

Written Evidence for Enterprise & Business Committee – 8 October 2014

Introduction

The purpose of this paper is to set out written evidence on Welsh Government Economic Priority Sectors for the Enterprise and Business Committee.

As part of its approach to economic development, the Department for Economy, Science and Transport support is focussed on Economic Priority Sectors which are key to the economy of Wales. This approach complements wider interventions both within the Department and across the Welsh Government to encourage jobs and growth.

The Role and Remit of the Sector Panels

Six Sector Panels were established under the Economic Renewal Programme of Welsh Government in 2011, namely, Advanced Materials & Manufacturing, Financial & Professional Services, Creative, Energy & Environment, ICT and Life Sciences. In 2012, Tourism and Construction Sectors were added. The Sector Panel's role is to provide advice to Welsh Ministers and to lead the Sector teams focusing on job creation and driving economic growth.

Sector Panels develop specific strategies for individual sectors taking account of the opportunities and threats emerging from the economic cycle.

Sector Panels are able to advise on a wide range of government issues from sector specific enterprise zones to business collaboration hubs, city regions and business rates.

Strategies, Action Plans and Delivery for the Sectors

Strategic priorities for the Sectors are outlined in the Sectors Delivery Plan published on the Welsh Government website. The Plan outlines the opportunities and challenges, as well as the short, medium and long-term strategic priorities. The Sectors provide regular updates on performance against strategic priorities, which are published on the Welsh Government website.

The Plan and Sector performance updates can be accessed through the following link: <http://wales.gov.uk/topics/businessandconomy/sector/?lang=en>

On 18 September, we published an annual report on priority sector statistics, which includes data on Gross Value Added, employee jobs, hourly earnings by gender, employment by qualification level and some local authority estimates. The report can be accessed through the following link:

<http://wales.gov.uk/statistics-and-research/priority-sector-statistics/?lang=en>

In 2013/14 Sectors and Business supported 37,058 jobs across Wales which represented a 65% increase on the previous year when compared on a like for like basis. The forward pipeline of future job creation projects is strong and suggests this level of real achievement is sustainable.

Resource Allocation to Support Sectors

The Sector and Business published budget for 2014/15 is £51m Revenue and £83.1m Capital. In addition to funding sector specific job creation projects, this

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budget also funds support functions which apply across all sectors including Science and Innovation, Legacy SIF, R&D, A4B, Entrepreneurship, Trade, Property, Access to Finance (including Finance Wales) and digital support.

Funding is allocated to individual job creation projects using a risk assessment underpinned by value for money principles.

A key part of each project appraisal involves “fit with sector panel strategy” and takes account of indirect job benefits for the economy including support for the Wales supply chain.

Progress / Opportunities and Threats

Advanced Materials and Manufacturing (AM&M)

Since inception, the panel has challenged the repayable aspect of finance in both capital and innovation projects and challenged the sector budget levels. The panel, has lobbied for a suite of Skills interventions with adequate funding. Furthermore, a direct recommendation was made to amalgamate the key Government supported-forums in AM&M (Aerospace, Automotive and Electronics and Software trade bodies) as a single AM&M industry-representative entity.

Enterprise Zones

Over 3,200 jobs have been supported in the AM&M aligned Enterprise Zones. With growth in key sub sectors such as Automotive, Aerospace, Rail and Space, the AM&M aligned Enterprise Zones offer Wales the opportunity to capture some of this growth through expansion of existing companies and targeted inward investment opportunities. The sector sees as a priority, the promotion of the Enterprise Zones as a key part of the AM&M UK and overseas trade programme collateral. This includes prioritising the Enterprise Zones as suitable locations for AM&M capacity building projects and in discussions with potential inward investors.

Opportunities and Threats

There are significant opportunities that exist in exploiting the strengths in Wales’ automotive and aerospace sectors and developing and growing capability in Rail and other AM&M high grow segments. The key sub sectors in AM&M have proved to be particularly resilient to a global recession and are well positioned to benefit from forecasted future growth.

The key threats to the sustainability of the AM&M sector include the cost of energy, availability of materials, cuts in UK Government spending e.g. defence and globalisation (with increased competition not only through costs but scale and technology from many global economies) resulting in off-shoring and lost FDI. Further threats are present in the form of emergent, disruptive technologies such as composites and Additive Layer Manufacturing and the risk of Welsh business underinvestment to respond to these challenges.

Construction

In its second term, the panel focused specifically on delivery. It also provided advice on a number of regulatory and legislative changes which were, and are, likely to

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affect the sector, concentrating on the manner in which the interests of business and economic growth would be best served.

The panel was instrumental in the establishment of the pilot Construction Sector Development Fund, aimed at assisting SMEs in the sector, and the Construction Futures Wales programme, in partnership with the Construction Industry Training Board (CITB) in Wales.

In pursuing its focus on delivery, and with a view to seeking a wider view from the industry, during the early part of 2014, the panel arranged a number of events at which selected key representatives of the Construction and associated sectors were able to engage with the Panel. The panel found this process invaluable in helping to shape its forward strategy on how to support the sector.

Opportunities and Threats

The pipeline of projects available to Welsh companies, including those highlighted in the Wales Infrastructure Investment Plan, is considerable. For example, the new prison at Wrexham; the new build of a power station and associated infrastructure at Wylfa; the development of the rail network both within Wales and beyond; and major expenditure on the motorway and trunk road network. The panel is active in seeking to bring forward support which will enable the Welsh supply chain to be equipped to deliver to these projects. There is also a need to perpetuate the commitment to promoting BIM (Building Information Modelling).

Whilst the introduction of several major infrastructure projects is a clear opportunity for the sector in Wales, it can also be considered a potential threat. This is in terms of ensuring that the workforce has the required skills, and that Welsh companies have the ability and capacity to access the relevant supply chains to ensure the economic benefits are maximised. The sector's Construction Futures Wales programme will be a key business support intervention to assist the sector in this regard.

The Enterprise Zone on Anglesey is a significant opportunity for the sector in terms of the construction of energy projects, including the significant investment opportunity the nuclear new build represents. The sector has already provided financial assistance to a local company on Anglesey. DU Construction is expanding, building a new operational centre and investing in new plant to be in a position to maximise opportunities from the Wylfa Newydd development and other projects on the island. The £470,000 investment, which was supported by £210,000 from the Economic Growth Fund, will create twenty new jobs within the Zone.

Creative Industries

Since the Panel's inception, the Creative Industries Sector Team has helped create or safeguard over 2,900 jobs and to attract more than £105m investment into Wales.

The team has supported Welsh creative businesses in a variety of subsectors, including drama series *Hinterland*, and two series of prime-time BBC fantasy drama *Atlantis*. Besides home-grown successes, we are also attracting international investment into Wales, targeting high-end TV drama, TV and film co-production, and digital media. International projects successfully secured include three series of

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high-end TV drama *Da Vinci's Demons* and investments in digital media jobs by OysterWorld Games, Sorenson Media and Newsquest.

58 projects have been supported through the Digital Development Fund, launched in 2011 to support the development and exploitation of new digital products and services. Wales Screen, our film and TV locations service, has assisted over 950 production enquiries since 2010, including *Snow White and the Huntsman*, *Pride*, *Doctor Who*, *Casualty* and *Stella*. Our MEDIA Antenna Wales service helped Welsh companies to secure over €2.5m in grants from the EU's MEDIA programme (2007-2013). The sector team now operates Wales' Creative Europe Desk, which replaces MEDIA Antenna Wales under this new programme.

In February this year, the Welsh Government announced an exclusive deal with Pinewood Shepperton to create a world-class new studio, Pinewood Studio Wales which will form part of Pinewood's global network of film studios. Alongside this a £30m commercial Media Investment Budget is being made available for qualifying film and high-end television production.

Opportunities and Threats

The west-coast of the USA remains a primary target market for both trade and investment. Our activity in the US and elsewhere is now being supported by our collaboration with Pinewood, who are promoting Wales and the Welsh creative industries offer through their overseas offices.

With the expansion in the sector, we are now focused on improving the pipeline of skilled people entering the industry. In the Creative Industries, the costs of entering markets are uniquely low and new businesses and business models are born daily. But good ideas can be overtaken by better ones and markets quickly won can be lost just as quickly. New skills are needed all the time and sometimes more quickly than our education system and training provision can match.

The risk profile of government support may be higher than we are used to. The absence of sufficient venture capital in Wales places more of the responsibility for early-stage funding on the government than in other industries. The Welsh Government has adopted new and appropriate strategies to make sure that there is a proper balance between the needs of the sector and the need to ensure proper accountability for public money.

Energy and Environment

Since the Panel's inception in 2011, the economic and political climate has changed significantly; in particular perceived risk has increased. However the panel have reaffirmed that Money, Grid and Consent are the primary enablers for investment. As such the focus of the panel and Energy & Environment team has been on creating the right business environment in which projects can flourish.

Progress has been made and Wales is 'home to a thriving, well balanced and growing Energy & Environment sector' (Innovas Report ¹). RWE Innogy's flagship Gwynt y Mor offshore wind farm, one of the largest in Europe, has led to further

¹ [Energy & Environment Mapping Study - Executive Summary](#)

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development at Port of Mostyn and more than £70m of contracts being awarded to Welsh companies.

Enterprise Zones

The Nuclear sector will present significant opportunities for Welsh businesses across the whole economy which will not just be limited to activity in Wales or new build. Wales has significant nuclear experience and this will place Welsh businesses in a position to compete in UK, EU and global markets. In addition the Trawsfynydd Options Assessment has helped to define a clearer strategic direction and further work is now being undertaken on de-risking the site for low carbon energy use.

With two marine demonstration zones off the Welsh coast being recently announced, we continue to work with key stakeholders to maximise the economic benefits from investment in the marine sector, e.g. Deltastream.

Opportunities and Threats

The market for renewable energy in Wales has notably increased over the last three years, particularly in comparison with England. With the sector acting as an enabler, particularly for Construction and Advanced Materials & Manufacturing, as large scale projects are brought forward further opportunities will be created, in particular the construction of low carbon buildings for both the domestic and commercial market.

The cost of energy remains a concern particularly for energy intensive industries, and the Energy & Environment team is working with the sector to providing tailored flexible packages of support.

Financial and Professional Services

Since inception, offers of funding from the sector has secured contractual commitment to the creation of over 1,600 new jobs and safeguarding of a further 800 jobs. Furthermore, the Welsh Government has been assisting businesses in the Sector who have created more than 5,800 further Wales-based jobs.

The Panel has been: scoping and delivering a number of training, educational and apprenticeship programmes; helping to develop a digital internet exchange (IXP) in Cardiff leading to Wales and the Cardiff Capital Region being labelled as one of the UK's growing Fintech (financial technology) hubs by UKTI and the Financial Services Organisation; honing the Sector proposition to position Wales as the best hub for F&PS businesses outside of London. TheCityUK and the Chartered Institute of Securities and Investments (CISI) have both firmly designated Cardiff as one of the UK's core regional financial centres outside of London.

The panel have been working with the Whitehall Industry Group (WIG) on the promotion of Wales to the UK Government as the location for both Direct and Outsourced service delivery to the public sector. WIG is planning two Wales-focussed events to help with this, one in London in autumn 2014 and another in Wales in January 2015.

They have been assisting the legal sector in Wales as it faces unprecedented challenges arising from the Legal Services Act 2007 and the reduction in the Legal Aid budget. Working with The Law Society Wales, the Welsh Government is

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supporting research into the changing legal landscape and assisting legal firms with a series of seminars across Wales.

The panel has also had ongoing substantial involvement in the creation of Finance Wales' new funds, including the £20m Wales Capital Growth Fund and the £7.5m Wales Technology Seed Fund, both launched in April 2014.

Enterprise Zones

The Sector has been supporting the development of the Central Cardiff Enterprise Zone, which has seen major developments including construction of Grade A office space, the opening of Pellet Street footbridge to link the Capital Quarter office development site with the city centre and the announcement that most of the Zone is to benefit from EU Assisted Area status.

Opportunities and Threats

Wales, led by the Cardiff Capital Region with the Enterprise Zone at its heart, presents a compelling opportunity for businesses to locate and thrive. As knowledge of our offer grows more and more businesses will see Wales as a natural location for consideration for their location strategies. This will also be aided by the improving economic conditions as we emerge from the recession. The new Sector Panel, which will be announced shortly, will add further impetus to our visibility.

Competition for jobs in the UK is fierce and many other regions work hard at communicating their advantages and enhancing their offer. Welsh Government is focussed on continuing to enhance the offer on the ground in Wales, building on the successful work already undertaken in creating new assisted areas in Wales and catalysing commercial property development in the Capital.

ICT

The ICT sector in Wales spans electronics, software and services, with a healthy mix of large multi-nationals and home grown SMEs. This is supported by an active research community in its universities and strong academic / business links such as the Institute of Life Science in Swansea.

The sector strategy sets out 'priority areas' such as: Exploitation of Welsh ICT assets; Greater collaboration between ICT suppliers & users; Driving an increase in R&D and innovation; with 'underpinning themes': Education & skills; International; and Support for SMEs and start-ups. Significant progress has been made in a number of areas.

The Welsh ICT sector has received good support from the Sector Team guided by its Sector Panel. This has helped to create, safeguard and / or assist more than 3,600 high end jobs and attract more than over £26m investment to Wales since inception. Businesses supported by the sector team include General Dynamics, IQE, Airbus Space & Defence, Sony, Alert Logic, CGI and Trusted Data Solutions.

The ICT Sector Panel and Team jointly shaped and delivered the highly acclaimed Digital 2014 event. This well attended event created new business opportunities, engaged young people and served as a showcase for the industry in Wales. On the back of this success in June 2014 the team launched 'Digital Tuesdays', a monthly

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networking event for the industry which has already built an active community of more than 300 people.

The ICT Sector Panel and Team have influenced wider Welsh Government policy through engagement with the Department for Education & Skills and the subsequent launch of an innovative, joint 'Digital Pathways' programme to raise skill levels in the sector.

Opportunities and Threats

The Sector is focussed on the following areas as both opportunities and threats to the development of the ICT sector in Wales:

- keeping pace with the rapid development in digital technologies and the significant associated market opportunities;
- the decline in the number of companies and people employed in the ICT sector since 2002;
- the need to raise and improve the international profile of the Welsh ICT sector; and
- the need to address the increasing shortage of qualified, time-served ICT professionals across all sectors in Wales.

Life Sciences

The Life Sciences Sector Panel strategy, based on the following four interlocking elements, is facilitating the growth of a dynamic life science ecosystem in Wales:

- The establishment of a Life Science Investment Fund;
- The establishment of Life Sciences Hub to provide a physical focus for Life Sciences in Wales;
- Stepping up international activity and raising our profile; and
- Developing a vibrant Life Sciences ecosystem with international reach

Since its establishment in 2013, the Wales Life Sciences Investment Fund has made five investments to date. These investments have attracted considerable levels of co-investment into Wales and have also significantly raised the global profile of the sector in Wales as a thriving location for Life Sciences companies.

Since its opening in July 2014, the Life Sciences Hub Wales, a national and international focal point for the Life Sciences and Healthcare sectors in Wales, is already presenting significant opportunities to the sector.

As well as global companies such as GE Healthcare and Siemens, which are already based in Wales, multinationals, such as Eli Lilly and Johnson & Johnson Innovation, have recognised the benefit in engaging with Life Sciences in Wales and have signed up to the Hub in order to be part of the growth plans for the sector.

In addition, the opening of the Welsh Wound Innovation Centre in September 2014, on the back of Panel advice and support, further cements Wales' growing reputation in the field of regenerative medicine. The existence of this facility has already secured two international inward investments in recent months.

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BioWales, the signature event for the sector in Wales continues to grow, attracting 350 attendees in 2011, 500 attendees in 2012 and 550 in 2013. BioWales 2014 further excelled on all targets, attracting 650 delegates and hosting over 1000 partnering meetings.

Opportunities and Threats

Opportunities for the Sector include:

- Life Sciences Hub Wales
- Welsh Wound Innovation Centre
- Wales Life Sciences Investment Fund creating deal flow of new business

Threats for the Sector include:

- Availability of specialist skills
- Availability of specialist property
- Slow/low adoption and diffusion of new technologies and innovation

Tourism

Tourism makes a vital contribution to the economic and social wellbeing of Wales. In 2013 the sector directly employed 121,400 which is 9.4% of the workforce.

In 2013 we saw growth in trips and spend from staying visitors from both GB and International markets to Wales. Early results for the first half of 2014 show continued growth. Provisional results from the Great Britain Tourism Survey for the first five months of 2014 show that total trips to Wales (3.47 million) were 14.6% up in comparison with the first five months of 2013, while the GB total was 2.9% down. Associated expenditure in Wales (£564m) was up by 9.9% while spend in Britain as a whole was 2.9% down.

The GB Day Visits Survey results for the first six months of 2014 show that some 48 million day visits were made to destinations in Wales, some 19% up on the corresponding period in 2013 (40 million trips). Associated expenditure was 3% up. These figures also compare favourably with those for GB as a whole, for which trips were down by 1% and expenditure down 5%.

In 2013-14, 256 jobs were created, 101 jobs were safeguarded, 5,543 indirect jobs were supported and £251m investment was generated from across all elements of tourism activities, including capital projects, cruise development and major events. Additional spend generated by visitors who were directly influenced to come to Wales due to all elements of our marketing activity was £180m for 2013.

On St David's Day 2014, the new £4m "Have you Packed for Wales?" multi-media campaign was launched, targeting the UK and Republic of Ireland. The campaign aims to encourage Wales's target markets to reevaluate their perception of Wales by showcasing specific product and destination experiences.

Visit Wales's autumn UK & Ireland marketing activity started during September 2014, and showcases Wales's food offering in the context of quality autumn breaks. The campaign will include direct marketing contact with over 800,000 previous campaign respondents. Planning for spring 2015 campaign activity in the UK, Ireland and Germany is currently in progress. 2015.