

Building a Stronger Economy

Policy Paper on Economic Policy in Wales

Autumn Conference 2014

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Purpose of Policy Document/Background

This paper has been approved for publication by the Welsh Liberal Democrat's Policy Committee as a Policy Paper, for debate at Welsh Liberal Democrat Autumn Conference in Aberystwyth, November 2014.

Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats, the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. If approved by Conference, this paper will therefore form the policy of the Welsh party.

Many of the policy papers published by the Welsh Liberal Democrats imply modifications to the existing government public expenditure priorities. We recognise that it may not be possible to implement all these proposals immediately. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next National Assembly for Wales election.

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Foreword

For many years, the economic strategy for Wales was driven by attracting inward investors by the promise of being a low-wage place to enter the EU market. While this was successful in the short-term, it was never likely to be a positive long-term strategy for Wales.

Firstly, it entrenched low wages as part of the sales pitch we were offering to the world. Secondly, the very nature of the jobs brought was that they were relatively portable, meaning they could be moved out again as easily as they were moved in once lower-cost locations joined the EU. Thirdly, it lacked long-term ambition in that it failed to recognise the tendency for wages to rise as an economy develops, and put no plan in place to change the strategy as Wales' economy grew. In short, it either assumed that Wales' economy would not develop as a result of this strategy, or made that inevitable because of a lack of preparation for the next stage. Developed economies compete on innovation and quality, not price.

Since the establishment of the National Assembly for Wales in 1999, the focus has shifted from inward investment to supporting indigenous growth & back in a series of policy handbrake turns that have failed to recognise the inter-relationship between these strategies, that the success of these strategies depends on the level of development in an economy, and that the constantly shifting policy environment creates an instability which discourages businesses from investing here. Put simply, businesses don't know what the direction of travel is, or who to go to for support, if policies & structures are in a state of constant churn.

We believe that for Wales' economy to flourish, we must go back to basics, assessing our key strengths and weaknesses and working to make the most of the opportunities we have. We must recognise that both inward investment & indigenous growth have a vital role in creating jobs & wealth, but that the focus between the two should shift as an economy develops.

We must set out a clear, long-term strategy for Wales, bringing stability & confidence to businesses based here, those who would trade with and invest in us. We must lift our eyes beyond the horizon, to nurture a business environment that is internationalist in its outlook, eagerly looking for opportunities beyond our borders & confident enough to take advantage of the ones it finds.

We will deliver a balanced, export-led economic strategy by improving Wales' skills and innovation, access to finance and capital, access to markets and growth across Wales in order to deliver long-term sustainable growth and increased productivity for Wales.



Eluned Parrott

Eluned Parrott AM

Welsh Liberal Democrat Shadow Minister for
Business, Enterprise, Transport and Europe

Wales' Economy Today

The Welsh Labour and Labour-Plaid administrations in Cardiff Bay have been ineffective in pushing through new solutions and have not placed enough emphasis on equipping Wales with the infrastructure and skills that are necessary to compete globally. The economy has serious structural problems. This can be seen in our higher unemployment, and our low GVA. The unemployment rate in Wales has risen by 3.6% between 2007 and 2012, higher than any other region apart from Northern Ireland (3.6%) and the North East (4%). The number of young people not in employment, education or training (NEET) rose from 17.6% of 19-24 year olds in 2008 to 23.1% by 2010.¹ ² Wales continues its long-term position of having the lowest Gross Value Added (GVA) in the UK - Wales is a mere 3.6% of UK GVA. In terms of productivity, nominal GVA per hour worked is 15.4%, the second lowest in the UK. Gross Value Added (GVA) per head grew by 1.6 per cent in 2012, the third highest growth rate out of the English regions and devolved counties. According to the UK Competitiveness Index 2010 Wales is the least competitive economy in the UK having fallen behind the North East of England.³

The three key challenges for the Welsh economy are our lack of capital availability, a relatively low skills level, and our peripheral location and poor connectivity.

Professor Dylan Jones-Evans was commissioned to undertake a major review into access to finance in Wales. We agree with his analysis that "public sector financial support in Wales seems to be fragmented and [...] the organisation tasked with providing debt and equity finance to SMEs is not specifically focused on developing the Welsh economy".⁴

Many employers are concerned about the low skill levels in Wales. This can affect productivity and is therefore a source of competitive disadvantage. Basic skills attainment is 1% lower in Wales than across the UK as a whole, and 4% lower than Scotland. Higher Skills attainment is 3% lower than across the UK and 7% lower than Scotland. Wales is lagging behind our competitors and we cannot afford to be left behind.

One often overlooked challenge for growing the Welsh economy is our peripherality. Geography and remoteness can have a major role to play "in exacerbating market failure".⁵ Wales is a deeply rural nation and our infrastructure is insufficient to develop more broad-based economic regeneration across Wales. Our geographic position has traditionally isolated us from many export and investment opportunities. Fundamentally, the "potential for economic activity at any location is a function both of its proximity to other economic centres and of its economic size or 'mass'".⁶ Local economies see benefits, termed agglomeration economies, "when firms and people locate near one another together in cities and industrial clusters".⁷ Lower transport costs and ability to network between businesses and industries drives up profits and productivity. "Firm density and physical proximity" play a strong role "in achieving positive

¹ <https://stats.wales.gov.uk/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Unemployment/ILO-Unemployment/ILOUnemploymentRates-by-WelshLocalAreas-Year>

² National Assembly for Wales (2013) *Young People Not in Education, Employment and Training* <http://www.assembly.wales.org/13-062.pdf>

³ <https://www.gov.uk/government/news/welsh-secretary-responds-to-gva-figures>

⁴ Jones-Evans, Dylan (2013) *Access to Finance Review: Stage 2 review*, p.5

⁵ ESYS Consulting Ltd (2007) *North West Wales – Economic Futures*, p.1 <http://www.tpnw.org/docs/strategies/North%20West%20Wales%20Economic%20Futures.pdf>

⁶ Institut für Raumplanung (2000), *Towards a European Peripherality Index*, p.4, http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/periph.pdf

⁷ <http://www.nber.org/chapters/c7977.pdf> p.1

economies of agglomeration and promoting competition and innovation.”⁸ In a rural nation like Wales, these benefits are harder to achieve.

There are also many positives, which will build a strong base for the Welsh economy of the future. There are many unique characteristics that distinguish Wales from other regions in the UK and EU. For example, the “high quality of the natural environment, distinctive history and cultural identity”⁹ are all excellent strengths. Notable opportunities are our proximity to UK and EU markets, existing pockets of innovation and excellence, and our training capacity.

While further from key EU markets than Southern England, the urban area of South Wales is nevertheless well located for access to London, one of the world’s wealthiest mega-cities. This advantage must not be overlooked. Similarly, investment in Wales’ port infrastructure could address, in some part, a perceived difficulty in accessing EU & other markets. As the EU’s infrastructure priorities move from road to water-based transport, there is an opportunity for Wales to benefit if its government moves swiftly enough.

Another bright spot is provided by the number and strength of specialist, innovation-led industry clusters that are already either embedded or emerging in the Welsh economy. Major employers such as Airbus in the North-East bring high-value, high-skill jobs to the economy & support a similarly valuable supply chain in their regions, and this is well recognised. But emerging and growing clusters such as medical engineering in Cardiff demonstrate the very great benefit to be derived from bringing together the research excellence of our universities with business.

This leads into a third potential source of competitive advantage – the capacity of our educational institutions, and particularly our universities, not only to bring high quality educational opportunities for our people, but also to bring innovative ideas to market.

Research income is hugely important in allowing our universities to attract the finest minds and develop the research facilities and infrastructure that make invention and innovation possible. Some of Wales’ universities are well placed to increase their research income from UK-wide and other sources, but there is much untapped potential that could be released. Additionally, the relatively high availability of university places per head of population in parts of Wales are a potential source of competitive advantage in attracting high-value jobs, but if those high-value jobs are not forthcoming those graduates may either leave Wales or find work in the local area that does not utilise their graduate-level skills. Research conducted by the Welsh Liberal Democrats has found, in fact, that there are more graduates from Welsh universities working in England today than there are working in Wales.¹⁰ That Wales attracts many young people from the rest of the UK and all over the world to its universities should be a source not only of pride, but also of contacts, links and partnerships for future trade if that alumni network can be utilised. There is untapped potential here too.

⁸ ESYS Consulting Ltd (2007) *North West Wales – Economic Futures*, p.1

⁹ ESYS Consulting Ltd (2007) *North West Wales – Economic Futures*, p.1

¹⁰ <http://www.bbc.co.uk/democracylive/wales-25918451>

A Welsh Liberal Democrat Approach to the Economy

The Welsh Liberal Democrat vision for Wales is a strong and vibrant economy, with sustainable growth. Our people will have a robust and flexible set of high-quality skills; our businesses will export around the world; our infrastructure will be modern and ready for the future. We will have an economy where individuals and local communities have the potential to flourish if they are empowered and provided with the opportunities needed for them to have a fair chance.

We will deliver a balanced, export-led economic strategy by improving Wales' skills and innovation, access to finance and capital, access to markets and growth across Wales in order to deliver long-term sustainable growth and increased productivity for Wales.

Preparing Wales for the future

If we are to achieve a prosperous, sustainable and secure future for Wales, we must begin today and place Wales in a sustainable, competitive and advantageous position. We must address the underlying problems that hamper our long-term development. Successive governments in Wales have failed to tackle our core underdevelopment, and have left us with an economy, a skills base and infrastructure that are not ready for the demands of the future. The resources of a successful economy are our land, our capital and our people. We can use these to encourage growth by focusing on infrastructure, export capacity, and skills. We must develop our infrastructure, our skills and our export ability, in order to build a stronger economy and a fairer society for Wales. We will address Wales' underdevelopment with a long-term commitment to investing in Wales' people, business and infrastructure, in order to achieve growth in Wales' economy.

Role of Government

Central Government in Cardiff has to take the lead in creating the environment to achieve growth by investing in Wales' infrastructure, skills and export. Government should not be afraid to intervene to promote and generate development and growth where possible and necessary, but its primary goal should be a limited approach in creating the appropriate environment and regulations for individuals and the private sector to drive our economy itself.

One of Government's aims should be to catalyse development of the private sector, by enhancing the environment in which the private sector operates, for example by investing in skills, infrastructure and technology.¹¹ Wales needs a strong private sector, able to support itself and not be dependent on procurement to drive indigenous growth. In order to support Wales' future taxation powers, we will need a strong private sector to build our tax base. A number of actions taken in the public sector can act as important catalytic elements for the development of the private sector, particularly, those that enhance the environment in which the private sector operates; such actions include improving education and infrastructure.

The Welsh Government must use its policy potential to provide the soft and hard structures to support local communities, businesses, and individuals in finding their best path to success and to economic growth. We must end the culture of 'one size fits all', and set out frameworks enabling local communities to build their own solutions. We must stand up for the indigenous businesses, particularly the small and medium enterprises [SMEs] and microbusinesses which play such a vital role in the Welsh economy.

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http://www.unctad.info/upload/TAB/docs/TechCooperation/National%20Workshop/3.Lesotho_uneca_Presentation%20Promoting%20PPP.pdf

The National Assembly can and must use its leadership to affect a culture change in Wales. We must be a more confident and internationalist country, and open Wales to the world and its potential for inward investment and export opportunities. We must be proud and confident of Wales' potential and assets, not only to attract investment, but also to support international trade.

It is vital that we unlock our innovation, our entrepreneurship and our research for the benefit of Wales and the Welsh economy. Government must take a lead in fostering a culture that celebrates innovation and entrepreneurship, and make it easier to benefit economically from these traits. Government must work with our universities to transmit their research into economic benefit for the universities and their communities & support our universities in attracting the research funding that makes this possible.

We must provide leadership to private business to be responsible. Government and scrutiny from citizens can encourage social responsibility within the business community. Social responsibility - looking out for the people around you, not just yourself - is fundamental to the ideals of the Welsh Liberal Democrats. While there may be space in some industries for increased market forces, core services must always be run for the public good as their highest priority.

We will work to use structural and other funds to spread growth across all the regions of Wales. European Structural Funds provide an opportunity to invest in our infrastructure and provide active support to business. We would prioritise public transport development to ensure our people are able to access jobs. But we also recognise that there are a wealth of other EU funds available that are under-utilised in Wales. We would work with the private sector to improve its representation in Brussels, & support our universities in accessing their fair share of EU funding for research and student funding.

Welsh Government needs to create an environment whereby the private, public, not-for profit sectors and local communities can work together to bring both economic and social benefits to the people of Wales. That is what a Welsh Liberal Democrat Government will seek to achieve.

Access to capital and finance

In the aftermath of the financial crisis, SMEs have regularly expressed concerns about the limited availability and high cost of finance. The Welsh Liberal Democrats believe that the current system of access to finance in Wales, especially Finance Wales, is not fit for purpose. Finance Wales is "offering higher rates of interest on borrowing to SMEs within Wales" than necessary and could, but does not, offer cheaper loans to the vast majority of micro-businesses.¹² Loans can reach up to around 9.69% above the EU base rate. It has "not fulfilled its intended role" according to the Federation of Small Businesses Wales.¹³

Welsh Development Bank

We would create a Welsh Development Bank designed to support small businesses in accessing finance and support; developing international links including export and inward investment; and finance major infrastructure projects.

Poor access to finance and lack of business advice could be resolved bringing together different aspects of financial and business support. Professor Jones-Evans' review "recommends the establishment of a Development Bank for Wales that will be created by bringing together all the financial support schemes for SMEs within the Welsh Government, the funds managed by Finance Wales and elements of Business Wales, as well as UK Government schemes such as UK Export Finance and the Business Growth Fund."¹⁴ We have previously campaigned in the party for a Small Business Administration, with Roger Williams MP bringing forward a ten-minute bill for one.¹⁵ We believe that any such Development Bank should take this form. It could bring much needed coherence to the market and provide an anchor for SMEs. The central objective for such an institution must be to support a varied access to finance market for small businesses and tackle market failures under one umbrella body.¹⁶ The Welsh Liberal Democrats believe that any such new bank should act as a 'one-stop shop' for business advice and access to finance and first point of call for businesses.

For several decades, the Welsh economy was represented abroad by the Welsh Development Agency, which represented Welsh businesses abroad and worked to bring investment to Wales. Wales has consistently had trouble marketing Wales abroad effectively since the WDA was abolished.

The Welsh Liberal Democrats would create a branch of the Welsh Development Bank dedicated to engagement outside Wales – it would provide support with Welsh companies exporting, and engage with companies overseas and draw in inward investment. We would also task it with developing a strategy to take advantage of SME relocation within the UK, to encourage more businesses to relocate to Wales. We would found a Small Business Export department sitting within the WDB to focus on helping SMEs to find the best way to export. This would help find out what opportunities are abroad for small companies and facilitate new business relationships. The Welsh Development Bank would cover both inward investment and export, in a balanced approach, tapering the focus from one to the other on the basis of the level of the development of the economy.

¹² Jones-Evans, Dylan (2013) *Access to Finance Review: Stage 2 Review*, p.5

¹³ FSB Wales (2013) *Access to Finance Review, FSB Wales Response*, p.2

¹⁴ Jones-Evans, Dylan (2013) *Access to Finance Review: Stage 2 Review*, p.5

¹⁵ <http://services.parliament.uk/bills/2010-12/smallbusinessadministration.html>

¹⁶ FSB (2013) *Enterprise 2050*, <https://www.fsb-policy-conference.co.uk/sites/www.fsb-policy-conference.co.uk/files/gallery/Enterprise-2050-FSB-discussion-paper.pdf>

Finally, **the Welsh Development Bank would be able to provide capital, guarantees and equity to infrastructure projects in order to develop Wales' vital physical and digital infrastructure.** Public infrastructure is a long-term driver to economic growth in a developed economy. Wales needs the infrastructure that allows people to access opportunities and attracts the investors to create them. We need to take a long-term view, to understand today the infrastructure needs of Wales in the future and provide the WDB with a broad long-term strategic remit. Similar schemes such as the European Investment Bank, the German KfW and Irish NTMA provide successful models. We imagine the Welsh Development Bank would take over the functions of Finance Wales.

The Welsh Liberal Democrats in Government would:

- **Ensure that a Welsh Development Bank has a strong environmental focus.**
- **Encourage infrastructure providers to plan and deliver infrastructure collaboratively.** For example, telecommunications infrastructure could be developed concurrently to improvements to the road network or major projects.¹⁷
- **Leverage private finance to fund major infrastructure investment.** Government cannot act alone in delivering infrastructure investment, and projects will need to look to draw in expertise and financing from the private sector. The Welsh and UK governments must work together and explore new models for using private financing in delivering infrastructure in Wales.
- **Set out 10-year rolling capital investment plans** in order to provide stability when leveraging finance for infrastructure investment.

¹⁷ Wales Office (2014) *Building a more prosperous Wales: Infrastructure for a modern economy*, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325003/INFRASTRUCTURE_REPORT_FINAL.pdf

Alternative Lenders

Access to finance is one of the biggest problems facing business in Wales today and a perennial issue for small businesses in particular. Businesses need to be able to access finance to grow - limiting their routes to accessing finance may simplify the process but can harm competition and raise barriers. If Wales is serious about being the country for starting your own business, finance must be available to help businesses scale faster.

The market has partly responded to the shortfall in SME lending with the development of innovative, online lending platforms that bring together potential borrowers with potential lenders - often referred to as 'crowd financing' or 'peer-to-peer lending'. Between 2011 and 2013, more than 5,000 SMEs across the UK raised business funding from alternative finance intermediaries such as peer-to-peer lending (debt-based transactions between individuals and existing businesses, mostly SMEs), equity-based or debt-based crowdfunding. Crowdfunding in particular is very new, and is a method of raising funds from investments from many people online, through a dedicated platform. However, only 37% of FSB members are even aware of alternative finance providers.¹⁸

In particular, we will support models like Funding Circle, an online marketplace which helps businesses access finance direct from individual lenders.¹⁹ The Government-backed British Business Bank is currently lending £60 million through Funding Circle and we would seek to do similar.²⁰

We will encourage the spread of alternative finance providers, and use bodies like the Welsh Development Bank and Chambers of Commerce to signpost them for businesses. **We will facilitate the emergence of growth of new lenders**, in particular by expanding the role and capability of local and community banks.

We want to reduce the barriers that inhibit the emergence of alternative forms of lending institution to encourage new entrants and innovation. We would bring new players into a "regulatory environment that would help them attract a greater number of institutional investors to meet the demand from small businesses."²¹ We would also call for an appropriate level of transparency in such lenders, such as with the American Community Reinvestment Act, which would have to be implemented in Westminster.

¹⁸ FSB (2014) FSB Handbook, p.6.

¹⁹ <https://www.fundingcircle.com/how-it-works>

²⁰ <https://www.fundingcircle.com/blog/2014/02/the-government-backed-british-business-bank-programme-announces-plans-to-lend-a-further-40-million-through-funding-circle-2/>

²¹ FSB (2012) *ALT+ Finance*, p.6

Mutuals and Cooperatives

A new Welsh economy would support all types of business. We want to encourage the development of social enterprises, mutuals and co-operatives. Liberal Democrats have always believed in helping individuals to take and use power, enabling them to be involved in the decisions which affect their lives. We believe that employee participation in the workplace together with wider employee ownership is important for diffusing economic power, promoting enterprise, increasing job satisfaction, and improving service to customers. Wales has a rich history with cooperatives and today one in five people in Wales are members of a co-op, and 7,000 are employed in co-operatives.²²

Our 2011 Assembly manifesto said that we would pass a law to improve the position of social enterprises and community development trusts; exempt them from business rates; and make it easier for social enterprises, mutuals and co-operatives to tender for Council and Welsh Government contracts. We will also provide support with tender applications.

In Government, the Welsh Liberal Democrats would:

- Encourage employers to promote employee participation and employee ownership and strengthen worker participation in decision-making.
- Encourage mutual structures and employee participation in the public sector.
- Strengthen community rights to run local public services, and protect community assets such as pubs through the planning system and by bringing forward a Community Right to Buy.²³
- Ensure that government advice on setting-up a business provides explicit support for founding a mutual or cooperative.
- Ensure a future Welsh Treasury would be required to report on diversity and representation of mutual and cooperatives in the Welsh economy.²⁴
- Require the Welsh Regulatory Policy Committee to specifically report on potential impacts on mutual and cooperatives.
- Increase the opportunities to learn about mutual and co-operative enterprises.²⁵
- Develop support for companies to consider a co-operative and mutual business model as a means of saving a failing but economically viable enterprise.²⁶

²² <http://www.cooperatives-wales.coop/what-is-a-co-operative/mutuals/>

²³ Liberal Democrat Pre-Manifesto

²⁴ <http://www.mutuo.co.uk/wp-content/uploads/2011/09/Fostering-diversity-APPG-Report.pdf>

²⁵ <http://wales.gov.uk/docs/det/publications/140221coopreporten.pdf?lang=en>

²⁶ <http://wales.gov.uk/docs/det/publications/140221coopreporten.pdf?lang=en>

Access to markets

We must ensure that businesses, once they have the finance and capital they need, can also access the markets they need, whether local, outside Wales, or the public market. Support and advice are critical for this.

Business Advice Networks

We believe that business advice in Wales suffers from fragmentation, bureaucracy and a lack of visibility. We will act to remove this barrier for businesses, and structure business advice and support to be accessible and visible.

The best forms of advice for business can often be from other businesspeople. Getting the right advice on how to run and grow your business can be vital. Mentoring in particular is important as it “supports the translation of the skills learnt into appropriate action for the business they are running”.²⁷ “Obtaining external advice in fields such as business strategy and staff recruitment is associated with positive firm performance.”²⁸ Many start-ups fail within their first year. Small business management is complex and requires competent advisors who have had experience in running a successful SME to provide advice or mentoring.

We would develop networks of recommended and approved advisors in each region in order to provide professional business support. These **Business Advice Networks [BANs]** would be highly specialised, and each able to provide advice and support on a different aspect of business. A business may require many different aspects of support as it grows, such as specialist human resources, marketing, translation, or export advice. Many SMEs may benefit from this sort of advice, but not wish to develop it in-house. The WDB could refer business to these BANs to provide specialist advice. This may be more suitable for some business than highly centralised advice from bureaucrats, and would help provide extra business for local specialists.

Network Champion

Networking is a vital element of every businessperson’s day. Building new relationships and bridges puts you in connection with more potential clients and can drive collaboration.

The Welsh Liberal Democrats would appoint a Network Champion to link up and integrate different players in the Welsh economy, from government (from the local to the European level) to businesses (in Wales and from overseas). These organisations themselves should lead economic development, but the NC would act to fill in any gaps.

Their office could act as “a **central contact point** for organisations within Wales and for those outside Wales looking for a partner.”²⁹ They would be able to act as a **central hub to draw in investment**. They should work with the higher education sector towards the “**creation of a Wales-wide alumni network for international students**, including Erasmus students, who have studied in Wales and Welsh students who have studied abroad, to maximise the impact of their international contacts”.³⁰

²⁷ FSB (2010) *Vision for a National Mentoring System*, p.4

²⁸ Robson and Bennett (2000) *SME Growth: The Relationship with Business Advice and External Collaboration*, *Small Business Economics*, 15:3, pp.193-208, <http://link.springer.com/article/10.1023/A:1008129012953>

²⁹ National Assembly for Wales (2014) *EU funding opportunities 2014-2020*.

³⁰ Ibid.

We will establish and provide start-up funding for a Diaspora Strategy based on successful models developed by Ireland and Scotland³¹. Led by the Network Champion, the initiative will build connections with members of the Welsh Diaspora worldwide to promote investment in Welsh businesses; help Welsh firms develop new export markets and international partners; promote international tourism; facilitate collaborative research and development by Welsh HE institutions and companies with international partners; attract international students to Welsh HE institutions; and encourage philanthropy to support arts, culture, educational and sports activities in Wales.

The key to successful regeneration of a community is often strong, effective leadership. This leadership almost always comes from the local level. The NC would support “people who have the necessary skills and the respect of the local community to act as champions for bringing together the different aspects and players in town centre regeneration.”³²

³¹ <http://www.scotland.gov.uk/Publications/2009/05/28141101/0>
[The Ireland Funds \(2009\) The Global Irish Making a Difference Together.](#)

³² National Assembly for Wales (2012) *Regeneration of town centres*.

Exporting

Exporting is an important way to unlock economic growth, and therefore export promotion is a critical consideration for economic development. Exporting provides opportunities for economies of scale, and can drive domestic economic growth. Export has a crucial way to play in driving forward economic growth. Businesses that export can better weather market fluctuations, as they can shift their focuses more easily.

From the proximity of the European market, to the strong growth of the BRICs, there is a world out there to trade with. We must make the most of “emerging markets, technologies and materials, such as those linked to low carbon, biotechnology and composites”.³³ SMEs in particular account for over half of the value of the UK’s exports, especially exporting services. However, they face a number of barriers, such as difficulty finding markets, understanding their customers and determining their competitive advantage. We must not only sell Wales herself, but Welsh products, and ensure Wales' economy has a bright future for our export-oriented businesses. Export does not necessarily need to be international – the Welsh Government should seek to export across the border to the rest of the UK, as well as to the EU and the rest of the world. We must encourage businesses to look outside their current comfort zone – whether by selling to China or the next valley along.

The Welsh Liberal Democrats would:

- **Produce a clear export strategy for Wales to match private sector ingenuity with public sector support.**
- **Seek to support any company that wants to export get the best deal and ensure all economic strategies will consider how best to promote export activities through the WDB.** We would develop public-private partnerships, in which “the private sector provides the initiative and the public sector provides the necessary controls and support”.³⁴
- **Focus on matching a company’s export potential to the right overseas market.**
- **Make accessing international support less cumbersome, reducing the paperwork and guaranteeing businesses quicker decisions.**
- **Charge enterprise zones, city regions and other bodies with identifying potential exporters** and linking them up with potential supporters.
- **Develop a Welsh tradeshow access programme with match-funding to attend shows in emerging and established markets.** Schemes such as the Tradeshow Access Programme offer grants to attend tradeshows overseas. This can be useful to help small businesses test markets, attract customers and find concrete leads.
- **Introduce a 'supply chain buddying' programme,** whereby large companies already engaged in export undertake to support SMEs in their supply chain to find new overseas customers. This could include joint overseas visits, introductions to relevant overseas customers, partnering on stands at trade fairs and inclusion of SME suppliers in trade missions.
- **Improve business representation in Brussels,** with a business representative at Wales House.

³³ <http://www.eef.org.uk/NR/rdonlyres/84514F41-027A-4737-8A2D-BF6CE44F2797/18842/WelshManufacturingStrategy.pdf>

³⁴ Grigoryan, Karen (n.d.), *Experience of Germany in export promotion and possibility to apply it in Armenia*, p.2

Procurement and Public Benefit

Many business will want to access the 'public' market and take advantage of government procurement as part of their client base. There are some core elements to a Welsh Liberal Democrat procurement strategy.

The Welsh Liberal Democrats would encourage local authorities to engage more proactively with local SMEs as part of their procurement strategy.³⁵ When local authorities spend with local SMEs, these businesses generate 58% more economic benefit for local economies than if the money had been spent with larger businesses. For every £1 spent by LAs with an SME generated an additional 63p of benefit for the local economy, compared to just 40p by large local firms.³⁶ **Local authorities should audit businesses in their boundaries to understand the makeup of the local business environment, and be committed to design contracts that are accessible to businesses in their own area**, either individually or in partnership with others. We would encourage local authorities to have diversity in their procurement through allocating a reasonable percentage of contracts for SMEs.

When large scale contracts are necessary or preferable which cannot feasibly be bid for by SMEs, local authorities and Welsh Government should **encourage the use of public benefit clauses** to ensure that local communities see benefit from public spending. We would **encourage responsible procurement, ensuring that social, environmental and ethical standards and concerns are considered when making public purchasing decisions**. In particular, we would consider the number of apprenticeships or graduate traineeships that are created and the quality of working relationships when awarding public contracts.³⁷ We would seek not to use public benefit clauses in smaller-scale contracts, in order to ensure that small businesses can access them.

³⁵ FSB (2014) FSB Handbook, p.13

³⁶ FSB (2014) FSB Handbook, p.13

³⁷ https://www.prospect.org.uk/campaigns_and_events/national_campaigns/prospectpledge/procurement

People and Innovation

Skills

In order to achieve sustainable prosperity we need to ensure that we have a sufficient and appropriate skills base (both current and future) and that groups are not left behind. Given that the cost of employing staff in the UK is higher than in many other EU countries, Wales cannot present itself as a low-wage destination for foreign investors. A high-skill-base is a critical aspect of a quality-led market position for Wales as a business location. The numbers of “high skilled workers in a region are positively associated with productivity and appear to dominate agglomeration effects.”³⁸ We also cannot forget basic employability and core skills that all employers will demand, and which according to some employers too many young people leave education without.

We will:

- Invest in education and training, so that businesses have access to necessary 21st century skills.³⁹
- Ensure vocational skills are the equal of academic qualifications and are recognised as such.
- Make changes to the way in which apprenticeships are promoted as outlined in our paper *Widening Access to Apprenticeships*.⁴⁰
- Extend Estyn's inspection focus on behaviour in schools to cover the wider aspects of ‘employability’ and ‘life’ skills.
- Embed wider skills such as entrepreneurship⁴¹, leadership, management,⁴² “communication, problem solving, self management and a good attitude to work” into the curriculum.⁴³ This should apply from schools through to higher education and vocational skills training.
- Ensure schools offer relevant and high quality work experience to pupils and engage with local small businesses to provide this.⁴⁴

At present, women are dramatically underrepresented in science, technology, engineering and mathematics degrees and graduate positions. Only 13% of STEM employees are female, and less than 7% of engineering professionals. **The Welsh Liberal Democrats would set up a minister-led commission to increase the number of women in STEM careers.**⁴⁵

In our recent policy paper, *Future for Further Education*, we outlined plans for producing Learner Outcomes Reports, “summaries of the learner success rates achieved by each further education institution in Wales”⁴⁶ for Sixth Form colleges. Many universities produce reports detailing the employment status of their graduates 12 months after graduation. All this

³⁸ http://www.wiserd.ac.uk/files/6613/6550/0055/WISERD_WPS_007.pdf

³⁹ http://www.industrialcommunitiesalliance.org/uploads/2/6/2/0/2620193/ica_action_plan_wales_19214.pdf p.3

⁴⁰ <http://welshlibdems.org.uk/en/article/2013/745209/action-needed-to-raise-profile-of-apprenticeships-in-wales-eluned-parrott-am>

⁴¹ National Assembly for Wales (2013) *Youth Entrepreneurship*.

⁴² Heseltine (2012) *No Stone Unturned*

⁴³ FSB (2014) FSB Handbook, p.25

⁴⁴ FSB (2014) FSB Handbook, p.25

⁴⁵ https://www.prospect.org.uk/campaigns_and_events/national_campaigns/prospectpledge/stem res

⁴⁶ <http://www.learningobservatory.com/fe>

information is highly useful for learners, employers, parents, government and the general public to understand more about specifically courses and education institutions. We must also understand longer-term graduate destinations, in order to truly judge whether a particular course has had a positive outcome for a learner.

The Welsh Liberal Democrats would:

- ensure sixth form colleges and further education colleges reported on outcomes for 16-24 learners five years after leaving where possible.
- universities in Wales reported on long-term outcomes for their graduates, by surveying graduate destinations five years after graduation.
- encourage universities to provide statistics on how many of their graduates go into entrepreneurial activities, and detail the courses they studied, to give greater exposure to the entrepreneurial route and which courses/institutions are best.⁴⁷

Our policy paper *Future for Further Education* set out many core policies regarding skills in relation to sixth-forms and further education colleges. Please refer to that paper for more detail on policies such as joint prospectuses and qualifications reform.

We would also ensure “all draft apprenticeship standards undergo a full online public consultation” to ensure we develop apprentices and apprenticeships which deliver for small businesses and not sure large companies⁴⁸ and provide young people with skills that will equip them throughout their career.

We must also ensure that we have the skills in our workforce to ensure our workers can flourish, and not be left behind by increasing global moves towards a digital economy. Our current ICT subject in school focuses too much on the "consumption rather than creation of software and digital content".⁴⁹

We must remember that computing education is not simply to create a workforce of programmers. While this is important, computing education brings broader benefits to students, who will learn to "combine technical expertise with analytical thinking; digital skills with creative pursuits; and coding ability with business acumen." ⁵⁰ According to Eric Schmidt, chairman of Google, building a nation of polymaths who can benefit from education in both art and science is essential.⁵¹

The ICT Steering Group's Report to the Welsh Government⁵² made some key recommendations including:

- **Creating a new subject named Computing to replace Information and Communications Technology (ICT)** from Foundation Phase onwards. The new subject should disaggregate into two main areas: Computer Science (CS), and Information Technology (TS). Alongside the existing Literacy and Numeracy Framework, there should be a Digital Literacy Framework implemented.

⁴⁷ Policy Exchange (2014) *Silicon Cities*,

<http://www.policyexchange.org.uk/images/publications/silicon%20cities.pdf> p.56

⁴⁸ FSB (2014) FSB Handbook, p.26

⁴⁹ ICT Steering Group (2013), *Report to the Welsh Government*, p.13

<http://learning.wales.gov.uk/docs/learningwales/publications/131003-ict-steering-group-report-en.pdf>

⁵⁰ Policy Exchange (2014), *Technology Manifesto*, p.10.

⁵¹ <http://www.theguardian.com/technology/2011/aug/26/eric-schmidt-chairman-google-education>

⁵² ICT Steering Group (2013), *Report to the Welsh Government*.

- This curriculum **should encourage creativity, allow thematic working and develop real world problem-solving**. It should be flexible enough to continually adapt to new advances in technology and be Agile: in other words, it should focus on people, communication, collaboration, working software, and responsiveness in order to yield optimum results.
- **Engagement and collaboration between education and industry** should be integral to the curriculum to enable embedding up-to-date best practice and skills & allow the curriculum to adapt quickly to the rapidly changing needs of the sector.

The ICT steering group also recommends that a programme of **continuous professional development to enable this curriculum should be made available to new and existing teachers**. e-Skills UK's Vital pilot project of **specialist CPD in IT in 'bite-sized', low-cost chunks of no more than 15-20 minutes** could provide a good model.⁵³ The Welsh Liberal Democrats in Government would **encourage and provide routes for former IT workers to convert to teaching**.⁵⁴

⁵³ NESTA(2011), *Next Gen*, http://www.nesta.org.uk/sites/default/files/next_gen.pdf, p.40

⁵⁴ Policy Exchange (2014), *Technology Manifesto*, p.10.

Innovation

Innovation is the process by which new ideas are brought into the products, services and processes that comprise our economy. It is critical to long-term economic progress and environmental sustainability. Innovation-led firms grow twice as fast as other firms, both in terms of employment and sales. For the economy as a whole to move forward it is vital that businesses and other agencies are more innovative. Innovation occurs in lots of industries, i.e. it not just sunrise industries where innovation takes place, however innovative firms do tend to cluster together. Welsh Liberal Democrats must believe that public support for innovation and research and development is essential to creating a more sustainable and more vibrant economy.

There are public benefits to investing in innovation and research. One study has estimated that as much as twice as much benefit to the public at large as there is to the private sector if we invest in research. The Coalition Government has frozen (in cash terms) the research budget. Liberal Democrat MPs are calling for a strengthening of this budget in the future. We should work with our colleagues in Westminster to ensure that science (and research specifically) is prioritised by the UK government.

In our manifesto in 2011, we called for:

- **A pooled budget for government-commissioned scientific research**, so it would be commissioned on a less ad hoc basis.
- **Protecting overall investment in science in real terms and facilitating greater research money coming into Wales.**

Our position in Europe is vital. The Welsh Liberal Democrats are firm believers that Wales must remain in Britain, and in Europe. European Union funding such as Horizon 2020 presents a unique opportunity to develop our economy, and build networks between businesses here and elsewhere in Europe that could place Wales in the best possible position.

- **Develop a database of R&D specialisms at Welsh universities that businesses can access.** There is a wealth of research conducted at universities which could be of benefit to the economy, but which many entrepreneurs are largely unaware of. This will help generate potential collaboration between universities and the private sector.
- **We would facilitate Knowledge-Transfer Partnerships** to smoothly transfer academic knowledge to real life business' projects.
- **Provide additional finance for universities to enable them to better teach more expensive subjects such as engineering and computer science.**
- **Ensure the public sector and academia are “joined together** through the Chambers of Commerce network to maximise the simplicity of message to business owners and connect activities to maximise effectiveness and efficiency”.⁵⁵

As we said in our paper *Fairness and Freedom in Higher Education*, the development of a strong and active research community in Welsh higher education should not only benefit universities, but also the Welsh economy, society and culture. However, for these benefits to be realised there needs to be effective mechanisms for knowledge exchange and

⁵⁵ <http://www.senedd.assemblywales.org/documents/s22798/TII%204%20-%20South%20Wales%20Chamber%20of%20Commerce%20and%20Mid%20Wales%20Chamber%20of%20Commerce.pdf>

commercialisation. European funding has helped to support some successful initiatives linking universities and businesses in the Convergence Region in particular, however the Gibson Review in 2007 found that there were systematic weaknesses in the Welsh Government's programme for the commercialisation of university research. Potential economic benefits are not restricted to the commercial exploitation of research, but also follow from the skills of graduates from Welsh universities. Yet, many graduates leave Wales to find jobs elsewhere. These trends point to the need for a more effective, coordinated strategy for realising the wider economic benefits of higher education and research in Wales and supporting students who graduate in Wales to enter employment in Wales.

- **We will create enterprise zones linked to each of the universities in Wales**, with a targeted focus on sectors that reflect the institution's research strengths.
- **We will require the Economic Development division of the Welsh Government to liaise with universities in producing a new strategy for inward investment and business incubation** specifically targeted on areas linked to the specialist skills of graduates from Welsh universities and to particular opportunities for the commercialisation of research.
- **We will establish and support an 'Opportunity Wales' 'milk-round' of graduate recruitment exhibitions** and events at universities in Wales by Welsh public and private sector employers.
- **We will introduce an 'Innovation Voucher' programme** which would provide businesses with a voucher that they could exchange for academic support, consultancy, training or use of facilities at a Welsh university.
- We will support a 'biofusion' model of IP commercialisation, whereby a company is given first-refusal on any new intellectual property for development in exchange for a university sharing in profits or royalties generated. This scheme would require IP exploitation to be linked to job creation in Wales.
- We will support initiatives to encourage entrepreneurship by students and graduates in Wales, including access to mentoring by successful business leaders.
- We will provide funding for collaborative PhD studentships delivered in partnership between universities and businesses in Wales, in which students will contribute to research and development work in the business, building on the Prince of Wales Innovation Scholarships (POWIS) and Knowledge Economy Skills Scholarships (KeSS) programmes.

Supporting growth across Wales

Supporting our communities, whatever size, is a key value of the Welsh Liberal Democrats. Every community has distinct problems, priorities and solutions. Centrally imposed 'one size fits all' measures not only reduce the autonomy of a community but will often fail to achieve the hoped for outcomes by ignoring the power of local information. We believe that local areas, working through people, institutions and local government, need sufficient freedom, resources and support to build robust and sustainable local economies.

Cities and Towns

Cities are a core part of every country. Cities host 73% of all highly skilled jobs, and tend to be more productive, more highly-skilled and yet more deprived than other communities.⁵⁶ We have forgotten to support our cities, and we need to enable them to support themselves.

As set out in our policy paper *Permission to Plan*, **we will support City Region initiatives and continue their implementation.** We would explore making City Regions statutory arrangements similar to the Greater Manchester Statutory City Region⁵⁷ or the statutory city region planning tiers that exist in Scotland to foster the culture of cooperation between local authorities⁵⁸, provided certain criteria based around effective and robust leadership and accountability can be met. A lack of funding or statutory powers risks making these bodies simply high-level talking shops.⁵⁹

The Welsh Liberal Democrats would bring forward a version of England's bespoke City Deals, pioneered by Liberal Democrats in Government – decentralising power from Cardiff Bay, direct to communities. These deals enable communities to “take charge and responsibility of decisions that affect their area; do what they think is best to help businesses grow; create economic growth; decide how public money should be spent.”⁶⁰ These urban areas should work with the wider travel-to-work area, meaning city deals can reach more people across a wider geographical reach. They bring together government and business and give cities the power to create real economic growth. This will avoid one-size-fits all policy, enabling cities to make the choices to drive economic growth. These deals could include “powers and freedoms relating to economic growth, infrastructure development, housing and planning, skills and employment”.⁶¹ Urban areas will be required to demonstrate robust and effective leadership, decision-making and accountability structures.

In England, these devolution packages are to be extended to **rural areas**, starting with market towns. The Local Government Association has formed a commission on non-metropolitan growth.⁶² **We would support the market towns of Wales, the traditional hubs of our communities, and base infrastructure around them.** Inextricably connected to both rural and urban areas, both through supporting the infrastructure and economy of large rural areas, and by economic flows to larger urban centres⁶³, these centres face challenges such as competition

⁵⁶ http://www.centreforcities.org/assets/files/2014/Cities_Outlook_2014.pdf

⁵⁷ <http://www.clickonwales.org/2014/02/what-can-cardiff-learn-from-the-manchester-city-region/>

⁵⁸ Upton, Stevie (2012) 'Introduction' in *Forging a new connection; Cardiff and the Valleys* (ed. Stevie Upton), Cardiff: IWA, p.10.

⁵⁹ <http://www.walesonline.co.uk/business/business-opinion/delivery-bodies-needs-drive-city-3474526>

⁶⁰ <https://www.gov.uk/government/policies/giving-more-power-back-to-cities-through-city-deals>

⁶¹ <http://www.parliament.uk/business/publications/research/briefing-papers/SN05955/community-budgets-and-city-deals>

⁶² Ibid.

⁶³ <http://www.rsnonline.org.uk/analysis/market-towns-%E2%80%93-fit-for-the-future>

from larger towns & out of town developments, poor public transport and other infrastructure links, and a lack of private sector investment. All too often transport networks by-pass our towns in favour of cities. These are all issues we must address without delay. Our rural areas need a coordinated, strategic approach to support market towns in becoming the economic and transport hubs of their local areas that they were always intended to be. With low populations, market towns enjoy some of the agglomeration benefits that cities see; far more so than smaller towns and villages can – as such they should act as regional drivers for economic growth. Policies such as **incubator units for SMEs in market towns** can help drive agglomeration. There is no 'one size fits all' approach and **Welsh Liberal Democrats in government would provide a framework to allow our market towns to develop their own plans tightly linked to their own particular circumstances**. As part of this, our *Local Government Reorganisation* policy paper proposed transferring full responsibility for community regeneration to the new councils including responsibility for the future delivery of Communities First.

We would work with local authorities, city regions and others, to develop crisis management approaches to help local economies cope with local economic shocks, such as the closure of a major employer. Each shock will require a different response to promote the long-term health of the area - so it does not help to be prescriptive in advance. Central government support must be carefully coordinated with local bodies.

Economic Zones

Enterprise Zones are geographically defined areas in which commercial and industrial businesses receive incentives to set up or expand. There are 25 such zones in England, and 7 in Wales: in Cardiff; Anglesey; Deeside; St Athan; Ebbw Vale; Snowdonia and Haven Waterway. However, the Welsh Government's flagship Enterprise Zone Programme has been underwhelming in terms of actual impact. The Minister has yet to announce targets or aspirations for job creation or building new premises in each enterprise zone.⁶⁴ The marketing of enterprise zones has been lacklustre. Recent figures show that only 32% of businesses in the Cardiff Enterprise Zone surveyed by the Welsh Government even know they're part of an enterprise zone.⁶⁵ Both Swansea and Newport, major Welsh cities, have been overlooked for enterprise zones.⁶⁶

The Welsh Liberal Democrats support the use of Tax Increment Financing. We would enable local authorities, enterprise zones and other bodies to utilise this source of financing. Tax increment financing works on the basis that local authorities can borrow money for a particular development, backed up against the future business rates that the development will generate. Carefully planned TIF schemes are essential. It encourages sensible and realistic developments.⁶⁷ As a package, tax increment financing, together with enterprise zones, present local authorities with a golden opportunity to help regenerate and develop their local areas and provide much needed jobs.

⁶⁴ <http://welshlibdems.org.uk/en/article/2013/681389/minimal-progress-on-enterprise-zone-eluned-parrott-am>

⁶⁵ <http://www.elunedparrott.co.uk/2014/05/eluned-parrott-calls-government-bring-forward-enterprise-zone-marketing-strategy/>

⁶⁶ <http://williampowell.org.uk/en/article/2012/556302/labour-ignores-swansea-and-newport-on-enterprise-zones-eluned-parrott-am>

⁶⁷ <http://welshlibdems.org.uk/en/article/2011/492858/welsh-liberal-democrats-urge-welsh-government-to-implement-economy-boosting-policies>

We would ensure that no enterprise zone has an exclusively sectoral approach and are instead dedicated to supporting all types of business.

We will urgently improve the marketing of enterprise zones and ensure every business in an enterprise zone knows the benefits on offer to them.

Enterprise zones in particular can benefit from rates relief - we would encourage their growth by offering a 100% business rate discount over a five year period for business that move to or start-up in an enterprise zone.⁶⁸ We would also enable local authorities to retain all growth in business rates in enterprise zones for a period of at least 25 years, to support long-term development and growth.⁶⁹

The Welsh Liberal Democrats would also develop Small Business Zones, which will provide a space where new businesses, co-ops and social enterprises are encouraged and local spending can kick-start a more diverse and robust local economy, and New Enterprise Hubs, which will increase the support provided by existing institutions to improve the success rate of business start-ups.

Whilst thousands of different companies together make up a successful economy, high-impact and high-growth technology business may well stand to make the greatest difference. Much like other aspects of development, high-tech companies benefit from agglomeration and banding together. When several tech businesses set-up or start-up in close proximity to each other, they form what is known as a tech cluster. There are certain core elements that tech clusters need to thrive which include “a critical mass of skills, businesses and investment; and the importance of community collaboration, research and development, sound infrastructure and strong local leadership.”⁷⁰ We cannot create clusters from nothing but we must endeavour to support existing clusters where they emerge. This is fundamental to their innovative nature. We must nurture and support tech clusters.

- We would work with the industry to develop a crowd sourced map of existing tech companies and clusters. This would help members of a cluster to mix and to identify areas for collaboration.
- We would work with local government, enterprise zones and business leaders to discover how best to meet local needs. We would help break down “silos of knowledge, capital and skills”⁷¹ and create incentives for entrepreneurs, businesspeople, academics and investors to work together on developing clusters.
- We would focus efforts on areas such as research facilities, broadband provision, and opportunities for networking between business, entrepreneurs and service communities.⁷²

We can only support tech clusters where there is some basis of tech industry in place already. Governments cannot effectively create such sector-based clusters out of thin air, but can

⁶⁸ <https://www.gov.uk/government/news/the-government-announces-11-new-enterprise-zones-to-accelerate-local-growth-as-part-of-the-plan-for-growth--2>

⁶⁹ <https://www.gov.uk/government/news/the-government-announces-11-new-enterprise-zones-to-accelerate-local-growth-as-part-of-the-plan-for-growth--2>

⁷⁰ Policy Exchange (2014) *Silicon Cities*.

⁷¹ *Ibid*, p.52

⁷² *Ibid*, p.53

support growth in clusters that are already developing. Potential cluster locations include Cardiff, Newport and Miskin. The Tech Britain project has identified Cardiff as the 13th largest existing cluster, with 42 tech-related companies and start-ups in the area.⁷³ This provides a valuable opportunity to develop Cardiff into a true Tech City, a hub of digital innovation and home for start-ups. Alongside the UK Coalition Government's £10.2 million investment in developing Cardiff's digital infrastructure through the provision of widespread public wireless and a connection voucher scheme to help SMEs improve their broadband connectivity,⁷⁴ Cardiff is already potentially a nascent tech cluster, and is a member of the Tech City UK Cluster Alliance.⁷⁵ Newport will also benefit with funding of £6 million, and could serve as another such cluster. Miskin in Rhondda Cynon Taf, is another potential cluster, with the former Bosch plant there being taken over by Renishaw plc, a British engineering company. Such existing infrastructure can be harnessed to develop the area further.

⁷³ <http://techbritain.com/clusters>

⁷⁴ Wales Office (2014) *Building a more prosperous Wales*.

⁷⁵ <http://www.techcityuk.com/programmes#clusteralliance>

Digital Infrastructure

Our digital infrastructure is another vital element of support for businesses. It allows them to grow and compete in a global market, to access a wider customer base, adopt new and innovative marketing practices for promotion, or access new services and information to help keep costs down. Access to broadband and mobile service is becoming an increasingly integral part of the social, economic and cultural development of the people of Wales. Over the years Wales has suffered with a lower proportion of households able to access broadband than any other part of the UK. For too long in Wales we have languished at the bottom of UK league tables in terms of broadband speeds. There are few topics that have been more wide reaching, or sparked more discussion, than the need to build better broadband and mobile infrastructure to bring everyone online in this digital age.

- The Welsh Liberal Democrats have previously campaigned for:
- ensuring that the Access Broadband Cymru scheme is widely advertised and improved;
- examining the planning system to ensure that planning rules support the development of digital infrastructure;
- examining support for businesses to improve their ability to compete worldwide through better access to digital services;
- making universal access to broadband an obligation for providers; and for
- the Welsh Government to work with Ofcom and network operators to investigate the shared provision of infrastructure in rural areas to maximise coverage.

The Welsh Liberal Democrats in government will:

- **Support targeted, local, face-to-face training schemes teaching businesses about the online skills relevant to them.**
- **Publish a roadmap for how we would maximise the impact of initiatives to help SMEs interact and sell more online.**
- **Accelerate and improve roll-out of faster broadband** by increasing its own promotion of online government services, as this will offer the industry an incentive to invest in network development.
- **Encourage the spread of free wi-fi in town centres** through collaboration between local government and industry, with the aim of drawing public attention to local businesses and services.
- **Improve digital inclusion** by working with the telecoms industry to allow free access to online public services, and ensuring that as many government services as possible are accessible on a smart mobile phone.

We believe that access to broadband should be co-funded by government and industry under long-term contracts that will survive government change and offer policy consistency and that it is essential for rural areas to receive upgrades at the same time as urban areas.

Transport Infrastructure

Transport is critically important. A modern and efficient transport infrastructure sends the message to the investors and entrepreneurs that Wales is 'open for business'.

The electrification of the Great Western Mainline as far as Swansea as well as the Valleys Lines is an excellent opportunity for Wales and could have a transformative impact. Alongside the announcement of direct services from South Wales to Heathrow, this represents the biggest investment in the Welsh railways since the Beeching Axe. The Government has also invested in the Western Rail Access scheme link to Heathrow, which will cut 30 minutes from the journey times between South Wales and Heathrow.⁷⁶

The Welsh Liberal Democrats in government would:

- Support the development of a South Wales Metro as a priority in developing the Cardiff Capital region, through a Passenger Transport Authority.
- Support electrification of the North Wales Coast Line and improve road and rail links between North Wales and Manchester and Liverpool, including investing in the Wrexham-Chester line⁷⁷. North Wales needs to be able to benefit from investment in England's North West.⁷⁸
- Abolish tolls on the Severn Bridge once the existing construction and repair costs are paid off.
- Develop Passenger Transport Authorities to regulate public transport and ensure suitable provision. This would improve the coverage of bus routes in rural and poorer areas by re-regulating the bus service, so we can ensure that the whole community is served.
- Drive integration of public transport through a new National Transport Plan, to include capacity building to ensure government has the skills necessary to deliver integration.⁷⁹
- Develop seamless links between bus, rail and community transport networks through working with relevant stakeholders to implement best practice on coordinated timetables, connected services, and real time information.⁸⁰
- Ensure all major new developments include provision for sustainable, integrated public transport, in particular tying in to access to walking and cycle routes.
- Ensure that public transport is accessible at times that actually help people in rural areas get to work on time, through improved bus timetables, expanding community transport services, and demand-response services such as the Bwcabus model.⁸¹
- Develop an improved freight network with access to major ports. This will attract inward investment. As the cost of fuel increases, many firms will be looking to reduce the cost of transport by increasing use of rail freight.

⁷⁶ <http://www.walesonline.co.uk/business/business-news/south-wales-heathrow-rail-link-6278423>
<http://thamesvalleyberkshire.co.uk/wrath>
<http://www.networkrail.co.uk/news/2014/feb/Proposals-for-a-direct-rail-link-from-the-west-to-Heathrow/>

⁷⁷ <http://www.aledroberts.org.uk/?p=1973>

⁷⁸ <http://www.aledroberts.org.uk/?p=2005>

⁷⁹ National Assembly for Wales (2013) *Integrated Public Transport in Wales*

⁸⁰ Ibid.

⁸¹ Ibid.

<http://welshlibdems.org.uk/en/article/2014/786692/welsh-lib-dems-publish-plans-for-young-person-s-concessionary-fare-scheme>

- Develop public transport provision so that major Welsh towns are no further than 2 hours from a commercial airport. These airports may be in Wales (Cardiff) or across the border in Manchester, Liverpool or Birmingham.
- Develop a rolling-stock strategy for Wales to respond to the capacity challenge the network faces.
- Support a new generation of light rail and ultra-light rail schemes in towns and cities where local people want them.
- Publish a timetable for full electrification of Welsh railways over the next few decades.
- Develop ports and freight rail infrastructure for export potential as a core tenant of government policy.
- Scrap the North-South air service, a wasteful and polluting subsidy that does little to address the real problems of public transport links between North and South Wales.⁸²

⁸² <http://welshlibdems.org.uk/en/article/2014/877769/welsh-lib-dems-would-scrap-subsidy-for-north-south-air-service-1>

Making It Work

Growth Strategy Panel

We would develop an overarching and long term **National Growth Strategy**, setting out our vision for generating growth, and ensure accountability.

We would found a new **Growth Strategy Panel**, chaired by the Minister, and attended by the chair of each city region, enterprise zone and other similar economic structures. If we are to truly leverage growth we need to have a more formal structure, with appropriate professional support. The Chair of the WDB, Network Champion, chairs of Chambers of Commerce, and other individuals would also be members. Member of the Panel would produce an annual report. The Panel itself would also produce an annual report to be laid before the National Assembly. It would incorporate the Council for Economic Renewal to ensure buy in from professional bodies. If we expect these bodies to drive our economic growth, they must take ownership of the Welsh economic growth strategy and be accountable for it.

We would call for all Welsh Government departments to include a **growth commitment in their annual business plans**, setting out their role in the National Growth Strategy.⁸³

We would identify budgets and projects administered by different departments which are specifically designed to drive growth and bring them together into a single pot, without internal ring fences.⁸⁴

We would ensure that any business which receives government grants includes plans to become fully economically sustainable as a condition of the grant.

⁸³ Heseltine (2012) *No Stone Unturned*.

⁸⁴ *Ibid*.

Business Rates

Our town centres and high streets should be centres of our communities. But all over Wales, town centres are seeing shop after shop close down. These towns can often suffer from a vicious circle – the more shops close, the less people visit, bringing in even less money to the local economy. The 2012 business rates review for the Welsh Government highlighted the side effects of business rates as a factor behind empty town centre shops. The negative impact of business rates has become much more pronounced across Wales in recent years with rates in some areas now higher than rents. Business rates are often one of the greatest fixed costs for start-up businesses. Expanding retailers and other businesses are not investing in their property as business rates are too onerous and they fear surpassing the threshold for their existing level of business rates.

We need business rates to be less of a burden on business and to drive positive business investment and support economic growth.⁸⁵ The business rates system is structured that “rateable values are revalued and the multiplier is reset as part of the five-yearly revaluation cycle”.⁸⁶ Revaluation aims to be fiscally neutral – “collecting the same revenue after the revaluation as prior to it”.⁸⁷ This revaluation cycle means that high street properties often have business rates attached to them that are drastically out of line with market rent realities. Business rates are slow to change and cannot currently respond rapidly to changing realities in the market. At present, businesses which invest in their premises see an increase in their rateable values and see their business rates rise as a result. This acts as a double disincentive for investment – there’s a financial disincentive for businesses to invest in their own premises and there is no incentive for local authorities to invest in economic growth.

The business rates system is no longer fit-for-purpose and is particularly damaging to the retail industry. We must reform it as a priority. The Welsh Liberal Democrats acknowledge that reform of the business rates system needs to be more comprehensive than simply raising the threshold for eligibility for the business rates relief scheme. **The Welsh Liberal Democrats would launch a radical and systematic review of the way that business rates are run in Wales**, involving all stakeholders, and commit to implementing changes as soon as feasible to ensure a minimum of uncertainty. The UK Coalition Government’s commitment to devolve business rates to Wales presents a once in a lifetime opportunity to improve business rates for both Welsh business and local communities.

We would explore in any review of the way business rates are run:

- Giving Welsh local authorities the discretionary power to **designate town centres and district centres as local footfall business rate zones** and alter the business rates in these areas.
- **An additional levy on edge of town retail unit car parks**, in particular, units larger than 1,000m² and with spaces for more than 45 vehicles.
- For vacant properties, review all the categories of empty premises including listed buildings for business rate exemption.
- Providing **50% relief on business rates bills for new occupants of retail premises that have been empty for a year or more at the point of occupation.**

⁸⁵ British Retail Consortium (2014) *Business Rates: Manifesto Milestones*, available at <http://www.brc.org.uk/Downloads/201406%20Manifesto%20Milestones.pdf> p.5

⁸⁶ Ibid, p.6

⁸⁷ Ibid, p.6

We have long supported **devolving business rates to local authorities**. This would provide local authorities with incentive to support business growth and develop realistic economic development strategies. We believe local authorities should be responsible for collecting their own business rates. We support restoring the link between the economic growth and the revenue received from business rates. Local authorities should be allowed to retain 50% of any increase in business rates revenue that they generate for five years initially. In order to ensure no local authority loses out in the first few years, we would alter the revenue support grant to ensure the change is neutral in the first year.⁸⁸ We believe that business rates, designed to levy income from businesses, often place burdens on some community facilities. There is already a large range of exemptions on business rates, but these should be reviewed to include social enterprises and commercial facilities that exist as a lifeline for their community, such as village shops, pubs or post offices. If local authorities are given more discretion over business rates, we believe they could use their knowledge of local needs to decide which properties they feel should have rate relief.

We believe there should be an **automatic tapering system built into the revaluation process** that would ensure that businesses seeing significant rises in the rateable value (in percentage terms) should be allowed to phase in their rise over several years to adjust to new costs. The percentage rise for premises should also be capped to prevent excessive increases. This would tackle the problem of huge rises in business rates when values increase. The current system can rapidly change the amount paid by business owners when their valuations change. This cost is often unexpected and can create a considerable challenge at short notice, and can even undermine a business' viability.

In the mid-term, **we would seek to implement a simplified revaluation system**, based around bands. Instead of valuing every property, properties could be categorised in terms of "district, type of property and size (square foot)".⁸⁹ This may require the concept of fiscal neutrality to be reviewed. Such a system would sustain far more regular valuations since only the category and district weighting would need to be determined. More frequent valuation and banding are necessities if the current system is retained in some form. More frequent valuations would be likely to reduce the burden on business rates during a downturn and raise more during periods of economic growth. Appeals would also be far less likely – since annual revaluations were introduced in the Netherlands, appeal rates are understood to have fallen by 80%.⁹⁰ These bands could also include categories for different land uses as designated under the Town and Country Planning (Use Classes) Order 1987; start-up businesses; small businesses whose published accounts are below a certain threshold; charitable organisations; and local football business rate zones for retail.

⁸⁸ Business Rates Task and Finish Group (2012) *Business Rates Wales Review: Incentivising Growth*, p.20

⁸⁹ British Retail Consortium (2014), *Business Rates: Manifesto Milestones*, p.15

⁹⁰ *Ibid*, p.12

Chambers of Commerce

Evidence shows Chambers of Commerce and other bodies that took on Business Link contracts achieve significantly higher impact and satisfaction than other franchisees.⁹¹ Such organisations are already in the market supplying advice to SMEs, and are more able to cross-refer clients to their other services, gain economies of scope, and draw on long-standing experience.⁹²

We would seek to make Chambers of Commerce a key player in delivering business support on behalf of the Welsh government. We would investigate, in discussion with Accredited Welsh Chambers of Commerce, giving Chambers an **“enhanced legal status to support their role as coordinating hubs for business support and engagement at local level [and providing them with] basic statutory functions”** in line with the recommendations of the Heseltine Review.⁹³ Chambers of Commerce would have to be accredited with the British Chambers of Commerce.

We would explore obliging most categories of business to become members of a Chamber of Commerce, as is done in many countries such as Germany, France and Japan. We would guarantee the “continuing independence from government”⁹⁴ and self-administration of Welsh Chambers of Commerce in primary legislation, to ensure that Ministers aren’t able to interfere in the day-to-day running of a Chamber of Commerce. We would provide compensation if Government opts out of arrangements in the future. We would grant exemption from business rates to Accredited Chambers of Commerce.

⁹¹ http://hal.archives-ouvertes.fr/docs/00/58/21/01/PDF/PEER_stage2_10.1080%252F00036840701579184.pdf

⁹² Ibid, p.19

⁹³ Heseltine (2012) *No Stone Unturned*.

⁹⁴ Ibid.

Regulation

*Contrary to the currently fashionable views, one of the key ingredients in East Asia's success was active government. But it was not more government, which had a positive effect – it was better government.*⁹⁵

We must properly measure the cost of legislative proposals to businesses and the Welsh economy.

FSB Wales “is concerned that insufficient focus has been paid to Regulatory Impact Assessments of legislation created” under the National Assembly’s new powers.⁹⁶ There is no “independent and transparent process for scrutiny” of regulatory impact assessments relating to Welsh legislation. The Welsh Government’s *Regulatory Impact Assessment Code*,⁹⁷ a statutory obligation under the Government of Wales Act 2006, has not been updated since 2009, despite an obligation that Welsh Ministers “must keep the regulatory impact assessment under review” and may remake or revise it. Now the Assembly has primary lawmaking powers and will someday have tax-raising powers, we must review this code to ensure it ensures a healthy regulatory environment in Wales. The independent Regulatory Policy Committee (RPC) comments on the quality of analysis and evidence presented in Impact Assessments (IAs) in England.⁹⁸ This covers legislation from Westminster that applies to Wales, but does not examine Welsh legislation.

We would ask the Law Commission to look at business regulation and the planning process in Wales.

We would bring forward a Regulatory Reform Bill and establish a Welsh Regulatory Policy Committee to provide independent assessment of potential new regulations and improve consistency in the application of regulation. The RPC in England provides a traffic light system in assessing “the quality of the evidence based used to assess the cost implication to business and wider society as well as whether there has been full exploration of alternatives to regulation” and publishes details of its decisions for public scrutiny. We understand that well-designed regulation has a vital role in creating markets and driving investment and will use it, in particular, to promote low carbon and resource efficient innovation.

We have previously said **we would cut red tape by introducing a ‘one-in-one-out’ rule** whereby no new regulation is brought in without another being cut by a greater amount. Since January 2013 in England, a “one-in, one-out constraint has required government departments to balance the costs of new regulation with deregulation that creates equivalent savings for business”. This moved to “a one-in, two-out rule that whenever a regulation creates costs, twice as much saving must be found by scrapping or simplifying regulation”. These are validated by the independent Regulatory Policy Committee to ensure the credibility and robustness of the system.⁹⁹ We would develop such a system in Wales.

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http://www.unctad.info/upload/TAB/docs/TechCooperation/National%20Workshop/3.Lesotho_uneca_Presentation%20Promoting%20PPP.pdf

⁹⁶ <http://www.senedd.assemblywales.org/documents/s19145/Consultation%20Response%20-%20HB%2023%20Federation%20of%20Small%20Businesses%20Wales.pdf>

⁹⁷ <http://wales.gov.uk/legislation/subordinate/subordinate-legislation-guidance/riacode/?lang=en>

⁹⁸ <http://multimedia.food.gov.uk/multimedia/pdfs/publication/fsa-wales-report-account-2014.pdf>

⁹⁹ <http://www.publications.parliament.uk/pa/ld201213/ldhansrd/text/121119-wms0001.htm>

Evidence-Based Policies

The Welsh Liberal Democrats would ensure that Welsh Government has access to the best quality data, including working with other organisations to make their data more open to access. At present there is a distinct lack of economic data relating to Wales.¹⁰⁰ In order to provide improved modelling of public policy decision making and help the Government make more effective policy decisions, **we would support creating a Welsh Treasury with a finance department with economic growth at its core**, as recommended by the Silk Commission and FSB Wales.¹⁰¹ A treasury function for Wales would help ensure that the Welsh Government's budget is used in the most effective manner to deliver economic growth. Especially with the Silk process of devolving new taxes, we will also need to model revenue data from taxation in Wales. We will need quarterly GVA and GDP data and tax revenue modelling in order to inform future policy making.¹⁰² We would commission the ONS to undertake quarterly GVA/GDP surveys, to provide more accurate, timely and relevant data on Wales' productivity. **The Welsh Liberal Democrats call for a Welsh Treasury to develop a Government and Expenditure document for Wales on a regular basis.**

Despite the needs of the business community for a higher skilled adult workforce, education in Wales is not reflecting this. In our paper, *Future for Further Education*, the Welsh Liberal Democrats called for a cross-party commission to examine adult education and skills in Wales. However, it is clear from assessing Wales' more general skills base that a commission considering solely adult education and skills in Wales is not enough. Any commission should have an expansive remit (including young persons' and adult education, workplace learning, apprenticeships, traineeships, further and higher education, and community learning) and build on the lessons from the Turner Review of Pensions and the Dilnot review of Social Care, to produce recommendations by 2019.¹⁰³ **The Welsh Liberal Democrats will set up a commission to examine the long-term skills needs of Wales.**

We would take advantage of the wealth of experience provided by business associations and leading firms by "seconding specialist managers in finance, marketing and general management on short-term programs to key government departments and investment promotion missions" in order to increase government capabilities.¹⁰⁴

¹⁰⁰ <http://www.fsb.org.uk/policy/rpu/wales/assets/budget-best-practice-enquiry.pdf>

¹⁰¹ FSB Wales (2012) *A Treasury Function for Wales*

¹⁰² <http://www.fsb.org.uk/policy/rpu/wales/assets/budget-best-practice-enquiry.pdf>

¹⁰³ NIACE (2014) *Manifesto: General Election 2015*,

http://shop.niace.org.uk/media/catalog/product/n/i/niace_manifesto_skills_for_prosperity_june2014.pdf

¹⁰⁴ Grigoryan, Karen (n.d.) *The Key Issues of the improvement of export promotion policy at the macro- and micro- levels*, p.5