SOUTH EAST WALES DEVELOPMENT STRATEGY

Enter The Dragon Economy

CAPITAL WALES

An Economic Development Framework for South East Wales

Contents

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ECONOMIC FORUM

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Capital Wales, enter the dragon economy.

South East Wales Development Strategy

Foreword

I commend the South East Wales Economic Forum for its partnership work and the development of the South East Wales Strategy. You have given an excellent example of how to bring together a broad range of organisations with the common goal of taking South East Wales forward. I am delighted that I have been able to co-fund the research that underpinned the development of this Strategy.

This Strategy sets out the vision for South East Wales of a region firmly on the way to becoming one of the most prosperous in Europe, and providing opportunities for every individual, enterprise and community to share in that prosperity.

In Wales we need to build on our strengths and on Wales' unique identity in order to establish a distinct sustainable future for Wales. This means establishing a collaborative as well as a competitive advantage for Wales based on a clear identity and real strengths. I know that South East Wales is a key driver of the Welsh economy. It already possesses some world class companies and an excellent tradition of education, innovative universities, and a dedicated and skilled workforce. This strategy will capitalise on these strengths.

You have clear objectives and ambitious goals and I am encouraged by the work that the Forum has done in developing the Strategy. By demonstrating the same commitment and by working together in partnership with people and organisations across South East Wales I know the region will succeed in creating the right climate for business to prosper and people to live.

I wish the South East Wales Economic Forum every success for the future.

Andrew Davies

Andrew Davies
Minister for Economic Development and Transport

1. Introduction

This document contains the 10 Year Strategy from the Development Framework for South East Wales.

The strategy itself was developed following a series of consultation meetings and in-depth discussions with a variety of organisations and individuals. It was extensively debated at meetings of the South East Wales Economic Forum. It has now been ratified by all partner organisations as providing the agreed framework for regional action in South East Wales.

This strategic framework clearly sets out the distinctive strategic issues we consider need addressing in the region if we are to prosper and remain competitive. It will be accompanied by a 3-Year Action Plan, currently being developed, which will identify practical steps that are already being taken or that need to occur to deliver the Strategy.

2. The vision

The South East Wales Economic Forum has stated its vision for South East Wales as:

A region on the way to becoming one of the most prosperous in Europe, and providing opportunities for every individual, enterprise and community to share in that prosperity.

This strategic economic framework maps out a comprehensive approach to achieving that Vision. In doing so, it reflects five fundamental principles:

- **Coherence**: we have built a coherent framework out of the many policies and initiatives that are already in place across the region, and we have provided new ideas to fill any gaps in the overall structure.

- **Balance**: we have sought to develop a balanced strategy that works to the benefit of all parts of the region and to the full range of different enterprises, individuals and communities within South East Wales.

- **Strategic**: our focus is on policies and initiatives that will have impacts that are both widespread and long-term.

- **Sustainability**: we have concentrated on policies and initiatives that will produce sustainable improvements in the performance of the region and the opportunities that it offers, rather than quick fixes or partial solutions.

- **Evidence-led**: we have based our analysis and recommendations on the best evidence available, regarding both the particular nature of the South East Wales region, and the lessons of experience elsewhere.

Using those principles, we have expanded the Vision into the following propositions:

1. Helped by the implementation of this strategic framework, South East Wales will become within 10 years a region with a clear sense of its own identity and a strong sense of pride, not just about the past but about the present and future, too.

2. Policy makers in South East Wales will work together across a broad range of issues to their mutual benefit; will enable others to understand the strategic importance of the region for Wales as a whole; and will lead the national debate on issues of critical importance to South East Wales.

3. South East Wales will develop very strong business and academic links to the high-growth, high-innovation, knowledge economies of Europe. This will be facilitated by significant improvements in rail, road and air links, as well as by very generous broadband connections and by academic success and cooperation.

4. There will be major improvements in what the region offers as a cultural and outdoor leisure destination. South East Wales will experience and welcome net in-migration of highly skilled people.

5. Those who live within the region will have strong positive attitudes towards the outside world; the Valley communities in particular will use the internet to enhance their connectivity to it. There will also be an integrated regional transport network, allowing people to move much more freely within the region.

6. Within 10 years, South East Wales will have seen the emergence or transformation of a limited number of key sectors, featuring innovative firms generating sustained profits growth for investment. Between them they will have significantly improved the region's growth rate.

7. Key sectors of the future will include business services, tourism (already important in the region.) and manufacturing, but involving higher value-added than at present. But the industrial structure will have evolved, not through a process of 'picking winners' but through one in which 'the winners have picked South East Wales'.

8. In 10 years' time, South East Wales will be regarded as a new addition to the list of European regions that are particularly fertile places in which to locate or grow an innovative business.

9. The region's universities and research establishments will act as magnets for research talent to move into the region. The highest skilled people will be keen to live in the region because of its quality of life, connectivity to the rest of the world, special local characteristics and the facilities that it offers – not least access to venture capital.

10. South East Wales will be a region in which the number of adults without qualifications will be declining towards a quarter of the total, and the number who are highly qualified will be rising towards a quarter.

11. A large proportion of adults will be participating in learning, and young people will see the acquisition of skills as the biggest determinant of their future opportunities.

12. These changes will have come about because employers in Wales will have adopted business strategies that rely on up-skilling for success, and policy makers will have responded to that pressure by making the education and skills investment system work significantly better than in the past.

13. South East Wales will have very strong local communities, as it has today. At the centre of people's perceptions of South East Wales will be the recognition that all of those communities have grown up through migration, through taking on new challenges and experiences and through becoming involved in the creation of the great global economy of the nineteenth and twentieth centuries.

14. The people of South East Wales will see themselves as examples of the new Europe, unique in terms of their language and many aspects of their lifestyles, but keen to understand the alternative lives of people who live elsewhere – or indeed who want to come and live within the region'

15. Cardiff will be regarded as a true European capital, with an international reputation and an international outlook, and rooted in a capital region which fully represents the future as well as the traditions of Wales.

3. The need for strategic ambition

3.1   THE STARTING POINT: SOUTH EAST WALES TODAY

The region's economic performance

How great a task is it for South East Wales to move onto a path that leads it towards performing on a par with the best in Europe? The challenge is not an unreasonable one. South East Wales already grows at much the same rate as much of the UK economy, and the UK as a whole is one of Europe's faster-growing economies. The big gap is with the South East of England – see Table 3.1, which also shows a comparable figure for Scotland's capital region, Edinburgh & Lothian – and with the half dozen other knowledge economy regions that are drivers of economic growth across Europe. Connecting to those rapidly growing regions and sharing in their success is therefore likely to be a major task for South East Wales policy makers.

Table 3.1 Historic growth rates: illustrative examples	Annual % GDP growth, 1982-2003
South East Wales	2.2
Greater London	2.4
South East England	3.7
Scotland	2.5
Edinburgh & Lothian	2.6
UK excluding London & SE England	2.5
Source: Experian based on ONS	

However, rates of joblessness in South East Wales are extremely high. Much of this is concentrated in the Valleys (particularly the tops of the Valleys) and is reflected both in high unemployment numbers and, more particularly, in high inactivity rates (see Table 3.2). Although high inactivity rates were once attributable at least in part to ill health caused by work-related illnesses, that is no longer an important explanation, except perhaps in terms of the psychological scars that have been left.

Table 3.2 Composition of inactive population: illustrative examples					
	Population 16 - 74	Retired %	Students %	Looking after home/family %	Permanently sick %	Other %
England	**35,532,091**	**13.5**	**4.7**	**6.5**	**5.3**	**3.1**
Wales	**2,075,347**	**14.8**	**5.1**	**6.4**	**9.2**	**3.5**
Cardiff	220,355	11.7	9.7	5.9	6.6	3.5
Blaenau Gwent	49,471	14.7	3.7	7.2	13.8	4.9
Monmouthshire	60,791	15.6	3.7	6.1	5.8	2.9
Source: 2001 Census						

Table 3.3 compares the performance of South East Wales with four broadly comparable regions in the UK, Germany, Belgium and Spain. Cleary no two regions are identical in their asset base or capacity for adjustment, but these four share a common legacy as regions once reliant on mineral wealth as their primary dynamic driver.

Table 3.3 Comparator regions – headline indicators				
	Total population 2002	Working age population 2002	GDP per head 000s Euro ppp 2000	Unemployment rate (%) 2001
South East Wales	1399.0	850.5	19.3	5.9
South Yorkshire	1267.0	776.9	17.0	7.0
Pais Vasco (ES)	2086.3	1470.7	23.5	11.2
Liège (BE)	1033.2	667.6	18.3	10.7
Karlsruhe (DE)	2715.1	1837.7	28.4	4.7
Source: Experian, Eurostat *Note – data is for latest year for which comparable data is available*				

Note that since 2001, the unemployment rate in South East Wales has fallen markedly, from 5.9 per cent to 5.3 per cent in 2003q4. The other regions' unemployment will have changed much less markedly.

It is evident that although South East Wales fares relatively well in terms of *unemployment*, the comparison in terms of *GDP per head* in the region is less favourable (it is also well below the EU average, of 23,155 euro).

A similar story can be told for the two cities of South East Wales. Table 3.4 looks at GDP per head for Europe's top 10 cities and for a selection of other European and UK cities in 2001.[1] The average GDP per head for the top 10 cities in Europe was 57,300 euro. In contrast, GDP per head in Cardiff stood at 28,200 euro in 2001, which ranked it just behind Bristol but ahead of Leeds. The level of prosperity in Newport was lower still and comparable to Birmingham and Manchester.[2]

This means that Cardiff and Newport make much less significant contributions to the Welsh economy than their more successful European counterparts make to their own national economies. This may mean either a much lower average standard of living among the population of Cardiff and Newport, or a much higher dependency on public sector support for living standards. Neither is desirable and the latter is not fundamentally sustainable.

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[1] Caution needs to be adopted when comparing GDP per head figures for small areas, since cities with small resident populations and large commuter inflows tend to have higher GDP per head than those with large resident populations and little in-commuting. However, that does not undermine the main observations about relative positioning.

2 These two English cities make an interesting comparison – they continue to experience widespread economic and social problems, despite the much-publicised revitalisation of their urban cores. This illustrates the importance of policies that improve performance at the broader regional level.

Table 3.4		
GDP per head, top 10 and other European cities, 2001		
	Euros	**Ranking**
Frankfurt am Main	74,465	1
Karlsruhe	70,097	2
Paris	67,200	3
Munich	61,360	4
Dusseldorf	54,053	5
Stuttgart	53,570	6
Brussels	51,106	7
Copenhagen	50,775	8
Hanover	47,223	9
Hamburg	43,098	10
TOP 10 AVERAGE	**57,295**	
Amsterdam	38,203	15
Stockholm	35,733	20
Helsinki	35,322	22
Milan	32,122	28
Lyon	28,960	35
Dortmund	26,548	39
Rotterdam	26,227	40
Turin	25,042	46
Toulouse	24,852	47
London	35,072	23
Bristol	29,437	34
Leeds	25,619	43
Birmingham	22,069	56
Manchester	22,099	57
Newcastle	20,499	58
Liverpool	16,466	61
CARDIFF	**28,167**	
NEWPORT	**22,907**	
Source: Barclays Bank (2002) 61 City Study, Experian *Note that Cardiff and Newport were not part of the Barclays study and so have no rankings*		

The economic & social geography of the region

To understand South East Wales it is essential to consider its particular geography and how that helps to shape the economic performance of the region. In particular:

Most people in South East Wales live in towns or cities, not in the countryside. In all 10 Unitary Authorities, population density is in excess of the Welsh average, and for most considerably above that average.

However, the predominant population characteristic is growth in the coastal plain, aligned on an east-west axis, contrasted by a downward trend in the north-south aligned valleys.

The primary communication link is the M4, which serves as a gateway to the region's external markets but which also has a vital role in facilitating economic links within the region. The quality and reliability of this axis plays a crucial role in the region's competitiveness. Also important is the A465 which links the northern areas of the region with the Midlands and North of England and through South West Wales to Ireland.

The topography also plays a huge part in shaping both settlement and links in the northern part of the region. In many areas, the dominant north-south alignment of the valleys dictates the settlement pattern and constrains land-use possibilities. East-west corridors are limited and place considerable importance on the lateral 'Heads of the Valleys' route.

Figure 3.1 - South East Wales Settlement, Communications and Topography

This topography, combined with the region's economic history, which involved very different activities being concentrated in very different parts of South East Wales, means that today there is significant social and economic diversity within a geographically small area. As Table 3.5 illustrates, educational attainment at the post-16 level is almost twice as high (measured by the percentage of leavers receiving 5 or more GCSEs) in the Vale of Glamorgan than in Merthyr Tydfil, while Cardiff has a population density 22 times that of Monmouthshire.

To some extent one can simplify this picture by dividing the region into two or three main zones. This is effectively done by the division of South East Wales into those parts that are eligible for Objective 1 funding and those that are not – see Figure 3.2. However, the reverse viewpoint is equally important and even the division between the 10 unitary authorities shown in Table 3.5 obscures an important dimension, which is the extent to which there are large variations within the Valleys. Once again geography is important here – the lower parts of the Valleys, and to a lesser extent the mid-valleys, are close to the M4 and the

region's cities and have in the past offered viable locations for many investors. However, some of the tops of the Valleys tend to be a little less accessible and are more land constrained. Accordingly, this strategic framework needs to take account of very different circumstances within a small overall area.

Table 3.5 Key Social and Economic Variables, 2001							
	Population	Area	Population density	Population change	Education	Housing rental	Reliance on manufacturing
	000s	(sq km)	000/km2	% 2000/1991	5+ GCSE at A-C	% in social rented housing[3]	% of Employment
UK[4]	58,789,194	244,820	240	2.4	53	19	14.6
Wales	2,902,480	20,732	140	1.9	51	19	19.4
Blaenau Gwent	70,196	109	644	-2.4	42	29	38.2
Bridgend	128,763	251	513	1.7	49	14	19.8
Caerphilly	169,858	278	611	-0.6	42	21	30.7
Cardiff	305,522	139	2198	9.2	45	17	5.4
Merthyr Tydfil	56,166	111	506	-6.9	40	23	33.4
Monmouthshire	84,900	849	100	8.8	53	15	7.3
Newport	136,800	190	720	1.1	45	22	13.0
Rhondda Cynon Taff	231,928	424	547	1.0	45	15	15.2
Torfaen	91,224	126	724	-1.7	46	26	30.7
Vale of Glamorgan	119,491	331	361	3.1	59	13	10.9
Source: Census 2001, Experian, National Statistics							

Figure 3.2 - Eligibility for EU Objective One Status

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[3] This is the total percentage of all households who rent their homes from either the local/unitary authority or from a registered social landlord such as a housing association or housing partnership
[4] Housing rental figure relates to England and Wales only.

3.2 THE POSSIBILITY OF CHANGE

Twenty years ago, many policy analysts argued that the market mechanism, left to its own devices, would sort out all economic problems. History suggests otherwise: the evidence is that, left to the market, the most successful regions of Europe will become relatively *more* successful, and those with more difficulties will lose ground in comparison.

In these circumstances, there is a clear need for a strategic economic framework for South East Wales. Without it, the region and many of its communities will gradually lose ground relative to more dynamic and progressive locations elsewhere. This is because the underlying causes of competitive performance are not just long-term, structural and systemic – they are also *self-reinforcing*.

Research on behalf of the Department for Trade and Industry (DTI) and reflected in *A Winning Wales - The National Economic Development Strategy of the Welsh Assembly Government* has suggested that for decades the UK as a whole has suffered from:[5]

- a weak and deteriorating physical infrastructure (public sector infrastructure investment has typically been about 50% of the US, French and German rates);

- skills deficits in the workforce, partly reflecting high numbers with no qualifications, poor school performance in maths and science and generally low investment in education;

- low levels of R&D investment and commercialisation, despite a strong science base;

- large regional differences in the quality of the business environment and economic performance; and

- limited pressure or effectiveness of institutions encouraging regional and local collaboration.

The priorities for Wales as a whole, set out in *A Winning Wales*, are:

- setting a fresh direction
- establishing Wales in the world
- improving transport & promoting ICT
- encouraging innovation & entrepreneurship
- supporting business
- making Wales a learning country
- creating strong communities; and
- supporting rural Wales

This has in turn informed the Welsh Assembly Government's vision for Wales as a whole, set out in *Wales: a Better Country* and summarised in the box below.

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[5] Porter and Ketels (2003). *A Winning Wales - The National Economic Development Strategy of the Welsh Assembly Government.*

Wales: A Better Country

Welsh Assembly Government's Vision for Wales

Our vision is for a sustainable future for Wales where action for social, economic and environmental improvement work together to create positive change:

- Promoting a diverse, competitive, high-added value economy, with high quality skills and education, that minimises demands on the environment;

- action on social justice that tackles poverty and poor health, and provides people and their communities with the means to help themselves and break out of the poverty trap;

- action in our built and natural environment that enhances pride in the community, supports bio-diversity, promotes local employment and helps to minimize waste generation, energy and transport demands;

- strengthening Wales' cultural identity and helping to create a bilingual country

- ensuring all our children and future generations enjoy better prospects in life, and are not landed with a legacy of problems bequeathed by us

- supporting people to live healthy and independent lives; and

- promoting openness, partnership and participation.

Analysis for the English core cities has produced a similar framework.[6] Senior decision makers and economic development officials in over 30 European cities were given a range of 14 possible drivers of competitiveness in their cities and asked to rank them in importance. Across Europe, five factors were consistently rated as the main drivers of competitiveness. These (not in order) were:

- strategic decision-making capacity;
- connectivity;
- economic diversity and specialisation;
- innovation systems; and
- quality of the workforce.

Lessons such as these are being learned and actively applied in other parts of the UK and other parts of Europe. South East Wales must not be left behind. In the north of England, the regions of the North West, the North East and Yorkshire & Humberside have developed their vision of the Northern Way, with a strong commitment to putting aside inter-regional rivalries and creating a new power-house for the UK economy.

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6 Parkinson et al (2004).

The Northern Way regions have won the strong support of the government in Whitehall and Westminster, and are shaping policy at the national level on issues such as housing and transport. They have significant assets, such as a large population and a large industrial base, and major universities and airports. Leeds has already been very successful at attracting large numbers of financial and business services companies away from South East England, and embedding those businesses in the local economy. Manchester has undergone huge regeneration and was greatly boosted by the 2002 Commonwealth Games. The introduction of new trains means that it takes no longer to get to London than it does from South East Wales. Liverpool will be the European Capital of Culture in 2008. Newcastle and Gateshead have transformed their reputations and are now seen as part of the UK's new urban renaissance.

The Northern Way is just one example of how it is possible, desirable and indeed necessary to think strategically and to be ambitious about the possibility of change. So South East Wales needs to match the efforts of other regions and nations with its commitment to making its vision a reality.

This Strategic Framework is intended to be a key part of that process. It has been built on the various analyses of the drivers of success mentioned above, but adapted and extended for the South East Wales context into the following six themes. Each of these six is addressed in the chapters that follow. They are:

• Connectivity

• Sectoral strengths & business support

• Innovation

• Skills

• Society, culture & the quality of life

• Strategic capability

4. Connectivity

4.1   VISION

The future for South East Wales is a region in which sustainability has been promoted and indeed achieved. A major element of that has to involve modernising connectivity within and beyond the region. This connectivity will have as much to do with the movement of ideas as with the movement of people and goods.

Accordingly, South East Wales will develop very strong business and academic links to the high-growth, high-innovation, knowledge economies of Europe. This will be facilitated by significant improvements in rail, road, sea and air links, as well as by excellent telecommunication connections and by academic success and cooperation. There will be major improvements in what the region offers as a cultural and outdoor leisure destination, and South East Wales will experience and welcome new people with different skills and different cultural backgrounds who can enhance what the region has to offer. Those who live within the region will have strong positive attitudes towards the outside world, and the Valley communities in particular will use the internet to enhance their connectivity to it. There will also be an integrated regional transport network, allowing people to move much more freely within the region.

4.2   ANALYSIS

Key points

- South East Wales is a region that can gain, both from its own internal resources, efforts and dynamism, and from its links to the wider world. By building its trading and cultural links with the rest of Wales, with the rest of Europe and with the many other expanding parts of the global economy, the region can prosper more easily than if it stood alone.

- Particular benefits will follow from exploiting the region's close proximity to southern England which – far from being a threat to South East Wales – is a source of opportunities. The greater southeast England region, stretching from Bristol in the west to Cambridge in the east, is amongst the fastest growing, most innovative and largest in Europe. It is a key market and a key source for collaboration between businesses and people.

- The road network is crucial and, unusually, a single key route has a pervasive effect on the region's economic performance. The M4 serves as a gateway to the region's external markets and provides access for bought-in items, but also has a vital role in facilitating economic links within the region. It also has a key role for residents in social, domestic and leisure journeys, as well as facilitating commuting.

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  The quality and reliability of this axis thus plays a crucial role in the region's competitiveness. The route already experiences regular peak-period congestion, especially in the Newport area, and consideration will need to be given to traffic management, including road pricing, whether in the short term or within the 10-year time horizon of this strategic framework. But even with such measures being

introduced physical upgrades are also needed, initially around Newport but later on perhaps in other locations too.

- A second particularity arises from the part that topography plays in shaping transport links in the northern part of the region. Because of the dominant north-south alignment of the Valleys east-west corridors are limited, which gives considerable importance to the lateral 'Heads of the Valleys' route as a "gateway" to this part of the region.

- Rail services to London, originally among the flagship services of the early 1980s, have been overtaken by significant improvements elsewhere. There is also no direct rail service planned or in existence to Heathrow. Such links are vital in two senses – in the service they provide to facilitate efficient travel and in the image that they engender of the region. Distance can be countered by rapid efficient services, and frequent services help to engage South East Wales with the wider economy.

- The region still has an extensive local rail network, which has been extended over the last few decades, and with further extensions currently under development. There is also an extensive network of bus services. However, local public transport services have suffered from under-investment and integration needs to be improved. The region needs an integrated and state-of-the-art regional transport system, bringing together rail and bus services and possibly other modes and including demand-management schemes including road pricing. This is an issue that needs to be addressed region-wide, not locally, and if road pricing were to be introduced it would need to be dovetailed into better public transport provision.

- Air services from Cardiff International Airport have expanded in recent years, but not at the same rate as Bristol. Ground access to the airport is not as good as it might be.

- The region has three seaports, but they have not moved much forward from the days of serving the region's raw material and commodity needs. Container traffic, for example, is almost non-existent.

- The region is well served by modern communications, with broadband widely available and a new Wi-Fi network being rolled out in Cardiff. However, use of ICT by businesses is not as deep or widespread as it might be. ICT offers business in more peripheral areas the opportunity to compete more effectively and provides opportunities to both the rural and the Valley communities.

- Soft virtual networks sustained through ICT have an important but difficult-to-quantify role to play in supporting economic development. The key facets are enhanced visibility, linkage to potential partners, customers, know-how, funding and influence. As these activities are becoming more focused on electronic means, the network to sustain them is rapidly growing in importance.

- Soft networks are also potentially important for the social inclusion network. This is critical to the future of the Valleys, but also for the region's rural communities.

Transport – beyond the region

The economic development of South East Wales relies on easy accessibility to and from places in other parts of Wales, throughout the United Kingdom, on the continent and around the world. Improving transport links can, therefore, support and enhance economic development by making the region more accessible, by improving its profile and by improving physical links between local firms and business partners and customers elsewhere. In this way, a strategy for improving transport connectivity can support and enhance the entire economic development strategy.

The M4 is the crucial artery for the region and, along with the mainline railway, is its most important link to the rest of the UK and beyond. It is no less important for South West Wales. The A465 Heads of the Valleys Road is also important, and will become more so once it is fully dualled, providing an alternative link to the Midlands. Already, over 10% of the 20,000 or so vehicles a day using the Heads of the Valleys Road are HGVs.

The M4 presently carries in excess of 100,000 vehicles a day on the most heavily used sections around Newport and some 60,000 vehicles on the relatively more lightly used sections west of Cardiff. This volume of traffic demonstrates the route's importance to the local economy. Congestion occurs during peak periods, delaying not only local commuters but long-distance traffic as well. The M4 around Newport was originally built as a bypass rather than a high-speed motorway and it currently experiences high traffic volumes, insufficient lanes, along with hills, bends and frequent junctions. Accidents are three times the UK average for a three-lane motorway. Improvements are needed – or a revival of plans for an M4 relief road to siphon off traffic.

International air links are also of central importance. In *A Winning Wales*, the Welsh Assembly highlighted the need to encourage Cardiff International Airport to act as an international gateway. That has several dimensions. Success will involve improving road and public transport access to the airport, so that air travel becomes as easy as is realistically possible. It also depends on ensuring that the airport is an attractive destination for major airlines based in the three major continental hubs of Paris, Amsterdam and Frankfurt, since they can do much to increase the global connectivity of South East Wales by linking it to destinations around the globe. In that regard, Cardiff-Amsterdam is already the airport's busiest scheduled route, and this is something on which to build. Thirdly, success depends on meeting the needs of low cost-operators, with particular emphasis here on facilitating travel to the major innovation-rich regions of Europe (see Chapter 3), and to Europe's other capital cities. In this regard the story so-far is mixed: although over the past five years Cardiff has grown passenger numbers by twice the UK average, it has been outperformed by other regional airports that were quicker at attracting major low-cost airline activity, not least neighbouring Bristol (see Table 4.1). Since then, however, bmi-Baby has set up a Cardiff base, and the airport has moved to the top of the growth league. This gives grounds for optimism about the airport's future growth, if it can continue to identify and meet the needs of key customers.

Table 4.1	
Passenger growth 1998-2003	
Major regional airports	
Liverpool	266.2%
Prestwick	232.3%
Bristol	114.3%
East Midlands	99.2%
Southampton	68.9%
Cardiff	54.7%
Leeds Bradford	44.3%
Newcastle	34.0%
Source: CAA Airport Statistics.	

In recent years, consideration has been given to plans for developing a new airport within the region, able to meet the needs not just of South East Wales but also those of much of southern England. Such a bold step, if successful, could create huge opportunities, although the problems it would face would be substantial. The UK government has committed itself to reviewing, by 2006, the way in which airport policy is evolving following the publication of its White Paper on the subject, and this may provide a useful focus for any deliberations.

It is essential to recognise the importance of Heathrow Airport to South East Wales. There is clear evidence that internationally focused businesses like to be sited where they have good access to *major* airports. In this regard, Heathrow is perhaps the most desirable airport in the world. It is substantially larger than either Paris or Frankfurt (Table 4.2), so good access to Heathrow is a significant advantage for many companies – especially in the high value added business service sector that we discuss in Chapter 5. If improvements in surface links can bring South East Wales and Heathrow 'closer' to one another, the potential advantages for the region are considerable.

| Table 4.1					
Europe's top 20 airports, 2002					
Global ranking	**Airport**	**Passengers mn**	**Global ranking**	**Airport**	**Passengers mn**
3	**Heathrow**	**63.3**	**46**	**Manchester**	**19.0**
7	Frankfurt	48.5	50	Copenhagen	18.2
8	Paris CDG	48.4	52	Zurich	17.9
9	Amsterdam	40.7	55	Milan	17.4
13	Madrid	33.9	62	Stockholm	16.5
22	**Gatwick**	**29.6**	**65**	**Stansted**	**16.0**
31	Rome	25.3	69	Dublin	15.1
34	Paris Orly	23.2	72	Dusseldorf	14.7
35	Munich	23.1	73	Brussels	14.4
39	Barcelona	21.3	75	Oslo	13.4
Source: Airports Council International					

The importance of Heathrow is also clear from the perspective of airfreight. The short-haul and low-cost passenger flights that operate through Cardiff tend to offer little or no belly-hold capacity and therefore, apart from mail traffic, there is minimal airfreight handled at Cardiff International Airport, with goods being trucked to

Heathrow instead. In fact, just over 2,000 tonnes of airfreight were moved through the airport in 2003, leaving it outside the top 20 UK airports for airfreight. On a more positive note, the vast majority of freight handled was using dedicated freight services, which offer an opportunity to build up freight operations independent of passenger services. The best outcome would be for Cardiff International Airport to become a major logistics hub, but there are only a small handful of cargo airlines/logistics companies available to operate such a hub and competition from other regional airports, many of them better located, is intense. Businesses in South East Wales therefore need good access to Heathrow.

This reinforces the importance of keeping the M4 as congestion-free as is feasible. However, on a 10-year horizon it is appropriate to consider the possibility of a direct rail service from South East Wales to Heathrow, via Reading. Such a link is important because links from elsewhere in the UK to Heathrow are likely to be improved in that timescale, as are surface links to Frankfurt, Paris and Amsterdam airports; doing nothing will mean a relative loss of connectivity for South East Wales. The possibility of improving rail links to Heathrow should therefore receive serious examination, not least because the benefits would accrue to neighbouring regions such as South West Wales and the greater Bristol area, as well as to South East Wales.

There also needs to be an examination of the possibility of cutting rail journey times to central London. Since the present High-Speed Train services were introduced over 20 years ago, there has been no further significant improvement in services. Indeed, journey times have lengthened. There is a need to improve services over the next 10 years by shortening journey times and ensuring there is a process of continuous improvement. This is happening elsewhere, in the UK and in mainland Europe, and South East Wales will lose competitiveness if it does not improve its own journey times. The practical and financial issues involved (such as the possible constraint implied by the Severn tunnel) should be rigorously assessed against the potential benefits. And such an assessment should occur against the background of a recognition that transport connections with the rest of mainland Britain are also an issue, so that ways to improve journey times and service frequencies to a range of destinations also need to be evaluated.

The Welsh Assembly government has a policy objective of increasing the proportion of freight carried by rail, and also by sea. The region's ports offer the opportunity to both switch freight from road to more sustainable modes, and to increase the region's competitiveness. The volume of short sea shipping in Europe is equivalent to the volume of freight carried by road and the European Commission, through its Marco Polo programme, is actively promoting the sector. South East Wales has the advantage of three well-established ports (Cardiff, Newport and Barry). However, there are relatively few internal UK coastal shipping services from these ports. For example, of the 1 million plus tonnes of coastal container traffic, only 60,000 tonnes originated in Welsh ports and 4,000 tonnes arrived in Welsh ports as a whole. At present, Cardiff handles just 0.5 per cent of the UK's container traffic offer.

Share of UK foreign and domestic port traffic

Source: Department for Transport.
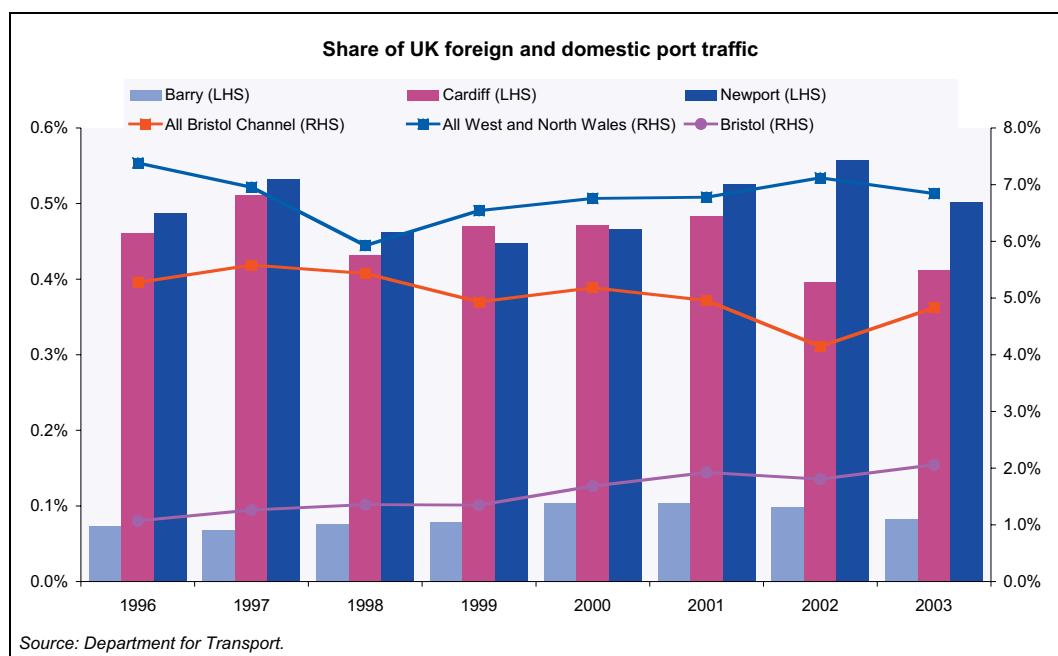
Overall, the performance of South-East Wales' main ports have been mixed relative to neighbouring areas over the period 1996 to 2003. Newport and Barry have both increased their share of UK foreign and domestic traffic over the period, whereas Cardiff experienced a modest decrease. Newport and Barry's performances are particularly creditable given that the overall total traffic of all ports in the Bristol Channel and West and North Wales experienced decreases in shares of UK traffic over the period. However, their performance is insignificant next to Bristol, whose share of UK traffic almost doubled.

Both the domestic and international aspects need to be considered. Domestically, the fundamental issue is whether traffic can be persuaded to switch from land transport by, for example, extending the present rail and inland waterway grants to short sea and coastal shipping. This would of course require action at the national UK level rather than at the regional level. Internationally, it is possible that increasing capacity pressure on the UK's main container ports will create an opportunity for one or more of the region's ports to offer direct feeder services to Rotterdam.

Transport – within the region

The *Transport Framework for Wales* has already established the overall direction for transport strategy in South East Wales, focusing on an improved public transport system with more frequent and better quality services as well as better support for alternative modes, and the *South East Wales Transport Alliance* is working to produce coherent views and analysis at the regional level.

Transport Framework for Wales highlights the need to improve accessibility and mobility for everybody, particularly those without access to a car, and to support local communities by encouraging integrated transport developments, with an emphasis on action to support social inclusion and healthier lifestyles.

This involves ensuring that services are available where they are needed and where they offer the community the most significant gains. And there is also a clear need to carry out small, local schemes, with the focus on safety and community relief, and a need to undertake community regeneration projects under both the Community First initiative and the Rural Recovery Plan. But provision should also aim to increase business concentration and employment densities within economic

centres, while recognising opportunities for virtual connectivity to support localities that have low employment densities and are away from concentrations of economic activity.

The paradox for South East Wales is that it is a relatively small area with a large population (approximately 1.4 million), and yet it is not a single connected conurbation, but a loose network of settlements. Improving the connectivity between places within the region is therefore important to its long-term future.

There is a particular need to improve the connectivity of the Valleys to the facilities of the lowlands/plain and vice versa. This would have a number of benefits, not least making it easier for people to access employment opportunities. At present the largest commuting flows within South East Wales are those into Cardiff. According to the 2001 Census (the most up-to-date source available), the main flow into the city is from the Vale of Glamorgan, with 16,700 people commuting to work in Cardiff – see Table 4.2. Flows from other parts of the coastal plain are somewhat smaller, but almost 29,000 people commute into Cardiff from the Valleys. In particular, Caerphilly and Rhondda Cynon Taff contribute 10,300 and 14,200 commuters respectively.

While it is desirable that people in the Valleys should be able to access the jobs of their choice across the region, there is also a need to build sustainable local communities, in which local jobs are available for people as well as jobs further away. In that context it is significant, however, that there are also some marked flows of people from Cardiff to the Valleys. Caerphilly and Rhondda Cynon Taff again seeing the largest absolute numbers, reflecting in part their geographic proximity to Cardiff and their high employment relative to the other three valley authorities. In total, over 8,000 individuals commute to the valley local authorities from Cardiff.

Table 4.2 Commuting flows between Cardiff and Welsh valley local authorities			
Welsh valley local authority	Gross in-commuting to Cardiff	Gross out-commuting from Cardiff	Net in-commuting to Cardiff
Blaenau Gwent	589	229	360
Caerphilly	10,308	2,228	8,080
Merthyr Tydfil	1,829	558	1,271
Rhondda, Cynon, Taff	14,231	4,136	10,095
Torfaen	1,651	933	718
Total	**28,608**	**8,084**	**20,524**
Source: Census, 2001			

Nor is this just a Cardiff phenomenon. As Table 4.3 illustrates, the valleys are at present quite dependent on the combined coastal areas of Bridgend, Cardiff, Newport and Vale of Glamorgan to provide jobs for their resident population, with gross-outflows of over 53,000 people and net flows of nearly 35,000.

Table 4.3: Commuting flows between broad areas	
	Commuting flow
Gross flows from valleys to coastal	53,467
Gross flows from coast to valleys	18,510
Net flows from valleys to coastal	34,957
Gross flows from rest of Wales to South-East Wales	13,921
Gross flows from South East Wales to rest of Wales	9,407
Net flows from rest of Wales to South-East Wales	4,514
Gross flows from England to South-East Wales	10,416
Gross flows from South East Wales to England	20,216
Net flows from South-East Wales to England	9,800
Source: Census, 2001	

In contrast, flows between South East Wales as a whole and the rest of Wales are relatively modest. Table 4.3 illustrates that significant numbers – 20,200 in 2001 – commute from South East Wales into England, with almost half of these travelling from Monmouthshire (5,300) and Cardiff (4,500) combined. But only half of the total commute in the opposite direction, which illustrates the difference in job opportunities on the different sides of the border, and the commuting between the region and England is still small compared with that between the Valleys and the costal areas.[7]

With the steady spreading of the commuter belts of Cardiff and Newport up into the Valleys, there is already a need to enhance public transport services from the valleys to the coastal plain and vice versa. Indeed, public transport improvements should play a major part in encouraging inward migration into the Valleys. As a minimum this will involve replacing the existing poor-quality railway rolling stock; reopening the Vale of Glamorgan and Ebbw Vale lines to passengers; station improvements including platform lengthening; reducing journey times to increase catchment areas; and increasing frequencies to attract more car users, thereby reducing pressure on the road network.

In general, improved transport provision offers the opportunity to improve labour market catchment areas and enables businesses to recruit from the widest possible area. In practical terms this means making it easier for people already living in the Valleys – including their upper reaches – to access work opportunities in the lower valley areas and on the coastal plain. Equally, however, it means making it easier to attract new people to live and work in the Valleys and to enjoy the wonderful natural advantages that they offer, and to reinvigorate the Valley communities by their arrival.

The improvements in connectivity that are needed within and between the Valleys and the coastal plain – like other improvements – should come as much as possible though public rather than private transport. The Transport Framework for Wales makes clear the need to reduce the numbers travelling to work by car, and aims to increase journeys to work by other modes to about a quarter of all commuting trips.

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[7] Of those who do commute into the region from England, the vast majority originate from the counties in close proximity to the border – Gloucestershire, Avon, Hereford & Worcester and West Midlands. The same places, together with London, are the main destinations for people commuting out from South East Wales.

At present over 70 per cent of trips in South East Wales are made by car or van, up from 61 per cent 10 years ago, and car travel per person has increased in terms of distance travelled by 20 per cent. Commuting to work by car varies from 67 per cent in Cardiff to 82 per cent in Monmouthshire, and more people walk to work than use public transport in the region.

Increased car use tends to lead to the dispersion of both jobs and homes, leading to greater social exclusion for those who do not have regular access to a car. Public transport enhancements, on the other hand, tend to lead to the concentration of economic activity – London and other major world cities are prime examples of this. So, while better transport may help businesses to come up the Valleys, the main impact of improved public transport links to Cardiff, Newport and other centres of employment might be to facilitate the greater concentration of economic activity. Both elements would have the effect of boosting social inclusion and would provide a greater range of employment opportunities to those who live in the Valleys.

Equally, east-west transport links are important. While this strategy envisages Cardiff being positioned as a European city orientated towards business services and tourism, the whole coastal plain, the lower valleys and to a lesser extent the mid and upper Valleys, will continue to provide locations for other businesses, as part of a longer ribbon of activity stretching towards west Wales in one direction and Bristol in the other. The quality of public transport links between Newport, Cardiff, Bridgend and neighbours to east and west is therefore important, as are cross-valley routes such as the A465 and A472. Clearly, the mainline railway is a strength in this regard, as of course is the M4, but consideration also needs regarding the ways in which residential centres and production centres are connected to one another.

Within this, public transport in Cardiff needs to evolve into an integrated, high-quality, twenty-first century system, as befits an important European city. Visitors need to feel that the ease with which they can travel from Cardiff International Airport to the city centre, and from the centre to Cardiff Bay, is one of the attractions of the city.

Indeed, improvements to public transport in South East Wales, if sufficiently major, could fundamentally enhance the image of the entire region, and raise its profile among non-residents. At the very least the region needs a single integrated transport plan, generating a single integrated regional transport network, as is the case in most European cities (but none in mainland UK). Features would include genuine multi-modal smart-card ticketing that covers not only all public transport (including taxis and minicabs) but also car parking and road pricing, together with SMS (or its future replacement) real-time information on services for passengers.

International examples such as Hong Kong and Singapore demonstrate that efficient transport services provide an image of a region to both residents and visitors of a progressive, go-ahead economy. High-quality transport is a given for most European regions and progressive Asian city regions. The UK, however, has a very poor image in this regard and the rewards for the first region or nation that tackles this problem will be significant. Some have already made a start:

• Increased morale within the wider community helped Manchester promote itself on a worldwide stage and let it bid for the Olympics and Commonwealth games.

• Croydon, from being a rundown 1960s office centre, has become a more vibrant and successful economy, and also a more socially inclusive one. In particular, Croydon's Tramlink has linked previously poorly connected areas of social housing to major centres of employment. Unemployment in the New

Addington Estate outside Croydon fell 20 per cent faster than the average for South London following the opening of the tram. Even employers located on out-of-town retail parks have seen major benefits. While their customers still predominately come by car, the tram has radically improved access for employees and hence reduced staffing problems for business. And new developments have been attracted to Croydon town centre due to the improved image of the area and its increased catchment.

Accordingly, there is a need in South East Wales for a far-reaching assessment of transport and land-use issues, with higher density mixed-use developments being promulgated for locations that are already well served by public transport. As part of this, a cost-effective rapid transit/demand responsive system should be considered. The method of financing any scheme is critical to its success, as are the accompanying transport and land-use policies. Lessons need to be learned from the problems affecting some of the recently introduced schemes in parts of England. Any system that is introduced would need to be consistent with rising prosperity and hence rising demand, and probably part-funded by road pricing. Indeed, any significant improvements in transport within the region are bound to raise serious funding challenges, and partners will need to explore methods – some of them possibly quite radical – for funding the transport infrastructure that the region needs.
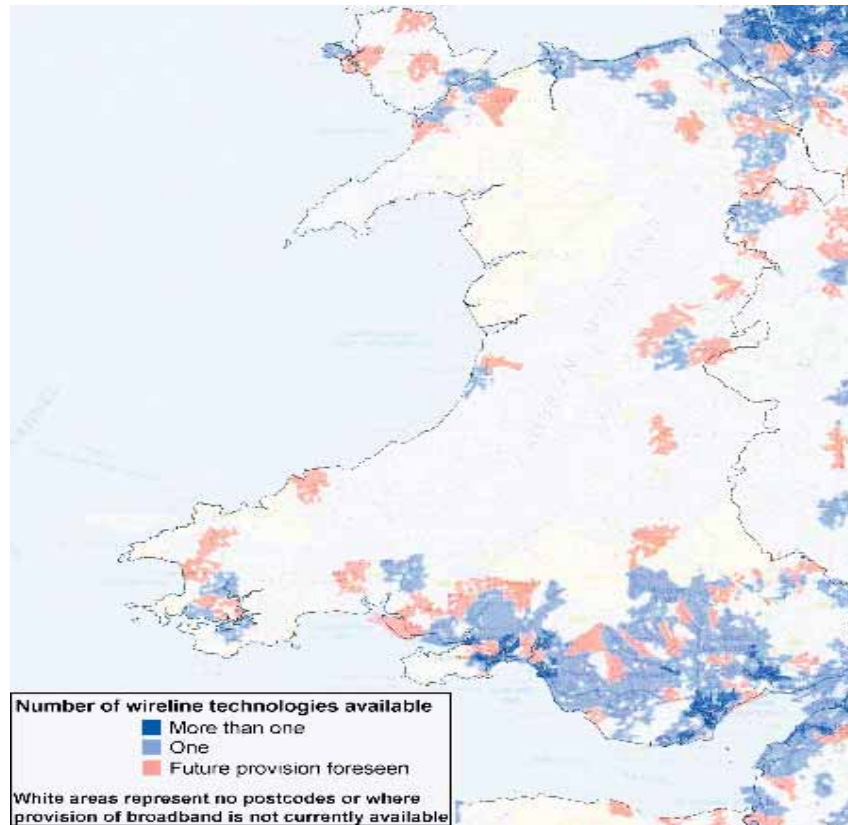
ICT

The key challenge for South East Wales is to achieve sustainable economic and employment growth and rising prosperity. This requires innovative approaches to the problems of road traffic growth and congestion. ICT needs to play a major role here. It offers opportunities in new areas of business, and enhances the ways in which almost all firms operate, leading to better productivity, innovation and new opportunities. *A Winning Wales* stresses the need to develop Welsh businesses in rapidly growing sectors such as Financial & Business Services. It states that the current take-up of ICT by Welsh businesses is not high enough to achieve this and, as a result, increasing the use and availability of ICT must be an integral component of an economic development strategy for South East Wales.

Investment in ICT does indeed continue apace within the region, with broadband available in virtually the whole region and extensive Wi-Fi coverage rolled out in Cardiff. However, as with transport infrastructure, the provision of the appropriate infrastructure is a necessary but not sufficient condition. There is the need for continuous investment to remain at the leading edge of technology. France's Minitel is a good example of world-leading innovation and technology that ossified and was overtaken by the internet. In order to ensure that South East Wales is at the cutting age of communications technology, 'open access networks' should be provided. These multiple-carrier networks allow many ISPs, telecoms carriers and application services providers to share the same infrastructure, which leads to improved competition in telecommunications.

Online for a Better Wales - Annual Report 2001-2002 stresses that in order to build successful e-business, all businesses, wherever they are located in Wales, need to be able to exploit ICT fully. It is important, therefore, that South East Wales extends broadband coverage throughout the region. This is supported by the Broadband Wales Programme, which aims to extend coverage to the benefit of all. Figure 1 shows broadband coverage throughout Wales, the main gaps in South East Wales being in rural Monmouthshire. Broadband Wales has invested £90 million in a data centre in Cardiff Bay and wireless coverage has already been announced for Cardiff. Extending coverage across all of South East Wales will help to ensure that all parts of the region benefit from high-speed internet access. This will ensure that

all areas have the first-class ICT infrastructure necessary to run competitive and dynamic small workplaces in the twenty-first century.

**Figure 1: Fixed line broadband coverage in Wales:
December 2003**

Number of wireline technologies available
- More than one
- One
- Future provision foreseen

White areas represent no postcodes or where provision of broadband is not currently available

Much is also being done to promote ICT use by businesses, such as for example the WDA's *Try Before You Buy* initiative and its range of e-business support programmes. But in order to ensure that ICT offers broad benefits for the entire community, it is equally important that the strategy in South East Wales take into account the many ways in which *people* interact with technology. Plans must ensure that the take-up of ICT leads to appropriate and sustainable patterns of economic activity, and that it does not bring about any form of digital divide. As with transport infrastructure, ICT can generate an increased concentration of business activity, since it facilitates the growth of those types of businesses that are communications-intense and hence rely heavily on face-to-face meetings. This is reinforced by the tendency of bandwidth and business concentrations to feed off one another. Strategic initiatives need to be sensitive to these considerations.

In that context, the development of the small office/home office (SOHO) as a viable economic unit capable of delivering significant growth away from urban centres is also the direct result of widely available ICT. This is already seen in Monmouthshire and the Vale of Glamorgan – with highly educated populations, these places can do much to promote economic growth that is entrepreneurial, local and highly sustainable. This is significant for South East Wales because it enables patterns of economic growth that support higher densities in urban areas and low densities in rural areas.

Making the full use of ICT is also dependent on the type of properties in which people live and work. Sometimes it is just not possible to do what one would wish, because the property infrastructure is not up to standard. Accordingly, the WDA's Property Development Strategy already requires that any new business park development includes the installation of alternative telecommunications capacity as an integral part of the infrastructure works. A further step would be to encourage commercial developers and house builders to deploy cabling for ethernet connections to the home or business, in order to promote fibre-to-the-home/fibre-to-the-premises services (FTTH) that deliver significant connectivity at very affordable prices. As indicated above, a deal with BT Openzone is already intended to make Cardiff the first 'wireless' city in the UK, but this could in principle be extended to provide Wi-Fi coverage across all of the South East, with every hotel, business park, conference centre and meeting place covered by the network.

Online for a Better Wales also highlights the need for everyone in Wales to have the opportunity to acquire the necessary skills to make best use of the technologies of the information age. The Regional Statement of Priorities and Needs for South East Wales stresses the need to develop skills for the knowledge economy, especially in the context of traditional industries in decline throughout the region.

Community-based ICT facilities must be available and be close, convenient, accessible and widely used. At the very least, policy must be designed to ensure that no areas are excluded, that computing equipment is accessible and that the population is aware of the capabilities of ICT and able to make use of them. In this way, ICT in South East Wales can support plans in *Online for a Better Wales* - Annual Report 2001-2002 for ICT to strengthen communities, combat social exclusion and promote bilingualism.

Indeed, a much more ambitious model could be applied to many or all of the Valley communities of South East Wales. Each Valley could be saturated with public access and private, but initially subsidised, internet access. Online communities could be created that mapped and replicated the real on-the-ground communities. These could then link into the wider online world. The communities would facilitate interactions between individuals, provide business opportunities for local residents and, in particular, allow the marketing of the Valleys to potential visitors and residents. The skills (and self-confidence) that individuals acquired would help them to find or retain work and would in turn encourage ICT-intensive businesses to move to or near the Valleys to access those skills. Already a start has been made in one community – Webster.uk.net in Torfaen, see box – and that initiative provides a model for other and possibly more ambitious schemes in other districts.

Webster.uk.net

Torfaen Council has developed a portal, **webster.uk.net**, which it sees as a genuine community resource, providing a first port of call for local information, services and communication. The portal makes numerous services available online, but also provides the framework for information about the community, businesses and learning opportunities.

The initiative arose out of research showing that local people didn't see the Internet as relevant to them in terms of accessing public services. The council decided that there was little point in seeking to deliver services on-line until people were making more use of the internet for other purposes. The Council wanted the portal to be community driven, and it used workshops to involve local citizens, support groups and businesses in the design and content.

Webster.uk.net brings together small businesses, community groups, citizens, the voluntary sector and public service organisations into one integrated framework that taps into the community from a number of perspectives and in a variety of ways. It targets and develops communities, both geographical and those brought together by a common interest. It enables contributors to showcase their activities, collaborate and communicate and is effectively leveraging the use of ICT through their interests and hobbies.

The branding of the portal has appealed to all stakeholders from the young to the aged, from hobby groups to businesses, from the voluntary sector to public sector bodies. It says, very graphically – 'this is not just another stuffy council website'.

Outreach workers help local groups and businesses with loan equipment, provide training and assist them to set up their own 'domains' with public and private sections. **Webster.uk.net** is accessible from any Internet-ready pc, through public facilities in local libraries, community centres and through the 30 Webster public access kiosks being deployed throughout the area. By providing public access and around 200 PCs, printers and broadband connections, Torfaen is removing physical barriers to access and helping bridge the digital divide.

The project boosts local democracy by providing a platform for consultation and debate, as well as allowing local people to access and pay for council services and even report minor crimes.

The internet and global communications also make it possible to promote the brand of South East Wales – Capital Wales – as a region by raising its profile online. This would reinforce the Revised Tourism Strategy for South East Wales. Developing and enhancing an online presence for Capital Wales will help to create a positive, distinctive and motivating identity for Wales. This will ensure that South East Wales is better able to attract high-value, overseas visitors and high-skill, inward investment.

ICT makes possible the establishment of virtual networks to provide links to citizens abroad as well as partners, customers and academic institutions nationally and internationally. ICT can also improve the efficiency, operation and accessibility of public services. As a result, establishing virtual networks is an extremely important part of economic development for South East Wales.

Similarly, the idea of promoting sectoral intranets justifies new energy being placed behind it. In England, efforts are already being made in some industries to foster and strengthen business clusters by developing such intranets. The same could be very important in South East Wales.

Over the next 10 years, ICT will continue to advance and evolve at a rapid pace and the region will need to embrace new developments as and when they arise. It must be likely that such developments would benefit major centres such as Cardiff first, before being rolled out to other urban and then rural areas. A continuing proactive stance will need to be taken with telecommunication providers, to ensure that the latest services are provided quickly to new and existing commercial sites throughout the region. Where it is not commercially feasible to provide such services outside the core commercial areas, a proactive stance needs to be taken to bring potential users and providers together to develop alternative solutions such as shared facilities. In all instances, local and national government need to be at the forefront in using and developing ICT services, both to enhance the services they offer to the

community and also to encourage the general adoption of new technologies in their areas.

Soft networks

'Soft' networks refer to the personal and business connections that firms utilise to build, develop and take advantage of opportunities. Although difficult to measure/observe, soft networks are an integral element in business growth. They provide links to potential partners, customers, funding and influence.

Ensuring that soft networks are used to develop opportunities in new markets is an essential component of the development strategy. South East Wales must enhance its links with regions of high growth in order to ensure that businesses in South East Wales have the opportunity and know-how to take advantage of best practice in all sectors. The region must build on experience with Regional Innovation Partnerships and *Finance Wales* to develop its links with Europe's major financial services companies – many of them headquartered in the City of London – in order to ensure that funding and venture capital is available for enterprising businesses in South East Wales.

It would be valuable to increase further the involvement of Wales in the decision-making processes of the European Union. South East Wales should lead the way in this and play an important role in the decision-making that affects the region. It must develop networks that allow it to play a key role in influencing policy in the UK parliament, the European Parliament and the Confederation of British Industry.

The *Regional Statement of Priorities and Needs for South East Wales* suggests there is currently insufficient collaboration between organisations that invest in knowledge generation. They need to work together more in order to develop networks with a reputation for innovation and knowledge sharing. Improving soft networks would assist by enhancing all forms of collaborative research.
The Technium centres have shown that links between business and academia and the creation of virtual research networks can assist in this. This highlights the importance of the continued roll-out of the Technium network and the potential of ICT to enhance soft networks.

By improving 'soft' links to London, Brussels and other areas of influence around the world, the region will be better placed to attract the highest level of venture capital, the most advanced research facilities, the best academic funding and the greatest opportunity for skills development.

4.3   RISKS

The primary risk in relation to connectivity in South East Wales is that there will be an inadequate response to rising transport demand. This could take the form of failure to plan for competitive provision with sufficient lead-time, or an inability to galvanise sufficient resources. In specific terms:

The key artery for the region, the M4, is already showing signs of 'furring up', to the detriment of the economy. Given continued economic growth and the accompanying increase in the movement of people and goods, unless there is a policy response the situation can only deteriorate, especially as rising prosperity will produce increased car ownership within the region, putting further pressure on the east-west axis.

Equally, there is a risk of serious congestion within the transport network internal to South East Wales, and unless this is tackled rapid growth is unlikely to be sustainable.

With the continued spread of high-speed rail travel throughout Europe, there is the risk that the apparent remoteness of South East Wales will increase as other regions become 'nearer' to key markets.

Failure to facilitate ICT and soft networks effectively would be a deterrent to the growth of indigenous businesses, the attraction of inward investment and the visibility of South East Wales in the wider world. Equally, from the point of view of the cohesiveness of the region as a whole, it would be a missed opportunity to address social/economic exclusion where ICT can offer training opportunities in situ and be helpful in extending horizons.

4.4 RESPONSES

The biggest challenge facing the region is that, while there are many initiatives that are needed, funds are extremely limited. This means that priorities are going to have to be set – and this will be a key question for the three year action plan that will follow this ten year strategy.

However, limited funding also raises another challenge: to look for alternative sources of finance. It might be appropriate, for example, to consider whether the point has now been reached where local or regional bodies are able to borrow on the capital markets to fund infrastructure improvements. The funding question should be considered by partners within the region, with a view to possibly working together over the long term to influence central government thinking.

From a 10-year perspective, it is certainly clear that serious consideration needs to be given to a region-wide approach to transport planning and traffic management, including road pricing and other measures to restrict the growth in, but also improve, the use that is made of the region's road network. This consideration needs to be region-wide, specifically because the road network is the clearest case where changes that take place in one part of South East Wales have knock-on effects in other parts.

Irrespective of the results of such consideration, a high priority must be to ensure adequate investment in the key road network itself. The M4 in particular is crucial to the region, and even with measures to contain road transport growth, it is difficult to envisage the motorway as anything other than South East Wales' lifeline – and indeed, the lifeline for much of South West Wales, too, as well as Bristol and much of southern England. The motorway must not change from being a facilitator of economic growth to being a barrier. South East Wales needs to work with its neighbours to the west and east to draw attention to the economic importance of the M4, as a 'Southern Way' stretching from South West Wales through to London.

There are two critical needs: to anticipate and address bottlenecks and to provide strategic access to potential new locations for businesses and homes. Consideration of these must occur at a region-wide level including ameliorating measures such as improvements to other roads and junctions within the region. Since major works to existing roads are inevitably disruptive, there also needs to be coordination in terms of the timing of motorway improvements: greater expense and greater disruption will arise if the problem is nibbled at. Given the very long lead-times involved, both in the planning stage and with regards to raising finance for motorways, most of the major decisions need to occur within the coming year.

The A465, which provides an alternative route eastwards for the northern part of the region – the Heads of the Valleys – and to South West Wales and to Ireland. The dualling of this route needs to be completed rapidly and this might necessitate a re-assessment of the investment programme. However, there is also a need to assess the road's broader strategic importance. This arises in the context of promoting business investment, high-quality tourism to the Valleys, the Brecon Beacons and to other key rural locations, and in the context of our ambition of promoting inward migration into the Valleys of high-income residents, who would especially value reduced travel times to places beyond the region.

Better public transport links need to be developed primarily between the Valleys and the coastal plain to ensure easier access, in both directions to work, living and leisure opportunities.

Faster rail access to London and a direct link to Heathrow are also desirable – and possibly essential – on competitive grounds. Again, the region should seek common cause with its neighbours to promote this aspect of a possible 'Southern Way'. In particular, while Heathrow is not a 'local' airport, it is a huge asset to the region and will continue to offer a wider range of destinations than almost any other airport in the world. Continuous improvement in the range of destinations offered by Cardiff International Airport is itself a regional policy priority, along with road and rail improvements to encourage and sustain such developments. The region needs to support Cardiff International Airport in attracting new airlines to the airport.

The region needs to lobby the rail industry for it to be placed back on the cross-country inter-city rail network in order to improve direct rail services to key centres in the Midlands and the North. It also needs to work towards greatly improved local rail services in terms of new rolling stock and faster and more frequent services.

The region should explore with ABP possible ways to increase short sea shipping traffic from local ports, possibly by lobbying for the extension of the present rail and inland waterway grants to short sea and coastal shipping.

The region should also engage with ABP in examining the opportunities for increased container traffic, possibly by developing facilities that offer direct feeder services into Rotterdam.

Steps need to be taken now to fully utilise ICT capability in public transport and radically enhance transport provision in the region. The use of smart card technology and real time information provision is the first step, alongside upgrading the quality of public transport services. The latter includes the use of modern vehicles (both local rail and bus services in the region are often provided by outdated, poor-quality vehicles), as well as offering faster journey times, longer platforms and better quality waiting provision, and more frequent services.

Over the long term, a key aim must be the introduction of new modes of transport such as demand-responsive rapid transit. The demand for these will emerge fully as the regional economy gradually expands. Meeting that demand through twenty-first century solutions will be essential in terms of both economic and social sustainability.

Efforts need to be made to encourage soft networks within and especially beyond the region, and especially with regard to raising the profile and effectiveness of South East Wales 'ambassadors', and 'champions' amongst opinion formers in

London, Brussels and elsewhere. The Welsh business case, and especially the South East Wales business case, must be repeatedly and skilfully made.

ICT underpins modern commerce and enables soft networking, which can provide a useful boost to the vitality of regional economies. The goal for South East Wales must be to at least maintain its competitiveness in the provision of infrastructure and aim to have a competitive advantage that counters any perceived remoteness. Cost issues might arise in providing this type of infrastructure in the more rural parts of the region, but mobile and wireless technology can significantly reduce costs. In any case, the social and community benefits of improving connectivity need to be taken into consideration when making decisions, as well as the direct commercial implications.

Each Valley community in particular, should develop a presence on the internet, to reproduce and greatly extend the community on the ground. This could build on such initiatives as Webster.uk.net in Torfaen, and could be hugely helpful as a way of upskilling the local workforce and changing the image of the Valleys into one in which they are regarded as interesting and innovative places to live. The internet is a powerful mechanism both for building local communities and for helping people to become more outward looking. A portal can provide a common marketing platform for businesses, as well as a way of accessing and delivering services. And the skills that people develop in order to use the internet for personal reasons will strengthen their ability to access employment. The benefits are, therefore, multi-dimensional.

5. Sectoral strengths & business support

5.1 VISION

Within 10 years, South East Wales will have seen the emergence or transformation of a limited number of key fast growing high value-added and profitable sectors, which between them will have significantly improved the region's growth rate. These are likely to include business services, tourism and higher added value engineering and manufacturing. However, this structure will not have arisen through 'picking winners' but through 'the winners picking South East Wales.'

5.2 ANALYSIS

Key points

The economy of South East Wales is broadly based, with significant representation of most sectors of activity. That diversity offers plenty of scope for future development.

In contrast to the most rapidly growing regions in Southern England, the South East Wales economy is skewed towards public services including education and health. In part this reflects the role of Cardiff as both a national and regional centre and in part it reflects the large number of local authorities and their commitment to maintaining services to communities, many of which are severely disadvantaged. This is beneficial in terms of stabilising employment in the regional economy, but it tends to lower output growth.

Contraction in long-standing activities such as mining, machinery manufacture and textiles has not been offset by growth in more recent arrivals such as plastics and rubber and electrical/optical equipment.

Looking ahead, we expect to see an improved output performance from manufacturing. In addition, trends in the service sector, spanning retailing, wholesaling, business services (including banking and insurance) and public services, will mirror their growing importance in economic activity. Aside from its impact on growth, development along these lines will offer a balanced portfolio of employment opportunities.

While these sectors will buoy output, productivity gains will reduce the effect on employment. These offsetting trends are particularly likely to be evident in manufacturing and to some extent in public services, where there is pressure to contain costs.

Industrial structure – South East Wales compared

If South East Wales is to embark on a path towards becoming one of the most prosperous regions in Europe it will clearly need to achieve higher growth rates than it has achieved in the past decade. One possibility would be to seek to do that by focusing on one or two 'star' industries, and indeed some regional economies do prosper on the back of a significant concentration of one rapidly growing sector. For example, Greater London is dominated by the fast-growing Financial & Business Services sector (see Table 5.1) and has greatly benefited from this structure. However, that is not the only and maybe not the best way forward. For example, the South East of England is quite a diversified economy, and yet has done even better in growth terms than has London. It is clear, therefore, that a well-spread range of economic activities, such as is also exhibited by South East Wales, can in principle provide a solid platform for development, as well as a degree of protection if a key sector encounters problems. Indeed, realistically, this provides the best way forward for South East Wales.

Table 5.1 Structure of output GVA, excluding certain technical adjustments				
Sectoral contribution (%)	SE Wales	Greater London	South East England	UK excluding London & SE England
Agriculture	0.4	0.0	0.9	1.4
Mining & Utilities	3.3	1.0	2.7	6.1
Manufacturing	20.7	7.6	15.9	19.7
Construction	5.3	4.7	6.5	6.5
Distribution, Hotels & Catering	15.0	13.8	19.0	16.8
Transport & Communication	6.9	9.9	9.1	8.2
Financial & Business Services	19.6	40.7	25.7	17.2
Mainly Public Services	28.9	22.4	20.1	24.1
Total	100.0	100.0	100.0	100.0
Source: ONS and Experian				

So part of the challenge for South East Wales will be to harness current assets more productively in the development of existing activities, alongside the development of new, dynamic opportunities to enhance growth. This is a significant challenge since economic growth in the region in the past two decades averaged only 2.2 per cent a year. This was below the Greater London growth rate of 2.4 per cent, and well below that for the South East of England, where annual growth averaged 3.7 per cent; it was also marginally below the rate for the UK excluding Greater London and the South East, which was 2.5 per cent

Part of the explanation for the modest performance of South East Wales in recent decades is simply that Mining and Manufacturing, sectors of particular importance in the region, have faced intensifying competition on a global basis, especially from low-cost producers on the newly emerging economies. But even in sectors that performed quite strongly in South East Wales, output growth was still appreciably slower than it was in for example, the South East of England. Indeed, the South East did exceptionally well across a broad range of activities, including Manufacturing.

Greater London faired less well in the period than the South East of England, but still achieved faster growth than South East Wales because it experienced strong expansion in sectors in which it is well represented. This was most noticeable in Financial & Business Services, where Greater London has almost twice the UK average concentration, and where annual growth in the sector averaged 4.8 per cent in the period. South East Wales, in contrast, has suffered from the opposite effect. In Manufacturing – a sector that is relatively large in the region – annual growth in South East Wales was just 0.5 per cent, and in Mainly Public Services (also relatively large in South East Wales) growth was a relatively modest 2.2 per cent per annum. Slow growth in these areas thus limited overall growth, outweighing the positive effect of appreciable buoyancy in Distribution, Hotels & Catering, Transport & Communications and Financial & Business Services. This was a crucial factor in explaining the relative under-performance of the South East Wales economy in the past 20 years – see Table 5.2.

Table 5.2 Sectoral growth 1982 to 2003				
Real GVA growth (% per annum)	**SE Wales**	**Greater London**	**South East**	**UK exc. London & S. East**
Agriculture	0.0	-2.7	0.9	0.8
Mining & Utilities	-0.8	0.6	4.4	1.4
Manufacturing	0.5	0.0	2.9	1.2
Construction	1.4	2.6	2.7	2.8
Distribution, Hotels & Catering	3.5	2.4	4.3	3.2
Transport & Communication	4.0	2.9	6.3	4.7
Financial & Business Services	4.6	4.8	5.8	4.4
Mainly Public Services	2.2	1.1	2.2	2.0
Total GVA	**2.2**	**2.4**	**3.7**	**2.5**
Source: ONS and Experian				

Table 5.3 highlights some key sub-sectors. It is striking that in Financial Services (banking and insurance), South East Wales out-performed the growth rate of the South East of England and of Greater London. Unfortunately this was from a relatively low base, but even so it now accounts for 5.6 per cent of South East Wales' total output, a higher proportion than in the South East of England. The sector has been helped by the growth of contact centres and the reallocation of administrative, process and other functions beyond the South East of England.

Furthermore, South East Wales' encouraging performance in financial services was surpassed by growth in the much larger business services sector (which includes amongst others legal, accounting, advertising, market research and computer activities). In this case, however, the growth was less than that in the South East of England (almost 9 per cent a year) and Greater London (6.6 per cent). Nevertheless, growth averaging 6.1 per cent a year over two decades was still impressive, and was faster than the rate for the UK excluding London and the South East. As a result, the sector raised its share of total output in South East Wales from 4.8 per cent in 1982 to 10.6 per cent in 2003.

Table 5.3 Selected sectors Detailed analysis 1982 to 2003			
% annual real growth	SE Wales	Greater London	SE England
Chemicals	0.2	2.9	6.5
Electrical & optical equipment	1.9	0.4	5.5
Rubber & plastics	-1.0	0.1	5.2
Other manufacturing	2.6	-2.7	4.0
Retailing	4.5	3.5	5.0
Wholesaling	3.0	1.9	4.7
Hotels & catering	2.4	1.8	2.0
Transport	2.4	2.2	4.3
Communications	6.7	3.8	9.8
Banking and insurance	4.2	3.3	4.0
Business services	6.1	6.6	8.7
Health	3.6	1.3	3.2
Sport, culture, cleaning etc	2.4	3.5	5.4
Total GVA	2.2	2.4	3.7
Source: ONS and Experian.			

Tourism

A sector of considerable importance to the region is tourism, with significant capacity for job creation and the promotion of economic regeneration and social inclusion. It is not an official sector for statistical purposes, but *Capital Region Tourism* estimate that the sector supports 25,000 full time equivalent jobs in the region and that South East Wales accounts for one third of Wales' overall tourism revenue (approximately £700 million annually), half of all business tourism, and 40 per cent of Wales' major sporting events.

The M4/ M5 corridors are the most important UK markets; Ireland, Germany and France the most important European markets; and north America the leading non-European market. Cardiff is the major tourism destination, with the Wye Valley, the Valleys and the Heritage Coast also important. The key issue is that all of these potentially reinforce one another: tourists are not interested in local authority boundaries, but they often are interested in having access to a wide variety of experiences within easy access of once another.

However, the sector has been constrained by insufficient access to international flight networks, poor integration and development of public transport networks, the lack of a dedicated world-class conference venue in Cardiff, and the absence of a nationally driven events strategy.

The lack of a strongly established service tradition in the region and a tendency not to consider tourism as a vehicle for community and economic regeneration, or as an important component in development planning, may also have constrained the sector's growth.

Elsewhere in the economy of South East Wales, the communications sector was boosted by rapid technological developments in ICT, and retailing benefited from steadily rising disposable incomes and from an increasing appetite for credit. The health sector was boosted across the UK by large injections of government funds, but South East Wales appears to have been a major beneficiary, and since 1996, the number of employees in the sector in South East Wales has increased by 21,500 to 80,200. This represents a rise of 36 per cent, against 11 per cent for the UK as a whole.

Figure 5.1 - Industrial change in South East Wales, 1982-2003
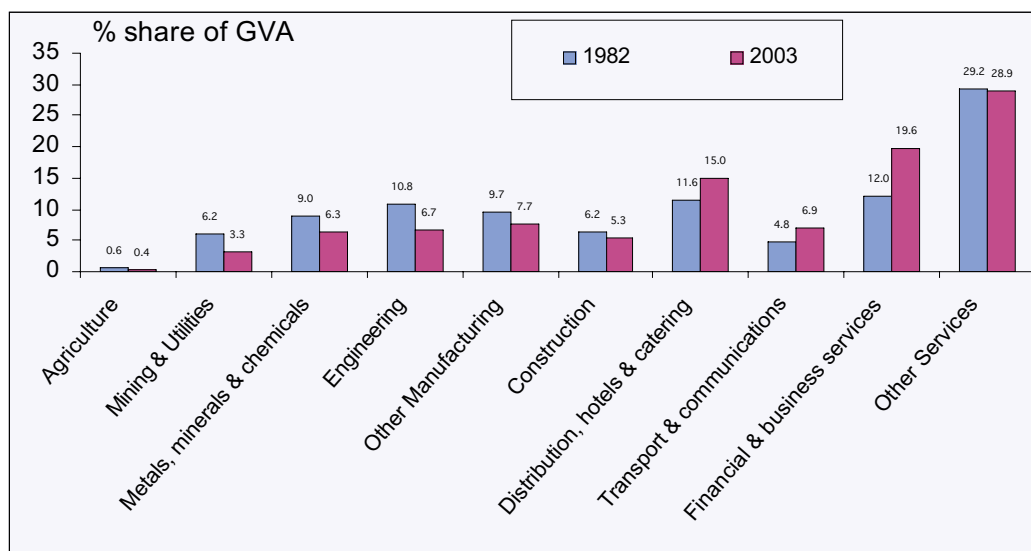
In contrast the production sector comprises parts of the economy of South East Wales whose contribution to overall GVA has declined steadily over the past two decades. In some cases, most notably in mining, output has declined in absolute terms, as Table 5.7 shows. In Manufacturing, the sharpest declines have been in textiles & clothing and machinery & equipment, where the falls have been more pronounced than at the UK level. Indeed, the table shows that in virtually every sub-sector of manufacturing, output declines have been sharper and increases less strong than in the UK as a whole. This is particularly disappointing in the electrical & optical equipment sub-sector, where South East Wales was a major location for foreign direct investment during the 1980s. Output outpaced the UK growth rate until 2000, but thereafter the loss of high profile plants in Cardiff/Newport and surrounding areas and reduced output in some other key locations resulted in a 40 per cent contraction in total production.

The result of slow growth or outright decline in the production sector means that most sub-sectors have experienced declines in their shares of South East Wales GVA over the past two decades – see Table 5.4.

Furthermore, the impact of trends in output is magnified when the effects on average wage levels are analysed. Although some service sector jobs are very highly paid, many of the additional jobs have paid wages rather lower than some of the lost manufacturing jobs used to pay. In 1983 the production sector in South East Wales employed more people than Mainly Public Services, it is now less than half the size of that labour-intensive sector. The Mainly Public Services sector is dominated by health, education and public administration.

| Table 5.4 Analysis of key parts of the production sector in South East Wales 1982 to 2003				
	% Share of SE Wales GVA		**Real GVA growth (annual % change)**	
	1982	**2003**	**SE Wales**	**UK**
Other mining	2.4	0.3	-7.3	-3.9
Gas, electricity & water	3.8	3.0	1.1	2.2
Fuel refining	0.1	0.3	5.7	-1.4
Chemicals	3.5	2.3	0.2	2.9
Minerals	0.7	0.5	0.7	0.8
Metals	4.7	3.2	0.3	-0.4
Machinery & equipment	5.1	1.3	-4.3	-0.6
Electrical & optical equipment	3.4	3.2	1.9	3.5
Transport equipment	2.3	2.2	2.1	1.5
Food, drink & tobacco	2.8	2.8	2.2	0.3
Textiles & clothing	1.3	0.2	-6.2	-4.0
Wood & wood products	0.3	0.2	-0.9	-0.3
Paper, printing, & publishing	2.0	2.0	2.2	0.5
Rubber & plastics	1.8	0.9	-1.0	1.1
Total production *	36.2	24.3	0.3	0.3

Source: ONS and Experian
* includes certain sectors not shown in table

Figure 5.2 - Employment in main sectors in South East Wales 1982 and 2003 (includes self-employed)
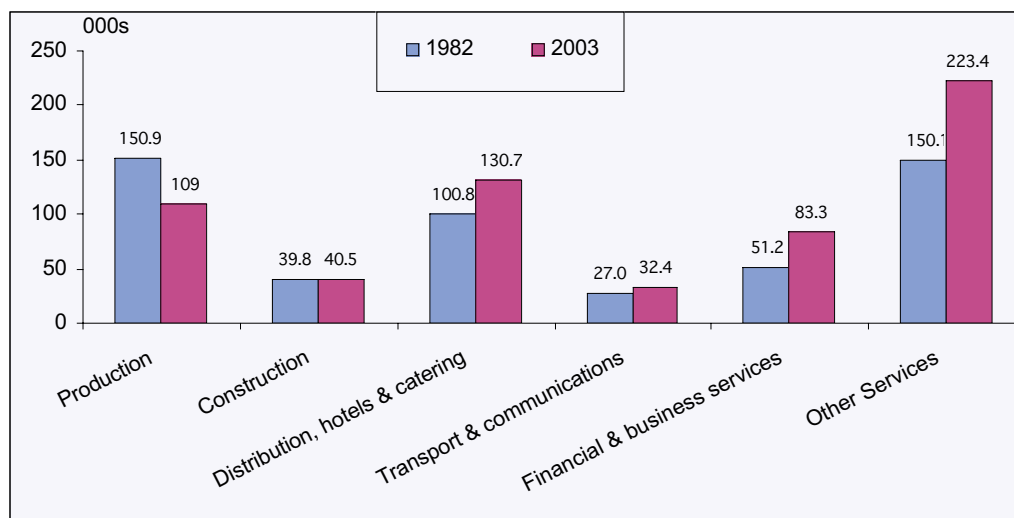

Distribution, Hotels & Catering – which includes large parts of the tourism sector – also employed appreciably more people than production in 2003, having been much smaller in 1982, with around two-thirds the present number of employees. The South East of England registered faster growth throughout the period than South East Wales, and London's performance from 1992 to 2000 was very buoyant, but South East Wales more than held its own against the rest of the UK.

**Figure 5.3 - Employees in employment in Distribution, Hotels & Catering
Index 1982 = 100**
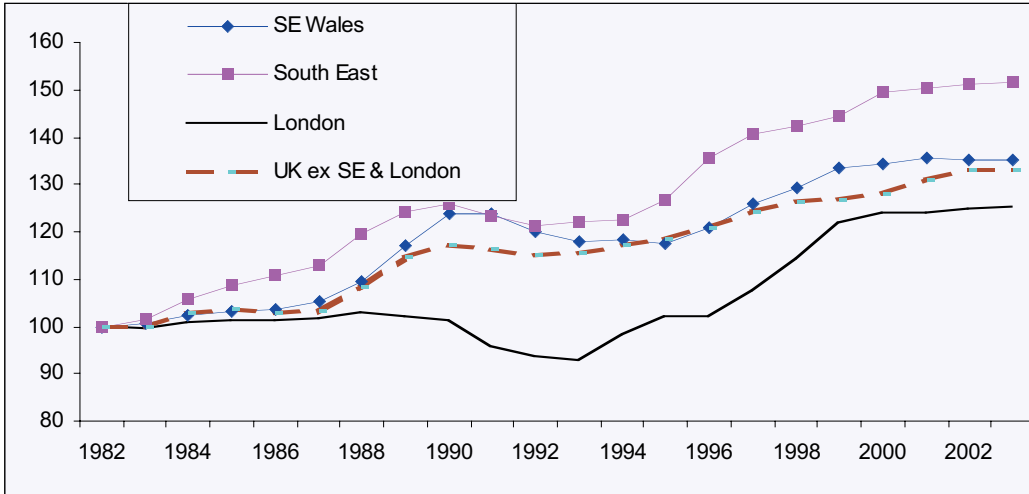
In Financial & Business Services, employment increases in South East Wales matched Greater London until 1993 but, as in Distribution, Hotels & Catering, London experienced a resurgence during the 1990s. In contrast Transport & Communications saw only modest employment gains in the region, notwithstanding a healthy rise in output. Annual employment growth between 1982 and 2003 averaged just 0.4 per cent, against 4 per cent for output. All the 2,000 additional jobs in the sector in South East Wales were in the communications sub-sector, a broadly similar pattern to that seen at the UK level.

**Figure 5.4 - Employment in Financial & Business Services
Index 1982 =100**
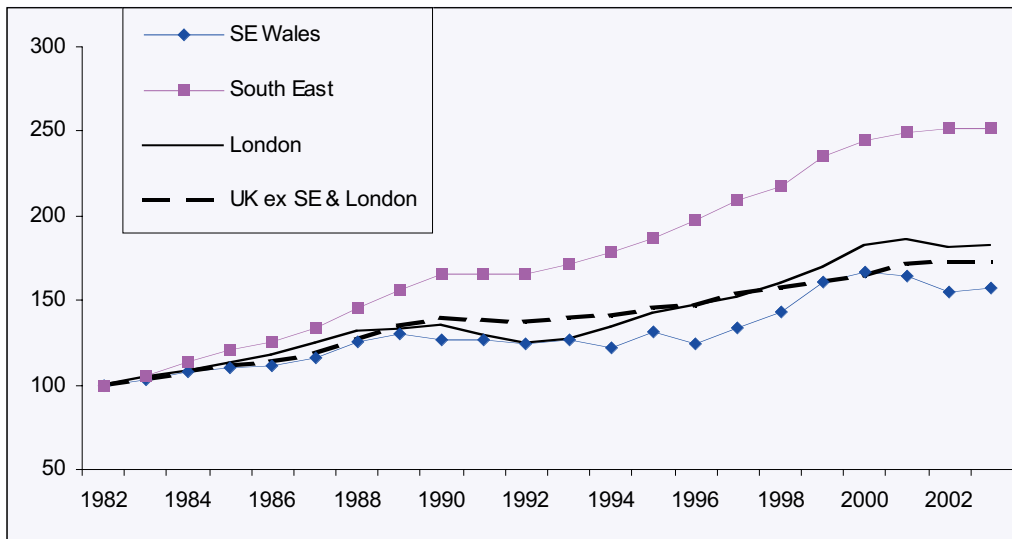
The most substantial creation of employment has been in Mainly Public Services. The health sector is responsible for the bulk of the sector's strong expansion in South East Wales over the past 20 years, and as already noted, the number of employees in the health sector in South East Wales increased sharply.

Figure 5.5 - Employment in South East Wales Mainly Public Services sector
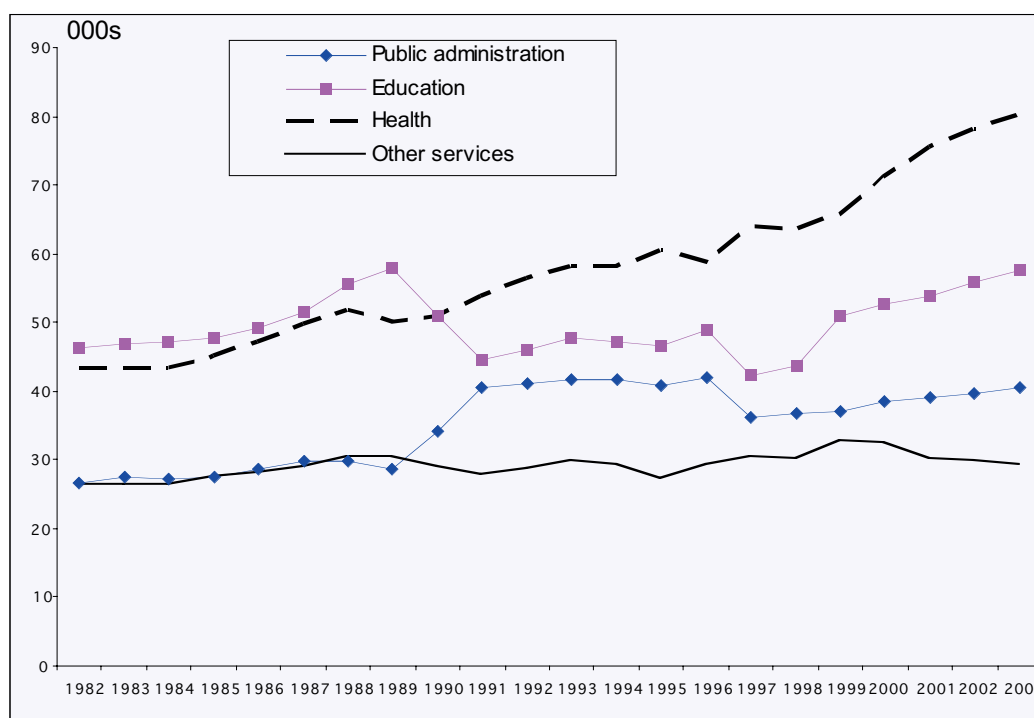
Education employment has also turned up in recent years but, in contrast to the health sub-sector, employment declined during the years of spending restraint from the late 1980s to the late 1990s. Thus over the past two decades, relatively little employment growth has been seen. Employment in public administration surged in the early 1990s, accounting for the bulk of the increase evident since 1982. Its future prospects may, however, be affected by the UK government's policy to reduce employment numbers in many parts of the public sector.

'Other services' (this is a sub-sector of Mainly Public Services comprising recreational, cultural and sporting activities, cleaning and various other services) also experienced slow growth over the period. This contrasts with much faster expansion in most other parts of the UK, and indicates a clear gap that South East Wales could and should seek to close – not least because the sector is quite large, employing almost 30,000 people in South East Wales. The region's poor performance in creative and cultural industries is at odds with its heritage, and the policy of the Welsh Assembly Government, WDA and others to focus on creative industries as a key cluster of the future is a welcome attempt to fill this important gap.

Encouraging strong sectors: business support in the region

Within South East Wales, as elsewhere in Wales, the WDA plays the lead role in the provision of business support. Its Remit Letter from the Welsh Assembly government has asked the WDA to strengthen the support that it provides, and its approach has been set out in *Creating Success Together for Wales: The Business Plan 2004-2008*. The elements of this can be summarised under three headings:

• New customer engagement, to facilitate and support the birth of new businesses

• General business development advice and agency account management for strategically important businesses

- Specialist support covering areas such as ICT, R& D and innovation, trading and sourcing, incubator facilities and in certain circumstances, discretionary grant funding

In addition, *Finance Wales* seeks to invest in Welsh businesses that are able to demonstrate clear potential for growth, with the future prospect of offering long term returns for future commercial investors. The annual budget for this, Welsh-wide, is currently a little under £7 million.

However, at the most basic level, business success requires entrepreneurship. The WDA has put into place its Entrepreneurship Action Plan, which includes initiatives such as public campaigns ('Because You Can') to increase awareness of self-employment opportunities. Public sentiment towards setting up in business is still more sceptical than enthusiastic, but the trend does seem to be a positive one.

Another long-established and still vital aspect of business support is to ensure that the supply of new property meets the needs of businesses, whether by direct provision or by facilitating the market to provide. Table 5.5 shows recent estimates for South East Wales, which indicate that Newport, Cardiff and Caerphilly currently lead in terms of the region's property offer.[8] This is in significant part a reminder that demand and supply is more concentrated along the M4 corridor. However, according to the PWC/King Sturge report commissioned by the WDA, it is also the case that the *gaps* in provision are most apparent along the M4 corridor, with Newport, Cardiff and Caerphilly all cited, along with Cwmbran and Treforest.[9]

The overall supply of new property for employment in South East Wales is currently not very strong, especially since a lot of the property that is nominally available is of such poor quality that it is effectively redundant. South East Wales therefore needs to offer the quantity and, just as importantly, the *quality* of premises and land that the market wants, in ways that further Principles of sustainability and good urban-regional design.

Table 5.5			
Empty land & premises in South East Wales			
	Land – acres	Sites	Buildings (1000 sq ft)
Blaenau Gwent	136	8	743
Bridgend	328	10	338
Caerphilly	269	8	1,549
Cardiff	417	8	1,233
Merthyr	88	4	210
Monmouthshire	196	7	278
Newport	301	9	1,547
Rhondda Cynon Taff	313	9	662
Torfaen	82	5	956
Vale of Glamorgan	824	18	144
Total	2,954	86	7,660
Sources: PWC, King Sturge			

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[8] Strategic Employment Sites, WynThomasGordonLewis for SE Wales WDA, provides a reasonably recent (December 2003) listing of sites and their characteristics.
[9] Source: PWC/King Sturge.

A shortage of quality property such as this is liable to be self-reinforcing. If certain types of firms do not consider locating in the region because it lacks the right prestige property, then that is the market signal that is transmitted to developers, thereby reinforcing the situation. This emphasises the importance of thinking about the range of issues discussed in this report as a holistic whole, and not treating property as a separate issue.

A key issue is perhaps the ability of the property market to respond to and – even more so to anticipate or facilitate demand. More may need to be done to inspire the private sector into investing in high quality property provision within the region, matching sector-cluster demand side needs with excellent urban and non-urban infrastructures and opportunities. This should be done within the context of the "Property Strategy for Employment in Wales (2004-2007)" developed by the WDA and ratified by the Welsh Assembly Government. This strategy sets the context and principles upon which a South East Wales Property Strategy could be developed.

Future prospects – some key drivers

Many of the factors determining the significant changes in the economic structure of South East Wales in recent decades will continue to shape developments, but new influences will also become important. In particular, the following factors are likely to drive the evolution of the industrial mix in the next 10 years:

• Manufacturing may benefit over the next few years from a more competitive exchange rate than in the past few years and stronger global demand, but conflict in the Middle East will probably introduce some off-setting uncertainty.

• Low-cost production in East Europe and Asia will, in any case, continue to attract labour-intensive manufacturing operations. Increasing globalisation and trade liberalisation will accelerate the process. Foreign direct investment will become harder to secure and it will become more difficult to retain existing investment. A further reduction in the share of manufacturing in GVA is almost inevitable, but this does not mean that the sector will contract in absolute terms. Scope exists for production to be developed in high value-added, specialist areas – though in time these too will face severe competition from China and India.

• Manufacturing will become more science-based. Huge progress is being made in medicine, especially with regards to gene therapy and pharmaceuticals; in the science of new materials (including nano-technology); and in communications technology. The local science base will be critical to regional competitiveness. South East Wales currently scores only moderately in that regard.

• In the past two decades rising disposable incomes in the local and wider economy have underpinned strong growth in retailing, catering and hotels. There is now likely to be some moderation in consumer spending after the debt-fuelled increases of the past eight years, leading to decelerating growth in the Distribution, Hotels & Catering sectors. Nevertheless, the long-term trend is towards higher incomes and higher living standards for most people, and this will provide under-pinning support.

• In recent years travel, retailing, catering and hotels have benefited from an ageing population, and this will be all the more true in the future. Older people will increasingly be the guardians of their own health: as a society we may be on the brink of a revolution in health-consciousness as important as the end-of-austerity binge lifestyles that emerged 50 years ago.

- After a period of rising public spending on health and education, we expect increasing constraints on government finances to lead to slower expansion of public sector jobs and sectoral growth than in recent years, despite the demographic 'time-bomb'. South East Wales has been a major beneficiary of recent trends in terms of employment creation, although overall economic growth has been slower than in regions such as the South East of England where more dynamic sectors have prospered.

- An increasingly wealthy society will demand greater provision of, and more sophisticated, financial management. This has already underpinned strong growth across a broad range of financial services, and this is a trend that we expect to continue. This probably means among other things more contact centre jobs overall – but not necessarily in the UK. The arrival of contact centre jobs has been very helpful to South East Wales over the past decade, and retaining or replacing these will be a key issue for the future.

- The corporate world will increasingly rely on networked relationships rather than vertical hierarchies. Steadily increasing demand for consultancy and other knowledge-intensive business services (KIBS) has fostered strong growth in the business services sub-sector, and the next decade will see rising demand for such services.

- Rapid technological change has stimulated strong growth in the communications sub-sector and will continue to provide opportunities, underpinning robust expansion over the coming decade. Everything from our health records to our personal finances to our clothes sizes and our spending habits will eventually be digitised – along with our audio-visual media, our memories and many of our personal relationships.

- The ability of South East Wales to respond to these trends and drivers is going to depend on a wide range of factors and policy decisions. We are sceptical about anybody's ability to 'pick winners' where sectoral strategies are concerned. However, the drivers highlighted above, and the analysis in Chapter 2 of the key determinants of competitiveness, provide some pointers to the types of sectors that may become relatively more important:

- those that are technology and science-based;

- 'high touch' service sector activities that involve real experiences – an activity holiday, a day at a health spa, or indeed becoming a resident in a care home;

- ICT-based service sector activities – the audio-visual digital future;

- Knowledge Information Business Systems (KIBS) to support a more fluid business world (accountants, designers, marketing consultants, systems specialists etc);

- activities that turn environmental anxieties into market opportunities;

- those that are already strong in the region; and

- those that build on regional assets (countryside, seashore, universities, Welshness, and so on).

Sectors such as these are likely to prove critical to the future of South East Wales. They correspond closely to the following list of sectors identified by the WDA in *Creating Success Together for Wales* as being key sectors for Wales as a whole:

- Chemicals, pharmaceuticals & bioscience (high science)

- Social care (high touch)

- Financial services (KIBS)

- Technology (i.e. electronics) (already strong)

- Agri-food (regional or in this case national assets)

- Tourism (high touch and also building on regional assets)

- Creative industries (KIBS)

- Aerospace (high science, and also already strong)

- Automotives (already strong)

- Construction (supportive of all the rest)

5.3   RISKS

The pace of change is likely to accelerate and, given the current structure of the South East Wales economy, it would be dangerous to ignore the significance of the manufacturing sector to the region's future prosperity. Here the risk factors are numerous. The sector is vulnerable to exchange rates and the momentum of the world economy through its high export content, while there is a double-edged potential threat from increasing off-shoring and the 'branch' status of many plants in South East Wales.

Meanwhile, our essentially positive expectations for consumer services are based on continued strength in disposable incomes and consumer spending. But if, for example, the 'debt mountain' were to become unsustainable, then every nation and region of the UK would experience the resultant fall-out.

At a more basic level, sustaining the pattern of growth that we envisage will clearly require a well-trained workforce with a good skills match. The pattern of demographics is not favourable, and any failure to generate the right pattern of skills could constrain growth in the region. In addition the provision of quality properties in the right locations that reflect potential demand.

5.4   RESPONSES

- The most important determinant of future success is likely to be the creation of the right climate for business and for living, so that the best firms choose to locate in Capital Wales. In other chapters of this strategic framework we address the different elements of that, including the fundamental importance to regional competitiveness of the quality of life.

- In addition, South East Wales needs to play a major role in many of the key sectors identified by the WDA. The agency is already developing strategies for these, one by one, and the region needs to take the opportunity to input into those strategies and maximise its contribution to them.[10]

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[10] See for example 'Towards a Technology Industry Strategy for Wales' WDA 2004.

- As well as a sectoral approach, significant attention needs to be given to identifying and promoting clusters within South East Wales (and probably across the borders both westwards and eastwards).[11] Such an approach would, for example, integrate efforts to promote supply chains and to encourage networks with other efforts to foster innovation and technology (both already emphasised by the WDA in its work), seeing the cluster as being just as important as the individual firm within it. This tactic – similar to but not the same as promoting sectors – is less prominent in Wales than in many other places in Europe including, increasingly, the English regions.

- The Valleys have the opportunity to contribute to the region's prosperity by exploiting their strength particularly as small but vibrant and broadly-based local economies, containing manufacturing, engineering, tourism, IT and communications and business service industries, and small entrepreneurs. They need to be connected to the rest of the region, but they also need to be centres of activity in their own rights. The lower Valleys are already part of a successful arc of high added value manufacturing and engineering businesses that stretch from Bridgend and St Athan in the West to Cwmbran and Pontypool in the East. This cluster of success needs to be sustained.

- Newport and the surrounding area are strategically well placed as a "Gateway" on the M4 to the region's manufacturing activity, thanks to the location of key firms and the superior transport links to external markets. This "Gateway" location is a strength to be further developed through sub-regional agreement and action, and via the URC.

- Particular attention should be given to developing Cardiff further as a centre for knowledge-intensive business services (KIBS) spanning law, design, IT consultancy, creative media and environmental consultancy; and building on efforts already underway. This will open a new axis for growth and encourage entrepreneurship, leveraging off capabilities in Cardiff Business School and other institutions. And although such an initiative would need to centre on Cardiff (because cities are critical where KIBS are concerned), there would be opportunities to percolate into other parts of the region, through smaller business developments and Soho outposts in the Valleys and in the more rural parts of the region.

- Cardiff also needs to play a major role as a visitor destination and focus of cultural and creative activities and businesses. Indeed, the same is true for the region more broadly.

- Tourism is a key sector for the region, and should become much more so. This will require the implementation of the Welsh Assembly Government's events strategy, to address potential shortfall in events post 2006 when, for example, Wembley will once again compete in the stadia market. In particular agencies and authorities across the region need to consider how the build-up to the 2010 Ryder Cup can be used as a catalyst for a whole range of other changes, whether in infrastructure, in education (sport studies, language studies, business studies, for example) or in any other field. And the development of a world-class conference venue in Cardiff is no less essential, as is the more basic need for the integrated development and delivery of spatially targeted support for tourism development across the region.

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[11] Clusters are defined by the DTI as concentrations of competing, collaborating and interdependent companies and institutions, connected by systems of market and non-market links. There is some debate about what this really means in practice. We return to the issue of clusters in the next chapter.

- The region's major capability in public administration should also be built upon. A carefully managed process of decentralisation of activities, away from both Cardiff and Whitehall but nevertheless clustered within South East Wales, would provide an appropriate balance between geographical concentration and dispersal. There would be sufficient critical mass within a single labour market to provide public sector employees with the career opportunities that they need, but the current pattern of extreme concentration would be corrected.

- A regional property strategy must give private investors good reason for believing that the returns on investment in South East Wales are likely to improve significantly in the future compared with the past and compared with other competing locations. This is a key role that this regional economic framework needs to fulfil. Such a property strategy for South East Wales should also reflect the principles and priorities of the all Wales strategy developed by the WDA and ratified by the Welsh Assembly Government. This can best be achieved by ensuring a strong regional input, based upon partnership agreement, into the development of proposals for its delivery and funding.

- An ambitious and coherent regional transport plan ,as discussed in Chapter 4 and integrated with the spatial development plan, would facilitate more north-south development in the region and help it to acquire a much richer network of activity that mapped more closely onto residential communities within south East Wales. Transport improvements should help to foster new strategic sites across the region, combining for example the benefits of near-M4 location with good public transport access. At the very least, Valley-mouth sites in areas such as Cwmbran, Treforest, Caerphilly, Llantrisant and Bridgend offer opportunities for development as do Heads of the Valleys sites such as Rhyd-Y-Brew, Ebbw Vale and East Merthyr.

6.   Innovation

6.1   VISION

In 10 years' time, South East Wales will be one of the best locations in Europe for growing innovative businesses, generating increases in productivity and rising profits for investment. Its universities and research establishments will attract talented individuals into the region, and the highest skilled people will work there. The region will have in place the means to apply best practice from around the world and will be a leading example for others to follow.

6.2   ANALYSIS

Key points

- A premier league of innovative European regions now exists. In each, strong universities and vibrant cities are key factors behind the regional success. Edinburgh, Oxford and Cambridge are examples in the UK.

- Because innovators like to cluster together, those who are already successful are likely to become more so. There is therefore an urgent need for South East Wales to catch up.

- South East Wales has relatively little history as a place where decision makers live and work or where innovation takes place – it has tended to be a branch-economy. Changing that is critical to the region's future.

- Central to success is not just the forging of university-business links but also strengthening the universities and research institutions themselves, helping them to attract the best researchers, and helping those researchers to move into and out of the private sector. Venture capital provision and the quality of life offered to the very highly skilled are both central in this regard.

The knowledge economy

Innovation is essentially the process whereby entrepreneurs translate new ideas into business opportunities. It is something that mainly takes place within businesses, when firms develop or apply new products or processes and thereby gain commercial advantages over their competitors.[12] These may be existing or new businesses, but either way the process relies on a mixture of technical expertise and entrepreneurship. Innovation – along with the removal of inefficiency and idle resources – is one of the two basic mechanisms for improving productivity in the economy. And that in turn is fundamental to improving economic growth and prosperity.

Not every firm needs to innovate in order to succeed, and many firms prefer to keep their products and processes unchanged, using cost control as the way to maintain or perhaps improve their financial performance through time. However, as competition becomes increasingly global and customers become increasingly powerful, such firms often become progressively more vulnerable to cheaper rivals. High rates of innovation are, therefore, essential if regional economic growth is to be sustainable.

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[12] We use here the current understanding of 'innovation' as articulated by the OECD and others, which is concerned with the commercialisation of new ideas. However, we seek to understand how the cultural and business base of the region, including for example patterns of entrepreneurship, can hamper or promote innovation by businesses.

The European Commission has produced a list of what it regards as the 22 most innovative regions in Europe (Table 6.1). The list is generally fairly diverse, but with a bias towards city-regions and places with very strong research universities. Three of the regions are in the UK – Oxfordshire, Cambridge and Edinburgh.

Table 6.1
Europe's most innovative regions

Alpes-Maritime	Edinburgh	Madrid	Stuttgart
Barcelona	Emilia-Romagna	Milan	Torino
Berlin	Hamburg	Munich	Vienna
Cambridge	Helsinki	Oxfordshire	Veneto
Copenhagen	Karlsruhe-Pforzheim	South Sweden	
Dublin	Lyon-Grenoble	Stockholm	

Source: European Commission

The Commission is encouraging policy makers in these 22 regions to share ideas with one another about how to promote and sustain innovation, with a view to them becoming Europe's champion regions in terms of global competition for commercial innovation. This merely reinforces the tendency of market forces, which is for success to be self-reinforcing. So for South East Wales and other regions outside this premier division, the challenge is to avoid falling further behind in relative terms.

Karlsruhe-Pforzheim

Comparing our list in Chapter 3 of regions with similar industrial heritages to South East Wales with the list of Europe's most innovative regions, it is clear that one name appears in both: Karlsruhe-Pforzheim, or 'TechnologieRegion Karlsruhe' as it is branded.

Located in the triangle between Mannheim, Stuttgart and Strasbourg, this is an old industrial and mining region which has become one of the most successful locations in terms of business creation and innovation in Germany, ranking among the best regions for research, higher education and value creation. It is effectively a grouping of 9 cities within a circle of 30 km, and a population of 1 million. Its strength is that its history has bequeathed it a number of technology-oriented higher education facilities and research institutions, with particular strength in applications across a wide range of technologies. The Technical University of Karlsruhe (the oldest technical university of Germany), the Research Centre Karlsruhe, the numerous institutes of the Fraunhofer Society and the transfer centres of the Steinbeis-Foundation, provide a breeding ground for science-based business foundations. Based upon these strongly application-oriented research institutions, a considerable number of innovative SMEs with promising future potential have developed in the region.

All in all there are 10 higher education centres in Karlsruhe, 10 R&D institutes, four scientific parks and fifteen incubator facilities. The Karlsruhe Research Centre is one of the largest non-commercial science and engineering research institutions in Germany. It works on research and development problems of public interest, in the fields of environment, energy, microsystems engineering and fundamental research. It is guided by the research policy goals of its two partners, the Federal Republic of Germany and the State of Baden-Württemberg.

As we noted in Chapter 5, one of the ways in which success can be self-reinforcing is through the operation of clusters. In clusters, firms from related or similar industries choose to locate together in order to gain competitive advantages. Examples are high-tech industries in and around Cambridge, and Financial & Business Services in the City of London. But a report on clustering in the UK by the Department of Trade and Industry in 2001 – *Business Clusters in the UK - A First Assessment* – found "little regional specialisation [in Wales] 'perhaps with the exception of an emerging opto-electronics cluster in North Wales'. There is, therefore, now an acceptance within Wales of the need to encourage growth sectors, clusters and supply chains.

It is commonly suggested that clustering mechanisms include strong competition between the local cluster members, strong cooperation between the members, the sharing of resources, the existence of a strong local customer base, and the spill-over of knowledge between them.[13] In reality, there is little evidence that these factors are important.[14] On the contrary, the evidence is that the most innovative regions are generally those where firms are particularly likely to have partners, competitors and customers globally and not locally.

Unfortunately, most establishments located in South East Wales are strongly focused on local markets. Surveyed in 2003, 79 per cent of commercial establishments said that they obtain the majority of their business within a 25-mile radius – and not surprisingly, most of their competitors are local too. And while the vast majority (93 per cent) claim to be working in a competitive marketplace, only a little over half (59 per cent) believe that new product development is crucial to the success of their business.[15]

Clustering is effective when it is part of encouraging outward connectivity, but not so when it is a mechanism for fostering introversion by concentrating on local linkages. It is also an effective way of emphasising that there is never a single correct policy lever to pull (the 'skills matter, transport doesn't' approach) and that policies of industrial support need to focus on the business groupings that exist in the real world (e.g. hospitality, or healthcare), and not the artificial sectors of the statisticians.

Clustering is also important in terms of facilitating change. In the manufacturing sector, for example, this might involve encouraging migration towards higher value added, higher technology products, studious attention to retaining inward investors (recruiting is far harder than retaining), and diversification. It would also encompass policies towards skills, and considerations of how location and property can be used to enhance the sense of a cluster with a strong identity and embeddedness in the local economy.

This therefore means that increasing connectivity, as discussed in Chapter 4 above, is likely to be extremely important for increasing innovation. However, connectivity merely facilitates innovation, it does not create it. And indeed the same is true for clustering itself. The main mechanism through which clustering actually does work is through the creation of a pool of highly skilled and very highly skilled workers. It is the ability to recruit which encourages firms to co-locate. And that in turn implies that clustering is particularly important for knowledge intensive industries, where the knowledge of workers is a major source of competitive advantage. So just as firms once located where the raw materials were (coal, in the case of South East Wales) today they locate near pools of highly skilled labour.

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13 Reference Porter.
14 Reference Simmie.
15 Future Skills Wales.

This means that for South East Wales, key planks of an innovation strategy need to include:

- facilitating the commercialisation of knowledge from universities to businesses;

- facilitating the movement of researchers from universities to businesses (and back again);

- facilitating improvements to the research base of the universities; and

- improving the quality of the local living environment, so that the people will be keen to live locally.

Of these, the first is probably part of the strategy of almost every regional development agency in Europe, and it is important that it features as part of the regional strategy for South East Wales. The quality of competing universities world-wide is extremely high, and in many cases their funding is very generous. Large efforts are being made by regional development agencies across Europe, the USA and Asia to strengthen academic-business linkages. South East Wales needs to compete hard to remain in the first division, let alone the premier division, in this regard.

As the recent *Lambert Review of Business-University Collaboration* emphasised, two phenomena are currently making universities far more important to economic development in the twenty-first century than they were in the twentieth. They are:

- for companies to increasingly outsource their R&D from universities

- for R&D to become a globally integrated and marketed activity.

The Welsh Assembly Government has recently published its *Knowledge Economy Nexus*, which says that university-business links in Wales need to be strengthened. It offers a variety of dimensions in which this should occur, including the need for businesses around the world to know about Welsh research excellence and the need for local companies to be able to access that excellence. Similarly, *A Winning Wales* described the need to enable strong links between businesses and education institutions on a wide range of matters including recruitment, training, management development, international networking and technology transfer. *People, Places, Future: The Wales Spatial Plan* and *Wales for Innovation* both stress the importance of maximising the economic development impact of universities and colleges.

Part of the challenge is to find practical steps that reconcile the different agenda and methods of businesses and academic researchers. One already taken is the establishment of centres of excellence, most notably, the Technium centres. These provide high-tech facilities in an environment that links business, research and business support services. A network of such centres is being developed across Wales, and the South East region needs to ensure that it participates fully in the initiative. Currently, the Technium roll-out strategy includes, amongst others, a proposed Glamorgan Technium at Nantgarw Trefforest, as well as a Life Science Technium in Cardiff Bay.

The other elements that we list above (facilitating the movement of researchers from universities to businesses, facilitating improvements to the research base of the universities, and improving the quality of the local living environment) are less widely adopted as strategies and could give South East Wales more of a distinct advantage. All need to feature in South East Wales.

Implicit behind the strategy must be an aim of attracting more research talent from outside the region to its universities, since otherwise this would clearly be an unsustainable growth mechanism. A key mechanism must be the provision, by agencies and authorities in the region, of resources to local universities and research centres to facilitate them in integrating into the local business community – especially where those resources can be matched by private sector funds.

Fortunately, there is a reasonably strong base from which to start. Research institutions in South East Wales are well placed to provide this, offering strong (though not absolutely outstanding) academic reputations from which businesses can benefit. Figure 6.1 shows 5 and 5* rated research departments in South East Wales. A number of these could provide the basis for innovative high growth and high value added sectors in the future – psychology, pharmacy and medicine; maths and computing; earth science, civil engineering, the built environment and spatial planning; law and business; cultural and creative studies including music.

All of these are important sectorally: pharmacology is one of the branches of medicine on the brink of a fundamental new opportunities; the built and physical environment are of great significance in terms of environmental sustainability issues; business and law are central organising activities in the very fluid knowledge economy; and the creative and communications sectors are drivers of that knowledge economy. The region, is in other words, well placed in terms of its academic endowment.

Universities in South East Wales also have a good record of new business spin offs and maintaining good links with the business community as demonstrated by the Higher Education Business Interaction Survey which showed that Welsh University business spin outs represented 8 per cent of the UK total. The WDA's *Knowledge Exploitation Fund* has assisted in this and ELWa programmes can also further enhance the ability of higher education institutions to provide profitable innovation in South East Wales. This situation must continue to be built upon, and with wider links forged to universities outside the immediate region such as those in the rest of Wales, as well as in nearby Bristol and Bath.

The overriding objective must be to increase the number of university spin offs, business graduate start ups and contracts between universities and business across all disciplines and to deepen and widen existing university/business links. Not only does this support an innovative base of businesses, but it also offers students the opportunity to obtain employment with leading local companies. This will improve the ability of the region to attract and retain highly skilled young people. Dundee for example has developed a computer games cluster based on a university degree course. Students and graduates have started up new businesses and stayed in the area, reinforcing the cluster and skill base. Supporting this, Scotland has negotiated a relaxation of UK work permit rules for overseas graduates, to make it possible to retain them for a short period. The regions of the north of England are doing the same. In contrast, attempts by Cardiff university to link Indian MBA students with local small and medium sized enterprises have been hampered by problems over work permits. In a world in which academic communities are increasingly global, issues such as these need serious attention.

Table 6.2 Top research departments in South East Wales		
	5 rated	**5* rated**
Cardiff University	Pharmacy Medical Biology Physics Earth Sciences Pure Mathematics Computer Science Electrical and Electronic Engineering Built Environment Law Sociology Business and Management Studies European Studies Celtic Studies Archaeology History Communication Media Studies Music	Other Studies Allied to Medicine Psychology Civil Engineering Town and Country Planning English-Language and Literature Theology, Divinity and Religious Studies Education
University of Wales College of Medicine	Clinical Laboratory Sciences	
University of Wales College Newport	Art And Design	

People, culture & quality of life

As we noted in Chapter 5, attitudes towards entrepreneurship may be rising in south East Wales, but from a distinctly low base, and it is vital to encourage the process further.

There are many conflicting views on how to build a culture of entrepreneurship: one possibility is simply to encourage new people into the area who tend, by nature, to be more risk taking and therefore more prepared to start new businesses than host populations. South East Wales has one of the UK's lowest rates of in-migration – in many parts of the Valleys, 98 % of the population were born locally, which is the highest rate in the UK.

On that basis the need to make South East Wales an attractive place in which to live is fundamental, if top rate academics are to be encouraged to the region; if firms in high growth sectors such as business and creative services are to be attracted; if the region's brightest young people are to be persuaded to stay rather than migrate away; and if high wealth individuals are to make South East Wales the base for their affluent life styles.

The quality of the landscape and seascape and the urban environments of South East Wales are important in this regard. The Valleys provide a unique and inherently attractive offer, and Cardiff can and should compete with cities such as Edinburgh and Manchester for the urban lifestyle that it offers. Cardiff Bay is a huge asset, but what happens in the next ten years is going to be as important as what has been achieved in the past ten. And the city centre needs to continue its transformation, and develop an increasing number of high value retail and leisure offers, in addition to the 'student city' offer that has already successfully taken off.

The challenge is that South East Wales needs to maintain its unique culture and heritage while at the same time becoming more embracing of different cultures, identities and ideas. So South East Wales must use its specific cultural offering to its advantage in industries such as tourism, whereas in other sectors, the region must look to global markets, and the knowledge and expertise that exist outside of national boundaries. Strong, dynamic leadership with a clear vision and a singular focus on achieving that vision is needed.

Profitability, entrepreneurship and the business base

In a successful regional economy, innovation, rising productivity and rising profitability all feed off each other. Innovation in better products and better processes makes firms more productive, and helps them to improve their profitability. Higher profits are both a reward for investing in the whole innovation process, and a means to finance future innovation. Profits are essential if growth is to be sustainable, and profitable companies have the ability to attract the best people and to pay them well. These people make the firm more innovative and more productive, encouraging stronger growth and more profits. Such success is self-reinforcing.

The most appropriate way to stimulate this process is often to focus on improving the innovative process. Ways of doing that will naturally vary from business to business. There is some evidence that in terms of the value of innovation, large firms have a better record than small ones. This in part just reflects the characteristics of particular sectors: innovation in the pharmaceutical sector can, for example, reap rewards measured in tens or hundreds of billions of pounds. However, it is no less true that many of the most innovative companies are small. For example, the US Small Business Administration's Office of Advocacy highlights a wide range of products, from the PC to soft contact lenses, that have been created by small companies or individuals. Large companies tend to be better at continually improving their existing product range rather than introducing completely new products. The latter tends to be the domain of individuals and new start-ups. Large companies may be better with regard to business process innovation, that is, developing better ways to deliver their products and services.

To enhance innovation in the region there is, therefore, a need to encourage and support new start ups, and to facilitate the promulgation of best practice in business processes. The former requires both the continuation of existing policies and the encouragement of new people to locate in the region. The latter again is a mixture of existing policies and further promotion of regional benchmarking practices.

Wales has one of the lowest rates of new VAT registrations as a proportion of the business stock in the UK. Indeed, a recent consultation document produced by the Welsh Assembly Government notes that there are a comparatively low number of businesses per capita in Wales, and an over-dependence on declining value-added industries. In South East Wales it is notable that, even ignoring agribusinesses, there are more businesses per capita in Monmouthshire than Cardiff – though the new registration rate in the capital is higher.

This would suggest that the region does not have an especially strong entrepreneurial or risk taking culture. As we noted in Chapter 5, attitudes may be changing, but even so new business registrations in the region have remained virtually constant at around 3,000 a year over the last decade. Within that, there are wide variations across the region: in Cardiff nearly 40 per cent of new registrations are within financial and business services whereas in Merthyr this falls to under 15 per cent. Indeed, business registration rates in the valleys are generally very weak.

Support and encouragement for new business start-ups is therefore critical. Here too, elements of this have already been discussed in Chapter 5. New start up support covers a wide range of services including access to venture capital, provision of suitable premises, facilitating networking with other businesses and universities, as well as general business support. Such support can and should be made available for all business starts, regardless of their particular features, and at the very least South East Wales should contribute to the target for new business formation set in *A Winning Wales*, by raising the stock of VAT-registered businesses in the region. But the rules and delivery mechanisms need to be as simple and streamlined as possible, if they are to be of significant value to companies.

However, the real aim is the steady creation of locally controlled businesses that have the following critical features:

•   are able to generate sustained profits for reinvestment in innovation

•   have a culture of creativity

•   are customer focused

•   have the processes and ability to bring creativity to market

•   employ and develop highly skilled workers

•   are well networked with business, business support agencies and research institutes.

The importance of these qualities was emphasised by research conducted by Experian Business Strategies for the WDA in 2001, using a survey of 5,000 small and medium sized enterprises.[16] Econometric analysis of the survey results showed that small and medium sized firms that do not carry out R&D and/or that do not have a website are less likely to grow than those who have these features. The detailed statistical results suggested that these factors may be as important as indicators of the underlying attitudes of the firms concerned, as they are in terms of their direct impacts.

No less important is to increase the stock of companies that are headquartered in South East Wales. For Wales as a whole, there are very few quoted companies (Table 6.3 – the majority of these are retailing/health services and are listed on AIM) and the inward investment that has occurred into South East Wales has historically been dominated by branch plants or processing centres, not by head offices. This tends to mean that South East Wales has found it difficult to develop the rich quality of supporting business services, since functions such as auditing, legal advice and PR are generally all sourced from London. That in turn generates a spiral, in which the absence of abundant high quality services makes it harder to start up a business or less attractive to locate one in the region.

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[16] Small & Medium Sized Enterprises in Wales, Experian Business Strategies for the WDA, October 2001

Table 6.1			
Welsh companies on the stock exchange			
2 Travel Group	Chepstow Race	Leisure Ventures	Redrow
Anglesey Mining	Culver Holdings	Maelor	Surface Technology Systems
Bailey (C.H)	Dee Valley Group	Peacock Group	Transport Systems
Big Food Group	Hawtin	PHS Group	Zi Medical
Biotrace	IQE	Provalis	
Source: London Stock Exchange			

In recent decades, South East Wales has been particularly successful in attracting major multinational companies to locate assembly plants, back office functions and call centres in the region. However, the contribution of such investment to sustainable economic growth has been limited on occasions, with some operations having already closed down and others often providing low wage and/or low value-added employment.

Figure 6.2

Source: Future Skills Wales 2003 Generic Skills Survey
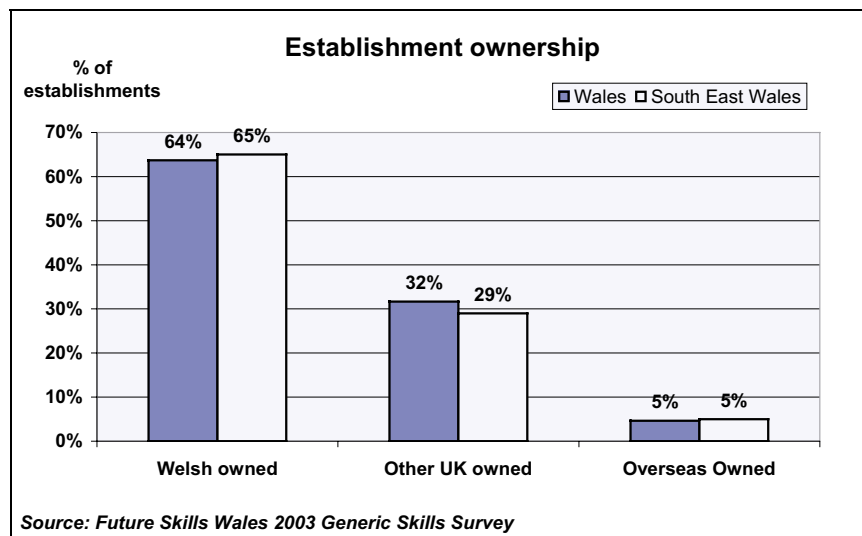
The Welsh Assembly government has acknowledged in *Winning Wales* the existence of an 'assembly line branch-factory economy' in Wales, a pattern that in fact goes far back into Welsh industrial history. The large locally grown but nationally or internationally successful companies that were so much associated with the growth of the English midlands and north of England economies have few counterparts within Wales, hence the relative scarcity in Wales of quoted businesses. Accordingly there is a strong need to attract high value investment to Wales, and to forge strategic alliances with global companies to anchor existing plans better, to win more high quality inward investment, and to transfer the latest global best practice into Wales.

It is often suggested that firms tend to locate their main R&D and innovation capacity within the country or region of their ownership, and that South East Wales suffers as a result. A company's birthplace tends to be where its culture is most developed, customer focus is greatest and where the company is most embedded into local networks. However, recent research shows that where subsidiaries are located in an area stimulating to research, they can 'tap into' this environment and perform leading-edge innovation on its own. Hence, the latest studies on multinational R&D stress the importance of competence-related incentives (that is,

being able to offer high quality staff and facilities) to attract such activities.[17] Accordingly, attracting these high value-added investments with higher expenditure on research and development must be a priority for inward investment in South East Wales, alongside attracting pure head-office functions.

On the whole it is less important to target sectors or specific clusters than to create the conditions in which innovative businesses will thrive. Nevertheless, where there is an existing base it may be worth seeking to build upon it. While the DTI has failed to spot any clusters in the region (see above) there is at least a mini-cluster of aerospace related businesses, some focused on Cardiff airport and others grouped around Newport. Urgent attention therefore needs to be given to the possibility that a strong cluster can be developed here, possibly in conjunction with Bristol.

6.3   RISKS

The main risks for the region are:

- Existing assembly and process operations will gradually seep away from the region, reflecting the globalisation process, while the new high value added jobs will cluster in southern England and elsewhere, where such jobs are already concentrated.

- The innovation issue will be addressed in South East Wales with less energy and urgency than in other regions, and an increasing gap will open up.

- The best individuals currently living and working in the region will respond by looking for opportunities elsewhere.

- Policy makers will then shift their attention towards other pressing policy objectives, accepting that since South East Wales always has been a branch economy whose fate is decided elsewhere, so it will always continue to be.

South East Wales has a poor history of innovation and its economy shows the consequences. Yet the region cannot compete as a low cost manufacturing or service centre base in an increasingly global world. It has to move on from being a branch economy to one that accommodates a diverse range of innovative leading companies that can assist in driving the region's economy.

6.4   RESPONSES

Innovation for Wales sets out a five-strand plan:

Communicating what can be achieved through more innovation.

Developing more high growth potential businesses.

Better equipping people to innovate.

Simpler, more effective, business innovation support.

Maximising the economic development impact of our universities & colleges.

South East Wales needs to take these 5 strands as its starting point for developing its own long-term strategy.

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[17] OECD (1998). *Internationalisation of Industrial R & D: Patterns and Trends.*

- Innovation, entrepreneurship and profits for innovation need to be seen as positive attributes. This requires a change in attitudes and culture among some sections of the community. The region needs to promote locally based entrepreneurs as role models and demonstrate how they bring wider benefits to the communities they live in. This is especially true in the Valleys and Newport where entrepreneurship is presently very low.

- Innovation tends to be driven by small businesses and individuals, sometimes "spun off" from universities or major companies. To encourage this process requires a range of activities. The type of businesses that need to be encouraged are those that operate outside the local market and therefore have a wide range of location options open to them. Small businesses and individuals in these sectors are heavily influenced by quality of life factors in determining their location as well as business specific requirements. The region therefore needs to offer the appropriate high quality environment.

- It needs to attract new people to the area and especially the valleys as a catalyst to encouraging new business start ups. Inward investment needs to be targeted at either small businesses or larger businesses with a history of innovation whether in product development or internal processes.

- South East Wales needs to build on and expand the Technium concept by providing starter units linked to business support services and university or major company/public sector research facilities. This is a way of supporting cluster development without predetermining which sector to support. Suitable premises need to be provided as the Technium type developments demonstrate. These need to offer high quality facilities in exceptional locations with short term renewable leases. There must also be suitable space for growing firms to expand into without risk of losing staff.

- New ways are needed to help firms to transfer knowledge between businesses, academic institutions and other organisations within and beyond the region. Methods are required to foster the commercialisation of knowledge within SMEs (small and medium sized enterprises) and the entrepreneurial attitudes that underpin it; the provision of skills necessary for the formation of new firms and their growth; and support for ICT skills and infrastructure.
- Attention needs to be given to improving the ease with which students from outside the EU can remain to work in South East Wales, and the extent to which academics from around the world can get the opportunity to work with South East Wales universities, research institutes and commercial companies.

- Universities in the region, working in partnership with other agencies, need to enhance their relationships with their alumni, working to find and develop opportunities to attract the most entrepreneurial former graduates back to the region, and to set up businesses that can contribute to the long term growth of South East Wales.

- Existing schemes to foster university-business links need to be joined with new schemes to strengthen the universities themselves, helping them to attract the best researchers, and helping those researchers in turn to move into and out of the private sector. Venture capital provision is central to this. But since venture capitalists need diversified portfolios and yet heavily concentrate their investments on London and the South East, the region should take the lead in examining the possibility of a Venture capital fund specifically focused on all the other regions and nations of the UK.

- One of the key components of a successful cluster is the presence of leading research facilities. Commercialising intellectual property of universities is important in this respect and is sometimes hampered by multi-funding of research. The region needs to assist in ensuring any barriers to commercialising research are minimized. There is also a need to ensure that a culture of entrepreneurship is promulgated across disciplines. An example is the MIT Entrepreneurship Centre which teaches entrepreneurship to engineers. Another MIT example that is worth replicating is to support more generous prizes for student business competitions aimed to stimulate entrepreneurship and graduate start ups. The region needs to promote a greater level of student and staff involvement in local businesses. This offers both two way knowledge transfer, promotes entrepreneurship and can encourage talent to remain in the area.

- Finance is a key requirement for business start ups and innovation. The region needs to explore with stakeholders ways of directing existing support mechanisms towards innovative firms and, in particular, how equity participation schemes can be developed. This will help to attract high quality staff, reward success and provide a return to support agencies.

- Networking among entrepreneurs and potential entrepreneurs and within clusters is key for their development. This needs to be facilitated by independent but supportive institutions such as business service providers and universities. The region needs to facilitate these networks. A key barrier to entrepreneurship in an area with a low propensity to start new businesses is that the potential entrepreneur knows no-one else who actually turned an idea into a practical business. Breaking down this barrier is important and the region can play a part in doing this.

- As well as supporting new businesses the region cannot afford to ignore the large number of SMEs already successfully operating in the region. The region needs to build upon and deepen existing links between this community and the area's universities. The promotion of the use of non-executive Directors and mentors can provide a cost effective way of disseminating local expertise, especially if they are drawn from Universities or existing innovative companies.

7. Skills

7.1   VISION

South East Wales will be moving towards a situation in which no more than a quarter of adults are without qualifications and at least a quarter are suitably highly qualified. A large proportion of adults will be actively participating in learning, and young people will see the acquisition of skills as the biggest determinant of their future opportunities. This change will have come about because employers in Wales will have adopted business strategies that rely on up-skilling for success, and policy makers will have responded to that pressure by making the supply side work of the skills-provision system work much better than it has in the past.

7.2   ANALYSIS

Key points

- Significant investment in skills takes place within the region, and qualifications are rising gradually through time.

- Nevertheless, employers report deficiencies in the skills of their people, and many people cannot achieve their full potential because they lack the skills. This is most clearly true in some of the Valley communities.

- Skill needs will increase in future. But businesses invest less in skills than they would like to, because they are sceptical whether they will receive the full return on their investment. This effectively puts pressure on them to find ways to stop skill needs from rising, by redesigning work to take the skill out of it. This then forces firms to compete mainly in terms of price, which happens at the expense of job opportunities and incomes growth.

- Skills are supplied through a range of mechanisms, from schools to employer funded training, from informal and alternative provision to higher education. The mechanisms whereby employers are able to communicate their needs to the system, and providers are able to respond quickly with high quality offers, are under severe pressure. In many but not perhaps in all cases these pressures include funding constraints.

The starting point: 'Making Learning Work for You'

In 2001, ELWa, the body charged with promoting the skills agenda within Wales, published its vision for learning in Wales: *Making Learning Work for You; Mynnwch Elwa ar Ddysg*. In that document it identified an education and learning revolution that has been underway in Wales. Among the range of indicators cited were:

- 95 percent of 15 year olds in Wales achieve some formal qualifications.

- In 2001, 50 percent of 15 year olds gained at least 5 GCSE grades A-E or the vocational equivalent.

- About 90 percent of Welsh 16 to 18 year olds are participating in education, training, or work with our schools, colleges and training providers.

- There has been a 70 percent increase in further education (FE) students since 1993.

- There are over 224,000 people engaged in education and learning at FE institutions – this represents 9.4 percent of people in Wales.

ELWa also noted a significant learning infrastructure in Wales, including 172 schools with sixth forms, 26 further education institutions, the Higher Education Funding Council and the higher education institutions in Wales, 21 Community Consortia for Education and Training, a wide and diverse network of private training and voluntary sector providers in the workplace and in communities, and not least the many private and public sector employers in Wales who invest in their people.

Nevertheless, ELWa also argued that the dynamics of the economy and the social and cultural ambitions for Wales mean a need for new types of education, training and learning that prepare people for a constantly changing world. In *Making Learning Work for You; Mynnwch Elwa ar Ddysg* the agency set out a vision in which:

- every person in Wales should have the *essential skills* needed for work, home and leisure;

- every person in Wales should be motivated to *learn throughout life* and has the opportunity to learn in a way which suits their needs;

- the *knowledge* which exists and which is generated within Wales should be used to create a successful, sustainable economy which is both prosperous and inclusive;

- every *business* in Wales should value the benefits of learning, continually invests in developing its workforce, and can access the training and support it needs to move forward; and

- all *communities* in Wales should value learning as a means of enabling everyone to play an active role in society.

This strategic economic framework for South East Wales embraces that analysis and conclusions. But there are ways in which the region needs to go beyond some of ELWa's national ambitions and develop targets, ambitions and schemes that relate specifically to the special needs of South East Wales.

The evidence: the skills that employers need

All employers need their people to have skills that are specific to the jobs that they do, and also other more generic skills, which link the personal attributes of the individuals to the business or organizational objectives of the employer. The former tend to change as industrial structure changes, and are increasingly embodied in occupational standards, whereas generic skills exist over and above those specific needs.

According to the 2003 Future Skills Wales survey, there are seven generic skills which are needed at high or advanced levels by over half of all employers in the region. They are:

- team-working

- ability to follow instruction

- adaptability and flexibility

- showing initiative

- communication skills

- ability to learn

- understanding customer needs

Team working is important across the majority of South East Wales sectors, and across most occupations in the region, though particularly perhaps in certain (mainly public sector) occupations such as teaching and nursing. The ability to follow instructions is also slightly more highly associated with the public than the private sector, and also with the voluntary sector, probably reflecting the importance of various care-related jobs in those sectors. In contrast adaptability and flexibility is slightly more highly valued by the region's private sector.

Communication skills, along with understanding customer needs, is one of the few areas where a significant minority of firms say that the skills are needed at an advanced level, reflecting the importance of those parts of the service sector where bespoke solutions dominate business success. As business moves increasingly towards a customer-centric model, so these skills are likely to grow in importance. Already over 80 per cent of public administration, education and health and banking, finance, insurance and other business services establishments demand high and advanced levels of communication skills in South East Wales.

The research evidence also clearly shows that, across the full range of generic skills, employers expect that skill needs will rise in the future. This means that, within the current workforce, employees will need to up-skill to be able to carry out their jobs in the future. If for whatever reason they do not, then there is a danger of those jobs being lost, or of local residents having to accept a lower quality of service than in regions where the up-skilling has taken place.

The greatest expected increases are in the ICT skills that employees need, followed by management skills, organising one's own learning and development, Welsh language skills and leadership skills. These results suggest:

- an awareness on the part of at least some employers within the region that the information revolution has a long way to go

- that the twentieth century economy will be a learning economy as well as a doing economy

- that entrepreneurship will be a motor of economic growth in the future

- and perhaps that Welsh ethnic identity is something that employers think is likely to become more rather than less overt

The evidence: investment in skills

A key issue however is: who will invest in skills? Public policy intervention has traditionally tended to focus on the vocational skills of those entering, or disengaged from, the world of work. But in terms of the economic future of South East Wales, employers' investment in workforce skills matters just as much – and perhaps rather more.

Unfortunately, as the Future Skills Wales survey illustrates, although employers (especially large employers) are generally aware of the importance of skills, they are concerned that if they themselves invest in the skills of their workers, then they may have difficulty in realising the full commercial benefits of that investment. And indeed only slightly more than half of employers provide off-the-job training – and the figure would be dramatically less of public sector employers were to be excluded from consideration. In addition, a quarter of establishments in South East Wales say that they cannot afford for staff to take time off for training, while 18 per cent say that it is the financial cost that is the main problem.

In consequence, many employers seek to use the recruitment of new staff as a primary mechanism for raising the skills of their workforce. Indeed, the skill of the applicant is the most important factor that employers consider when deciding who to employ – outstripping interview performance, work experience and formal qualifications.

Many employers in South East Wales are, however, critical of the skills of the people who apply for work. Nearly half of employers in the region who recruit school or college leavers report a significant gap between the skills that such applicants possess, and those that they need to do the jobs into which they are being recruited. Skills that employers say are particularly lacking include communications, showing initiative, numeracy, literacy and understanding customer needs.

A key policy issue is whether this discrepancy represents a genuine failure on the part of the education and learning sector in South East Wales, or a deeper difficulty with the attitudes and abilities of residents in the region, or whether it simply indicates that employers have unrealistic expectations about how 'ready-skilled' new recruits are likely to be. The answer is likely to be a combination of the three, and it is also likely that, whatever the reason, most employers do respond by providing at least some informal on-the-job and work-place based training.

This last observation is supported by evidence that employers in some of the sectors that have experienced the strongest employment growth – such as public administration, education and health and banking, finance, insurance and Mainly Public Services have also done most to increase their investment in training over the past three years. Overall, the Future Skills Wales research shows that nearly a third of establishments in South East Wales invested more in training per employee in 2003 than three years previously, and only 6 per cent had reduced investment in training over that period. Larger establishments led the growth. Nevertheless, the issue of work-place based training, and the priority that is attached to it, is something that needs to be addressed if the region is to compete and if individuals are to achieve their full potential.

Table 7.1

Investment in training compared with three years ago

(% of establishments)

	More (%)	Same (%)	Less (%)	Not been in operation for 3 years (%)
Wales	32	44	6	11
South East Wales	32	42	6	12

Source: Future Skills Wales 2003 Generic Skills Survey

The issue of basic skills also remains a major concern in the region as elsewhere in Wales In *Wales: a Better Country*, the Welsh Assembly Government has set a target whereby, by the end of the decade, no young person will leave school without qualifications. In that context, the evidence from employers suggests that, as we noted above, numeracy, literacy, a willingness to take the initiative and to understand and respond to customers' needs, are what employers value most.

The Welsh Assembly Government is also seeking to reform the whole 14-19 age curriculum, so that there is no longer a stark break between 'school' and 'work', but instead all young people embark on learning pathways and engage in life-long learning. This too should help to address the issue of recruits to the labour market who seem to come insufficiently prepared.

Skills deficiencies

Clearly there are, however, many highly skilled people in South East Wales – if that were not so, then local businesses would not survive and new employers would not move into the region, as they continue to do. That is why the Future Skills Wales evidence shows that the majority of employees have enough skills to do their present jobs (see Table 7.2). Indeed, 88 per cent of establishments agreed that their employees had sufficient skills, in line with the Welsh average.

Table 7.2 - Attitude to skills

(% of establishments)

|	Agree (%)		Neither agree nor disagree (%)		Disagree (%)	
	Wales	SE Wales	Wales	SE Wales	Wales	SE Wales
Sufficient skills	88	88	2	2	9	9
Investment in skills brings benefits	77	77	6	6	11	11
Skills are crucial to success	95	95	1	1	3	3

Source: Future Skills Wales 2003 Generic Skills Survey

Nevertheless, it is also apparent that South East Wales has a higher proportion of people with no formal qualifications, and a smaller proportion with NVQ level 4 or 5, (graduate, equivalent or above) than any other region of Wales. And compared with England, the position is even worse (see Figure 7.1).

These qualifications deficiencies are especially apparent among older people, among those working in the more basic production and service industries, and especially among the jobless. They are also very locally concentrated.

Other evidence supports that from *Future Skills Wales*. According to the Census 2001, overall qualification levels in Wales were lower than in England. This is accentuated in South East Wales where an even higher proportion of the 16 – 74 population held no qualifications (see Table 7.3). and that is despite the fact that the Cardiff 16-74 population, aided by the presence of a major university, tended to hold higher qualifications, with almost 27 per cent of people being qualified to NVQ level 4 or 5. In contrast, areas such as Blaenau Gwent and Merthyr Tydfil had much lower qualifications, with almost half of the population holding no qualifications in 2001. Furthermore, across all age groups the average qualifications were lower than the regional average in these areas, suggesting that the situation isn't improving with the younger generation.

Figure 7.1 – Qualifications mix

Source: Census of population 2001
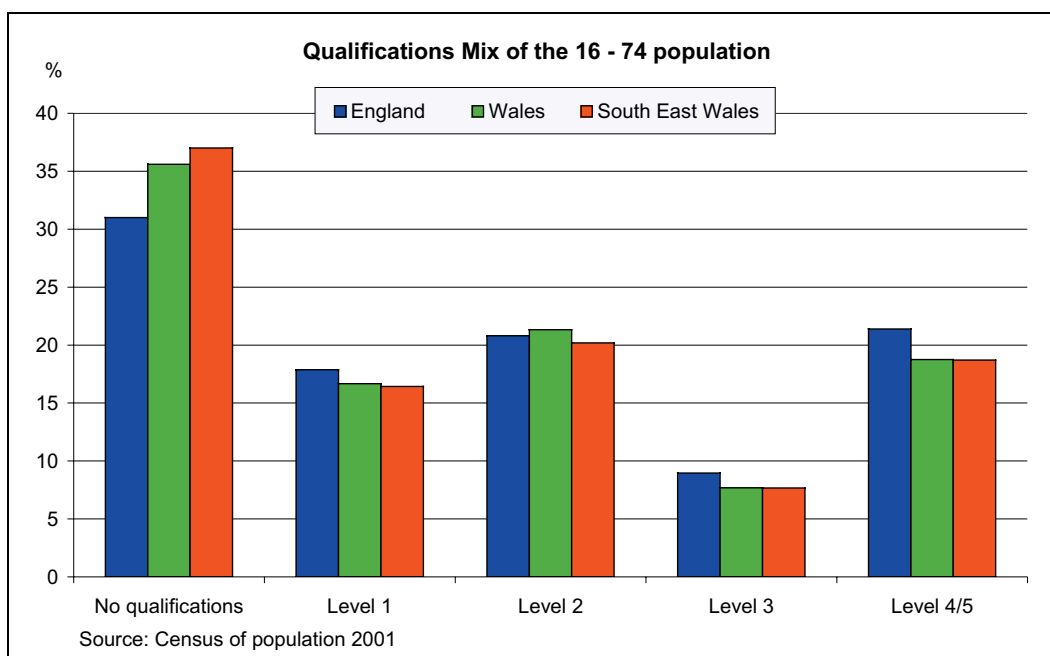
Table 7.3					
Qualification Mix of the 16-74 population (%)					
	No qualifications	**Level 1**	**Level 2**	**Level 3**	**Level 4/5**
England	31.0	17.9	20.8	9.0	21.4
Wales	35.6	16.7	21.3	7.7	18.7
Bridgend	39.6	17.1	20.3	5.9	17.1
The Vale of Glamorgan	28.4	16.8	23.8	8.1	22.9
Rhondda; Cynon; Taff	43.9	16.3	19.2	6.6	14.0
Merthyr Tydfil	47.4	16.6	18.4	5.0	12.6
Caerphilly/Caerffili	43.0	18.0	20.3	5.7	13.1
Blaenau Gwent/Blaenau Gwent	48.2	18.7	18.7	4.4	10.0
Torfaen/Tor-faen	39.6	18.4	21.8	5.6	14.7
Monmouthshire	28.3	16.6	22.0	6.9	26.2
Newport	36.3	17.6	21.4	6.5	18.1
Cardiff	28.5	13.6	18.6	12.6	26.7
South East Wales	37.0	16.4	20.2	7.7	18.7
Source: Census of population 2001					

Despite these problems, people in the region tend not to think that they themselves are lacking in skills. Indeed those in work in the region generally believe that they have levels of skills that are above those required by employers – and people out of work think the same. There is a clear discrepancy here between the views of employers and individuals.

It is also striking that, whilst three quarters of working residents in the region believe that they are more skilled than three years ago, less than half say that they need more skills than they used to need to do their jobs – and only 44 per cent say that they currently need further training before they can do their jobs well. This tends to reinforce the impression that many people in South East Wales may have an exaggerated sense of their own skills, and an inadequate awareness of the skills that their employers need.

In these circumstances it would not be surprising to find in South East Wales strong evidence of skill shortages and skill gaps. In fact, compared with other regions of Wales, employers in South East Wales reported in the Future Skills Wales research slightly lower incidence of hard to fill vacancies, with only 13 per cent of establishments having difficulties filling positions. Nevertheless, the primary cause of hard-to-fill vacancies was a lack of suitably skilled people applying, amounting to 31 per cent of such vacancies.

Furthermore, 18 per cent of establishments in South East Wales reported a gap between the skills that employees have now and those needed to meet current business objectives. And while that might simply indicate how ambitious the objectives are, it nevertheless indicates a gap between employers' needs and employees' abilities – itself possibly a reflection of employees covering roles for which they are inadequately skilled or trained, because employers have faced difficulties recruiting people with the right skills.

The main business impact of skill shortages and skill gaps on organisational performance include a loss in the quality of service, loss of business to competition, loss of efficiency and an inability to grow the business. All of these are likely to feed off one another, and as companies adapt to the limitations of their own businesses, so they gradually accept as given the skill shortfalls of existing and potential employers. That in turn means that they come to underestimate the skills that are really needed to produce a dynamic economy, making the task of improving performance progressively more difficult to achieve.

Meanwhile, the main personal impact is a stark one: for many people, not having the necessary skills means unemployment or economic inactivity.

The skills of the economically inactive

The Basic Skills Agency study into basic skills proficiency ranked Welsh local authorities according to the proportion of the population with low literacy and numeracy skills. Of the 22 Welsh local authorities, the five authorities at the bottom of the rankings were all within South East Wales, and were spread along Heads of the Valleys. The extent of this basic skills problem in SE Wales implies that addressing basic skills deficiencies must be a key aim of both the workforce development agenda and of policies for tackling high inactivity levels.

Priority must therefore continue to be given to enhancing the skills of economically inactive people in the region, particularly in the upper Valley areas, in order to promote a more inclusive and sustainable society and to contribute to the raising of GVA levels in the regional economy. The "Want to Work" pilots, led by Job Centre Plus, are an important attempt to address individual's work-related barriers and

improve their employability skills. However, the multiple barriers of many of those classified as being inactive means that a multi-agency approach must continue to be adopted, to increase economic activity levels.

The provision of skills

There is a strong view that among the fundamental problems where skills are concerned is the ability of educational and training establishments to meet the needs of employers. A key issue here may be the ability of the establishments to respond rapidly to changes in demand. Courses take time to develop and provide, tutors and lecturers are not always available, and the establishments may well not know what is wanted in the first place.

To address this, more flexible training networks may be needed, able to provide rapid response solutions to emergent skills issues. Mechanisms must be put in place so that every employer in South East Wales can access training of the type they need, when they need it. Symmetrically, every adult should be able to acquire, not just the essential skills, such as communication, team building, problem solving and the ability to learn, to allow them to access work opportunities, but also the specific skills needed at a given time to access opportunities currently available. ELWa's National Planning and Funding System has the task of ensuring that the supply side of the skills equation can respond flexibly and quickly to skill needs in the labour market.

Sector skills agreements, workforce and management development

In October 2003, the Welsh Assembly Government, CBI, TUC and ELWa signed a Skills Concordat, in which they agreed to support and strengthen the developing network of Sector Skills Councils (SSCs) in Wales. A key element in that will be the development of Sector Skills Agreements, identifying the demand and supply of skills within sectors, together with skills gaps and recommendations as to how to tackle such gaps.

It is anticipated that the Walsh Assembly Government and other partners will sign up to these agreements, with all SSCs being covered by March 2006. but within that framework there needs to scope for identifying both sectors and issues of key importance to South East Wales.

There is also a need to develop a more integrated approach to the planning and funding of workforce development, striking a balance between individual/employer demand and the needs of the economy and in particular, key sectors. Improved quality, relevance of product and simplified processes all need to be developed.

There is a particular need to address management development issues, involving both the development of suitable occupational standards and a network of development providers. The approach needs to be flexible in meeting the changing needs of the economy and businesses, and with an emphasis on quality of provision.

7.3 RISKS

ELWa have argued that failure to achieve a fundamental realignment of skills will mean that Wales will:

- continue to be disproportionately reliant on unskilled employment in low value-added businesses

- have a stagnant labour market

- have businesses stuck in a low-skills, low-growth trap

- undervalue vocational education

- be faced by a continued skills mismatch

- be ignored by quality international investors

- lack the confidence to innovate and be entrepreneurial

- be confronted by greater income inequalities

- have an increasing number of disadvantaged communities

- face a breakdown of social cohesion

- face continued out-migration of young people threatening its economic vitality, its language and culture, particularly in rural areas

More generally, the fundamental risk is that lower rates of investment in skills in South East Wales, compared with other places, means that work opportunities will gradually be lost. In particular, there will not be the opportunity for high value added work, and jobs will gradually be adjusted down to fit the low skills of people, who will fail to invest in skills because of the poor quality of jobs being offered to them. The best individuals and companies will then seek opportunities elsewhere. To some extent this is already the situation.

A less dramatic but also important risk is that the investment will take place, but in the wrong skills. Individuals and employers alike are not always able to judge what are the best choices from a long-term perspective. The need for guidance about future as well as present skill needs is considerable.

7.4 RESPONSES

- The region needs appropriate skills to the meet the needs of the future. In particular, mechanisms including appropriate funding must be put in place so that every adult in South East Wales can acquire the essential skills, such as communication, team building, problem solving and the ability to learn, to allow them to fulfil their potential in their personal lives, their work and their communities. This will probably involve both work-place based and other forms of learning.

- People in South East Wales, both those in work and those who are economically inactive, require new and better ways to access learning. Without that they are unlikely to embrace lifelong learning, especially as the population matures. ELWa must develop a continuum of learning opportunities; improve the

flexibility and quality of those opportunities, and identify and remove barriers to participation in the opportunities.

- The region needs a range of learning networks that will be capable of adapting quickly when labour market needs are identified. The National Planning and Funding System being introduced by ELWa needs to address this, so that the supply side of the skills equation can respond flexibly and quickly to skill needs in the labour market.

- Seeking to achieve appropriate skill levels does not mean that everybody in the workforce needs to be very highly qualified. Nevertheless, as the opportunities gradually shift towards graduate level and professional level knowledge economy jobs, whether in manufacturing or in services, South East Wales does need to strengthen its position in that segment of the labour market. All partners need to embrace an objective of raising the number of graduates living or working within South East Wales.

- Fundamentally, the region itself needs to be a place that is attractive to the people whom it needs to attract and retain. This is not something that can be achieved by direct intervention, but the indirect levers are nevertheless important. In particular, it requires marketing efforts that specifically target five groups:

  - Young people in South East Wales, to encourage them to pursue higher level study

  - University students in South East Wales, to encourage them to put down roots in the region

  - University students outside Wales, to encourage them to look for job opportunities in the region

  - Potential inward investors who are able to bring graduate movers to the region

  - Indigenous local and inward investing firms, to encourage them to create graduate level jobs for local people.

- Innovative methods are needed to champion the model of the learning, thinking business so that operations can move towards higher value added activities and better use can be is made of the knowledge and skills that people in South East Wales possess and acquire.

- However, many SMEs and especially micro-businesses have little time or resources to train in the formal sense, and instead make use of informal learning that is in any case often more appropriate to their needs. And although it is desirable to encourage all businesses to increase their use of informal learning, schemes such as IiP are perceived by some businesses as being too bureaucratic, and consideration needs to be given to the needs of these smaller enterprises.

- Community and social enterprise initiatives are needed to create 'active citizens', and to increase awareness of the greater opportunities for community-based learning. This is especially important for those who are currently economically inactive. The internet can be utilised to enable people to access learning and to enable people to put themselves, their communities and businesses on the net.

- Addressing basic skills deficiencies is a key element in tackling high levels of inactivity within the region. The "Want to Work" pilots, led by Job Centre Plus, represents an important approach to reducing inactivity, by addressing a range of barriers to work and by targeting employability skills. The success of these pilots should be examined, and if appropriate extended to help tackle the high inactivity levels currently seen in many neighbourhoods in South East Wales.

- ELWa's Regional Statement of Needs and Priorities needs to identify and priorities sectors that are of particular importance to the region, and that are in need of active support. The Sector Skills Agreements agreed with the relevant sectors need to drive a partnership approach to tackling skill gaps.

- The publication in early 2005 of a comprehensive Workplace Learning Review for Wales should trigger complementary efforts by all partners to enhance workplace development. This should include within it a focus on the key issue of Basic Skills.

- A co-ordinated and more focused network of management development providers should be developed, based on the new National Occupational Standards for Management and Leadership. The development and delivery of such a network of management development provision will need to be paralleled by a marketing campaign to raise awareness and stimulate demand.

8 Society, culture & the quality of life

8.1 THE VISION

A sustainable society is one on which people are confortable with their communities and in which their talents have the opportunity to flourish. Our vision is that South east Wales will be such a place. The majority of people in South East Wales will enjoy a high quality of life, and a strong sense of community and identification with the region. The Valley communities will be strengthened by inflows of people as well as funds, the region's town centres will be more vibrant (partly thanks to improved retail offers) and the cities will be more prosperous. In particular, Cardiff will clearly be a European capital city with all the attributes of that status. Indeed, the whole region will have embraced its status as a part of the new Europe, with a population at ease with the fact that it straddles more than one culture and speaks more than one language. Many of the region's residents will be highly skilled newcomers, continuing the region's tradition as a place that welcomes migrants seeking work opportunities and a good standard of living.

8.2 ANALYSIS

Key points

- South East Wales has many different communities, and in that sense does a good job of encompassing diversity. However, the region is not as physically well connected internally as many, and as a result these communities can sometimes feel quite isolated from one another.

- Cardiff is changing its social composition quite rapidly, and has further to go in terms of developing a fully metropolitan ambiance. As it continues to make this transition, it is likely to attract people and businesses to the region.

- Parts of the Valleys experience severe social deprivation, but the communities are strong and policy measures are in place to tackle the deprivation. The challenge of bringing jobs to all members of the community remains substantial.

Cosmopolitan Cardiff

Prominent within the region is of course Cardiff – a capital city that has already benefited from major regeneration, especially at Cardiff Bay. The city has a large population, a significant university and a hectic student-led night-life, a modern Millennium cultural centre, some major museums, the most important sports stadium in the UK, and a retail offer that ranks among the top 10 in the country. The city is only two hours train journey from London, and as we noted in chapter 3 it has direct air connections to many other key cities in Europe.

Table 8.1 summarises the social structure of Cardiff and compares it with the UK average. It is apparent that compared with the UK as a whole, the city is strong in certain social types: symbols of success, urban intelligence and blue-collar enterprise.[18]

| Table 8.1 Socio-economic composition of Cardiff Uses Mosaic UK socio-economic classification system – see Appendix for details		
	Cardiff %	**Great Britain %**
Symbols of Success	14.63	10.76
Happy Families	9.67	10.12
Suburban Comfort	12.96	16.22
Ties of Community	11.6	16.5
Urban Intelligence	17.16	6.81
Welfare Borderline	4.76	5.85
Municipal Dependency	7.54	6.55
Blue Collar Enterprise	14.97	11.32
Twilight Subsistence	1.93	3.16
Grey Perspectives	4.7	7.44
Rural Isolation	0.08	5.25
Total	100	100
Source: Experian		

These three social groups have certain characteristics:

- Symbols of Success are typically people whose lives are 'successful' by whatever yardsticks society commonly uses to measure success. These are people who have rewarding careers rather than jobs, who live in sought after locations, who drive the more modern and expensive cars and who indulge in the most exotic leisure pursuits. Most, though not all, appear to enjoy stable household arrangements.

- Urban Intelligence mostly contains young and well educated people who are open to new ideas and influences. Young and single, and few encumbered with children, these people tend to be avid explorers of new ideas and fashions, cosmopolitan in their tastes and liberal in their social attitudes. Whilst eager consumers of the media and with a sophisticated understanding of brand values, they like to be treated as individuals, and value authenticity over veneer.

- Blue Collar Enterprise comprises people who, though not necessarily very well educated, are practical and enterprising in their orientation. Many of these people live in what were once council estates but where tenants have exercised their right to buy. They own their cars, provide a reliable source of labour to local employers and are streetwise consumers. Tastes are mass market rather than individualistic, and focus on providing comfort and value to family members.

As in most towns and cities, local neighbourhoods within Cardiff are often dominated by a few social groups. Figures 8.1 and 8.2 illustrate this, showing how social composition varies across the city and then looking at a particular neighbourhood with a significant concentration of a sub-category of urban intelligence type people, known as town-gown transition.

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[18] The social types are expressed using the Mosaic UK socio-demographic segmentation system, which gives a much richer picture of a place's social structure than the much simpler social grading system used by the Office of National Statistics. Mosaic UK is described in Annex 1.

Figure 8.1 - Socio-Economic Profile of Cardiff
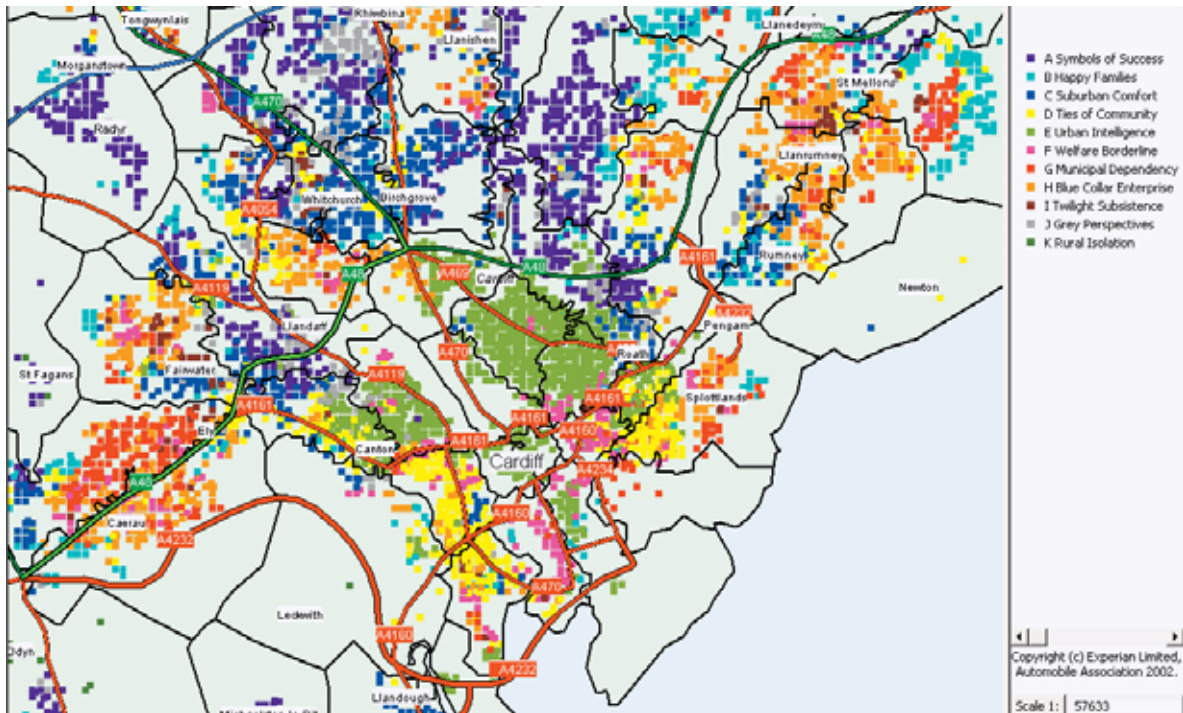
Source: Experian Ltd (2004)

Figure 8.2 - 'Town-Gown Transition' in a neighbourhood of Cardiff
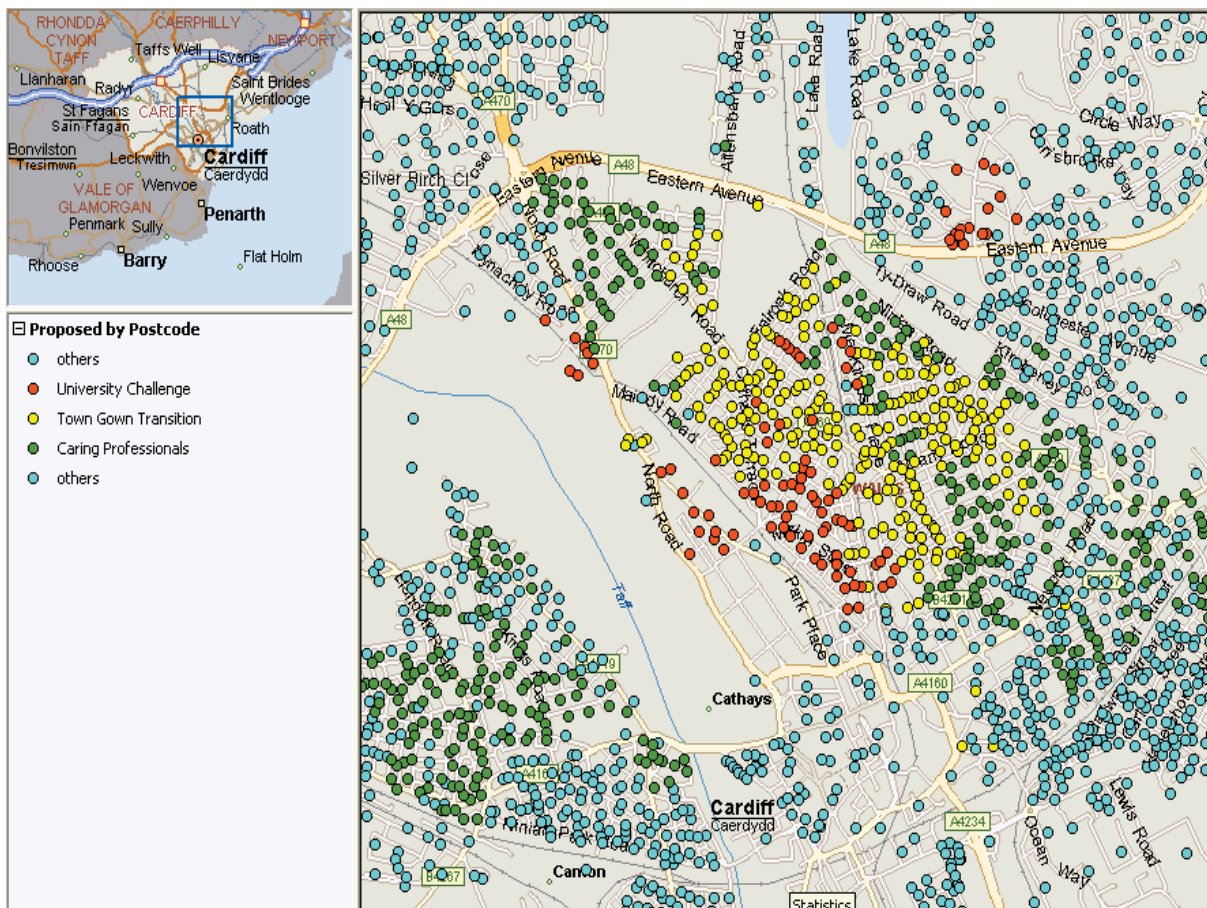
Town-grown transition neighbourhoods are areas where students and recent graduates live on the same streets, the first because 'needs must', the latter because they still desire to live that lifestyle in cosmopolitan, tolerant neighbourhoods where cheap nightlife is still on tap. As with urban intelligence neighbourhoods more generally, average education levels in these town-gown transition neighbourhoods are high, although income levels are often less so, partly because many of the residents work in the public sector. Many of these people live in single person households or in communal houses, and often have low levels of contact with their neighbours. Instead, such people form their social ties around work colleagues or fellow students, and around local sporting and leisure opportunities.

Communities of this sort potentially contribute a great deal to a city such as Cardiff, generating a sense of urban 'buzz' and intellectual excitement, and encouraging change and openness to new ideas and external influences. If this makes a city more attractive to the sort of highly educated and entrepreneurial young people who work in the new knowledge economy sectors ranging from audio-visual through ICT to business consultancy to science-based research, development and production, then there can be significant and very sustainable long-term economic benefits. Other cities in the UK and abroad are increasingly emphasising this as part of their regeneration strategies.

Encouragingly, Cardiff has potentially much further to go in this regard. Table 8.2 lists the 10 UK cities or towns that most closely resemble Cardiff in terms of social mix, and also other cities in the UK that are typically associated in people's minds with a metropolitan lifestyle. It appears that in terms of its social structure, Cardiff has a lot in common with many of London's satellite cities such as Reading, Croydon and Milton Keynes, and rather less in common with other large metropolitan cities such as Manchester, Edinburgh and Bristol. This reflects a variety of factors – the kinds of jobs that people do, their ethnicity, the kind of housing they live in, but it especially reflects the fact that Cardiff is less diverse in these aspects of life than some of the other cities that have reputations for being metropolitan. Such qualities are important in helping to attract the knowledge workers of the future and the companies that they work for –and the process of attracting them in itself tends to make a city more cosmopolitan. So the implication of this is that there is a great deal of opportunity remaining to increase further the sense of Cardiff as an exciting place to live and work.

| **Table 8.2** | | | |
| **Socio-economic structure of Cardiff and other cities compared** | | | |
Cities or London boroughs in UK that Cardiff most resembles	Degree of similarity	Other comparison cities	Degree of similarity
Reading	0.664	Leeds	0.4636
Watford	0.636	Birmingham	0.3364
Merton	0.609	Manchester	0.2727
Croydon	0.600	Bristol	0.2182
Milton Keynes	0.591	London	0.1545
Northampton	0.582	Liverpool	0.0909
Plymouth	0.555	Glasgow	0.0727
Woking	0.555	Edinburgh	-0.1091
Oxford	0.555	York	-0.2727
Hillingdon	0.536		
Source: Experian			

<table>
<thead>
<tr><th colspan="7">Table 8.3
Socio-economic composition of the Valleys</th></tr>
<tr><th></th><th>Blaenau Gwent</th><th>Caerphilly</th><th>Merthyr Tydfil</th><th>Rhondda, Cynon, Taff</th><th>Torfaen</th><th>Great Britain</th></tr>
</thead>
<tbody>
<tr><td>Symbols of Success</td><td>0.06</td><td>1.42</td><td>0.9</td><td>2.01</td><td>2.66</td><td>10.76</td></tr>
<tr><td>Happy Families</td><td>4.25</td><td>11.83</td><td>6.94</td><td>9.96</td><td>8.27</td><td>10.12</td></tr>
<tr><td>Suburban Comfort</td><td>2.51</td><td>6.93</td><td>6.27</td><td>7.68</td><td>11.23</td><td>16.22</td></tr>
<tr><td>Ties of Community</td><td>36.36</td><td>32.99</td><td>33.84</td><td>31.05</td><td>23.77</td><td>16.5</td></tr>
<tr><td>Urban Intelligence</td><td>0</td><td>0.06</td><td>0</td><td>2.23</td><td>0</td><td>6.81</td></tr>
<tr><td>Welfare Borderline</td><td>1.33</td><td>1.05</td><td>2.07</td><td>1.5</td><td>2.5</td><td>5.85</td></tr>
<tr><td>Municipal Dependency</td><td>19.22</td><td>11.75</td><td>24.51</td><td>9.79</td><td>9.65</td><td>6.55</td></tr>
<tr><td>Blue Collar Enterprise</td><td>32.64</td><td>28.62</td><td>20.68</td><td>30.54</td><td>32.11</td><td>11.32</td></tr>
<tr><td>Twilight Subsistence</td><td>3.06</td><td>3.12</td><td>2.46</td><td>2.54</td><td>4.39</td><td>3.16</td></tr>
<tr><td>Grey Perspectives</td><td>0.41</td><td>2.01</td><td>1.85</td><td>2.3</td><td>4.47</td><td>7.44</td></tr>
<tr><td>Rural Isolation</td><td>0</td><td>0.22</td><td>0.46</td><td>0.39</td><td>0.95</td><td>5.25</td></tr>
<tr><td>Total</td><td>100</td><td>100</td><td>100</td><td>100</td><td>100</td><td>100</td></tr>
<tr><td colspan="7">Source: Experian. Uses Mosaic UK socio-economic classification system – see Appendix for details</td></tr>
</tbody>
</table>

Tightly-knit Valley communities

In contrast to Cardiff, the Valleys are typically thought of as being small, tightly-knit communities where people are very conscious of their strong social and cultural ties, and where a sense of both local and national identity helps to bind people together. This is indeed reflected in the socio-economic profile of the five local authorities, which also have a lot of people in the blue-collar enterprise category, but which are heavily skewed towards the socio-economic classification: 'ties of community' – see Table 8.4.

<table>
<thead>
<tr><th colspan="2">Table 8.4
Areas in the UK most similar to Merthyr Tydfil</th></tr>
<tr><th>Local Authority District</th><th>Population Similarity</th></tr>
</thead>
<tbody>
<tr><td>Ashfield</td><td>0.982</td></tr>
<tr><td>Redcar and Cleveland</td><td>0.973</td></tr>
<tr><td>Mansfield</td><td>0.973</td></tr>
<tr><td>Blaenau Gwent</td><td>0.973</td></tr>
<tr><td>Rotherham</td><td>0.964</td></tr>
<tr><td>Easington</td><td>0.964</td></tr>
<tr><td>Wansbeck</td><td>0.964</td></tr>
<tr><td>Barnsley</td><td>0.964</td></tr>
<tr><td>Torfaen</td><td>0.955</td></tr>
<tr><td>Wigan</td><td>0.955</td></tr>
<tr><td colspan="2">Source: Experian</td></tr>
</tbody>
</table>

Across the UK, these sorts of communities are often found in big cities, but they are also associated with the towns and villages that grew up on and around coalfields, ship-yards and chemical and steel works. Such communities often score badly in terms of standard government measures of poverty such as the Index of Multiple Deprivation (IMD), health, housing and unemployment. But despite that, social cohesion and sense of community also tends to be high in these areas, with the result that crime levels are often low and people's sense of their quality of life may be relatively high. For example, evidence from the British Crime Survey indicates that in the Valleys, fear of crime is much lower than in the more cosmopolitan areas around the M4 corridor and the commuter villages of Monmouthshire – see Figure 8.4. In contrast, if health is mapped in the same way, it is clear that the tight homogenous communities of the Valleys are also associated in many cases with poor health.

Figure 8.3 - Socio-Economic Profile of the Valleys
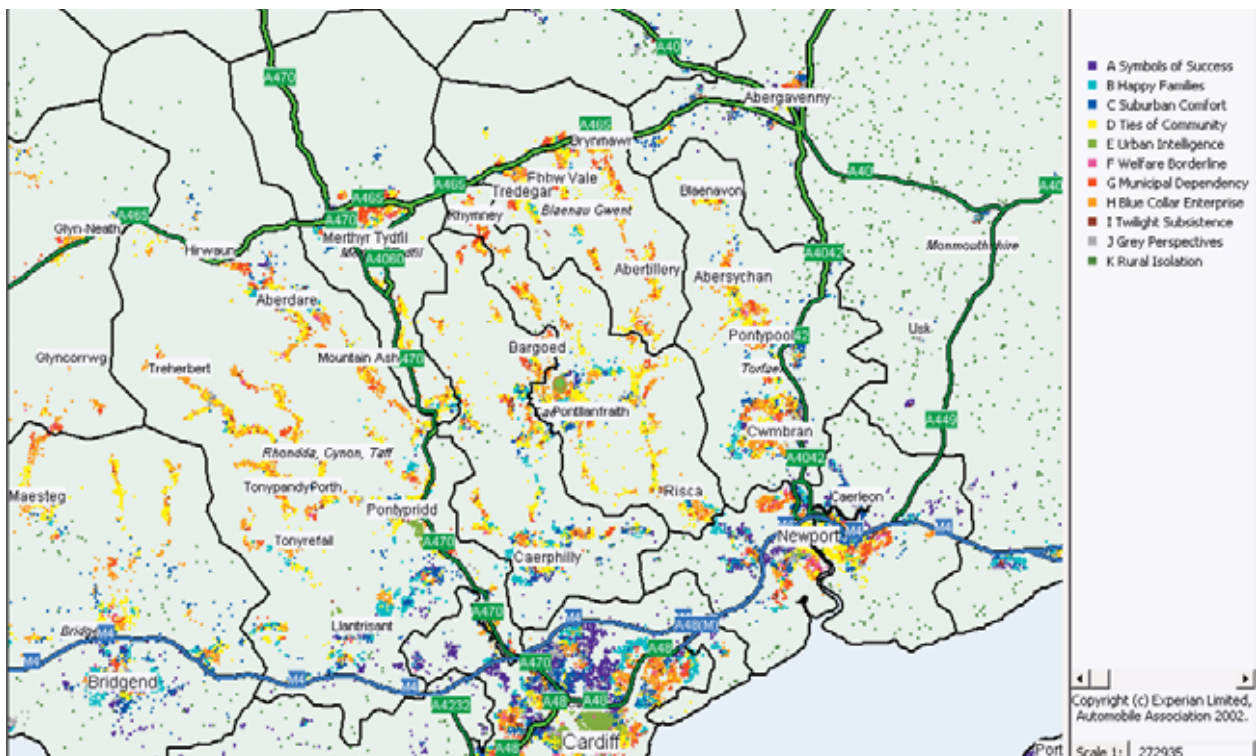
Source: Experian Ltd (2004)

We have already made the point in Chapter 2 that economic inactivity attributed by the people themselves to their poor health is very high in the valleys. The research evidence suggests that this has a lot to do with the ways in which people see themselves, the sacrifices that they are willing to make in order to find work, and their sense of relying on others to address problems for them. Accordingly, the Communities First programme has been specifically designed to get local people involved in improving their areas, as a way of helping to empower them more generally. The programme is intended to last at least a decade, and allows local people to make decisions – and see through the consequences of those decisions. It encourages creativity and risk taking, and by its very nature its success cannot be measured through quick results. It involves an integrated attempt at tackling the causes of poverty – which includes but is not at all confined to the basic matter of work availability.

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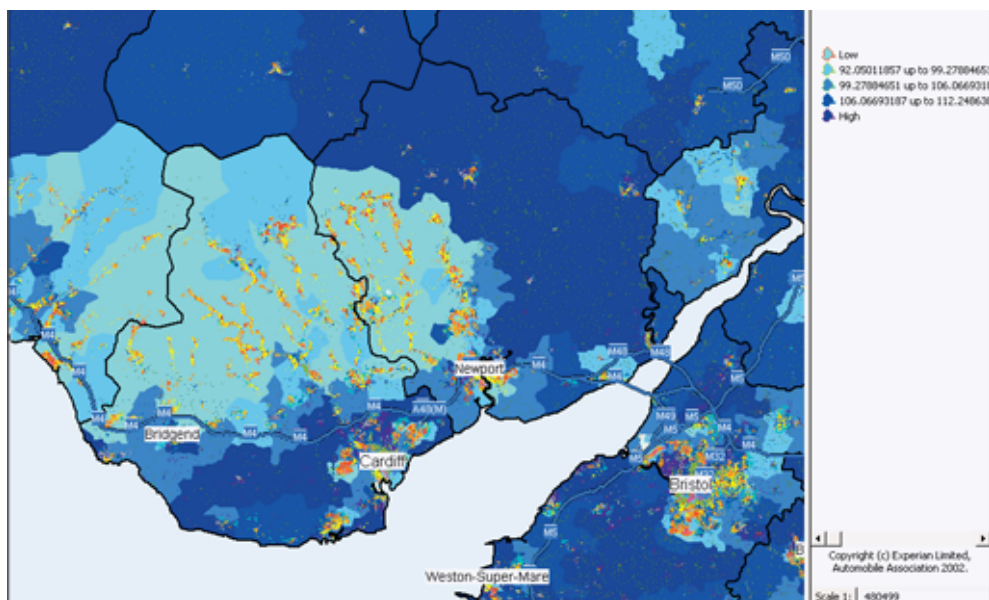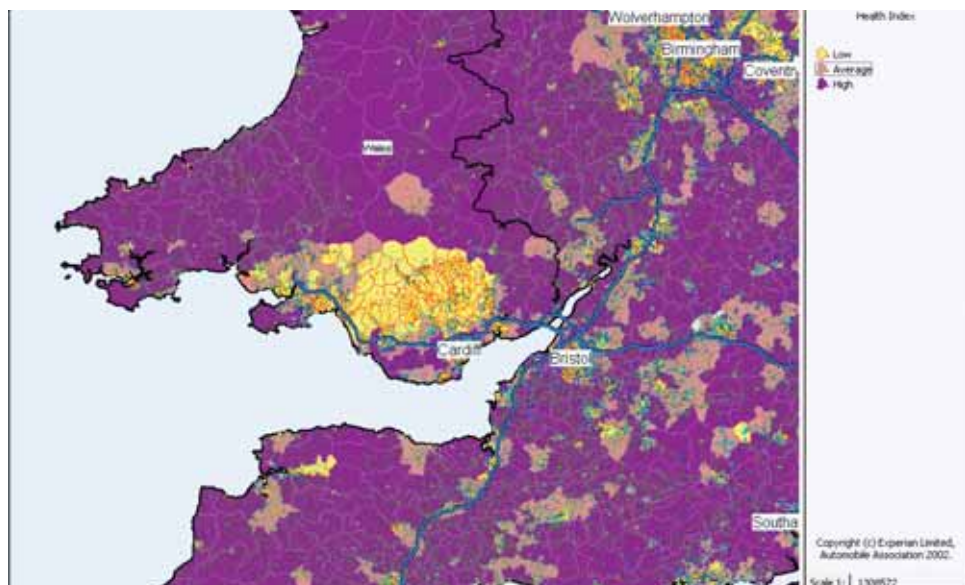**Figure 8.4 - Fear of Crime across SE Wales**

Figure 8.5 - Quality of health by neighbourhood

Source: Experian Ltd, BMRB (2004)

It is of course important to remember that the valleys are not homogenous places – each is different to its neighbour, and perhaps even more so, the lower, middle and upper parts of the valleys differ markedly in their history and current circumstances. The lower valleys in particular are generally well connected into the employment centres as well as the economies and opportunities of the coastal plain. And yet the Valleys also retain strong identities, and people who live in them are conscious of how 'special' they are. But it is also true that in socio-economic terms the Valleys are quite similar to other places within the UK. Table 8.4 indicates that these include some of the industrial towns of the north of England such as Mansfield, Wigan and Barnsley.

It is striking that not only are some of these towns the recipients of major regeneration initiatives, but that the approaches being adopted are in some cases quite radical. For example, the architect Will Allsop has produced a Masterplan to reinvent Barnsley (a former coal-mining town, not unlike the Valley communities) as a medieval walled town – a close-knit community which would act as a focus for the surrounding area and an innovative and daring place for people to move to.

The Barnsley plan is significant, not for its details but for its ambition, and its refusal to believe that a legacy of deprivation (Barnsley is among the 20 most deprived places in the UK) prohibits an ambitious response. There is no reason why the Valleys should not be equally ambitious. We have already discussed in Chapter 4 the importance of creating Internet based communities that 'map onto' the real world communities of the Valleys, but there is a challenge for local people and those who make and implement policies to also engage in thinking up wholly new visions of what their communities could look like in ten or twenty years time.

One particularly challenging – and potentially exciting – issue for some of the Valley communities is the quality of the housing stock. This varies from distinctive vernacular housing of fundamentally high quality to some poor quality twentieth century housing that is associated with some of the health problems of the valleys and that detracts from the aesthetics of the local environment. In the short term, Housing Stock Transfer is likely to create opportunities for refurbishment (with associated gains in terms of the local construction skills base). But at the strategic level, serious consideration needs to be given to the long term sustainability of the poorer housing within the valleys, and to increasing the opportunities for the construction of new (and typically larger) stock for potential new migrants into the communities. Indeed the very communities themselves can usefully be refreshed, by ambitious housing-led regeneration.

Newport, Bridgend, Vale of Glamorgan & Monmouthshire

Of the other parts of the region, Bridgend, Newport and the Vale of Glamorgan have broadly comparable economic histories centred around manufacturing, and have broadly based local communities that are fairly similar to the UK as a whole – see Table 8.5. The main exception is that the Vale of Glamorgan has a lot of high income households in the Symbols of Success socio-economic classification, largely comprising highly qualified people who travel into the local cities for work.

| Table 8.5 Socio-economic composition of Newport, Bridgend, Vale of Glamorgan & Monmouthshire Uses Mosaic UK socio-economic classification system – see Appendix for details					
	Newport	Bridgend	Vale of Glamorgan	Monmouthshire	Great Britain
A Symbols of Success	9.09	6.55	18.06	13.35	10.76
B Happy Families	10.05	13.20	13.99	12.20	10.12
C Suburban Comfort	17.43	13.98	18.95	13.63	16.22
D Ties of Community	22.25	25.52	16.15	9.07	16.5
E Urban Intelligence	0.94	0.00	1.69	0.55	6.81
F Welfare Borderline	3.46	1.10	1.87	1.82	5.85
G Municipal Dependency	11.93	6.54	4.93	2.07	6.55
H Blue Collar Enterprise	15.38	22.57	11.29	11.66	11.32
I Twilight Subsistence	3.64	1.79	3.48	4.60	3.16
J Grey Perspectives	4.39	7.47	7.17	11.34	7.44
K Rural Isolation	1.45	1.28	2.43	19.71	5.25
Total	100.00	100.00	100.00	100.00	100.00
Source: Experian.					

Monmouthshire is, however, clearly very different. It has strong representations from symbols of success, but also members of two other socio-economic classifications:

- Grey Perspectives consists mostly of pensioners who own their homes and who have some source of income beyond the basic state pension. Many of these people have, on retirement, moved to the countryside to live among people similar to themselves – though they often have quite active lifestyles.

- Rural Isolation contains people whose pattern of living is distinctively rural. They live not just outside major population centres but also deep in the countryside, in small communities which have been little influenced by the influx of urban commuters. These are places where people with different levels of income share attachments to local communities, and where engagement with the community and with the natural environment are more important to most residents than material consumption.

Other neighbourhoods in Monmouthshire can be characterised as 'Greenbelt Guardians' in which people working on the land live next door to professionals who, in between commuting to London, Bristol, Hereford, Birmingham or Cardiff may, well be increasingly working at home. Local interests tend to be very important here, and levels of church attendance are noticeably higher than in more urban areas. Although different in terms of income, these areas are similar to parts of the valleys in the sense that local engagement is high, and knowledge of neighbours good. These are areas where neighbourhood-watch schemes flourish.

Figure 8.7 - Socio-Economic Profile: Monmouthshire
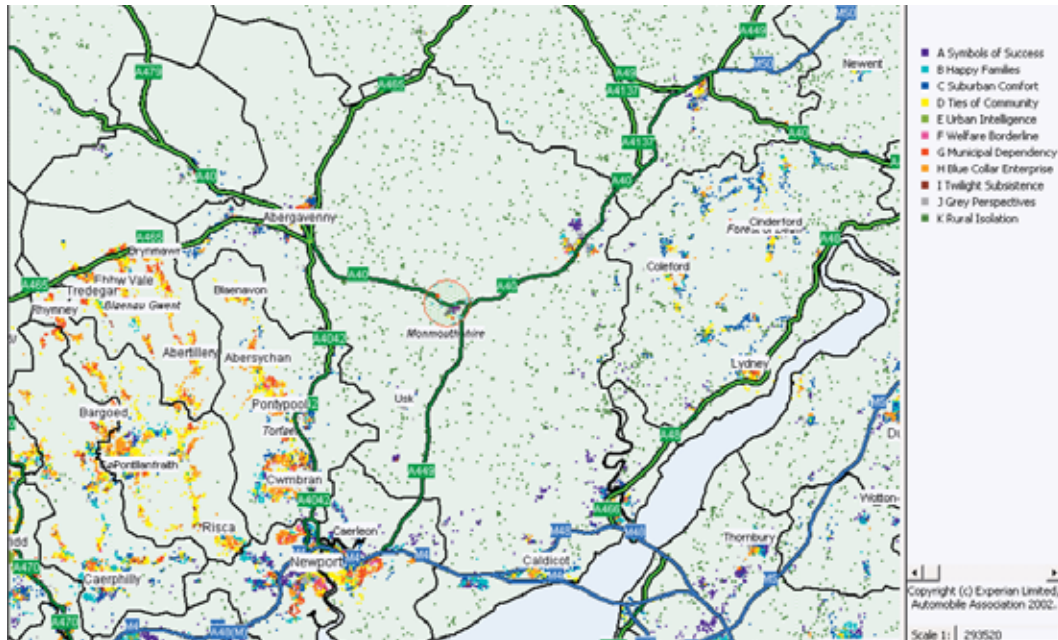
Source: Experian Ltd (2004)

In general the maturing of the UK's population is associated with an increased interest in adopting rural or – more accurately – semi-rural lifestyles. This is taking place hand-in-hand with the revival among young people of city centre living. South East Wales has much to offer in this regard, and from a long term perspective there is the possibility of fostering inward migration into a wide range of locations within the region.

A place to live, a place to visit

The region has key assets of huge strategic significance. Prime among these is the quality of the landscape, notably the Valleys and the access that they provide to the Brecon Beacons. Associated with that are the opportunities afforded for active outdoor leisure, including watersports. These combine with the city-centre urban offer of Cardiff, and the very different urban offers of some of the small towns and villages, whether in the valleys, in Monmouthshire or in the coastal plain. Indeed, some of the small ports and traditional seaside resorts such as Porthcawl and Barry have a great deal to offer the region, given suitable investments.

All of this, combined with quick access to South East England and by air to European centres, means that the quality of life issues and tourism sector in the region, can justifiably feature at the heart of the regional strategy.

Attracting a new breed of visitors to Capital Wales will depend heavily on the retail experience that people are offered. Even the most determined hill walkers usually enjoy an afternoon spent strolling around interesting shops! In this regard, the region has some gains to be made. Table 8.6 gives an indication of the capacity across some of the key retail centres in South East Wales, by looking at them in terms of their catchment population, the retail spend that they generate and the make-up of the shops there.[19] As befits its status as a capital city, Cardiff is of course by far the most dominant retail centre in the region and indeed in Wales. Even so, weak investment in recent years compared with some other UK cities has

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[19] The data are taken from the Experian Retail Centre Ranking. Similar calculations could be performed for the other retail centres in the region, which are not currently part of the standard ranking.

seen the city decline slightly in the UK hierarchy, from 6th in the 2003 Experian Retail Centre Ranking to 8th in 2004.

	Catchment Population	Annual Retail Spend £ m	Average Spend £	Number of Outlets	% Multiples	% Convenience	% Vacant

Table 8.6
Quality of the retail offer, selected centres in South East Wales

	Catchment Population	Annual Retail Spend £ m	Average Spend £	Number of Outlets	% Multiples	% Convenience	% Vacant
Abergavenny	41,384	165.8	4,006	300	46.4	10.1	3.4
Bridgend	86,235	323.1	3,747	380	47.1	11.0	10.9
Caerphilly	23,878	90. 0	3,770	209	58.3	24.4	2.8
Cardiff	722,222	2,651.3	3,671	882	62.0	2.5	6.8
Merthyr	129,965	444.2	3,418	300	42.9	9.2	5.1
Cwmbran	35,249	121.7	3,453	195	61.5	11.2	14.8
Newport	307,559	1,129.8	3,673	644	50.4	6.5	7.1
Pontypridd	110,701	373.9	3,377	276	36.9	7.9	10.5

Source: Experian.

Fortunately, the £315m St David's 2 development will redress a number of the deficiencies in Cardiff's retail proposition, namely the lack of a top class department store (John Lewis will be opening probably in 2008), few large-scale 'flagship' stores from other high street names, and a somewhat dated shopping environment. As well as consolidating Cardiff's position in the top 10 centres, the new scheme will give fresh impetus to Cardiff as a retail centre.

There is some concern that Newport's retail centre could be hard hit by Cardiff's renaissance, given its proximity and easy rail and motorway access to the capital. Leakage levels are likely to increase. At the same time Bristol is also witnessing large-scale investment, and this may well affect the inflow of consumers from the geographic region to the east of Newport (places such Caerleon, Caldicot and Chepstow), many of whom may increasingly cross the Severn Bridge to do their main comparison shopping. Pitching Newport as a more attractive complementary shopping centre, rather than trying to compete head-on with Cardiff and Bristol as a destination, is likely to prove a more effective 'fight back' strategy. This indeed is part of wider efforts to improve the quality of the built environment and the 'feel' of the city for residents and visitors alike that is currently being progressed by the council and the Urban Regeneration Company – Newport Unlimited.

Similar retail problems face Bridgend, sited as it is virtually equidistant between Cardiff and Swansea and on the fringes of both their catchment areas. The Swansea shopping offer has been subject to neglect for several years, but represents a good opportunity for retail-led regeneration. This would provide a significant threat to Bridgend, which could thereby suffer a double blow, particularly as it sits next to the M4, with easy access to either centre. Already Bridgend has high levels of vacant retail space.

This, therefore, emphasises the importance to South East Wales of policies to promote town centres across the region. Urban design needs to be used to make small scale an asset, rather than a problem. Of the other centres shown in the table, Caerphilly is the smallest. Although it sits within the boundaries of Cardiff's catchment area and will undoubtedly suffer further trade diversion as the capital is redeveloped, Caerphilly appears a small, self-supporting district centre, with the emphasis more on convenience than destination shopping.
Although some distance from the capital, Merthyr still sits within the northern reaches of Cardiff's catchment area and seems less susceptible to the larger

Pontypridd which shoppers by-pass on train and car journeys down to Cardiff (spending in Pontypridd, relative to the size of the catchment area, is particularly low).[20] These two centres, along with Barry and Abergavenny, face strategic questions over whether to continue trying to appeal to a large catchment area or to specialise in the local convenience and, as it develops, tourist speciality markets. Cwmbran faces similar a similar future but from a difficult starting point: it has very high levels of vacant property.

Apart from retailing, other aspects of the visitor offer also need to be upgraded, notably the range of over-night accommodation, pubs restaurants, cafes and tea-shops. Cardiff scores highly in terms of student pubs, less so in terms of places for young professionals to gather; and in the Valleys there is a self-reinforcing spiral in which lack of facilities deters visitors which means that investment does not occur in the facilities. The best way to tackle this latter issue is area by area, and such an approach can be made part of the larger strategy to rethink the kind of places that the valleys are and can become. Serious consideration therefore needs to be given to gradually but systematically raising all aspects of the living and tourism offers that the Valleys make.

As part of this, the implementation of the Valleys regional park idea should gradually help to achieve a transformation in the way in which people perceive South East Wales. The regional park would bring together the notion that the valleys themselves are a huge resource for residents and visitors alike, offering opportunities for healthy outdoor activities close to existing local communities and within easy public and private transport access to larger urban areas. The valleys need to become iconic in a positive way – the backdrop to the excitement of Cardiff Bay, and the gateways to the Welsh mountains.

Building & marketing the region: creating Capital Wales

Evidence from across Europe shows that the existence of a clear identity is helpful to a region. Such an identity comes about partly through branding and marketing. In that context, the Capital Wales name can and should be used to attract new people and businesses to the region, and also to remind those who already live and work in the region just what it is that makes South East Wales special.

Real identities do not, however, come from marketing alone: they need to be built from within. The basic building block for this is support for local communities. All of the local authorities within South East Wales are strongly conscious of the importance of community building. The same is true for national organisations, so that the WDA for example describes the regeneration of communities as part of its 'core business'. It has a Community Regeneration Policy in place, and offers a 'tool kit' of business support and capital programmes covering property provision, land reclamation and environmental improvements, to go alongside local capacity building and other forms of 'soft' assistance.

If South East Wales is to change in terms of economic prosperity and economic opportunities, then that is bound to carry with it social change. This may imply some costs in terms of weakening social ties. Rather than forsaking the opportunities, however, it is important to buttress the policies that promote economic expansion with other policies that promote citizenship; and with resources for community building.

The issue which most clearly must be tackled by the range of policies that will sit within the strategic framework is that of long term divorce from the work – a problem

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[20] The catchment area used here is based on information about actual shopper flows. Thus it takes account of the fact that, for example, Cardiff residents are not realistically part of the Pontypridd catchment area.

which for some people within the region can be manifested in second or even third generation permanent joblessness. This is partly a matter of providing opportunities through attracting in new jobs or encouraging local job creation, and it is also about equipping people with the skills that they need. All of these have been discussed in earlier chapters. But it is also about tackling the sense of inertia that can result from being subject to long term joblessness.

Policies that encourage migration of people – and especially graduates and other highly skilled workers – into South East Wales may help to promote the development of the region, through bringing in new skill sets and new ideas, that can feed through to people already living and working within the region. New people would change the 'feel' of the region and bring new employers in their wake – and through their spending power they would also create jobs for local residents.

Table 8.7 shows Census data on the migration of people into South East Wales from the rest of Wales and from England. It shows that in the year until the 2001 Census, approximately 4,700 people moved from the rest of Wales to live in South East Wales and over 18,000 moved from South East England. In both cases these were slightly larger than the number of people who moved out of South East Wales, so that the region was a net gainer of people.

However, as the table also shows, the picture is a little different when only adults in employment are taken into consideration. The tendency for the region to gain people from the rest of Wales is still apparent, but the flow of people in work to the rest of England is much larger than in the opposite direction. This possibly reflects a strong tendency for the number of students who are educated in the region and who then get work in England to be rather larger than the number of English educated students who move to the region to get work. It may therefore give a more revealing indication of how the region is performing in terms of the key young 'knowledge economy workers.

Table 8.7 Migration into and out of South East Wales 2000 to 2001		
	All people	**Adults in work**
Gross flows from valleys to coastal	3798	1907
Gross flows from coastal to valleys	3551	1881
Net flows from valleys to coastal	247	26
Gross flows from rest of Wales to South-East Wales	4720	1927
Gross flows from South-East Wales to rest of Wales	4299	1672
Net flows from rest of Wales to South-East Wales	421	255
Gross flows from England to South-East Wales	18433	7070
Gross flows from South East Wales to England	17894	9233
Net flows from England to South-East Wales	539	-2163
Source: 2001 Census		

The table also shows flows from the valleys to and from the coastal plain within the region. This shows that the number of people who leave the valleys to live on the coastal plain is partly offset by people flowing in the opposite direction. Although on the surface a very encouraging result, it should be remembered that many of these people may be moving quite short distances across local authority boundaries (and this is true too for the figures flowing into an out of the region overall).

As a related point, there may be value in celebrating the existing social diversity that exists within South East Wales, and offering a positive message about the region's willingness to embrace different cultures and lifestyles. The region is often thought of as being socially very homogenous, and for those who value a modern metropolitan lifestyle, this can be a deterrent. But a number of small but vibrant ethnic minority communities already exist within the region, and their contribution can be reflected in the way in which the region is portrayed, both to potential visitors and to people who might want to move to the region in search of a positive and satisfying lifestyle.

Indeed, if South East Wales is to achieve its full economic potential, then the issue of ethnic and local identity needs to be seen as one of the region's key strengths. The reality is that almost all of the region's communities are built at least in part on migration – people who moved to the area to work in the mines, the steel industry, the docks, and so on. Monmouthshire today has its own migrant community of relatively well office people choosing it as an excellent place to live, while the work in Birmingham, Newport, Cardiff, Bristol or wherever.

There is a tradition in Wales of comparing itself specifically with England. In the twenty-first century Wales has the opportunity to adopt a new perspective, in which the old relationship with England is replaced with a new positive relationship with Europe. Such reorientations have happened in Scotland and especially Ireland and have been hugely beneficial in economic development terms. Wales needs to change the way in which it sees itself, and its capital region needs to take the lead.

In many ways the people of the region are archetypes for the new Europe: frequently bilingual and mixing elements of one national cultural identity with another. Apparently ethnically homogenous, South East Wales has actually been created by migration. These are traits to be celebrated. Given the fundamental importance of connectivity to the region's future, South East Wales should identify itself as a region which leads the European debate on how to maintain traditional cultural ties while enjoying the new opportunities that the European project offers.

So Cardiff, for example, should certainly build on its achievement with the Millennium Centre, and the nearby development in Torfaen of Blaenavon as a World Heritage site, and should become home to other major cultural and creative attractions. *Wales, a Better Country*, raises the possibility of both a National Gallery for Welsh Art and a National Digital Gallery for visual arts (though it does not specifically imply that they should be in Cardiff). But other ideas could also be considered, especially those that emphasise the idea of Wales as a nation within Europe, and Cardiff as the capital of that European nation.

One example might be a European museum of ethnicity, migration and community – a place that visitors from across Europe could visit, and where they could see their own cultural identities explained and celebrated. A new gallery on the people of Wales is planned further for the Museum of Welsh Life whilst Cardiff is already exploring the feasibility of a museum focusing more locally on the city's communities and migrants, while the Herian project is seeking to develop awareness of the Welsh cultural heritage, and so this idea is in part an extension of those initiatives.

Another similar idea would be for Cardiff to become home to a graduate school of European languages and literature, with students and established researchers visiting from across the continent to study and to teach. Cardiff University already has a highly rated European Studies department, so here too there is a foundation on which to build. As with the idea of a museum of European ethnicity, migration and community, the aim would be to emphasise the notion of Cardiff as a European capital city, rather than a UK regional city, and to significantly strengthen awareness of Cardiff across Europe.

In the same spirit, the sense of the city as a seat of government needs to be enhanced – through architecture, through ceremonies, and through festivals. The new National Assembly Wales debating chamber will be an important help in this regard, and the 2005 celebrations of Cardiff's 100 years as a city and 50 years as a national capital should provide excellent opportunities for furthering the process. But more generally, just as a regional events strategy is needed with regard to one-off sport, music and theatrical occasions, so an annual calendar of key occasions should be developed, so that residents can celebrate together the place in which they live.

The regeneration of Cardiff Bay clearly creates the opportunity to shift perceptions about Capital Wales, not just at a UK level but also on the European stage. But one of the problems of the city and the region has been the lack of a variety of iconic buildings, vistas, skylines or other symbols that can be easily associated with Capital Wales. The building of the Wales Millennium Centre and the new Welsh Assembly debating chamber will begin to address this issue. While trophy architecture on its own rarely achieves anything, it is nevertheless vital that as part of the future development of Cardiff Bay and indeed of Cardiff generally, the highest standards of architecture and urban design are maintained.

The region also has a strong musical heritage, exemplified by the Welsh National Opera but also by a host of other organisations, traditions and individuals, and it clearly has a strong sporting heritage. The sporting heritage is already being built on: the PGA tournament and in 2010 the Ryder Cup will allow South East Wales to position itself via a golf tourism strategy as an important centre of golfing, in addition to being one of the world's leading centres for rugby. However, consideration should be given to other ways to enhance and embed music and sport in the region's identity. For example:

- The new graduate schools of music and sport should be significantly developed; centred in Cardiff but with extensive linkages across the region, to create a strong sense of these as living traditions and sources of energy, not just nostalgia.

- The business opportunities created by music and sport should also be exploited, with Cardiff emerging, for example, as a centre of excellence in the law of intellectual property rights, and an excellent location for businesses keen to develop products and services for the fitness market.

In a related move, consideration needs to be given to how the Millennium Stadium can meet the challenge of the new Wembley stadium – possibly by modifications that will increase its versatility and allow it to be subdivided for smaller events. Related to that, a regional events strategy is needed, embracing for example Chepstow races and the Cwmcarn mountain bike trails, as well as events at the Millennium Stadium and elsewhere.

More generally, one of the growth sectors for the future is going to be knowledge intensive business services. The people who work in this sector tend to have lifestyles and value systems that are tuned into metropolitan living – and they need to meet one another a lot, both formally and informally, in order to prosper. This means that Cardiff really has to shine as a location for such firms and the people who work for them. Cardiff needs to have extremely high quality office space, a strong cultural offer, access to excellent housing (water-side lofts and valley retreats) and a population of young working graduates if it is to play its full role within the region. And although the global conference market is already highly competitive, strong consideration is needed into the possibility of developing additional new conference facilities in the city.

8.3   RISKS

- The main risks are to the Valley communities. Some of these already suffer from deep-rooted divorce from the world of work. In many ways it is sensible for the most able community members to improve their lives by moving away – but that leaves the communities that remain even more vulnerable, not just in terms of economic viability, but also in terms of psychological ties. Fundamentally these communities need again to go through a process of renewal. And that requires an openness to outsiders that is itself a threat – not least through its impact on the housing market. The management of this transition is one of the largest challenges now facing the region.

8.4   RESPONSES

- This strategic framework provides an analytical base from which each of the cities and districts of South East Wales can think about how their local communities and economies might look in ten years time. However, the cities and districts also need to be radical and ambitious, and should not be afraid to consider possible futures, twenty years out, which are very different to what has gone before. The purpose of such exercises would be to generate ideas which, developed and refined over a period of time, could form the basis for the next iteration of regional strategic thinking.

- More immediately, the Communities First programmes should be the backbones of most of the interventions that take place with regard to addressing social deprivation within the region. This is because a key task is capacity building, at both the community and the individual level. And progress needs to be judged from a long-term perspective.

- High rates of inactivity at the local level amongst working age adults, wherever they occur across the region, need to be tackled. The Communities First programmes are vitally important in this regard, but all partners need to examine ways in which they can replicate elsewhere the principles of Communities First, and buttress the schemes in the places where they apply.

- Particular attention needs to be given to the scope for encouraging social Enterprises, as a way of helping to build active communities and reduce economic inactivity.

- Serious attention needs to be given to the town centres of the region and whether ways can be found to improve their retail (and also leisure) offer. While Cardiff and other large centres will be a major focus of retail activity, investment in other centres can help to keep them viable, conferring broader gains on local communities.

- For Cardiff itself, and for the region as a whole, high ambitions need to be set with regard to creating the kind of place where highly skilled and sought-after knowledge workers wish to live. A range of cultural facilities and events need to be examined and the most interesting should be actioned. That will go hand in hand with improving the region's visitor offer. A key ingredient here is to adopt a self-image for the region which places it at the heart of twenty-first century Europe, comfortable with diverse languages and cultures, and open to outside influences.

- The Capital Wales brand needs to be promoted across and beyond the region. This is important, partly as a marketing device to attract people to visit and live in the region and to encourage inward investment, but also as a way of reminding those who live and work in South East Wales that the region is special – a place to be proud of. Partners concerned with community building, inward investment and tourism all need to continue to work together to find ways in which their marketing and capacity building efforts can reinforce one another under the Capital Wales brand.

9. Strategic capability

9.1 VISION

Helped by the implementation of this strategic framework, South East Wales will become within 10 years a region with a clear sense of its own identity, and a strong sense of pride, not just about the past but about the present and future too. Those who make and implement policy in South East Wales will work together across a very broad range of issues to their mutual benefit; will enable others to understand the strategic importance of the region for Wales as a whole; and will lead the national debate on issues of critical importance to South East Wales.

9.2 ANALYSIS

Key points

- There is no doubt that South East Wales is a genuine economic entity. While there is considerable diversity across the component parts, the extent to which people travel within the region to work and to shop, and the fact that most small businesses serve the regional rather than a larger market, testify to that.

- That assessment is reinforced by geography which, on at least two sides, sets natural boundaries to the region.

- What is rather more in doubt is whether the region currently has an optimal structure for the development and delivery of a regional-wide development strategy.

- At present there is no regional level body with an integrated responsibility for policy formation and delivery across a range of inter-connected issues.

- Fragmentation is the hallmark of the administrative structure. There are ten authorities responsible for a population of some one and half million. These vary significantly in delivery capacity, reflecting a large variation in size from over 300,000 residents to less than 60,000.

- It is very encouraging that the potential disadvantages of the current administrative structure have already been recognised and that various forms of joint working, varying in degree of formality, have been adopted for transport, housing and aspects of economic development. These initiatives are beneficial, but fall well short of an integrated regional view.

The policy-making structure in South East Wales

Administratively South East Wales comprises 10 unitary authorities with populations varying from well over 300,000 for Cardiff down to less than 60,000 for Merthyr Tydfil. This is in the context of a total population of approximately one and a half million. Much of the responsibility for economic development across the region is thus fragmented, residing with the 10 unitary authorities, some of which lack the capacity to make strategic level changes. The authorities also sometimes find themselves in competition with one another.

The Welsh Assembly Government has considerable power to develop and implement policy across a wide range of issues including education and training, highways and transport, housing, industry, planning and economic development itself. These all have significant impact on the evolution of the economy.

Currently the three national bodies within Wales that have responsibility for aspects of economic development are:

- The Welsh Development Agency also has a key role in stimulating the growth of business in Wales, attracting world-class companies to invest in the country and working with local communities to encourage prosperity.

- The National Council for ELWa and the Higher Education Funding Council for Wales are responsible for policy, funding and commissioning post-16 education and training provision.

- The Wales Tourist Board which is concerned with promoting tourism in Wales, and with devising and advocating the policies necessary to achieve that aim.

The Welsh Assembly Government announced in July 2004 that all three bodies would be "merged" into the assembly. This is a step of considerable importance to the region, not least because an important feature of the working of these three national organisations has been that they all view South East Wales as a region, using common boundaries as defined by the 10 unitary authorities. In many other aspects of Welsh life there is ambiguity as to how the region is defined. For example, none of the health, police, or fire authority boundaries are coterminous with the area covered by the South East Wales Economic Forum.

The reorganisation therefore draws attention to the need to strengthen in people's minds the Forum's understanding of how the region is, and should be, defined. And at a deeper level, it is a reminder that strategic issues that are not addressed at the regional level are likely to be dealt with nationally. The need to articulate the region's strategic importance to Wales as a whole is therefore increasingly large.

Figure 9.1 - South East Wales Administrative Boundaries
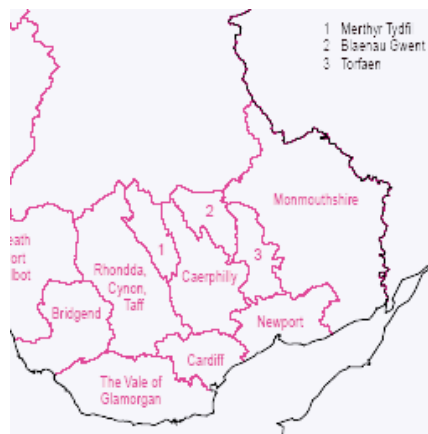
While diversity in many dimensions runs deep, there is a clear recognition that the strength of transactional exchange between the component parts, and the ripple effects of local policies on the wider canvass, both mean that south East Wales is a meaningful region. This therefore creates a challenge: to find ways to think and act strategically for South East Wales as a whole.

South East Wales already exhibits many examples of partnership working, which cross the boundaries of its bedrock administrative units – the unitary authorities. These include successful spatial partnerships such as the "Five Counties" as well as thematic, Partnerships.   However, it is clear that the next decade is likely to reinforce the interdependence between the component parts. For instance, at the basic level of housing and its relationship to place of employment, trends are already under way that have implications across the region:

- One of the effects of increasing affluence is the ability to exercise choice over the area of residence, frequently producing longer commuting patterns across and beyond the region, with a move from urbanised to more rural localities.

- Likewise, growing affluence and rising property prices induce movement away from urban areas in the search for more affordable, larger properties in lower priced areas. Again the consequence is greater movement through the region.

Such trends have consequences in terms of household demands on the infrastructure, which can affect the competitive position for businesses and which clearly raise both investment and sustainability issues for the region as a whole. In these circumstances, the repercussions of spatial and economic development decisions taken in one part of the region clearly impact on the whole region, and increasingly so with the greater movement of people and goods.

Joining up policy making in South East Wales

There tend to be two key dimensions to the successful implantation of economic development aspirations – widespread ownership of a collective vision and an effective delivery mechanism. In developing this framework the South East Wales Economic Forum has already started the process of engagement. But no matter how solid the overall commitment to a shared view is, success in attaining the overall goal and individual policy elements depends crucially on there being appropriate delivery mechanisms that:

- work effectively towards the goal

- are able to deal with the inevitable trade offs between policies and localities.

On this score the position in South East Wales is complex, involving a multiplicity of players and interwoven strands. The primary duty of the 10 unitary authorities is toward their constituents and therefore their key focus is within their boundaries. The Welsh Assembly Government, and the national bodies that are soon to become integrated into the assembly tend to think in national terms, of which South East Wales is a logical sub division. Their deployment is along policy axes, though there is a deepening recognition of the need for a more effective regional focus.

The limitations of this approach have been appreciated in that there are collaborative groupings of varying degrees of formality dealing with topics such as transport, planning, housing, waste management and aspects of economic development such as inward investment across the region. Such exchanges perform a vital role in bringing cohesion to South East Wales. However, there is a danger that they may sometimes be restricted by reconciling policy views formed at a lower level of geography, rather than a broader vision of the needs of the region as a whole. Addressing this has already been an important issue with regard to the emerging Wales Spatial Plan.[21]

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[21] The development of this strategic economic framework has taken place alongside work on the Spatial Plan. All parties have sought to ensure consistency between the two. In particular, this strategy does not seek to offer explicit spatial guidance, which is the proper domain of the Spatial Plan.

Regional identity – Capital Wales

It is equally important that South East Wales plays its part in the wider policy-making community. This matters hugely for the region. For example, if connectivity is to be improved by improving rail links to other parts of the UK (see Chapter 4 below), then the arguments will need to be put to the various rail authorities and train operators in London, just as much as in Cardiff. Thus the region needs to speak with a single voice, articulating views that are well-thought out and that go well beyond what any individual authority or agency could propound.

Speaking with a single voice also matters for Wales. Capital Wales represents half of the national economy and contains many of its greatest assets – not least in terms of knowledge capital. A prosperous South East Wales will create opportunities for Wales as a whole, and Wales cannot prosper if its economically most important region is not providing leadership in terms of the drivers of economic success. This point needs to be articulated by the region's spokespeople.

Both of these fit alongside the continued development of an overt and agreed identity or 'brand' for the region, that can be articulated by all partners. This should build on the Capital Wales brand already agreed for the external marketing of the region. At present there is strong pride in the past, and there is strong local pride in South East Wales, but little sense of what the region's future might be.

9.3 RISKS

The key risk is that South East Wales may not be able to fulfil its economic potential over the next decade.

- South East Wales is in competition with rival regions in Europe and elsewhere. Many of these already have well developed regional mechanisms, able to deliver coherent plans for their regions. Others are catching up. The Northern Corridor, covering much of northern England, is a particular challenge, while the Sustainable Communities plans for parts of southern England such as Stansted-Cambridge and Milton Keynes- Lower Midlands also present large challenges to South East Wales.

- Sustainability requires joined-up policy making. For example, the allocation of employment land and housing allocations can induce additional car travel, particularly if individual authorities take decisions in isolation.

- In the absence of a focal point, it is hard for region-wide thinking to assert itself. Fundamentally, however, either the local partners need to make strategic decisions jointly, or such decisions are likely to be made on the region's behalf by national government.

- And by the same token, external potential stakeholders in the regional economy may be deterred, and Welsh, UK and EU policies may not be shaped to fit the needs of South East Wales.

9.4 RESPONSES

All those in leadership roles within the region need to share the task of speaking on behalf of the region, Capital Wales – articulating those views that are shared across South East Wales, and building a sense of South East Wales as a 'player' at the national and European levels.

The South East Wales Economic Forum should, in collaboration with other relevant bodies, actively seek more integrated and effective decision making policy structures, and should consider the advantages and disadvantages of a possible move towards more regional delivery solutions. The proposed move of the WDA, ELWa and the Wales Tourist Board into the Welsh Assembly Government will be a key contextual factor to bear in mind in that debate. In addition the development of sub-regional spatial strategies, e.g. Heads of Valleys, could be encouraged where they help drive forward the regional agenda.

Clearly any changes that might be decided upon within the region could only be founded on a collective will to change. Any change would need strong advocacy, and sensitivity toward the numerous stakeholders, but would probably offer scope to capitalise on the region's assets more fully. The region needs to consider how it can work together to better access resources, and thereby facilitate the delivery of the strategy.

Since significant change, even if it occurs, will take time, there is a clear need for the present collaborative arrangements to continue and, based on the recommendations of this strategic framework, embrace a strong regional perspective.

An essential aim of any national or regional strategy should be to ensure consistency between spatial planning, housing, educational planning, transport and economic development in the region. Cross-cutting linkages by policy area are as important as linkages across geographical boundaries. Such arrangements could usefully be developed.

Appendix - Mosaic overview

Mosaic UK classifies all UK consumers into 61 distinct lifestyle types and 11 groups, which comprehensively describe their socio-economic and socio-cultural behaviour. Over the last 20 years, we have built over 40 segmentation solutions worldwide. This gives us a unique insight into the best sources of data and methodologies to build truly innovative segmentation. To build Mosaic UK, we took a four-stage approach:

• A detailed analysis of societal trends in the United Kingdom.

• Identification of the most appropriate data sources as inputs.

• A sophisticated proprietary approach to clustering unique to Experian.

• Fieldwork and market research to assist in validation and interpretation of the segmentation.

DATA COMPONENTS

Quantitative data

As the UK's largest originators and owners of consumer data, we are in an unrivalled position to draw upon the best mix of data to develop and maintain our segmentation. Over 400 data variables have been used to build Mosaic UK. These have been selected as inputs to the classification on the basis of their volume, quality, consistency and sustainability. To be input into the classification, the data must meet one or more of the following criteria:

• Allows identification and description of consumer segments that are not necessarily distinguished solely by the use of Census data.

• Ensures accuracy of the Mosaic code by either postcode or household address.

• Is updated annually to ensure change is monitored.

• Improves discrimination and allows for the identification of a wide range of consumer behaviours.

54 per cent of the data used to build Mosaic UK is sourced from the 2001 Census. The remaining 46 per cent is derived from our Consumer Segmentation Database, which provides coverage of all of the UK's 44 million residents and 23 million households. It includes our edited Electoral Roll, Lifestyle Survey information, and Consumer Credit activity, alongside the Post Office Address File, Shareholders Register, House Price and Council Tax information and ONS local area statistics. All of this information is updated annually and used to replenish our view of the classification each year.

Qualitative research

A programme of fieldwork and observational research covering the whole of the UK supports Experian's quantitative data. This validates the accuracy of Mosaic UK on the ground, and allows us to build a rich picture of the socio-cultural diversity of the nation's neighbourhoods.

We employ a number of the UK's leading experts in the fields of consumer psychology, human geography and economics to interpret the classification and provide a detailed understanding of the behaviour of each of the Mosaic groups and types. The research also includes links to a number of authoritative sources of media and market research, which build on our understanding of UK consumers. These include BMRB's Target Group Index (TGI), the British Crime Survey, MORI's Financial Research, Family Expenditure Survey (FES), Forrester's Technographics and Internet User Monitor, and Experian Lifestyle data.

Clustering

Mosaic UK is designed to identify groupings of consumer behaviour for households and postcodes. The methodology we use is unique to Experian, and has been refined during many years of creating classifications using data from different sources and different levels of geography.

The first step is to gather data for all residents and households in the country. This data is then combined with information from other higher levels of geography including postcode and Census Output Areas. All the input variables go through a selection process where they are tested for discrimination, robustness and their correlation to other variables.

Once the final list of variables is selected, a set of input weights is applied as part of the clustering process. The result is a list of variables that have differing importance to the clustering methodology, depending on how well they discriminate at differing levels of geography. This 'bottom-up' approach enables us to maximise the effectiveness of each input variable depending on its relative importance to the classification, and its ability to discriminate.

PIE CHART AND CLUSTERING VARIABLES
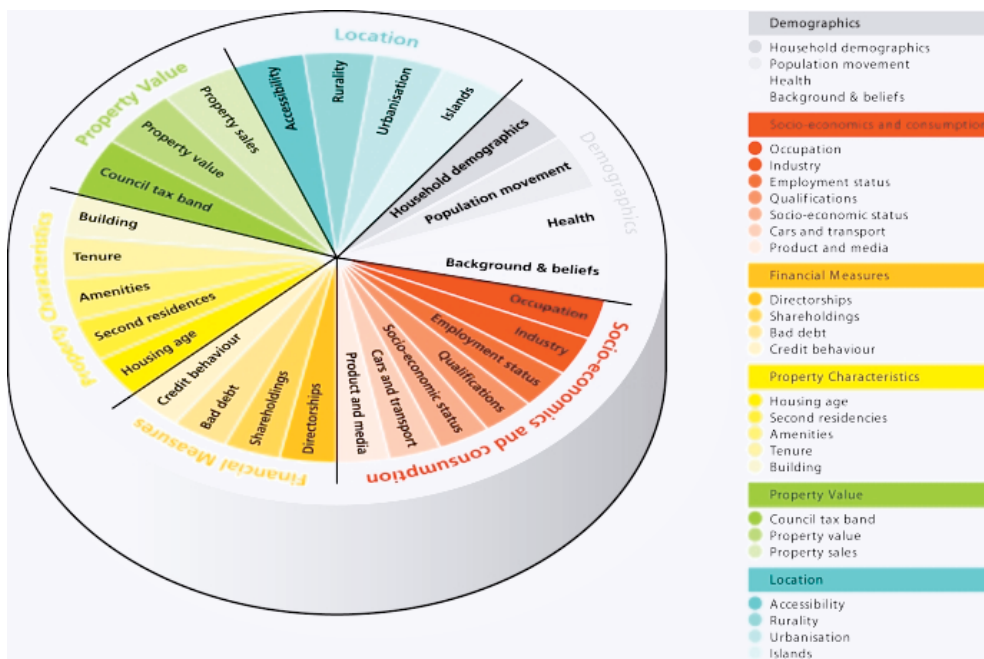
Mosaic UK Group Descriptions

Group A: Symbols of Success

Sociology and Environment

Summary

Symbols of Success contains people whose lives are 'successful' by whatever yardsticks society commonly uses to measure success. These are people who have rewarding careers rather than jobs, who live in sought after locations, who drive the more modern and expensive cars and who indulge in the most exotic leisure pursuits. Most, though not all, appear to enjoy stable household arrangements.

Demography

Most of these people have worthwhile professional or technical qualifications, and are now well set in their careers. Their incomes have now risen deep into upper income tax ranges. Some work for large corporations in senior management positions, some now command respected roles in professional practices. Others own successful enterprises that they have built up with their own commercial acumen.

Group B: Happy Families

Sociology and Environment

Summary

Happy Families contains people whose focus is on career, home and family. These are mostly younger age groups who are married, or at least in a permanent relationship, and are now raising children in post war family houses, often in areas of the country with rapidly growing populations. The focus of expenditure is on equipment for the home and garden, and the immediate family unit is the principal focus of leisure activities.

Demography

Happy Families is a group of people, most of whom have acquired some worthwhile vocational or professional skills, that have enabled them to secure positions within large organisations, whether in the private or the public sector, which provide the prospect of future career advancement. Whilst not all of the people in this Group are necessarily particularly well paid today, most of them can look forward to regular promotions or to increases in grade within agreed salary scales in future years. Most of them are working in secure positions, and many of them benefit from fringe emoluments such as a company car or an occupational pension scheme.

Group C: Suburban Comfort

Sociology and Environment

Summary

Suburban Comfort comprises people who have successfully established themselves and their families in comfortable homes in mature suburbs. Children are becoming more independent, work is becoming less of a challenge and interest payments on homes and other loans are becoming less burdensome. With more time and money on their hands, people can relax and focus on activities that they find intrinsically rewarding.

Demography

Suburban Comfort is a group of people who live in inter war suburbs and who work mostly in intermediate level, white-collar occupations. Typically sales representatives, hospital administrators, independent building and decorating contractors or senior secretaries in important legal practices - the types of occupation that demand practical, inter personal skills rather than high level conceptual or analytical thinking. These people are predominantly married, rather than single or co-habiting, and are well set in their careers and beginning to plan for approaching retirement. Most have or have had children. Some children may still be at secondary school or at university while others may now be financially independent and starting families of their own. Often from humble backgrounds, these are typically people who have worked hard and planned carefully to realise their ambition of owning a pleasant house in a respected suburb of their town.

Group D: Ties of Community

Sociology and Environment

Summary

Ties of Community is comprised of people whose lives are mostly played out within the confines of close knit communities. Living mostly in older houses in inner city neighbourhoods or in small industrial towns, most of these people own their homes, drive their own cars and hold down responsible jobs. Community norms rather than individual material ambitions shape the pattern of most residents' consumption.

Demography

Neighbourhoods *of Ties of Community* are very old established communities that have, by tradition, relied on manual rather than white-collar jobs for employment. As a result, in past generations, relatively few children have been motivated to stay on at school to obtain technical qualifications and the labour force has little to offer employers other than craft skills, many of which are no longer suited to contemporary production methods. Such communities are ones where people have traditionally married at an early age and where people, on account of the work in docks and mines, have been able to command high wages at quite an early stage in their lives. This pattern has made it possible for many young people to afford mortgages on terraced houses that are generally cheap in these areas. Today *Ties of Community* contains a younger than average population, with many young married couples and co-habiting partners bringing up young children benefiting from the social support networks of rather old fashioned communities, where friends and relations seldom live far away.

Group E: Urban Intelligence

Sociology and Environment

Summary

Urban Intelligence mostly contains young and well educated people who are open to new ideas and influences. Young and single, and few encumbered with children, these people tend to be avid explorers of new ideas and fashions, cosmopolitan in their tastes and liberal in their social attitudes. Whilst eager consumers of the media and with a sophisticated understanding of brand values, they like to be treated as individuals, and value authenticity over veneer.

Demography

Education is important to *Urban Intelligence*. Many are still in further education, while others are making the transition from full time student to full time worker. Many in full time employment are eager to further develop their level of 'human capital'. This is a culture in which work involves intellectual rather than merely inter-personal or manual competences.

While most may enjoy casual or transitory relationships, they do not feel ready to make permanent commitments, whether to important 'others', to professions or to specific employers. For this reason, many prefer to occupy themselves with a mix of study and part time work, and to live in rented flats which they often share with people in similar circumstances. This flux creates neighbourhoods that are highly transient, resulting in a level of mobility that makes it difficult for older established residents to sustain the networks that give identity to the community.

Group F: Welfare Borderline

Sociology and Environment

Summary

Welfare Borderline is comprised of many people who are struggling to achieve the material and personal rewards that are assumed to be open to all in an affluent society. Few hold down rewarding or well paying jobs and, as a result, most rely on the council for their accommodation, on public transport to get around and on state benefits to fund even the bare essentials. The lack of stability in many family formations undermines social networks and leads to high levels of anti social behaviour among local children.

Demography

Welfare Borderline contains people on very low incomes who are mostly housed by local authorities in small flats, either in high rise towers or in large mid rise developments. This Group is most common in West Central Scotland, which has a tradition of housing families with children in mid rise and high rise blocks but is also common in inner London where the high price of land has encouraged councils to build flats rather than houses.

Group G: Municipal Dependency

Sociology and Environment

Summary

Municipal Dependency mostly contains families on lower incomes who live on large municipal council estates where few of the tenants have exercised their right to buy. Often isolated in the outer suburbs of large provincial cities, *Municipal Dependency* is characterised as much by low aspirations as by low incomes. Here people watch a lot of television and buy trusted mainstream brands from shops that focus on price rather than range or service.

Demography

Municipal Dependency is a group of people who, on account of their low incomes, participate only at the margins of the modern consumer society. Living mostly in large cities, they lack the income to be able to afford their own homes and have relied on the council to house them, typically on large, low rise estates far from the centre of the city. A key feature of these people is that they feel cut off, both in a physical sense from workplaces, shops and places where the community gathers for sports or entertainment, but also in a social sense from many of the opportunities and lifestyles which they see advertised on the television.

Group H: Blue Collar Enterprise

Sociology and Environment

Summary

Blue Collar Enterprise comprises people who, though not necessarily very well educated, are practical and enterprising in their orientation. Many of these people live in what were once council estates but where tenants have exercised their right to buy. They own their cars, provide a reliable source of labour to local employers and are streetwise consumers. Tastes are mass market rather than individualistic and focus on providing comfort and value to family members.

Demography

Blue Collar Enterprise is a group of people whose lifestyles have improved in recent years. The policy of selling council houses to their tenants has allowed them to acquire their own homes at very affordable prices. The growth of car ownership has put them within commuting reach of jobs that they would previously have been unable to consider. The liberalisation of the economy has rewarded them with a culture of high wages and incentives, provided they are able to deliver reliability to their employer. The decline in unemployment has put them in a seller's market if their homes are in more prosperous regions of the country. It is people in *Blue Collar Enterprise* in particular who have seen their incomes and their standards of living improve in recent time.

Group I: Twilight Subsistence

Sociology and Environment

Summary

Twilight Subsistence consists of elderly people who are mostly reliant on state benefits, and live in housing designed by local authorities and housing associations. Some live in old people's homes or sheltered accommodation, while others live in small bungalows, set in small enclaves within larger council estates. Most of these people spend money only on the basic necessities of life.

Demography

Twilight Subsistence is a group of people who have reached the later stages of previously independent lives and now require the support of housing and social services departments. For some of these people it may make sense for them to move from the family accommodation that they rented whilst they were bringing up their children to smaller, one storey accommodation on the same council estate. Others may have lived in walk up flats whose stairs they can no longer manage. Others, perhaps on account of the loss of a partner or the onset of physical disability may require some form of sheltered accommodation, where they can benefit from the care of a resident warden. For some the decline in their faculties may require them to move to a fully supported nursing home.

Group J: Grey Perspectives

Sociology and Environment

Summary

Grey Perspectives consists mostly of pensioners who own their homes and who have some source of income beyond the basic state pension. Many of these people have, on retirement, moved to the seaside or the countryside to live among people similar to themselves. Today many of these people have quite active lifestyles and are considered in their purchasing decisions.

Demography

Grey Perspectives is a group of people who are mostly retired but are nonetheless independent enough to own and run their own homes and to maintain their financial independence. On their retirement, people may have decided to sell their suburban homes and to relocate to a coastal resort or to a pleasant heritage town or rural village, where they now enjoy the company of other people in similar circumstances and with similar values to their own. Creating their own subculture, they often create an environment that doesn't suit the needs of partying singles or of young children who want to play in streets and gardens. This results in the formation of elderly neighbourhoods from which younger age groups retreat to more distant locations.

Group K: Rural Isolation

Sociology and Environment

Summary

Rural Isolation contains people whose pattern of living is distinctively rural. They live not just outside major population centres but also deep in the countryside, in small communities which have been little influenced by the influx of urban commuters. These are places where people with different levels of income share attachments to local communities, and where engagement with the community and with the natural environment are more important to most residents than material consumption.

Demography

Rural Isolation is distinctive in its belief in the superiority of a rural way of life.

Most people live deep in the countryside, not just surrounded by open farmland but way beyond the reach of all but the most dedicated long distance commuter. People live in houses whose unique individual designs reflect the individual personality of country people, in villages which have yet to accrete small 'estates' built to a common style at a particular time. Some live in nucleated villages whose focus will be the parish church and whose history may extend back to early medieval periods, other in the isolated cottages more characteristic of the western and Celtic areas of the country.

Some live in farmhouses surrounded by barns, silos and tractors by means of which they manage their large farmland. Today, though farming is still the mainstay of the local economy, more residents are increasingly employed in non farm occupations, for example in the small businesses that support the tourist industry. Incomes in these rural areas vary considerably, with wealthy landowners living close by postmen or people responsible for maintaining the roads.

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