sector R&D stakes, accounting for only 2.1 per cent of the UK total. More worryingly for WAG, the target of private sector research and development expenditure equating to 1 per cent of the total economy by 2010 looks even further away than ever. In 2009, BERD accounted for approximately 0.7 per cent of GVA, which means that, assuming a 3 per cent growth in GVA 2010, R&D expenditure in Welsh businesses will have had to increase by another £165 million in 2010 to hit this target.

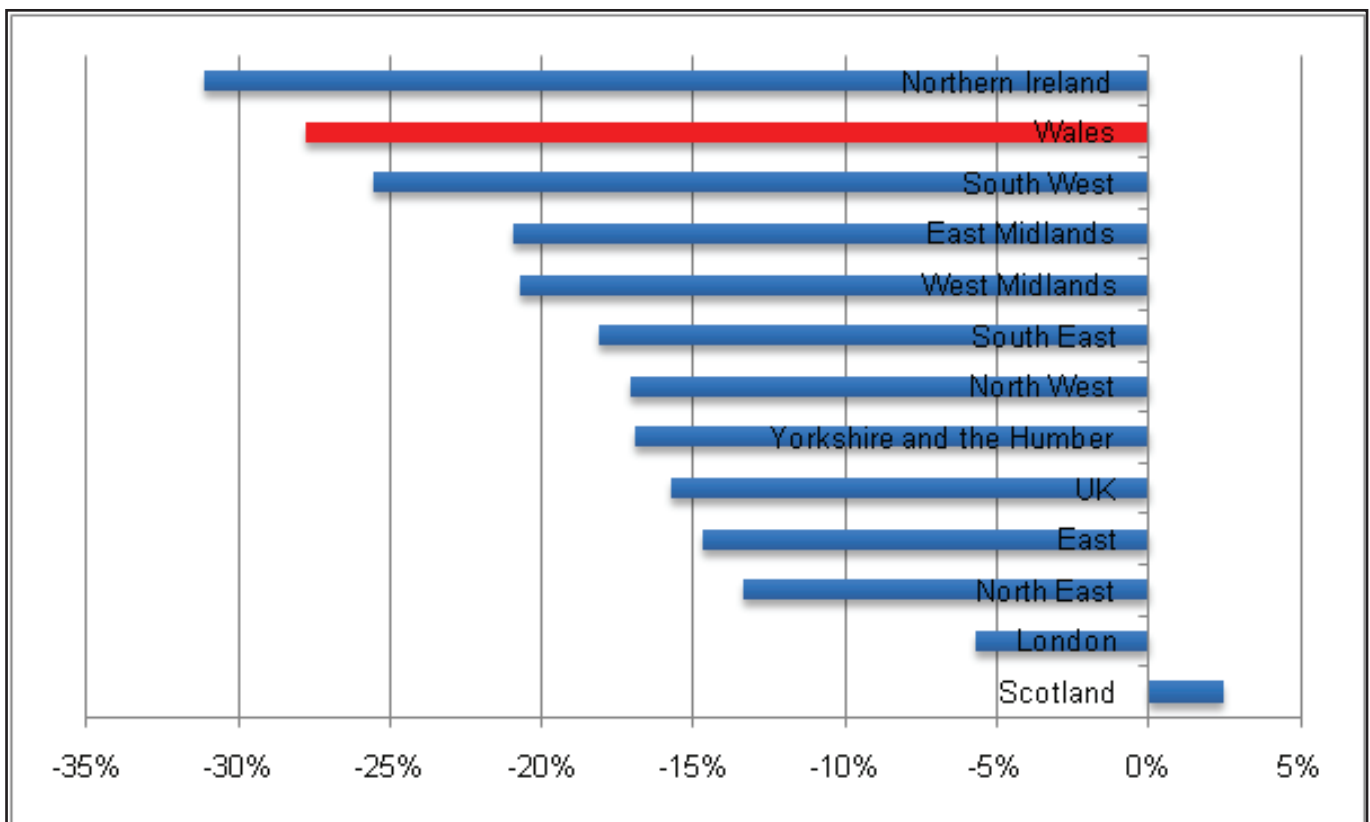


Figure 6
Decline in the number of new businesses by UK region, 2004-2009⁸

In terms of entrepreneurship and the creation of new businesses, Wales is again doing worse than any other UK region with the exception of Northern Ireland. During the period 2004-2009, the average decline in the number of new business births across the UK as a whole was 15.7 per cent. In contrast, the decline in Wales was 27.8 per cent. The number of new firm starts in Scotland had actually increased over this five year period by 2.4 per cent. In terms of employment, this decline has meant that 9,540 fewer businesses have been created in Wales since 2004, impacting directly upon the number of new jobs within the private sector economy and a loss in turnover to the Welsh economy of around £900 million.

THE CHALLENGES

REDUCING BUSINESS TAXATION

“In order to spur investment by Welsh-based companies and attract high value added foreign direct investment, the Welsh Conservatives should lobby the UK government for reduced corporation tax for Wales.”

CORPORATION TAX

The Challenge

For the last two decades, Wales has attracted billions of pounds of foreign direct investment (FDI) through generous grants or subsidies. Whilst this may have stabilised private sector investment in some parts of the Welsh economy, the selective nature of such grants means that it is unlikely that there will be any immediate change to narrow the prosperity gap between Wales and the rest of the UK. More importantly, such grants, whilst important to individual companies, can only provide limited assistance to the existing indigenous private sector in growing in Wales. In order to spur investment by Welsh-based companies and attract high value added FDI, the Welsh Conservatives should lobby the UK government for a reduced corporation tax rate for Wales as this is the only major economic structural change that can lift the Welsh economy from the bottom of the UK prosperity league table.

The Evidence

Recently, there have been calls from the private sector for corporation tax to be reduced within another devolved region of the UK. In 2010 the Northern Ireland Economic Reform Group of senior economists, accountants and business interests launched a major report on reduced corporation tax for the province.⁹ It concluded that “reduced corporation tax is the fastest way we know to revitalise the Northern Ireland economy” and estimated “that more than 90,000 extra jobs could be created over 20 years and that the subvention could be cut at a relatively small cost to public expenditure”. This was followed by a further study from the accountants PWC¹⁰ which noted that “as economies with relatively large public sectors in an environment where UK public spending is to be cut, the status quo with respect to policy (including continuation of the Treasury’s traditional one size fits all approach to taxation across the UK) will simply doom Northern Ireland, Scotland and Wales to fall further behind the UK average”. Unfortunately, no business or government body in Wales has undertaken a similar study to examine the impact of lower corporation tax on the Welsh economy although a recent paper from Cardiff Business School suggested that a significant reduction in corporation tax in Wales could create around 16,000 additional jobs¹¹. The UK Coalition Government has already indicated that it may be willing to consider a regional tax approach after offering new firms based outside the three most prosperous regions in the UK a £900 million tax break. Focusing a pre-election promise on those regions hardest hit by the recession, any company set up outside London, the South East of England and East England will not have to pay employer National Insurance contributions (NICs) for the first ten employees taken on during its first year in business. Given that the reduction in NICs for new firms has been regionally focused, there is no reason as to why other future tax measures may also focus on those parts of the UK in greatest need of support i.e. those areas that are overly dependent on the public sector and desperately need private sector jobs. With Wales remaining at the bottom of the UK prosperity league table, any measure that directly helps those managing Welsh businesses cannot come quickly enough.

The Way Forward

If elected, the Welsh Conservative Party should seek immediate and urgent discussions with the UK Government and the other devolved administrations about the feasibility of reducing corporation tax in Wales to encourage investment and create vital employment at a time when the economy is recovering from recession.

CASE STUDY

THE HOLTHAM REVIEW AND CORPORATION TAX

According to the Holtham Review¹², one theoretical approach could be to make changes to the rate of corporation tax that were proportional to the difference between GVA per head in a given region and the UK average.

“For example, one could ignore the first ten percentage points of deviation in GVA per head and say regions with a GVA per head between 80 and 90 per cent of the UK average could discount corporation tax by up to 15 per cent of the tax rate in force across the rest of the UK. Regions with a GVA per head of between 70 and 80 per cent of the UK average could discount by 25 per cent, those between 60 and 70 per cent by 35 per cent. The discount could be multiplied by a factor so the above discounts would become 30, 50 and 70 per cent respectively if the factor were 2; the key would be proportionality with the GVA shortfall in the region concerned. Companies wishing to claim the discount would have to demonstrate economic activity in the region concerned. This should not be a “brass plate” exercise; the location of head office would not be relevant. Corporation tax liability would depend on the location of economic activity. Evidently that could be defined in various ways but many countries, including the USA, have well-trying formulae for allocating corporation tax bases across regions. The simplest approach would be to allocate liability by proportion of payroll with the stipulation that payroll administration has to follow the physical location of the employees. Once activity is assigned to different regions it becomes possible for the tax rate to vary by region. It would be for the company to establish the location of its activities. The most straightforward way of varying corporation tax across the UK would be for this to be done by the UK Government; corporation tax would remain a UK tax, with no implications for devolved administration budgets. The tax would be collected by HMRC and receipts would accrue to the UK Government as at present.”

BUSINESS RATES

The Challenge

Welsh Conservatives have been at the forefront in championing business rate reform for small firms in Wales and WAG must ensure that our local businesses are not financially disadvantaged relative to those in England and Scotland.

The Evidence

During the last twelve years, the Welsh Assembly Government has failed to ensure that small businesses in Wales get the same level of business rate relief as those in England and Scotland. Following the Labour budget in the Spring 2010, eligible ratepayers in England and Wales receive temporary small business rate relief at 100 per cent on properties up to £6,000 (rather than 50 per cent), and a tapering relief from 100 per cent to 0 per cent for properties up to £12,000 in rateable value for that period. This has been confirmed in the Coalition Government's Emergency budget and will be available for a limited period between 1 October 2010 and 30 September 2011. However, this is planned for only one year and still puts Welsh businesses at a disadvantage as compared to their Scottish equivalents. Therefore, the Commission believed that a fairer system must be put into place once this relief is ended.

The Way Forward

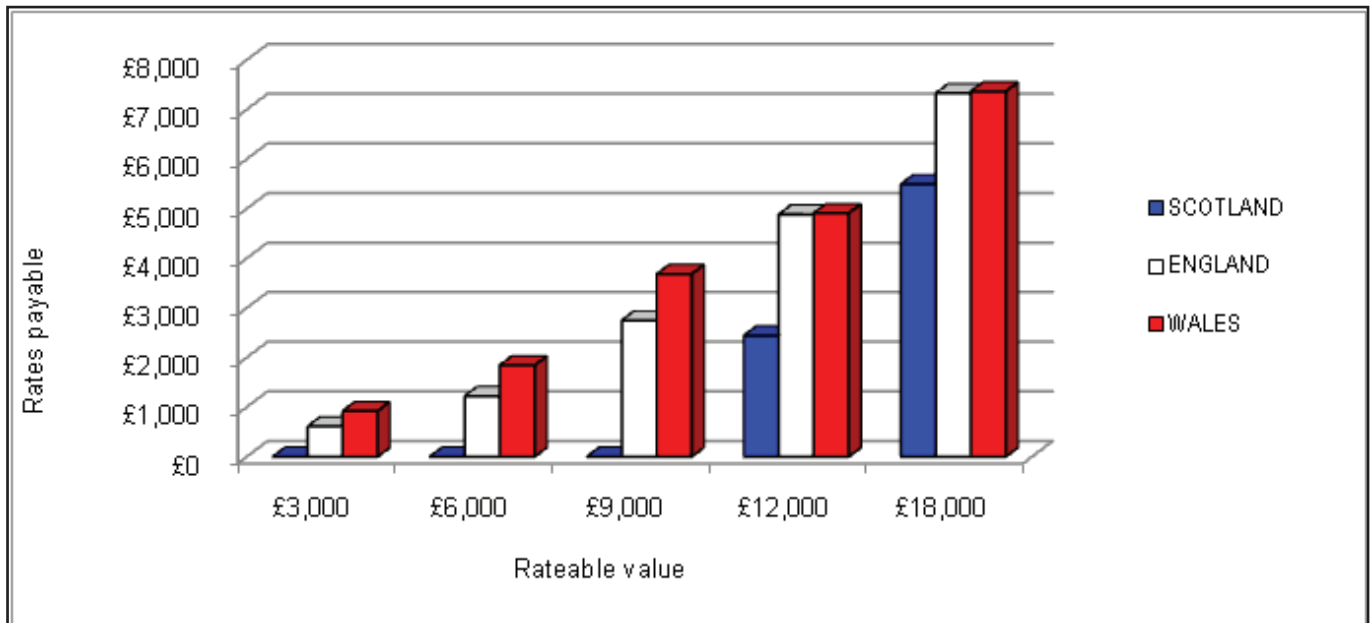
There is a need to support small local businesses by enabling them to keep more of their income to develop their business. However, it has been estimated by the WAG that any move to bring in additional rate relief of the sort enjoyed by businesses in Scotland would take £40m out of WAG's budget. The refusal of Ministers to implement a more favourable rate relief scheme for Wales suggests that their decisions are driven not by a lack of funding but by political ideology – even the new improved relief was as a result of UK policy decisions rather than any undertaken by the Welsh Assembly Government. We therefore propose that part of the economic development department's budget should be used to directly support rate reductions for the vast majority of small firms in Wales. This will ensure that no small business having a rateable value of less than £12,000 will pay business rates in Wales.

“No small business with a rateable value of less than £12,000 will pay business rates in Wales.”

CASE STUDY

BUSINESS RATES IN WALES, ENGLAND AND SCOTLAND

If we compare the levels of business rate relief across England and Scotland and Wales prior to the temporary increase in rate relief for one year introduced by WAG in 2010, there are considerable differences in levels of business rate relief across the three nations. To qualify for 50 per cent business rate relief in England, the rateable value of a business should be £6,000 or below. In Scotland, any business with a rateable value of £8000 or less pays no rates at all.



In Wales, a business would only qualify for 50 per cent relief if it had a rateable value of £2,400 and therefore a business with a rateable value of £6,000 would only get 25 per cent relief. Simply put, a small business in England with a rateable value of £6,000 would, after small business relief was applied, pay roughly £1,221 in business rates in 2010-2011. In Wales, that business would currently pay £1,840, a bill that is 50 per cent higher than in England. The same small business in Scotland would pay nothing.

ENGAGING WITH THE PRIVATE SECTOR

“It is vital that the business community in Wales plays a more direct role in supporting the development of the Welsh economy.”

POLICYMAKING

The Challenge

The Welsh Assembly Government must listen and respond to the voice of business. The Welsh Conservatives have consistently called for a stronger role for the Business Partnership Council, putting it at the centre of Government. By providing effective policy input and independent monitoring, which have been lacking from the approach of this Assembly Government and preceding administrations to the development of economic policy, the BPC could provide an exemplar that could be emulated in other parts of Britain.

The Evidence

The concept of the Business Partnership Council was developed in 1999 to ensure that the voice of business is crucial to the development of the Welsh economy. Chaired by the First Minister and with its membership comprising of WAG Ministers and representatives from Business Wales, the Welsh TUC and the Social Enterprise Network, its role is to consider issues that relate to the functions and responsibilities of WAG that affect the business community and make recommendations on the measures needed to improve the performance of the Welsh Assembly Government, its agencies and sponsored bodies.

The Way Forward

It is vital that the business community in Wales plays a more direct role in supporting the development of the Welsh economy. The current model of the BPC is doing little for the Welsh economy and needs some form of independent assessment. It is apparently not taken seriously by WAG Ministers and has recently been renamed as the Council for Economic Renewal. The Welsh Conservatives should aim to reform the former BPC by making it formally responsible for agreeing and measuring strategic economic development objectives. A senior representative from the Welsh community would chair it and this would demonstrate the critical importance of business development to the future of our economy. It would produce an annual report that would come before the Assembly, so that it can be debated to encourage further progress and bring scrutiny to bear on those areas in which Wales is not doing as well as we should be. It could also set out a work programme to identify the dynamics driving the economy, giving independent intelligence about Wales' economic performance, which would help the Government. There also needs to be a review on how business could contribute in other ways to support the development of economic policies. Other nations, such as Ireland, India and the USA, have developed new models of interaction with business that focus on the support of entrepreneurship and innovation as tools for economic development. For example, the Indian Government has recently established the National Innovation Council whose role will be to draw up policies for fostering an environment for innovation, especially among small and medium enterprises whilst President Barack Obama has created a National Advisory Council on Innovation and Entrepreneurship to help develop policies that foster entrepreneurship and identify new ways to take great ideas from the laboratory to the marketplace to drive economic growth and create jobs.

CASE STUDY

NATIONAL ADVISORY COUNCIL ON INNOVATION AND ENTREPRENEURSHIP

Recognising that new businesses are vital to the economic growth of this country, the US Government has established the National Advisory Council on Innovation and Entrepreneurship to advise on key issues relating to innovation and entrepreneurship. The council, made up of 26 national leaders in business, technology, and academia, is charged with helping the Obama administration unleash and maximize the economic potential of new ideas by removing barriers to entrepreneurship and the development of high-growth and innovation-based businesses. It will identify and recommend solutions to issues critical to the creation and development of entrepreneurship ecosystems that will spawn new businesses and jobs. It will also serve as a vehicle for ongoing dialogue with the entrepreneurship community and other stakeholders.

PARTNERSHIPS

The Challenge

Rather than working with, and listening to, the private sector, the Assembly Government seems content to continue with the status quo that has resulted in the disastrous performance of the economy of Wales during the last decade. The private sector has much to offer the Welsh Assembly Government, from advice on matters related to economic development, to supporting the supply of vital public services. To date, the last three Assembly Governments have largely spurned such advice, thus isolating one of the most important parts of Welsh life from making a full contribution, especially in the development of the economy.

The Evidence

There is growing evidence that the private sector can make a real contribution to ensuring that the Welsh budget is fully realised for the nation. According to the CBI and other business representative groups, there is enormous potential for Public-Private Partnerships (PPP) in improving services by delivering efficiency savings. These can provide value for money for taxpayers, increase government transparency and financial accountability and encourage long-term collaboration through genuine partnering. Most importantly, at a time when the funding from the Treasury to Wales is reducing, enormous savings could be made for investment in front-line services. In addition, there could be the leveraging of significant private sector investment for new projects and the opportunity to access private sector technical, management, and financial resources and expertise. Public sector managers could then focus on delivering their key services, rather than managing projects which take them away from their core business. Since the National Assembly for Wales was created, there has been a moratorium by WAG on private sector involvement in areas such as the NHS. However, this has not stopped other parts of the public sector from working with businesses. For example, the Welsh Local Government Association has agreed that private companies should have greater involvement in delivering council services, which could result in projects such as new schools being built through money provided from private funding.

The Way Forward

The Welsh Assembly Government must ensure that the private sector fully in delivering the strategies of the Welsh Assembly Government. Opportunities should be created for Welsh businesses to work more closely with the public sector and ensure that the private sector can play a major role in improving public services and, more importantly, create wealth and employment in the economy as a result of such involvement, particularly by fully utilising the private sector within economic development programmes such as European Structural funds.

CASE STUDY

THE PRIVATE SECTOR AND EUROPEAN STRUCTURAL FUNDS IN WALES

The most visible example of the inability of WAG to make the most of business expertise and experience within the private sector has been in the management of the European Structural Funds, where there has been minimal involvement by the private sector in the development and delivery of regeneration programmes such as those provided through £2 billion of European funding. During the last major funding programme - known as Objective 1 - statistics show that only 13 per cent of the £1.3 billion programme earmarked for the poorest parts of Wales went to private sector projects between 2000 and 2006. In contrast, over half of the available funding went to public sector backed projects. Whilst promises have been made to ensure greater interaction with the private sector, this has not materialised with the £2 billion programme of funding for the period 2007-2013. At February 2010, WEFO had approved 69 projects led by the Welsh Assembly Government; 21 local authority projects, (EU funds almost £162m), 19 third sector (EU funds, £60m), seven private sector (EU funds over £8m) and 13 HE sector projects (EU funds £130m). Whilst the number of third sector projects is healthy, the total grant value is low in comparison to those led by other sectors. This has led to concerns that the majority of European funds, rather than contributing anything additional, are being largely used to subsidise existing Assembly Government programmes. As a result, the private sector organisations that could (and should) be leading innovative new projects that could make a difference to the Welsh economy are being turned off by the massive bureaucracy and increasing delays in making decisions on any applications.

SUPPORTING SMALL BUSINESS

“The Welsh Conservative Party should make the new repayable grant system available to all sectors of the Welsh economy and all sizes of businesses. It is vital, as the nation struggles to come out of recession, that every business that needs finance to grow and create employment within their local economies is given every opportunity to do so.”

FUNDING FOR SMALL BUSINESS

The Challenge

It is generally accepted that the current system of grant support is largely unsustainable within the current economic climate. The Welsh Conservatives believe that, overall, there needs to be a gradual move away from the free grant culture in Wales towards an environment where companies, especially SMEs, get quicker access to repayable soft loans that can lead to a more sustainable financial support structure for business to flourish and grow. However, this should not mean abandoning SMEs within our poorest communities and, in particular, there will still be a need for grants in the Convergence region of Wales, especially for start-ups and for innovation-based projects that are higher risk and would not be in a position to agree terms on repayable loans. This, however, should be viewed as investment in R&D and in increasing the intellectual capital of the nation.

The Evidence

The Welsh Conservatives have supported the general principle of repayable grants. However, it is the belief of the Commission that these should not be limited to any one sector, as currently proposed by the Welsh Assembly Government. As various research studies have shown that growth companies are not limited to any particular industry. As a recent report from the UK Government has demonstrated¹³, high-growth firms engage in diverse activities and are not only involved in high-technology sectors. So, while there are reasons to support the development of high-growth businesses in a few promising sectors, ‘traditional sectors’ should not be forgotten. In fact, business services and the wholesale/retail sector – two industries that have been excluded by WAG - provide almost half the high-growth firms in the UK.

In addition, two thirds of Wales still qualifies for the highest level of European structural fund intervention rates and full advantage must be taken of this status until 2015 to help grow and develop the private sector. There remains a clear case to provide financial help to support SMEs within the poorer parts of Wales and a “one size fits all” economic strategy may not be fit for purpose. For example, 64 per cent of employment in West Wales and the Valleys comes from SMEs as compared to 52 per cent in East Wales i.e. SMEs are the main employers within our poorest communities and need support to grow and develop.¹⁴

The Way Forward

Unlike the sectoral approach of the current Labour-Plaid Government, the Welsh Conservative Party should make the new repayable grant system available to all sectors of the Welsh economy and all sizes of businesses. It is vital, as the nation struggles to come out of recession, that every business that needs finance to grow and create employment within their local economies is given every opportunity to do so. We would also seek to create a new innovation grant that could fill the funding gap to enable high risk private sector projects to receive vital initial seed-funding that would not be forthcoming from traditional sources of finance. Finally, the Commission believes that whilst repayable grants may be the only sustainable strategy for future funding of small business, the current Welsh Assembly Government has acted with too much haste in abandoning grant support for SMEs in Wales. This especially the case for the poorest Convergence region that, unlike any part of the UK with exception of Cornwall, is eligible to receive the highest rate of grant support. Therefore, there should be detailed discussions with the Welsh European Funding Office (WEFO) to create a Convergence SME grant fund which could be used to support the growth ambitions of new and existing firms within our most deprived communities. This would be funded entirely from European grant aid and private sector match funding, could be linked directly into a new small business support structure for Wales and would last the lifetime of the current Convergence funding period.

PROCUREMENT FOR SMALL BUSINESS

The Challenge

The Commission believes that the public sector must be opened up so that the private sector is seen as a vital partner. Public sector procurement should be made more amenable to SMEs in Wales as the amount of funding that is available through public sector contracts dwarfs any grants or financial support that the public sector can offer Welsh firms.

The Evidence

According to recent research¹⁵, the public sector in Wales spends £5 billion per annum on goods and services (with 31 per cent is spent on goods, 50 per cent on services, 14 per cent on capital and 5 per cent on food). Local government is the largest spender, accounting for approximately 44 per cent of the total, followed by health 28 per cent and education 10 per cent. Whilst the Welsh Assembly Government is on record in stating that 50 per cent of this spending goes to firms based in Wales, there is no data available as to the level of spending within Welsh SMEs, although this is expected to be far lower.

The Way Forward

As the FSB (Federation of Small Businesses) in Wales has suggested, there needs to be a proactive culture of preference for Welsh companies to help develop the indigenous SME sector. The Commission therefore recommends that the Welsh Assembly Government should set targets, as the US Federal Government has done through its Office of Government Contracting, for spending its annual budget with local small firms. It should also explore whether some procurement exercises can be reserved exclusively for the SME sector.

CASE STUDY

THE OFFICE OF GOVERNMENT CONTRACTING (USA)

The Office of Government Contracting (GC) works to create an environment for maximum participation by small, disadvantaged, and woman-owned businesses in federal government contract awards and large prime subcontract awards. GC advocates on behalf of small business in the federal procurement world. Each year, the US government spends billions of dollars in goods and services purchases from private firms. To foster an equitable federal procurement policy, government-wide small business goals, in terms of a percentage of annual expenditure, are established for federal agencies. The Small Business Administration (SBA) negotiates the goals annually with each federal agency on an individual basis and the overall small business goal is 23 per cent. Under the Small Business Act, federal agencies conduct a variety of procurements that are reserved exclusively for small business participation. For example, the Small Business Reserve Programme requires state agencies to reserve 10 percent of its contracting dollars for bid solely by small businesses i.e. small businesses will be able to bid for public contracts without competing with larger, more established businesses. For all procurement actions expected to exceed the \$100,000 simplified acquisition threshold, prime contractors are required to make a “best effort” attempt to make use of small, disadvantaged, and women-owned small businesses as subcontractors if the opportunity exists under the contract. For procurement actions expected to exceed \$550,000 (\$1 million for construction), the winning contractor is required to provide the agency’s contracting officer with a written plan that establishes a small business subcontracting goal. The plan details how the winning contractor will make use of small business in each subcontract category and provide for timely payments. GC also administers several programmes and services that assist small businesses in meeting the requirements to receive government contracts and plays a major role in the formulation of federal procurement policies that affect small businesses.

SMALL BUSINESS SUPPORT

“The general consensus from the business community, according to WAG’s own consultation regarding the Economic Renewal Programme (ERP), is that business support should be streamlined and made less bureaucratic, rather than abolished.”

The Challenge

According to the FSB in Wales, support given to businesses in terms of advice needs to be relevant, timely and properly attuned to individual needs. FSB statistics show a low level of take-up of government funded business advice among businesses even though this support has a key role to play in developing businesses. Decisions should be taken as close to the businesses as possible and not centralised. A top down structure that has given too much power to civil servants replaced the Welsh Development Agency’s decentralised model. The business support programme should therefore be streamlined and simplified, cutting red tape and bureaucracy and ensuring that the right support gets to businesses quickly and easily.

The Evidence

As part of its new Economic Renewal Programme, WAG has abolished its Flexible Support for Business (FS4B) programme for SMEs. It has instead developed a strategic approach to business support that will focus resources on six key sectors only. Yet, evidence suggests that if business support is to be focused on growing businesses, then a sectoral approach has difficulties. For example, a study from the OECD¹⁶ found that, contrary to the perceptions of many policy makers, only around one third of growth businesses are in high technology sectors. In addition, a recent study for NESTA¹⁷ shows that the Business Services and the Wholesale and Retail sectors provide almost half the high-growth firms in the UK. Therefore, instead of adopting a sectoral focus, WAG should have an increased focus on improving the quality and appropriateness of support with limited resources, keeping in touch with the changes in the small business community and managing the network of Welsh private sector expertise. As Wales comes out of recession and firms begin to consider further investment opportunities, the demand for business support is likely to increase substantially in Wales. Whilst parts of the private sector – such as accountants and lawyers - may well take up the slack in some of the more prosperous areas, it would be expected that there a gap in support within will emerge rural areas and those areas which are currently in receipt of European Convergence Funds. If an increased number of firms do not get support, then it will give them less chance to maximise their potential for job creation and reduce their competitiveness, thus compounding the low levels of economic activity within these more deprived communities.

The Way Forward

The Commission noted that the abolition of the Welsh Development Agency in 2006 was a serious error in the delivery of economic development policy by the Welsh Assembly Government. Whilst the WDA can probably never be resurrected, the principles of a customer facing business support must be re-established. The general consensus from the business community, according to WAG's own consultation regarding the Economic Renewal Programme (ERP), is that business support should be streamlined and made less bureaucratic, rather than abolished. The Welsh Conservatives believe that there should be a more efficient support system to new and existing firms. All businesses have the capability to add value to the Welsh economy although business support should be tailored according to the stage of growth of the venture. For example, all new businesses should receive some initial mentoring support whilst “gazelles” – those firms with high growth potential – should receive more tailored support that will help develop their company further. We need to maximise the expertise and experience of the private sector in providing the right level of business support with the minimum amount of bureaucracy and red tape. The Welsh Assembly Government should contract out all business support services, but those deliverers will be held fully accountable for results and contracts withdrawn if they are not delivered. Those deliverers will need to take into account the differing way that support needs to be tailored for women, ethnic business and social enterprises because of the way they approach business, cultural constraints and the balancing of social and financial objectives. Duplication across government departments will also need to be avoided and all support to business should be merged into one central service, including human resource development advice, currently based in DCELLS and the support for tourism businesses that is currently within the Department for Heritage. This will minimise duplication of business services and cut down on red tape.

SUPPORTING SMALL BUSINESS

ENCOURAGING ENTREPRENEURSHIP

“The Entrepreneurship Action Plan should be reintroduced to act as a focal point for encouraging new business start-ups across Wales.”

The Challenge

Wales has experienced the largest decline in the number of new businesses being created since 2004. In order to create an enterprising and innovative economy, there is a need to encourage greater opportunity to develop entrepreneurship, especially within our more deprived communities.

The Evidence

The UK innovation agency NESTA released a new report on innovation indicators¹⁸ which indicated that a dynamic enterprise culture is essential for innovation i.e. a high birth rate of new businesses will drive competitive markets. As discussed earlier, Wales has experienced the largest decline in new business starts of any UK region, a situation that could have a serious knock on effect on the innovative capacity of the Welsh economy, regardless of the increased spending on research and development within the University sector. A UK Treasury study reported that successful entrepreneurship has the potential to help deprived areas through lowering unemployment not only through residents creating their own employment, but also indirectly through multiplier effects in the community and via other social contributions. The decline in the number of new businesses across West Wales and the Valleys could impact upon the ability of these poorer communities to recover. If we are to create a strong and vibrant economy, then we need to see an increase, not a decrease, in the number of entrepreneurs in Wales.

Contrary to the current thinking within WAG, the statistical evidence shows that SMEs remain the major job creators within the economy. A recent study from the Kauffman Foundation¹⁹ reveals that, in their first year, new firms add an average of 3 million jobs. Similarly, WAG's own data on firm structure²⁰ shows that, during the period 2003-2010, 70 per cent of all employment growth in Wales during the period 2003-2010 came from SMEs i.e. 68,000 jobs. There are also clearly geographical differences in the influence of large firms across Wales. For example, 46 per cent of employment in East Wales in 2010 came from large firms as opposed to 36 per cent in West Wales and the Valleys i.e. small firms are driving employment within our poorest communities, a fact that is yet again being ignored by policymakers in Wales.

The Way Forward

It cannot be a coincidence that the decline in the business start-up rate began after the abolition of the Entrepreneurship Action Plan (EAP) for Wales and the merger of the WDA into WAG's Department of Economy and Transport. Whilst creating a more entrepreneurial Wales was at the heart of the WDA's mission, predominantly through the successful implementation of the EAP and its promotion of an enterprise culture, it has been relegated to the fringes of economic policy by the new regime within WAG. This is despite the proud fact that Wales was light years ahead of any other part of Europe in terms of developing an effective regional enterprise strategy, a competitive advantage that we then threw away because of the whims of politicians and policymakers who failed to understand the long term strategy needed to create an environment in which entrepreneurs are encouraged and supported to flourish and create wealth and employment. Therefore, the Entrepreneurship Action Plan should be reintroduced to act as a focal point for encouraging new business start-ups across Wales and in developing social enterprise as a key part of the delivery of that strategy.

CASE STUDY

ENTREPRENEURSHIP ACTION PLAN FOR WALES

The Entrepreneurship Action Plan for Wales (EAP) was established to help develop an entrepreneurship culture in Wales. To achieve this, three key elements were recognised as being important:

- *Recognising the Opportunity* – creating a greater awareness of the opportunities and benefits of entrepreneurship in order to encourage more people to start a business or to grow the business they are in, and to develop a greater entrepreneurial culture within our institutions, communities and businesses;
- *Creating Enterprises* - Creating a greater number of sustainable start-up businesses in Wales with potential for further growth, particularly by under-represented groups of society such as women, the young, Welsh language speakers, ethnic minorities and retired workers;
- *Going for Growth* - Increasing the number of businesses in Wales that grow, thereby creating greater wealth, employment and opportunity.

At the beginning of the process, a private sector led steering group was established to deliver the Entrepreneurship Action Plan (EAP) for Wales. The group brought together entrepreneurs, educationalists and business support professionals to guide the development phase and oversee the appointment of consultants to carry out the work. The steering group met on a monthly basis and consultants produced desktop research that resulted in a set of six initial themes to explore and develop further. These were: (a) fostering a culture for entrepreneurship (b) unlocking the potential (c) enterprising communities (d) investing in knowledge and experience (e) bridging the funding gap and (f) reaping the rewards.

Whilst the strategy of the programme was guided by the private sector led steering group – the Entrepreneurship Implementation Panel – the operational part of the project was managed by a special enterprise team established within the Welsh Development Agency. Their main role was to commission work from a range of different organisations to ensure the delivery of the programme. Through co-ordinating the role of different organisations and providing the funding for activities, a more coherent approach to the development of entrepreneurship across Wales was established. Tens of millions of pounds of funding were made available through European structural funds to ensure the delivery of all aspects of the EAP, although the programme was abolished in 2005 when the WDA was preparing to merge with the Department of Economy and Transport within the Welsh Assembly Government.

REVITALISING MANUFACTURING

The Challenge

As Sir James Dyson²¹ noted in a report on revitalising the manufacturing sector, it could, if supported properly by government, play a major part in the future growth of the UK economy. Dyson suggested that it is critical for the UK economy to rebalance itself away from financial services and property, two sectors that did not generate as much added value as many had suggested. With policymakers now looking for an export-led growth over the next few years, it is clear that manufacturing – which already accounts for half of the UK's exports – can be doing far more, especially in hi-tech sectors. Secondly, with manufacturing focused outside the south east of England, any growth in the sector will have a disproportionate effect on the less prosperous parts of the UK, including Wales. As Dyson notes in his report: “Whatever it is that creates generic differences between innovators and non-innovators, the consequence is that the former are likely to be quicker, more flexible, more adaptable, and more capable in dealing with market pressures than the latter are.”

The Evidence

Under the last three Assembly Governments, there has been a decline in manufacturing from 28 per cent of the Welsh economy in 1997 to 18 per cent of the nation's economic output. Despite this reduction in the overall role of manufacturing, it retains a larger role in the Welsh economy than in many other regions. From global giants such as Airbus and Corus to thousands of small companies producing specialist goods across the country, there remains real potential within the manufacturing sector in Wales.

The Way Forward

The Commission believe that a coherent approach by WAG could herald a revival for manufacturing again, especially if companies have the right management, the right products and the right skills in place, and the exchange rate remains competitive to drive export activity. More importantly, Wales, with the right support from governments in Westminster and Cardiff Bay, could be leading such developments given that we have some great manufacturing companies, both large and small, that could help drive forward both the Welsh and the UK economy over the next decade. The Welsh Conservatives should therefore look to implement the manufacturing strategy for Wales and provide support for the manufacturing sector to develop in the future. There should also be greater support provided by the UK Government for the manufacturing sector and politicians and other groups in Wales should work alongside other regions, such as the Midlands, to ensure greater political support for the sector.

STIMULATING INNOVATION

“If Wales is to improve its innovation performance over time, then we must ensure that the sum of the parts – government, industry and academia – is greater than the whole.”

The Challenge

It is critical to encourage innovation so that the amount of R&D undertaken in Wales increases substantially. Welsh Higher Education Institutes have a key role to play here and WAG funding must incentivise the commercialisation of knowledge, whilst maximising the potential linkages between academia and industry.

The Evidence

Recent research shows that investments in innovation accounted for between two-thirds and three-quarters of labour productivity growth in OECD countries such as Austria, Finland, Sweden, the United Kingdom and the United States between 1995 and 2006²². Innovation was the main driver of growth. A lack of innovation – characterised by low levels of investment in knowledge, such as skills, research and development, and technology - has been identified as a major barrier restricting the growth of the economy. In Wales, which has a higher dependency than most of the UK regions on universities for its R&D, there remains a disconnect between the key innovation actors in government, industry and academia²³. Many operate in silos rather than as an efficient innovation system that effectively transfers knowledge from the laboratory to the marketplace and then provides the necessary resources and support to fully exploit that knowledge. As a result, there needs to be a greater effort in ensuring that programmes focus on building both research capacity in both the academic and private sectors whilst enabling better relationships between the two sectors, a role that government can contribute to and, more importantly, stimulate and enhance.

The Way Forward

If the next Googles, Yahoos and YouTubes are to emerge in Wales over the next decade, then there must be a different approach to supporting innovation and not just repeating the same policy initiatives that have largely failed. In particular, government needs to ensure that all the key actors work more closely together as part of an innovation system and not operate in isolation or, even worse, in competition. If Wales is to improve its innovation performance over time, then we must ensure that the sum of the parts – government, industry and academia – is greater than the whole. Therefore, the Welsh Conservatives should look to establish a Welsh regional innovation system, which will be directed under a separate private sector led Innovation Council for Wales.

CASE STUDY

YORKSHIRE INNOVATION COUNCIL

Yorkshire Innovation is the Science and Industry Council for Yorkshire and Humber. The role of the Council is to promote a culture of innovation and advise on ways to improve the economic performance of the region by increasing levels of innovation in our companies. Yorkshire Innovation supports innovation across Yorkshire, enabling companies in the region to gain a real competitive advantage that will underpin their long-term growth. Yorkshire Innovation Council Members are ambassadors for the region, promoting the region’s major assets and world-leading technology on the international stage. They act as key influencers, helping shape government policy and decision-making. Council Members are renowned amongst business communities and in academic circles and are committed to championing the science, technology and innovation assets of the region, attracting investment and encouraging collaboration.

GOING INTERNATIONAL

The Challenge

To encourage a more international approach to business that again makes Wales the most favoured location for inward investors whilst also supporting Welsh businesses in their exporting activities to ensure they take full advantage of the opportunities presented by a growing global economy.

The Evidence

A study from the European Commission²⁴ has shown the benefits of internationalisation by small companies for the development of local economies. The report maps the level of internationalisation of small firms in Europe and identifies the main barriers and advantages of the internationalisation process. It found that internationally-active SMEs report an employment growth of 7 per cent whereas the figure was 1 per cent for those without any international activities. It also discovered a strong relationship between internationalisation and innovation - 26 per cent of internationally active SMEs introduced products or services that were new for their sector in their country as compared to 8 per cent for other small businesses. Given this, it is worrying that, compared with many other regions, Wales barely engages in the global economy. The percentage of Welsh companies engaged in exporting is only 2.1 per cent - the lowest of any UK region - and well below the UK average of 3.4 per cent.

The Way Forward

Wales should take a leaf out of Scotland's book, which is far more advanced in terms of internationalisation policies. New policies in Wales should be developed to identify and map key global communities of practice, and then make companies better aware of these communities. International network development should be supported by establishing new modes of overseas missions which provide financial assistance to fund international customers, suppliers, collaborators and associates to undertake visits to Wales to develop strong relationships with Welsh companies. There should also be an increased focus on internationalisation as the economy needs more firms to consider markets outside Wales if they are to grow. In this respect, there needs to be greater co-operation with UKTI in terms of supporting trade missions but business support could also look at how Welsh SMEs can be supported in developing other types of international links such as licensing, alliances and joint ventures.

CASE STUDY

INTERNATIONAL STRATEGY DEVELOPMENT PROGRAMME

Focused on developing international vision and business strategy, the International Strategy Development Programme is designed to accelerate the global growth of companies. Companies should have an ambitious top team with the vision and capacity to formulate and implement an international strategy, and be seeking to internationalise or increase the number of international markets in which they operate. To qualify for support, they should have a turnover of circa £2 million or more, with significant potential for growth, have their Head Office in Scotland (or demonstrate that they are strategically controlled from Scotland) and be committed to spending the time and resource to undertake the project and implement any action plan. The International Strategy Development Programme has been designed to accelerate the international growth of ambitious companies. The main focus is to develop a sustainable international strategy having considered the various options available to the company. There will also be a focus on building management team capability within the company to ensure the strategy can be delivered. The Programme is delivered on an individual company basis and will involve the senior management team. Support is flexible with between 10 and 20 days consultancy support available to assist in developing an international strategy.

SKILLS

“Business development and skills should go hand in hand within any enterprise support network and there should be a seamless approach by government to the delivery of support in this area. The Welsh Conservatives should therefore create a new Department for Business and Skills that will enable a clear strategic approach to be adopted.”

The Challenge

The skills of the Welsh workforce lag behind more prosperous regions of the UK and compare poorly to the world's leading advanced countries.

The Evidence

“Skills That Work for Wales – A Skills and Employment Strategy and Action Plan” is a critical report produced by Welsh Assembly Government that, unlike many other reports, takes seriously the premise that if we improve skills within Wales we will have a more prosperous society, reduced inequality, more jobs and less poverty. Most importantly, the Board emphasised the important message that improving skills is not merely an issue for Government alone, but must fully involve employers at every level. One of the critical conclusions of the report was the importance of skills in the strategic development of businesses alongside other issues such as capital investment, innovation and workforce planning. While recommending that different arms of Government should work more closely together, it is a shame that the report did not take the next step and propose that economic development and skills should be integrated under one super department within the Assembly to ensure real value for employers. In particular, the higher education sector needs to review its role within the economy and adopt a wider skills-based approach to its agenda for supporting economic development and finally recognise that producing basic research may not be the only way it can influence the future of the Welsh economy.

The Way Forward

As the Enterprise and Learning Committee of the National Assembly for Wales has pointed out, there should be better links between economic development and education. However, the Economic Commission believes that a further step is required to deal with the lack of co-ordination between the Department of Economy and Transport and the Department for Children, Education and Lifelong Learning. Business development and skills should go hand in hand within any enterprise support network and there should be a seamless approach by government to the delivery of support in this area. The Welsh Assembly Government should therefore create a new Department for Business and Skills that will enable a clear strategic approach to be adopted.

A BETTER CONNECTED ECONOMY

HIGH SPEED RAIL LINKS

“The Welsh Conservatives should work alongside colleagues in the South West of England to lobby the government to make the Great Western line a priority for electrification.”

The Challenge

To provide high speed rail links connecting Wales to the major conurbations of the UK and beyond into Europe.

The Evidence

According to the British Chambers of Commerce, approximately 70 per cent of travellers to and from Wales utilise English airports, particularly Heathrow. For businesses in South Wales, this highlights the requirement for better and more reliable links with London. Unfortunately, the absence of a direct train between South Wales and Heathrow adds significantly to journey time and to Wales’ ability and that of its businesses to connect to the rest the world, limiting productivity.²⁵ It has been estimated that a high-speed rail link would cut London-Cardiff travel times by 46 minutes to one hour 14 minutes. Indeed, a report from the Conservative Bow Group²⁶ suggested that Brunel’s superbly engineered Great Western line should take priority over the high speed line to Birmingham and the North, especially as some have suggested that it seems to have been designed with a 21st century ultra speed railway in mind.

Whilst economic links between North Wales and the North West of England are critically important to both regions, rail links between North Wales and commercial centres in the North West of England have actually deteriorated, with direct services from North Wales to Liverpool being axed some decades ago. The rail infrastructure also fails to connect either Manchester or Liverpool airports with North Wales.

The North/South air link between Anglesey and Cardiff now requires Assembly Government Support of some £3k per day to continue to operate. It has faced challenges with significant under-occupancy since it was established in 2007.

The Way Forward

In the last election manifesto, the Conservatives pledged to begin work immediately to create a high speed rail line connecting London and Heathrow with Birmingham, Manchester and Leeds as a first step towards creating a national high speed rail network to join up major cities across England, Scotland and Wales. The second stage will involve the delivery of two new lines bringing the North East, Scotland and Wales into the high-speed rail network. Given the years of underinvestment into the rail network in Wales, the Commission believes that the Welsh Conservatives should adopt the Bow Group report and work alongside colleagues in the South West of England to lobby the government to make the Great Western line a priority for new high speed infrastructure investment. The Welsh Conservatives should also make a commitment to work with the UK Government to re-establish direct rail services between North Wales and Liverpool via investment in the Halton Curve. The viability of developing rail services between North Wales and international airports in both Liverpool and Manchester should also be explored.

HIGH SPEED BROADBAND

The Challenge

To support those firms that wish to access high speed broadband in order to increase the competitiveness of their businesses.

The Evidence

The main issue here is not whether high speed broadband should be provided for Welsh businesses but whether the private sector or government should be providing the investment necessary, especially as half of WAG's business support programme budget is being transferred over the next few years to pay for these improvements i.e. it has been estimated that WAG intends to spend approximately £240 million over the next few years on next generation broadband in Wales. To date, WAG has failed to make a coherent case as to why this is a better form of investment than supporting firms directly for broadband provision or why government should subsidise broadband development instead of the private sector. One of the most critical reports on the role of broadband in economic development is "The UK's Digital Road to Recovery" from the London School of Economics. Extrapolating from the report, it can be estimated that the investment in broadband in Wales this would create or retain around 11,000 jobs for one year i.e. a cost of roughly £22,000 per job. This is approximately double the cost per job from supporting an indigenous firm directly through the old grant system. Therefore, the investment in broadband will not necessarily give a better return on Welsh Assembly Government funds in terms of the number of jobs created as a result of public investment and other funding should be sought from Westminster to pay for any new broadband infrastructure. We need to match the commitment alongside the UK Government in order to make Wales the fastest country in Europe for broadband by 2015 with a guaranteed universal standard of 2 Mbps.

The Way Forward

The Economic Commission believes that the next Assembly Government should not take funding away from business support to pay for broadband provision but should instead utilise funds from the UK Government and European grants to subsidise provision in rural areas, and match these through private sector contributions. In particular, it is critical that the Welsh Assembly Government ensures that every community in Wales receives the promised UK Government funds to build a "digital hub" with a fibre optic internet connection in every community by 2015. In addition to working with large telecommunications providers, it should also explore a number of options to deliver super broadband solutions across Wales. For example, WAG could examine how the fibre-optic cables that are already in place to serve schools and other public buildings could be utilised to extend the broadband network to the business community using microwave or other wireless technologies. It should also seek to work alongside smaller companies in the marketplace, many of whom can offer a more competitive price than telecommunications giants, especially if they are allowed to run their own cables through existing ducts and telegraph poles.

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