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Experts in Business

## FSB Wales Briefing Prosperity for All: Economic Action Plan

### About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales. With 10,000 members FSB Wales is in constant contact with business at a grassroots level. It undertakes regular online surveys of its members as well a number of research projects overseen by its Wales Policy Unit.

### Introduction

In December 2017 the Welsh Government published its long awaited economic strategy called *Prosperity for All: Economic Action Plan (EAP)*. The EAP marked a point of departure from the Welsh Government's previous economic strategy called the Economic Renewal Programme (ERP). The ERP focused on 'priority sectors' and the new EAP has removed this approach and replaced it with a number of spatial and sectoral priorities.

### Overview

The EAP has four core components that make up its approach. They are:

- **Economic Contract** – placed on all funding that comes direct from Welsh Government (except Business Wales or Development Bank). It will set out a number of prerequisites for firms to achieve before being eligible for support based around 5 calls to action.
- **New economic regions** – Three new economic regions have been created (N Wales, Mid and West Wales, SE Wales) that will be headed up by Chief Regional Officers. These will align to some extent with City Deals/Regions.
- **New 'National Thematic Sectors'** – These will replace the current 9 priority sectors. They are Tradeable Services, High Value Manufacturing and Enablers.
- **Foundation Sectors** – A direct response to the foundational economy. These are tourism, food, retail and care.

### Analysis

The publication of this document is an important moment for business in Wales.

This plan is long awaited and overdue but there is much welcome thinking contained within it. It is now time to move towards outlining proper detail that translates this from ambition and vision to meaningful action for business and the economy.

Ultimately, the Action Plan commits to recognising and working with the economic assets that we have in Wales and this is welcome. The pledge to focus on growing and promoting indigenous businesses is something that FSB Wales has long called for.

We are pleased to see that, as with the UK Government's Industrial Strategy, the document has identified some of the weaknesses of the Welsh economy, such as low productivity, and we hope to see these strategies complement each other to tackle these challenges.

We are also working closely with the Welsh Government and social partners as the Fair Work Commission develops and it is important that businesses are engaged in this conversation.

Possible improvements:

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- Welsh Government must now begin a wider conversation with businesses. In the first instance, this would mean **consultation** on the contents of the EAP with a focus on what it means for businesses in their day-to-day operation.
- **The EAP needs stronger targets and measures** by which to judge its performance. This should take the form of a basket of indicators such as GVA, employment and other structural indicators such as access to broadband.

## Economic Contract

The approach to the economic contract is innovative. A contract is something that must be beneficial to both parties, and we very much hope this will be the spirit in which the contract is used. It therefore needs to be easy to comply with. As with any contract, there needs to be a clear understanding on both sides as to what constitutes a 'breach'.

The Action Plan identifies a number of ways in which we can 'raise the ask' of larger firms through the contract. For our part, we'd like to see a stronger emphasis on leveraging the impact of Wales' larger firms' to help develop their Welsh supply chains and we feel that this needs to be specifically detailed as one of the 'calls to action'.

Possible improvements:

- An **additional call to action** should be included focused around the development of **Wales-based supply chains**.
- A **clear mechanism for holding both sides of any contract to account** should be included, as well as a mechanism for dealing with any breaches.

## Regional Economies

It is important that the Cabinet Secretary has recognised that the Welsh economy is regionally imbalanced; this is something that we must work together to redress. For too long, interest and attention has been focused in particular areas of Wales to the exclusion of opportunities elsewhere in the country.

Moving away from a 'one-size-fits-all' approach means that we can fully exploit the particular opportunities within each region including, but not limited to conversations on the growth deals. Allowing regions to identify their own priorities based on the needs of their businesses is the key here.

As part of this, it is encouraging to see emphasis on the rural economy following much work by the FSB. However, the Cabinet Secretary could go further than this, and adopt a Rural Challenge Fund to support rural Wales, as recommended by the FSB in our *Rural Taskforce* report which would stimulate new thinking on developing the rural economy.

Possible improvements:

- **Welsh Government should empower regional government** to deliver economic development, using the funds provided by the City/Growth Deals as leverage.
- In concrete terms, we believe that a move towards regional structures for economic development may merit **revisiting where key policy levers lie**.
- Economic development within Wales' regional economies should be balanced in terms of the internal make-up of each of the regions **recognising the spatial impact of sectoral approaches**.



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- That **arrangements are made for Mid Wales**, which stands to be neglected in current arrangements.

## Foundational Economy

We are very pleased to see an explicit ambition for the development of the foundational economy, which plays a critical role Wales. We will work closely with the Cabinet Secretary and his team to develop the plans for this area of the economy as we move this from theory to action.

Possible improvements:

- The Welsh Government should **undertake work with firms in each of the sectors** to understand their pressures with a view to helping **deliver more sustainable business models**. The recent Welsh Government review of the childcare sector in Wales provides a useful template.<sup>1</sup>

## Business Support

The commitment to simplification and flexibility of support and interventions for business is promising and will bring tangible benefits to businesses who want a business support system that prioritises accessibility and ease of use. However, we need specific detail of what this simplification agenda will look like.

Possible improvements:

- There needs to be greater transparency as to **whether the new Economy Futures Fund will be grant or loan based** and whether it will be open to applications from SMEs.

## Sectors

We welcome the removal of a sector based approach, which was often confusing to SMEs who didn't feel it was relevant to their business and at times looked like an arbitrary approach to support. Moving forward, there needs to be greater clarity on what is included in the thematic sectors, and more importantly, what is not included.

Possible improvements:

- The **sectors identified by the EAP need to be better defined** and at present are too broad.

## Skills

Education and training are key levers in solving Wales' poor productivity. FSB welcomes the identification of this as a priority for the new Economic Action Plan. It is vital that reforms to post-compulsory education respond to SME needs.

Possible Improvements:

- Set out a **timetable for the delivery of the proposed Tertiary Education and Research Commission for Wales (TERCfW)**.

## Infrastructure

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<sup>1</sup> Government Social Research. 2018. *Review of the Childcare Sector in Wales* [Online]. Available at: <http://gov.wales/docs/caecd/research/2018/180110-review-childcare-sector-en.pdf> (accessed 10th January 2018).



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FSB welcomes the Welsh Governments actions to improve the development of infrastructure across Wales. Moving forward the role of the National Infrastructure Commission will be key, and we hope to see the commission tasked to deliver beyond traditional "hard" infrastructure

Possible Improvements:

- Further details on the possible **roll out of 5G**, and work to increase SME uptake and utilization of high speed internet access.
- The National Infrastructure for Wales should move swiftly **to engage with businesses** in drawing up its priorities.

### Low Carbon and Green Growth

FSB recognizes the challenges posed by climate change, and welcomes the clear signposting Welsh Government is seeking to provide through the carbon budgets. Moving forward, Welsh Government should seek to assist the smallest businesses in increasing their energy and water efficiency"

Possible improvements:

- Work with commercial landlords to **identify ways to assist SMEs in reducing their energy usage** or increase their energy efficiency
- Identify the priority actions required to assist SMEs to decarbonize their transport.

### Wales and the World

The document rightly recognises the need for Wales to project its brand more effectively to aid trade and investment. Welsh Government should commit to the development of a Trade and Investment Strategy to inform and guide this work and help create a vehicle for businesses prospecting abroad. However, we are pleased to see the Plan recognising the need to link with the UK Government's own activity in this area.

Possible improvements:

- Welsh Government should commit to bringing forward a **Trade and Investment Strategy for Wales.**
- Further **consideration should be given to creating an independent body** tasked with implementing the Trade and Investment Strategy.

### What's Missing

While the Action Plan identifies a number of priorities going forward, we feel there are areas for further development.

For instance, Welsh Government must also address some of our more strategic weaknesses such as how we address the lack of medium sized businesses, which was highlighted earlier this year by FSB Wales, or the lack of careers advice and support on offer in schools and the impact this has on the future of entrepreneurship.

We also recently called for a wide ranging Welsh Government review of self-employment in order to properly understand it and its impact in Wales, and would repeat this call going forwards.

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- The EAP should include **a clear commitment towards growing the medium-size cohort of Welsh firms**, what we've called the missing middle. A number of interventions would be associated with this.
- There should also be **greater recognition of self-employment** as an economic activity, given that it accounts for around 13 per cent of Welsh employment.
- The **links between businesses and wider social actors such as schools** should be explored in further detail.

## Next Steps

In consulting with business during the next stage, we would expect to see clear indicators and targets to measure success. Businesses operating on the ground must be able to see what this strategy means for them in reality.

Overall, this document strongly hints at the recalibration of thinking that FSB Wales has been calling for and seems to be heading in a positive direction. However, Welsh Government needs now to intensify a meaningful consultation with business to make it more tangible. Welsh Government must create a partnership with business that helps this plan to succeed.