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WESB2@wales.gsi.gov.uk

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Executive Summary

The challenge of sustainable economic renewal

1. The Wales Employment Skills Board (WESB) sees a sharp challenge ahead for Wales, not just to recover from recession in output terms but also to achieve a sustainable recovery in employment terms.
2. WESB strongly welcomes the Government's commitment to an Economic Renewal Programme. This is a huge opportunity to get Wales in shape for the economic challenges we now face. It is crucial that Wales moves in the direction of higher output and greater added-value activity, but for WESB there are also other issues at stake.
3. Our first concern is that the **skills** dimension of both economic and social renewal should be fully recognised and resourced accordingly. Skills are critical to employment and they enable communities and families to exploit new opportunities. Skills certainly have a critical role in supporting economic development, but the supply of, and planning for, skills has to be driven by real demand. This is why we have argued previously that the skills strategy must in large part derive from a clear economic development strategy. Now, with the prospect of the Economic Renewal Programme, Wales has the option to make choices about skills investment and priorities against the backdrop of such a strategy. The skills agenda is a devolved matter and one that can truly deliver for Wales. We urge Welsh Ministers to exercise their powers to drive both the acquisition and utilisation of skills to the fullest degree possible.
4. Our second concern is that *a sustainable economic renewal strategy should underpin, and be intentionally driven to interact with, **social renewal***. Our social ills cannot be resolved by social policy measures unless they in turn are underpinned by economic transformation. Grave and pressing social problems in Wales should not be seen as in competition with transformation of the economy – their resolution depends on it. A sustainable route to achieving our social goals and combating social ills can only rest upon sustainable economic recovery. This will be especially so as the funding of social policies comes under increased pressure.
5. Jobs are at the heart of the relationship between economic and social renewal. We urgently need a growth in jobs, in good jobs, and in jobs in every locality (and family or household) in Wales. By 'good' jobs we mean those which are not necessarily highly paid but which have opportunities for progression (in status, remuneration and skills) and sufficient security to enable people to stay out of poverty not merely cycle in and out of it. Critically, new jobs need to be based in the private sector (including mutual and social enterprises) rather than a squeezed public sector – requiring a renewed effort at all levels

across government to promote the skills and aptitudes necessary for a new entrepreneurial generation.

6. Accordingly, as last year, we believe that economic renewal demands a **'whole government'** approach, but we now go a step beyond that.

WESB now recommends that, as resources tighten, the Welsh Assembly Government should:

- Focus on just a few key priorities
- Place the transformation of the economy as the over-riding objective –albeit it in such a way as to support sustainable social policies and help deliver on social as well as economic objectives – and focus support to skills and employment in line with this priority
- Reduce the scope of current interventions, which will include making hard choices, so as to create room to invest in key programmes and a simplified, better integrated, offer to employers

7. To give that over-riding objective a clear and unambiguous focus, **WESB recommends that the Economic Renewal Programme should have the following primary goals:**

- To substantially raise GVA
- To achieve and then exceed the 'One Wales' 80% employment target and, to this end and in the short term, to increase jobs of all kinds
- To ensure sufficient jobs in the right places, including those at the lowest skill levels so as to reduce concentrations of long-term unemployment and economic inactivity
- In the longer term (but beginning straight away), to ensure that all jobs are 'good jobs' of a kind that will prevent recurrent poverty and break the cycle of low skills, economic underperformance and poverty

The delivery of economic renewal

8. In this context, we advise the Welsh Assembly Government, in taking forward the economic renewal strategy, to focus on the following four imperatives for growth:

- **Culture** – a vigorous culture of support throughout the public sector (including in land use and other planning systems) for private, mutual and social enterprises – 'Wales is open for business'
- **Infrastructural improvement** – including, for example, knowledge and innovation, as well as physical infra-structure
- **Skills** – partnering employers, individuals and communities to drive motivation and skills acquisition at all levels and ages within the workforce

- **Sustained improvement in performance at the company/enterprise level** – through the championing of High Performance Working and ‘Total Innovation’

9. In addition, there is a need to monitor the use of grant aid in competitor nations within and beyond the UK.

10. Our main focus is on the last two of the above imperatives – on improved business performance and improved skills – critical foundations of the higher GVA and more and better jobs which are the very essence of economic renewal. WESB’s view is that **increasing GVA** needs a ‘whole economy’ approach. We welcome the move to focus support – especially the promotion of knowledge generation and transfer – on some high value sectors. However, we also see a need to give far more attention to driving up productivity across the whole of the Welsh economy, in low as well as high value added sectors [a high performing tourism and hospitality sector, for example, would bring benefit to Wales and to areas with limited economic opportunity]. But, in line with our integrated view of economic and social strategy, we also see a powerful need to **increase jobs** per se, at all skills levels, and especially ‘good’ jobs.

WESB therefore recommends that the Welsh Assembly Government adopt a twin-track strategy that aims to:

- Raise GVA both by increasing engagement in high value sectors and by raising productivity across the economy as a whole – promoting skills utilisation and improvements in leadership and management to this end
- Increase jobs, especially ‘good’ jobs (with the ideal longer-term outcome of a job for every family or household) – equipping the people of Wales with the skills and motivation needed to break existing cultures of disengagement and to take full advantage of these opportunities

11. While the capacity of government to achieve these goals is limited, and individuals, employers and others have a shared responsibility to enable change, action can and should be stepped up on several fronts. In particular, it is WESB’s strongly held belief that both more effective business performance and the generation of jobs, particularly of the ‘good’ jobs which are needed, requires intervention which not only supports *sectors* with growth potential but also supports *individual businesses* where they, too, can grow.

WESB therefore recommends that Welsh Assembly Government interventions should:

- Support a small number of sectors or activities where government engagement can catalyse or accelerate high value added growth
- Support businesses (including mutuals and social enterprises) on a 'company-by-company' basis, regardless of sector or skill level, wherever there is a realistic prospect of employment growth and/or enhanced performance

12. WESB sees *High Performance Working* and *Total Innovation* as valuable models for the good practice in innovation, human resource management, and skills development which frequently underpins the sustainable business and employment growth we seek. We believe that these approaches can, and should be, widely adopted within the Welsh economy as whole; and, further, that *business-to-business peer-learning* networks are an effective means of widening their use.

WESB recommends that:

- The Welsh Assembly Government should itself embrace Total Innovation/High Performance Working principles and methods within its own operations
- The Welsh Assembly Government should pilot programmes which assist companies, social enterprises, and other public organisations to adopt Total Innovation/ High Performance Working principles and methods
- Subsequent Welsh Assembly Government support to businesses should widely encourage positive organisational innovation and HR approaches as a route to enhanced performance and 'good' jobs
- The Welsh Assembly Government should work with the UK Commission for Employment and Skills (UKCES) and others to promote and pilot the formation of business-to-business peer-learning networks committed to sharing best practice in leadership and management, High Performance Working and Total Innovation

13. 'Anchor companies' – strong businesses/enterprises with extensive supply chains in Wales – can play a key role in driving the spread of such best practice.

WESB recommends:

- That Economic Renewal Strategy should identify a set of major businesses which, through their employment and purchasing, make a major contribution to the Welsh economy and which, by their good practice in innovation and human resource management, have the potential to act as leaders of peer-learning networks in their sectors and supply chains. The Welsh Assembly Government should encourage and support such businesses to take on and extend this role

14. In this light, both the expenditure and the supply chains of government (and of the public services more widely) have significant potential to speed economic recovery.

WESB recommends that the Economic Renewal Programme should review:

- How public procurement can be organised further to increase its multiplier effects within the Welsh economy
- How it can be undertaken in such a way that it delivers a stimulus to innovation and competitiveness, by promoting approaches to organisational development and best practice

15. A major part of government intervention takes the form of support for training and skills development. We believe this should be designed to reinforce the approach we advocate and **a successor programme to ProAct** should be developed with this in mind.

WESB recommends that:

- The Welsh Assembly Government develop a 'Jobs Growth Fund' to support skills enhancement in enterprises with jobs growth potential
- Building on the approach within ProAct, the fund should operate on a low-bureaucracy and light-touch basis that trusts employers to know their own training needs
- The fund should be focussed on enterprises that have 'graduated' from the ProAct or Workforce Development Programmes and/or are members of peer-learning networks

16. The main focus of economic renewal will, correctly in our view, be a stimulus to private enterprise. However, the **'mutual'** philosophy has a strong place in Welsh culture and history. We believe that this is an important foundation for further growth which should not be neglected.

WESB recommends:

- That the Welsh Assembly Government urgently review how it can significantly increase the support it gives to the formation of mutual and social enterprises in Wales, particularly in areas where the 'mainstream' economy is manifestly not supplying the necessary level of job opportunities

Effective delivery: information and simplification

17. Our recommendations are designed to help bring skills and economic development into better alignment, but WESB remains concerned about the highly variable and often low level of Labour Market Intelligence in Wales on which much planning and delivery depends.

WESB recommends that the Welsh Assembly Government :

- Ensure that UKCES national skills audits adequately cover Wales and its regions and that results are made available as early as possible to Wales' employers, providers, guidance services, and other stakeholders
- Ensure that there is accurate and up-to-date intelligence and information gathered on employment and skills demands for all sectors and sub-regions
- Secures positive outcomes for Wales from the performance management, and any future reform, of Sector Skills Councils (SSCs)

18. During our work, two other basic issues emerged which extend across much of Wales' economic and social strategy:

- That complexity – of funding, programmes, initiatives, and bureaucracy – continue to inhibit delivery in many areas.
- That a plethora of information too often hides an absence of good intelligence on performance, unit costs and cost-effectiveness and quite simply on what works.

We therefore recommend:

- A fundamental re-structuring of processes and procedures founded on a strategic commitment to simplicity, directness, and greater trust of employers and delivery bodies, but based on firmer monitoring of outcomes. We believe this would both aid delivery and help contain costs in a period of enforced austerity
- That this process include a re-appraisal of the intelligence needed by government to operate effectively and of how best to translate this into the most cost-effective and least burdensome means of information gathering

Improving the skills base: some key areas for action

19. In addition to our consideration of economic renewal and of the contribution of skills to that renewal, WESB has also given detailed attention over the last year to some particular aspects of the challenge. Our perspective on each aspect reflects our overall position that skills development, jobs growth, and innovation and growth in the economy as a whole are interactive and, therefore, must be closely aligned if Wales is to prosper both economically and socially. The Board believes that:

- That **basic skills** and young people's **employability** in general need to be greatly improved
- That the **reduction of youth unemployment** must be a key priority for government in Wales; and.
- That **Higher Education** can be, and needs to be, more deeply engaged in the economic challenges which Wales faces

20. Our analyses of these issues, and our corresponding recommendations for action, are set out in Volumes 2-5 of our Second Annual Report.

2. Introduction

21. The Wales Employment and Skills Board¹ was created in May 2008 to advise Government on employment and skills policy, with a particular remit to articulate the employer perspective².

22. In our first Annual Report³, we called for economic renewal to be set as the Government's overarching goal, with all Government departments aligned in pursuit of this goal in a 'Whole Government' approach. We identified some specific developments which we believed were essential if economic growth were to be re-started and maintained in the longer term: tackling the basic skills deficit; stimulating R&D and the development of high level skills; improving management and leadership throughout the economy; and strengthening customer focus in the delivery of public services and interventions.

23. We challenged Government to show a response to the threats posed by the recession which was on the scale, and was delivered at a pace, which were commensurate with these threats. We saw flexibility, simplicity and management by outcomes (rather than by activity) as further essential hallmarks of good policy and of good policy implementation. And we urged Government to do everything possible to divert funds to the support of employment and skills development as long as recession endured.

24. This is our second Annual Report. In economic terms, we now know better where we stand. We have been through a recession which, in a period of little over a year, saw UK output drop by more than 6%. In the last quarter of 2009, the UK economy saw a return to growth, albeit at a very modest level, and unemployment has broadly stabilised. Uncertainties remain, reflected in the varying level of optimism and pessimism inherent in the many economic indicators which regularly and frequently appear. However, we believe the essential and urgent task for Wales is clear – it is to move forward and upward from the weakened economic base which recession has delivered.

25. This will demand a strong economic renewal programme which not only delivers growth in the output and value generated by the Welsh economy but creates more jobs and distributes the benefits of growth at levels and in ways which benefit Welsh society as a whole. A key factor critical both to growth itself and to the pattern in which its benefits are distributed are the skills held by the managers, staff, and would-be staff of Wales' private, public, and third sector enterprises and organisations.

¹ Board members are listed at Annex 1

² The Board's remit is set out at Annex 2

³ *A Wales that Works, First Annual Report*, WESB, April 2009

26. Reflecting this context, our Annual Report this year is called ‘Moving Forward: Foundations for Growth’. It comprises **five separate documents**.

27. This document – Volume 1 – comprises a broad statement of the Board’s perspective on economic renewal and what it considers should flow from that in terms of economic and skills policy. The main arguments set out here are those which we have made to the Welsh government through the consultation on the Economic Renewal Programme.

28. The Board’s work this year has, however, allotted special attention (via working groups, specialist presentations, and evidence review) to some aspects of national policy which are hugely significant to economic renewal – basic and employability skills, youth unemployment, and Higher Education. Our analysis, position, and recommendations on these are contained in **four further volumes**⁴.

29. At many points in our Second Annual Report (comprising the five volumes), we return to key themes of our first Annual Report. It is inevitable that we do so – vital economic and social needs do not change in a year. However, the challenges which Wales faces can now be seen more clearly and the Welsh Government is moving more decisively to meet them.

30. WESB has, correspondingly, widened and deepened its analysis, argument and recommendations. Our core belief, underpinning all of our more detailed proposals, remains – that Wales can, and therefore must, secure a prosperous future for all its people.

⁴ *Moving Forward: Foundations for Growth, Vol.2, Basic Skills*, WESB, 2010
Moving Forward: Foundations for Growth, Vol.3, Employability Skills, WESB, 2010
Moving Forward: Foundations for Growth, Vol.4, Youth Unemployment, WESB, 2010
Moving Forward: Foundations for Growth, Vol.5, Higher Education, WESB, 2010

3. Context

Introduction

31. In this first section of this volume, we briefly consider the context for the discussion of WESB's position on economic renewal which follows. This context concerns:

- The basic economic position
- Policy developments at UK level
- Policy developments in Wales

The basic economic position: recession and government spending

32. Two critical factors governing our discussion are the current economic situation and the state of government finances.

33. Our economic analysis need not be lengthy.

34. Firstly, of course, Wales has been affected by global recession triggered by the near-collapse of the banking system in **2008**. UK output fell by around 6% between 2008 and **2009**. To a degree, the situation has now stabilised. UK growth was of 0.4% in the last quarter of **2009**. Though the danger of a 'double dip' recession involving a second phase of negative growth is real, it is not anticipated that any such phase would involve decline on the scale experienced in 2008-2009.

35. The forecast⁵ is for growth in the UK economy of 1.4% in 2010 and of 2.1% in 2011.

36. The impact of recession on employment has not, however, been as severe as in previous recessions. In the UK, unemployment rose from 1.75 million in 2008 to nearly two and a half million by the summer of 2009 and has since stabilised at around that figure, some half a million below the widely-expected three million mark. There has been a similar pattern in Wales. Unemployment rose from around 78,000 in 2008 to around 130,000 by mid-2009 and has since fallen back a little, though the rate in Wales, at 8.5%, remains above the UK average rate of 7.8%. At its worst, the local rate in Wales is around 14% (in Blaenau Gwent).

37. It should be recognised, however, that recession, particularly in Wales' least prosperous parts, has worsened an already difficult position. In many places, it has imposed 'cyclical' impacts on top of long-standing structural weakness, not generated problems where none existed before.

⁵ Average of independent forecasts in *Forecast for the UK economy*, HM Treasury, February 2010

38. The forecast is for claimant unemployment in the UK to remain around 1.7 million in the period 2009-2011⁶ then to decline to around 1.55 million by **2014**. If Wales follows this broad trend, it would suggest that unemployment in Wales will remain at more or less its present level for at least the next 2-3 years and may then begin to decline only slowly.

39. Of course, forecasts can be, and frequently are, wrong. Two factors, particularly, may destabilise them.

40. Firstly, structural economic change, whether or not brought to a critical point by recession, continues. The announcements of closure of the Bosch plant and of redundancies at Corus and elsewhere are obvious examples. Where such change impacts on the economy and on what scale cannot be predicted.

41. Secondly, following the General Election in May, further government action to cut public spending, whichever party is in power, will be taken. Impacts on direct government employment and on government purchasing are inevitable. These in turn will impact on the private sector in Wales. However, the scale and pace of these measures is not yet known and their effect on job levels – beyond a potentially significant downward pressure – is unknown.

42. WESB draws two simple points from this position. The first is that Wales faces an uncomfortable short and medium term economic future – a period of low growth, above-trend unemployment, and continuing uncertainty.

43. The second is that whatever action is taken by the Assembly Government to improve economic and labour market conditions will need to be highly efficient in financial terms. Improved performance in this area will derive from smarter use of resources, not from more resources. In making various recommendations in our report, we fully recognise that our advocacy of particular interventions will imply diversion of funds within or across government departments and programmes, not the allocation of ‘new money’.

Policy developments at the level of the United Kingdom government

44. Since WESB's First Annual Report, the United Kingdom's economic and skills policy has undergone significant development. On the economic side, the Department for Business Innovation and Skills has produced a strategy for economic recovery⁷ and has followed up with a paper⁸ setting out how that strategy will be implemented. On the skills side, the UK Commission for Employment and Skills (UKCES) has produced a report⁹ of expert advice to government on national skills policy.

⁶ op cit, HM Treasury, February 2010

⁷ *New Industry, New Jobs*, Department for Business, Enterprise and Regulatory Reform, April 2009

⁸ *Going for Growth: Our Future Prosperity*, Department for Business, Innovation and Skills, January 2010

⁹ *Towards Ambition 2020: skills, jobs, growth*, UKCES, October 2009

45. Each of these documents ranges widely over their policy areas and some of their content, particularly in the economic strategy documents, whilst important to growth, concerns matters on which WESB (and, in some cases, the Welsh Assembly Government) has no influence. However, there are some policy directions and initiatives which resonate with WESB's own position and which offer important guidance or have important implications for Wales. What are these?

46. From the **UK economic strategy** papers we identify five key themes which we see as being of particular significance:

- Emphasis on 'transforming knowledge into economic growth' is translated in UK policy terms into significant financial support to centres of excellence in advanced technologies and to University spin-outs. Wales' own Higher Education strategy¹⁰ recognises 'the need for higher education to enhance further its impact on Welsh economic performance' through 'the environment universities provide for innovation, business start up and economic development' but places this in a much wider view of the Higher Education sector's contribution to economic and social change. WESB also gives strong emphasis to the sector's potential to act as a focus and catalyst of strong economic growth. That emphasis is displayed in our report on Higher Education¹¹ and – through a discussion of graduate employability – in our report on employability skills¹².
- UK economic strategy recognises that a part of the economic recovery is to assist those who have lost out in recession. The strategy points to the 'September Guarantee' (of a place in learning) to 16 and 17 year olds and to the 'Young Person's Guarantee' of access to a job, training, or work experience after 6 months' unemployment. WESB has particular views on youth employment strategies which are contained in our paper on youth unemployment¹³.
- The UK government is also beginning to move towards a more selective view as to where economic growth is most likely: '*We cannot predict exactly the future shape of the economy, but we can identify global trends and challenges that are driving increasing demand, and look at the comparative advantage we have or can develop to meet these opportunities. We can also assess how government action might realistically support these strengths looking at the real and beneficial impact of targeted intervention.*' Wales' Economic Renewal Programme has also identified that Wales needs to '*strengthen how*

¹⁰ *For Our Future: The 21st Century Higher Education Strategy and Plan for Wales*, Welsh Assembly Government, November 2009

¹¹ *Moving Forward: Foundations for Growth, Vol.5, Higher Education*, WESB, 2010

¹² *Moving Forward: Foundations for Growth, Vol.3, Employability Skills*, WESB, 2010

¹³ *Moving Forward: Foundations for Growth, Vol.4, Youth Unemployment*, WESB, 2010

*we use our key sector priorities so that our aspirations become reality*¹⁴. These approaches raise clear challenges which WESB considers later in this report.

- UK economic strategy also recognises the need for *'new plans for how national, regional, and local government should work together to drive growth ... Taking a more co-ordinated approach to supporting innovation, skills and enterprise.'* WESB is strongly of the view that the necessity for a joined-up, 'whole government' approach to economic and workforce development is a pressing need for Wales as for the UK as a whole.
- Finally, UK strategy recognises the value of 'a more strategic approach' such that *'public procurement projects can help UK-based businesses create jobs' and of government contracts being 'routinely linked to the creation of places for apprentices to improve skills and tackle youth unemployment'*. WESB will reflect later in this report on the application of such approaches in Wales.

47. These developments imply a challenge to Wales; they may well increase levels of competition within the UK.

48. When it comes to **UK skills policy** advice, WESB is in broad agreement with much of UKCES' analysis. Fundamentally, this identifies as the broad objectives:

- Raising **individual aspiration**
- Increasing **employer ambition**
- Creating more **responsive provision**.

49. The challenges identified at UK level are also the critical ones for Wales:

- Too few businesses generating demand for high skill levels in high value sectors.
- Too many young people with deficits in their basic and employability skills.
- A skills system which is too complex to allow customers to drive demand or provider performance.
- The need to get more for less by eliminating intermediaries and costly bureaucratic processes.
- The need to leverage greater investment from individuals and employers to fund service improvements.

50. We also share much of the UKCES perspective on the necessary response to these challenges:

- For *employers* ...
 - ▶ Economic strategy in support of high added value businesses which includes measures to support new industries, more innovation and better leadership and management.

¹⁴ Written statement by the Deputy First Minister and the Minister for Heritage, the Welsh Assembly Government, 2010

- ▶ High quality labour market information to allow skills supply to better match energy demand – training to meet needs not training ‘for stock’ in the hope that more skills will themselves drive economic growth.
- ▶ Greater employer collaboration and networking to create more high skill, high performance workplaces.
- For *individuals* ...
 - ▶ Raising aspiration through the availability of high quality provision and greater opportunity to progress.
 - ▶ Better information, advice and guidance.
 - ▶ More customer choice for its own sake and to drive quality upwards.
- For the *skills system* ...
 - ▶ More trust in, and greater authority for, providers – with quality driven by course labelling and institutional scorecards not by detailed control of process.
 - ▶ Simplified and prioritised funding.
 - ▶ Modular and flexible qualifications which meet industry requirements as the only qualifications for public funding.
- From *government* ...
 - ▶ Light touch regulation focussing on outcomes.
 - ▶ A de-cluttered ‘skills organisational landscape’ free of over-complex systems of planning, funding, performance management, quality improvement, and employer engagement.

Policy developments in Wales

51. In parallel with UK-wide developments, Welsh economic and skills policy continues to evolve. Since our last Annual Report, a strategy for Higher Education (‘For Our Future’) has been published. Wales’ Basic Skills Strategy is being updated and work to respond to the particular problem of youth unemployment is underway. The Welsh Assembly Government Careers Service Review has been commissioned in order to improve all-age Information, Advice and Guidance. Wales’ major skills strategy, ‘Skills that Work for Wales’, continues to shape Wales’ approach to skills development.

52. Many of the arguments of our Annual Report concern aspects of these strategies. However, a critical development is the initiation of an Economic Renewal Programme.

53. In working towards this strategy, the Government has clearly recognised the wide range of areas in which government can, potentially, act. These are divided into two broad groups – actions to improve *the infrastructure and environment for business* and actions to *directly support business*.

54. WESB is supportive of action of both types. In our report on Higher Education, for example, we advocate strengthening of this key component of the Research & Development and innovation infrastructure of Wales; and our reports on basic and employability skills demand that Wales' learning infrastructure becomes much more effective in delivering these skills into the economy.

55. In *this* report, while acknowledging the significance of infrastructure and its development, our focus is very much on direct government engagement with business to promote growth – not just in wealth but also in the levels of employment and skills which are needed to ensure that economic renewal brings sustained and wide benefits to Welsh society.

56. We believe that businesses will welcome such engagement providing that intervention is: meaningful to their operations; on a scale, relative to the business receiving support, which is sufficient to make a difference; clear as to its nature; and accessible and non-bureaucratic in its delivery.

4. Economic renewal and skills: the WESB perspective

Introduction

57. We recognise that the Welsh Assembly Government has already, through programmes such as ProAct and ReAct, made great efforts to respond to recession. Our aim here is to look forward and to assist the Government to identify what is needed to build on these immediate responses.

58. Last year, WESB argued in its Annual Report that, even before the recession, the Welsh economy was seriously under-performing and we called for a ‘whole government’ approach to economic transformation: whole government because transformation would need concerted action across central and local government alike.

59. We also argued that, without a clear economic strategy, it was difficult to anticipate the skills needs of the future economy of Wales. The announcement that an Economic Renewal Programme would be developed is warmly welcomed and we see it as a crucial opportunity. We believe a strategy to transform our economic performance is not only important in itself but that policies to address social ills cannot be effective unless they are underpinned by a more successful economy that delivers greater wealth and more, better, and better-distributed, job opportunities.

60. We therefore go a little further than last year.

WESB now recommends that, as resources tighten, the Welsh Assembly Government should:

- Focus on just a few key priorities
- Place the transformation of the economy as the over-riding objective, albeit in such a way as to support sustainable social policies and help deliver on social as well as economic objectives
- Reduce the scope of current interventions, which will include making hard choices, so as to create room to invest in key programmes and a simplified, better integrated, offer to employers.

The underlying philosophy: Wales needs to be bold as well as strategic

61. The international and UK context is both vibrant and challenging. We have to match and exceed dynamism elsewhere. To take just one example, China is committed to train and facilitate 1 million – mainly young, mainly graduate – entrepreneurs in 2010 alone. At the UK level there is a growing sense that strong government action is needed if we are not to fall behind. Scotland and now England are becoming pro-active about economic renewal. Wales, too, needs to be bold and comprehensive in its renewal strategy if it is not to be left behind and find itself less competitive than the rest of the UK, let alone international competitors.

62. For 20 years or more, UK governments have seen market forces as the sovereign mover in determining economic trends and developments. The mantra has been ‘we cannot risk backing winners’. This view originated in large measure from forlorn attempts to back losers that seemed vital to the economy. That mind set is now changing – possibly across all parties. The UK government’s approach within its ‘New Industry, New Jobs’ and ‘Going for Growth’ strategy (discussed earlier) is essentially based on and around a commitment to ‘industrial activism’ – *‘an active industrial strategy to aid recovery, drive growth and create high value jobs; building on existing and new industrial strengths to achieve competitive advantage through targeted investment and the government’s role as regulator and customer.’*

63. We believe the Welsh Assembly Government, too, needs to be proactive but, in being so, needs to concentrate, as above, on a few well chosen priorities. What should the priorities be?

WESB’s priorities for a sustainable Economic Renewal Programme

64. For reasons we set out below, we believe the strategy must revolve around four primary goals:

- Raising GVA
- Increasing the number of jobs per se
- Increasing the number of jobs in the right locations
- Increasing the number of ‘good’ jobs.

65. To our mind, *raising GVA* is certainly about increasing the proportion of the economy that falls within high value added sectors and WESB welcomes the recent announcements concerning support for the ‘knowledge economy’. However, we also see it as about *raising the performance across all sectors*, including in lower value-added sectors. A tourism and hospitality sector that moved ‘up-market’, for example, would both increase GVA and distribute more and better jobs in rural as well as urban areas of Wales.

66. A dual approach to raising productivity – a larger presence in high value added sectors, but also higher productivity in all sectors – would also be a safer route for a small economy such as Wales. To grow high value and high technology sectors is the goal everywhere; it is the most competitive renewal business to be in. To improve productivity in other sectors and take them up-market is more about raising performance company-by-company and enterprise-by-enterprise. It is a demanding task but one that is more directly within our control. Later in our report we address the need to drive improvements in leadership and management, embrace such models as 'High Performance Working' and 'Total Innovation', and promote each through employer networks focussed on the transfer of good practice.

67. WESB sees higher rates of employment and, therefore, *more jobs per se* as a critical factor in a renewal strategy. This includes a need for more jobs in disadvantaged communities and at *all skills levels*, for two reasons. First, such jobs are needed to move people out of longer term unemployment and economic inactivity. Even with good preparation, few are likely to move directly into high skilled work. Second, jobs act as a prime motivator for learning and skills acquisition – individuals, their families and communities, and their advisors are all more inclined to see attainment as worthwhile if it is likely to lead to work. Even quite young children form a fairly accurate opinion of their chance of success in mainstream society and are in danger of disengagement if they do not see sustainable and progressive employment as a realistic prospect. Educational under-performance, driven by perceived or real lack of future employment opportunity, must therefore be seen as an economic as well as a social issue. It is not capable of being solved within the education system alone.

68. Because the disadvantaged are least likely to be immediately geographically mobile there is a need to address the issue of *location*. The Heads of the Valleys initiative is an example on which economic strategy must build.

69. In one sense any job is better than none – but only to a certain extent and in the short term. One clear lesson to be learned from the most recent research on poverty published by the Rowntree Foundation¹⁵ is that good jobs are vital if we are to break the poverty cycle. We fully support this analysis and see 'good jobs' as those that have opportunities for progression (in status, remuneration, and skills) and sufficient security to enable people to stay out of poverty not merely cycle in and out of it. Casualisation of the labour force and related HR practices are the antithesis of good jobs. Whilst recession may have driven some companies towards less secure employment and reduced pay, WESB does not see this as a long-term 'solution'.

70. Thus, as with educational under-performance, breaking the poverty cycle cannot be just a social goal – it must be an economic goal too. Poverty depresses aspirations, attainment and skills and thereby re-creates itself in future generations. In doing so it also reduces our economic capability and soaks up valuable public resources across a range of services.

¹⁵ Monitoring poverty and social exclusion in Wales, Joseph Rowntree Foundation, June 2009

71. Thus, WESB recommends that the Economic Renewal Programme should have the following primary goals:

- To substantially raise GVA
- To achieve and then exceed the 'One Wales' 80% employment target and, to this end and in the short term, to increase jobs of all kinds
- To ensure sufficient jobs in the right places, including those at the lowest skill levels so as to reduce concentrations of long term unemployment and economic inactivity
- In the longer term (but beginning straightaway), to ensure that all jobs are 'good jobs' of a kind that will prevent recurrent poverty and break the cycle of low skills, economic underperformance and poverty

72. However, to say that Wales needs to generate value in its economy, to generate as many jobs as possible in the short term and as many good jobs as possible in the longer term, and to ensure that the fruits of this should be spread in such a way as to reduce disadvantage, is one thing. The real question is of how to achieve that.

73. In this context, we advise the Welsh Assembly Government, in taking forward the economic renewal strategy, to focus on the following four imperatives for growth:

- A vigorous **culture** of support throughout the public sector (including in land use and other planning systems) for private, mutual and social enterprises – 'Wales is open for business'
- **Infrastructural improvement** – including, for example, knowledge and innovation, as well as physical infrastructure
- **Skills** – partnering employers, employees, individuals, and communities to drive motivation and skills acquisition for all levels and ages within the workforce
- Sustained improvement in performance at the company/enterprise level – through the championing of High Performance Working and 'Total Innovation'

74. In the remainder of this report, we concentrate on the last two of these areas for intervention.

Economic performance and skills

75. The relationship between skills and economic performance is both complex and uncertain, but the following factors are at the heart of the equation:

- Supply is essentially about the whole provider system – not only the substantial training input and skills output of the post-16 sector, but the whole educational system which underpins individuals' capabilities. It is also about developing ambition, aspiration and confidence at the individual and institutional levels. All of these affect attainment.

- Demand is essentially about the skills needs of employers of all kinds, but that in turn is determined by the character and strength of the economy – now and into the foreseeable future. It is also affected by the clarity with which employers both see and predict their needs and the success with which these needs are expressed and communicated.
- Match/mismatch between the two is about the responsiveness of providers, the choices made by individuals, the clarity of employer demand, the quality of labour market information that influences government, institutional and individual decisions, and the effectiveness of the signals and incentives that government introduces into the provider system.

76. The issue is of how the Economic Renewal Strategy should position its efforts to bring supply and demand into balance and to reduce mismatch.

Supply – necessary but not sufficient

77. The tendency has been to see the supply side – the generation of skills and problems of mismatch – as holding back the economy. This was perhaps inevitable in an era when market forces were seen to be almost the only key determinants of the shape of the economy and therefore the demand for skills. The problem, it is argued, is that providers (schools, FE, HE, and private providers) do not produce skills in the right quantities or of the right type. In part, this is undoubtedly true. For example, in his report, Leitch¹⁶ emphasised the need for better labour market information and the need to make providers far more responsive to demand – especially that of employers. And the ‘Digital Britain’ report¹⁷ is concerned that a ‘digital divide’ in society will perpetuate if provision for ICT teaching is not widened.

78. However, it would be theoretically possible to eliminate mismatch at any level of economic performance – even a low skills equilibrium economy could achieve this – but it is not what we seek. Indeed, the need in Wales is to escape once and for all from just such a recent history.

79. The Leitch answer for the UK was to set demanding targets at all skills levels; targets that reflected the danger – now and into the future – of UK falling behind the skills levels of competitor nations. The implication was that raising the game on the supply side would of itself drive economic success.

80. WESB does not subscribe to this ‘stockpiling’ model. We welcome the Welsh commitment to an integrated approach: to co-ordinated action on supply, demand and the intervening factors that might lead to mismatch – but much needs to be done to make a reality of this philosophy.

¹⁶ UK Skills: Prosperity for all in the global economy – world class skills, Lord Leitch, December 2006

¹⁷ Digital Britain, Department for Culture, Media, and Sport/Department for Business, Innovation and Skills, June, 2009

81. One good reason for not having demanding skills targets for the sake of it is that there is little evidence of significant skills shortages¹⁸. Those that exist are quite specific and few in number. Another reason is the evidence of an ‘over-supply’ of skills. Both individuals and employers report that people have skills that are not demanded or used in their present jobs and perhaps a million graduates seem to be under-utilised at present¹⁹.

82. The UKCES analysis is not that we have an over-supply of skills (at any level), but that demand is too low. In effect, the argument is that relative to key competitors the UK as a whole is in danger of exhibiting some of the aspects of a low(ish) skills equilibrium. The UKCES therefore emphasises the need to raise employer ambition – to encourage employers to raise their game and thereby demand more skills.

83. This focus on demand is a timely antidote to the pre-occupation with supply. Addressing demand is especially important in Wales, but a commitment to ‘raising employer ambition’ may seem to strike the wrong note – and it is easier to say than to do. Addressing low demand is a complex task that needs to be properly addressed.

Demand – the key objective

Introduction

84. Part of the solution, as we note later, is about acting at the level of the enterprise. Above and beyond this, however, is the need for clarity about the overall role of government in stimulating the demand side. It is why we need an economic renewal strategy – one that identifies the role of policies and interventions at all appropriate levels and across Wales, builds them into a coherent framework, and implements them rigorously. WESB’s views on the key elements of an effective ‘demand-side’ strategy are set out below.

A culture of growth

85. The first requirement of economic strategy is that it is based on a profound belief that Wales can succeed. UK-national strategy (‘New Industry, New Jobs’) makes the point that the world’s economic output is likely to double over the next decade. Given the right products and services, the skills to produce them, and good market positioning, Wales’ prosperity can rise substantially.

86. Wales needs to make it abundantly clear to potential investors that it is open for business. The rhetoric has to be highly visible and positive but it must be backed by the coherent, concerted, and comprehensive policies and actions which make Wales as attractive as possible to enterprise. Wales must have a truly distinctive and competitive offer, which is well-signposted and proclaimed, to businesses which do not need to start or stay in Wales or to relocate or expand into Wales.

¹⁸ op cit, UKCES, October 2009

¹⁹ op cit, UKCES, October 2009

87. Wales also needs a powerful commitment to ‘industrial activism’ which matches and surpasses that of other UK governments in their development of industrial strategy. In times of general economic expansion, it may be enough simply to have an ‘attractive offer’ in the confidence that business growth will ensure that the offer is accepted. In times of nil or slow growth, a more interventionist approach is necessary.

88. Before examining the type of economic intervention which is necessary, a key question concerns where that intervention should be applied.

Sectors and enterprises: intervention priorities

89. The obvious reason for this question is that resource to support business, notwithstanding the conversion to a more active interventionist strategy we advocate, will remain limited and choices must be made. Some support, of course, is neutral – it is open to any business which seeks to avail of it. However, the Assembly Government has indicated²⁰ that the Economic Renewal Programme will ‘strengthen how we use our key sector priorities so that our aspirations become reality’ and will develop relationships with companies on an ‘end to end’ basis which may include assistance with product development, intellectual property rights, and workforce and management skills, and many other matters which relate to business performance and growth.

90. WESB has discussed the ‘priority sector’ component of economic renewal strategy with the Assembly Government and several concerns arise.

91. Firstly, we are concerned that work to define the sectors to be given ‘priority’ attention needs to be regularly updated and refined, not least because recession may have altered the underlying rationale for selecting priorities. More particularly, we believe that some sectors (notably those concerned with environmental technologies) are rapidly advancing but that Wales is not sharing in their growth. Thirdly, we are concerned that priority sectors have been defined much more for their potential for growth in GVA than for their potential, with support as necessary, to deliver sustainable employment growth.

92. Overall, therefore, we believe that the Economic Renewal Programme needs to give further and urgent attention to sector strategy if the ‘priority sectors’ approach is to have purchase on the real economy.

93. WESB’s view is that a ‘priority sector’ approach should be quite ‘fine grained’ and focussed on specific activities which can be identified as having real development potential, in terms both of output *and* employment growth, which focussed and sustained government intervention can catalyse. It seems likely that some of these activities will be in ‘leading edge’ technologies/industries where knowledge and innovation give a competitive advantage; but, as above, we believe updated research is necessary to finalise the list of sectors which will be the foci of sector strategy.

²⁰ op cit, statement, the Welsh Assembly Government 2010

94. The more restricted sector strategy we advocate also reduces risk. Predicting whether whole sectors will flourish in Wales exposes government. An approach which is tightly-focussed and research-based is less exposed.

95. It also allows more scope for what WESB believes is a necessary second and major part of Government's selective support to business; that is, the support of *individual enterprises* whatever their sector or size. The objective here would be two-fold: to raise the overall level of productivity by enhancing performance company by company, enterprise by enterprise, but also to increase the number of jobs. Within this, we include support to start-ups and micro-businesses. Many such businesses are inherently likely to remain small but we see adding even just one or a handful of sustainable jobs as a lasting contribution to the economy which is to be valued.

WESB therefore recommends that the Welsh Assembly Government adopt a twin-track strategy that aims to:

- Raise GVA by increasing engagement in high value sectors and by raising productivity across the economy as a whole – promoting skills utilisation and improvements in leadership and management to this end
- Increase jobs, especially 'good' jobs (with the ideal longer-term outcome of a job for every family or household) – while equipping the people of Wales with the skills and motivation needed to break existing cultures of disengagement and to take full advantage of these opportunities

96. While the capacity of government to achieve these goals is limited and individuals, employers and others have a shared responsibility to enable change, action can and should be stepped up on several fronts. As above, it is WESB's strongly held belief that both more effective business performance and the generation of jobs, particularly of the 'good' jobs which are needed, needs intervention which not only supports *sectors* with growth potential but also supports *individual businesses* where they, too, can grow.

WESB recommends that government intervention by the Welsh Assembly Government should:

- Support a small number of sectors or activities where government engagement can catalyse or accelerate high value added growth
- Support businesses (including mutuals and social enterprises) on a 'company-by-company' basis, regardless of sector or skill level, wherever there is a realistic prospect of employment growth and/or enhanced performance

Improving performance

97. The Economic Renewal Programme rightly aims to build its support strategy on on-going relationships between companies and government advisory and support services which help the business by facilitating external inputs and linkages of types and at times when these are important to growth. This might involve helping a business to protect its intellectual property rights, or to find new premises, or to introduce new software systems, or to partner with a University to develop a new product. We entirely support this holistic approach. We recognise, too, that government has identified that assistance with workforce development and management skills may be part of the package.

98. However, WESB takes a more definite view than this. We believe that assessment of management and workforce skills should form a *standard* element of government support to business and, where found to be necessary, businesses should be encouraged and supported to raise the capability of leadership and management and to increase vocational skills levels in the workforce. This is a 'generic' proposition which applies to all supported businesses whatever the level of sophistication of their business operations and associated skill levels. It applies equally to a hotel or restaurant, to a routine manufacturing assembly business, to a professional practice, or to a 'high tech' business in communications or advanced manufacturing.

99. However, we believe that encouraging businesses to secure the management and workforce skills they need for efficient delivery of products and services is simply a first and basic step towards national competitiveness. Our perception is that many more businesses in Wales need to go further and to adopt positive and forward-looking approaches which combine strong leadership and management, good HR and working practices, innovation, and organisational development. We believe that a strong trend in this direction will increase the likelihood that economic renewal will not just strengthen business but will also have a significant impact on poverty and disadvantage through the development of sustainable employment – the 'good jobs' to which we referred earlier.

100. WESB believes that High Performance Working (HPW) and Total Innovation are good models for this kind of development. We are not advocating their universal promotion. Clearly, there are many businesses – particularly at the low added-value and lower skill end of the economic spectrum – which are simply not ready or able to make the quite radical shifts in mode of business operation which would be needed. However, we believe that there are many other businesses which, with appropriate assistance, *can* move towards adoption of these models and should be encouraged to do so.

101. High Performance Working has a substantial history²¹. It has recently been defined by UKCES²² as: *'A general approach to managing organisations that aims to stimulate more effective employee involvement and commitment to achieve high levels of performance'*.

102. UKCES also notes²³ that *'Interest in HPW within policy and research circles has heightened in the past few years. Policy makers in the UK are now recognising the potential of HPW to offer benefits to both employers and employees, as well as contributing to the economic performance, competitiveness and prosperity of the national economy.'*

103. UKCES further argues²⁴ that recession, in placing stress on business competitiveness, may open companies up to new, more productive ways of working: *'Although it may seem counter-intuitive, the current economic circumstances in the UK could offer a window of opportunity for developing policy initiatives directed at increasing the uptake of HPW amongst UK employers. This could help to maximise employee skills, and, importantly, ensure business survival and growth for the longer term.'*

104. A related but wider route to high performance has been dubbed 'Total Innovation'. Most countries see technological innovation as a key to success. However, research on the most consistently high performing European economies²⁵ suggests that sustained improvement in company performance is associated with *both* technological *and* organisational innovation. Technological innovation may best flourish when accompanied by organisational innovation. However the latter has an *independent* effect on performance – which is crucial to improvement in those areas where technological innovation may be inherently low (including the public services). Simply to focus on technological innovation may therefore blunt our chances of success.

105. Organisational innovation focuses on some of the same issues as the High Performance Working model: work practices, increased autonomy and team based working, and HR policies. The evidence from research suggests these are in turn related to quality of working life – and, in our terms, 'good' jobs – as well as improved performance²⁶. They bring social as well as economic gains.

106. The argument is that the best performing European countries are characterised by the 'Total Innovation' philosophy in both government and

²¹ See, for example: *Maximising employee potential and business performance: the role of High Performance Working*, EEF and CIPD, December 2003; *High Performance Wales – real experience, real success, high performance working in practice*, Wales Management Council, 2005; and *High Performance Work Practices: linking strategy and skills to performance and outcomes*, dti and CIPD, 2005

²² *High Performance Working: A synthesis of Key Literature, Evidence Report 4*, UKCES, August 2009

²³ op cit

²⁴ op cit

²⁵ *Expanding innovation systems and policy – an organisational perspective*, E. Ramsted, Policy Studies, September 2009

²⁶ *Productivity and performance management*, E. Ramsted, International Journal of Productivity and Performance, Vol.85, No.5, 2009

company policy. Given the poor performance of the Welsh economy, WESB believes there is a need to adopt this model across government and actively to promote it at the level of companies and enterprises.

107. In advocating these approaches to better business performance and the growth of sustainable employment, we make two further key points.

108. Firstly, we note that an important part of their success is not just that employers seek their development but that **employees** are also ready and able to take on the new roles and responsibilities which the approaches frequently required. We believe that Trade Union support for such developments is strong and that (in unionised workplaces) Union Learning Representatives would have an important role in engaging employees in the introduction of good practice of the types we advocate.

109. Secondly, business-to-business relationships, so-called **peer leaning networks**, are an effective mechanism for spreading good practice in HR and organisational development.

110. For example, a review²⁷ in 2002 concluded that *'managerial participation in networks positively affects the adoption and the intensity of adoption of high-performance work practices and employee training programmes'* and reported that *'research findings underscore the importance of social relationships in the process of innovation diffusion. While markets matter a great deal in providing incentives for innovation, they are not all that matter. Employer networks play an important role in innovation diffusion and organizational learning'*. The kinds of networks which had these impacts *'include those that link suppliers to each other and to a purchaser, and public organizations that bring employers together to work cooperatively'*.

111. More recently, UKCES has undertaken a substantial research programme²⁸ to investigate how employer demand for skills and employer investment in skills can be raised. Comparing four alternative approaches (inter-employer networks; occupational licensing; accountancy standards which require company accounts to report investment in human capital; and a 'graded' Investor in People standard) the study came to the conclusion *'that inter-employer networks are likely to be the most effective mechanism for enhancing training for the benefit of the firm, overcoming a number of the barriers, such as the cost of training and information imperfections. UKCES advice is that the UK governments consider establishing a fund, on a pilot basis, to support networks which have a specific training focus. Employer-led networks could bid to the fund and, providing they adhered to certain criteria, they could receive support for the administration of the network and for some types of training.'*

²⁷ *The Effect of Employer Networks on Workplace Innovation and Training*, C.L. Erikson and S.M. Jacoby, Industrial and Labour Relations Review, 2002

²⁸ *Review of Employer Collective Measures: Final Report*, UKCES, November, 2009

112. In summary, we believe that the Economic Renewal Programme should seek to work towards a position in which government intervention, businesses, and employees are all, to some degree, engaged in moving the economy in the direction of the ‘good practice’ we have described.

We recommend that:

- The Welsh Assembly Government should itself embrace Total Innovation/High Performance Working principles and methods within its own operations
- The Welsh Assembly Government should pilot programmes which assist companies, social enterprises, and other public organisations to adopt Total Innovation/ High Performance Working principles and methods
- Subsequent Welsh Assembly Government support to businesses should widely encourage positive organisational innovation and HR approaches as a route to enhanced performance and ‘good’ jobs
- The Welsh Assembly Government should work with UKCES and others to promote and pilot the formation of business-to-business peer-learning networks committed to sharing best practice in leadership and management, High Performance Working and Total Innovation

‘Anchor companies’

113. This leads us to the concept of ‘anchor companies’. There can be no doubt that some companies, essentially large ones, can and do play a pivotal role as exemplars of high performance and as generators of demand through their supply chains. Wales has too few of them. Workplace size is only a crude indicator since some large businesses are distributed across many outlets. However, examination of this indicator shows that outside of the public sector, Wales has only around a hundred workplaces which employ 500 or more people, 40 of them in manufacturing, 25 in business and financial services, and around 20 in wholesale and retail distribution. They are a precious resource and need to be safeguarded and nurtured where possible. However, this again raises the dilemma of backing winners. The strongest of companies may also be among the most footloose. They may succeed, but even investing heavily in them may not ensure that they succeed in and for Wales. Enthusiasm has to be tempered by caution – and resource constraints.

114. Nevertheless, anchor companies which have a commitment to spreading good practice and productivity into a substantially Welsh supply chain have to be a high priority. Some of them may be ‘low risk’. Companies in, for example, the utility, distribution, and tourism and hospitality sectors, are inevitably committed to Wales by their customer bases or the nature of their operations. Others, in manufacturing or business and financial services, may be higher risk given

pressures on them to adjust their national and international 'spatial footprints' for maximum competitive advantage – the UK's loss of capacity in parts of these sectors is only too obvious. However, 'higher risk' does not necessarily mean high risk. For many, continued operation in Wales will remain the efficient solution.

WESB recommends:

- That Economic Renewal strategy should identify a set of major businesses which, through their employment and purchasing, make a major contribution to the Welsh economy and which, by their good practice in innovation and human resource management, have the potential to act as leaders of peer-learning networks in their sectors and supply chains. The Welsh Assembly Government should encourage and support such businesses to take on or extend this role.

Government procurement

115. We noted earlier that UK-national economic strategy²⁹ advocates the use of government procurement to advance policy objectives. The strategy notes that *'procurement can have a powerful role in shaping markets, with the potential to drive demand for new technologies, skills, and processes. This in turn represents a huge source of opportunity for UK-based businesses and their employees, where they can compete successfully to meet Government needs.'*

'This requires that we see the pre-procurement phase as just as important as the procurement process itself. The Government needs to think ahead about the shape and nature of its likely requirements for new products and processes. It needs to communicate those requirements, in a structured way, to the right audiences. Particularly where markets are new and significant, it should be willing to take active steps to encourage new supply chains and to ensure UK businesses of all sizes are able to compete.'

'During 2009, all Government Departments must publish Innovation Procurement Plans that will embed a clear obligation to procure goods and services in a way that drives innovation, and to identify clearly the areas in which they are seeking to procure innovative solutions to help deliver their objectives.'

116. Thus, public procurement at UK level is not seen just as a simple instrument of leverage ('if you want to contract with government you will need to') but as a more profound influence on innovation and performance. WESB stresses procurement as a route to encourage innovation in the development of positive human resource practice, particularly practice which concerns the High Performance Working and Total Innovation models, but it is evident

²⁹ op cit, BERR, April 2009

that procurement can have a role in encouraging businesses to drive up their capabilities on a wider front.

117. An approach to procurement on these lines should also pay attention not just to government's direct suppliers but should also seek to encourage those suppliers to drive innovation and good practice into their own suppliers – a particular form of the employer networks we advocated earlier; and, where possible without compromising efficiency and competitiveness, as much as possible of the whole of the government supply chain should be located in Wales, generating value for Welsh business and supporting jobs for the residents of Wales. In essence, the Welsh Assembly Government itself should act as the ultimate 'anchor company', using its market power and influence to support innovation and best practice.

WESB recommends that the Economic Renewal Programme should review:

- How public procurement can be organised further to increase its multiplier effects within the Welsh economy; and
- How it can be undertaken in such a way that it delivers a stimulus to innovation and competitiveness, by promoting approaches to organisational development and best practice

Continued funding to support skills development

118. Our views on how the Economic Renewal Programme should develop described thus far are about its principles and some methods by which those principles can be pursued.

119. However, the Assembly Government already has, of course, some very direct support mechanisms in the form of the Workforce Development, ProAct, and ReAct Programmes. WESB is strongly supportive of these programmes. We believe that, as the recession recedes, there is a need to build on recent success by creating a successor to ProAct. The Fund should continue to support workforce and management development through co-funding of such development, but should also, where appropriate, encourage firms' commitment to High Performance Working and Total Innovation principles and practices including improvements in management and leadership. We believe that such a fund would strengthen both the demand and supply sides of the economy – increasing skills and business performance simultaneously.

120. A key element in the success of this programme is that it should be agile – able to support businesses when and how that support is needed. In this respect, WESB believes that current arrangements whereby an initial needs assessment by a government-funded advisor is compulsory can be restrictive

and is unnecessary where businesses are clearly able to recognise their own needs. The requirement for an advisor assessment not only slows the process but also limits the saleability of programmes of this nature

WESB recommends that:

- The Welsh Assembly Government develop a 'Jobs Growth Fund' to support skills enhancement in enterprises with jobs growth potential
- Building on the approach within ProAct, the fund operate on a low bureaucracy and light touch basis that trusts employers to know their own training needs
- The fund be focussed on enterprises that have 'graduated' from the ProAct or Workforce Development Programmes and/or are members of peer learning networks

Mutuals and social enterprises

121. The Economic Renewal Programme will, rightly, have at its heart the need for more private enterprise and private investment in Wales with Government acting in partnership to assist and encourage such growth. *However, WESB believes that the 'mutual' philosophy accords well with Welsh culture and history. We believe, therefore, that a primary focus on private enterprise should not obscure the contribution of the mutual and social enterprise sectors.*

122. Across the UK, mutuals alone have an annual revenue of nearly £100 billion and assets of £570 billion³⁰. Much of this wealth is held and generated by mutual financial services, NHS Foundation Trusts, Housing Associations, and the wholesale/ retail Cooperative Society. However, substantial wealth is also generated by employee-owned businesses (£25 billion revenue), 'independent' co-operatives, credit unions, clubs and societies, and so on. Social enterprises are reported as 'contributing £24 billion to the economy'³¹. No doubt there is some overlap in these estimates since the distinction between 'mutuals' and 'social enterprises' is blurred (mutuals are described by the Wales Co-operative Centre as 'an autonomous association of persons uniting voluntarily through a jointly-owned and democratically-controlled enterprise' whilst social enterprises are described by the Social Enterprise Coalition as 'businesses based on mutualism, co-production and participation' which 'operate for more than profit alone'). Our point is simply that the mutual/social enterprise sector has a substantial presence with further development potential of considerable value to Welsh economy and society.

³⁰ Mutuals Yearbook, Mutuo/University of Oxford, 2009

³¹ No More Business As Usual, A Social Enterprise Manifesto, Social Enterprise Coalition, 2010

123. And interest in the model is growing. The performance of the John Lewis Partnership through the recession has aroused considerable political interest, not just because it performed successfully in a financial sense but because its employee-owned character intrinsically generates much HR good practice (particularly the shared values and staff involvement aspects of the high performance working model we advocated earlier). There is also a significant political interest in the possibility of transferring some delivery of public services into employee co-operatives – social care, health, and education being mooted as possible lead sectors for such shifts.

124. Both Mutuo (a promotional organisation for the mutuals sector) and the Social Enterprise Coalition, have issued pre-election challenges³² to political parties, basically to embrace the mutual/social enterprise philosophy and to respond accordingly.

125. The basic character of the challenge³³ is that government should support the sector as a positive contribution to broader economic renewal: *'We wish to see the next Government make a commitment to encourage a diverse economy – one where a variety of business models are encouraged and enabled to thrive – in UK policy, the devolved nations, the regions and locally'*.

126. WESB believes that this challenge should be accepted in Wales. The Assembly Government developed a three-year strategy for social enterprise in 2005³⁴ and continues to fund the Wales Co-operative Centre. We believe that mutualism and social enterprise need renewed emphasis in the light of the present need for economic renewal and the growing importance of the 'mutual' philosophy in the UK national policy debate.

We therefore recommend:

- That the Welsh Assembly Government urgently review how it can significantly increase the support it gives to the formation of mutual and social enterprises in Wales, particularly in areas where the 'mainstream' economy is manifestly not supplying the necessary level of employment opportunity.

³² The Mutuals Manifesto 2010, Mutuo (on behalf of the Building Societies Association, Co-operatives UK, the Employee Owners Association, and the Association of Financial Mutuals), 2010; and, Social Enterprise Coalition, 2010 op cit

³³ op cit, Mutuo, 2010

³⁴ Social Enterprise Strategy for Wales, the Welsh Assembly Government, June 2005

Labour Market Information (LMI) and simplification

127. Finally, we raise two issues which have struck us repeatedly during the course of our work and which cut across the whole of the skills and employment system: the need for better LMI and for a considerable simplification of systems, processes and procedures.

128. Firstly, as we argued last year, a skills strategy can only be complementary to a clear economic strategy; it cannot stand alone. Even then, however, predicting skills needs for the current economy – and the desired economy of the future – is a far from exact science. All the proposals in this report are intended to help bring skills and economic renewal into better alignment, but there is a more general need for good labour market information both to drive government funding of providers and to provide market signals for employers and providers alike. We are concerned that the capacity of SSCs to provide labour market information that is specific to Wales – and its sub-regions – is highly variable and even at its very best it needs to be placed within the context of broad national and international trends.

129. We need better labour market information. Opportunities to acquire new information are coming on stream. A substantial survey of Welsh employers is being undertaken to inform the Economic Renewal Programme. UKCES has commissioned a survey of employers across the UK to take place in 2010 (with a sub-sample in Wales) which will address some ‘top-line’ skills and workforce development issues and a larger and more detailed skills survey (currently only in England) in **2011**. We believe Wales should be fully engaged with these latter developments.

WESB recommends that the Welsh Assembly Government:

- Ensure that UKCES national skills audits adequately cover Wales and its regions and that results are made available as early as possible to Wales’ employers, providers, guidance services, and other stakeholders
- Ensure that there is the accurate and up-to-date intelligence and information gathered on employment and skills demands for all sectors and sub-regions in Wales
- Secures positive outcomes for Wales from the performance management, and any future reform, of SSCs

130. Secondly, wherever WESB looks across and within the skills and employment 'landscape', it is met with a hugely complex array of funding sources and arrangements, initiatives, eligibilities, acronyms, and organisations distributed across national, regional, local authority and other geographies. It causes endless frustration and even cynicism among employers. They feel confused at best and disheartened or shut out at worst. The same is true to varying degrees of the providers of education and training. This cannot be a sound basis for good policy either now or going forward. We do not believe that beneficiaries and customers can understand the system or that administrators can ensure co-ordination and efficiency within it. We have seen no evidence of progress on simplification since our last report.

We therefore recommend that:

- The Welsh Assembly Government undertake a fundamental re-structuring of processes and procedures founded on a strategic commitment to simplicity, directness, and greater trust of employers and delivery bodies, but based on firmer monitoring of outcomes. We believe this would both aid delivery and help contain costs in a period of enforced austerity
- That this process include a re-appraisal of the intelligence needed by government to operate effectively and how best to translate this into the most cost-effective and least burdensome means of information gathering.

5. WESB's future work

131. Over the last two years, WESB has sought to assist the development of Wales' economic and related social policies through frequent 'immediate response' notes to Ministers and civil servants and, more formally, through two Annual Reports of which this is the second.

132. Over the next year, we shall continue to deliver the same service. The context in which we do so will be fast-changing. Whilst it seems most likely that the underlying economic trend will comprise a slow-growth recovery, a UK-national election presages very significant change in public expenditure patterns and, perhaps, in political philosophy.

133. It is not possible, therefore, to set out a wholly fixed programme of work for WESB in advance.

134. However, we shall clearly continue to support the Welsh Assembly Government in its formalisation of economic renewal strategy and we will continue to press strongly the broad messages of other volumes of our Annual Report:

- That the literacy and numeracy of all young people must be sufficient to enable them to move to the next stage in learning – and into sustainable employment
- That schools, colleges and universities give much more consistent attention to developing the employability skills (including literacy and numeracy) which employers expect
- That Wales must develop an urgent response to 'cyclical' youth unemployment caused by the recession and a long term response to the disengagement of young people which underlies persistent 'structural' youth unemployment
- That Higher Education (and Further Education) needs a greatly strengthened role in economic development

135. Beyond that, we see a number of themes which we anticipate will be part of our agenda in the coming year – in greater or lesser detail as circumstances demand and as Ministers request:

- Against the expected backdrop of public expenditure cuts in coming years, where should limited resources be allocated to protect employment and skills development for the future? This will clearly be a key challenge for the Welsh Assembly Government and one which ought to be a major theme in our advice to government.
- We have made reference to the often-pivotal role of anchor companies in this report and the First Minister's manifesto highlighted their role. We see a need to explore: how they can best be defined and identified; and how their employment and skill needs can best be supported. To this we would add:

how can they be encouraged to take a leadership role in their sectors and supply chains, and how can networks led by anchor companies be better connected to the provider network (including schools, colleges, universities and private providers)?

- We have not made direct reference this year to one important link between sustainable economic renewal and skills – that of new business start-ups and entrepreneurship. This is clearly important and we are not clear that a coherent approach to encouragement of entrepreneurship yet exists in Wales. We believe a coherent approach, connecting entrepreneurial education at all levels from schools to University Business Schools, and on into business start-up programmes, should be in place. We are also aware that some countries are not only promoting Foreign Direct Investment of the conventional kind but are seeking to attract individual entrepreneurial talent from overseas. We hope to investigate and advise on this strand of economic development in Wales in due course.
- In accordance with our remit, we have considered the adequacy of provision of Welsh language skills and contributed our views to the Department for Children, Education Lifelong Learning & Skills in response to its Welsh-medium education strategy consultation. We wish to see employers in all sectors encouraged and supported in accurately identifying the existing Welsh-language skills of their workforces and their future language skills needs, and to see information regarding career opportunities involving the use of Welsh more widely disseminated. We will continue to work with other bodies, including the Welsh Language Board and Sector Skills Councils (SSCs), to ensure that the concept of proficiency in Welsh as a skill is fully embedded into the overall skills agenda and into the strategies which aim to match supply and demand.
- We have consistently pointed to the need for the integration and simplification of the employment and skills system on the ground. We also take the view that progress towards integration and simplification needs to involve business directly – an integrated business, employment and skills system. Work is already underway to improve the situation. The Joint Employment Delivery Board for Wales (JEDB) has begun work and a recent Cabinet Committee paper reflected on the issue. WESB expects to do all it can to support this work including helping to facilitate the 2010 Review of progress in partnership with the JEDB.
- Throughout the past two years, WESB has been concerned that the capacity of Sector Skills Councils to wholly fulfil their role in a specifically-Welsh context has been limited and patchy. We expect to advise on the critical core functions of SSCs in Wales, including advice to Ministers in Wales and to any UK-national review which takes place following the UK general election.

Annex 1: Board members

Sir Adrian Webb (Chair)

As part of an academic career which included many research projects, publications and consultancies, Sir Adrian was the first Vice-Chancellor, University of Glamorgan, from 1992 to 2005. He has also undertaken many public service roles in Wales, Whitehall, and Westminster, including chairing the 2007 Independent Review of the Mission and Purpose of Further Education in Wales, known as the 'Webb review', and membership of the 2006 'Beecham' review of the machinery of government in Wales.

Huw Jones (Deputy Chair)

Huw was Chief Executive of S4C from 1994 to 2005. He has served on many public and industry bodies. He is currently a member of the Welsh Language Board, and acts as an independent consultant and non-executive director for a number of commercial, public and charitable organisations.

Paul Egan

Following a successful career at senior levels in local government and the Probation Service, Paul has practised as a consultant to public and private organisations, applying his expertise in HR, corporate governance, business excellence, financial management, and organisational design and management.

John Geraint

John is Creative Director of his company, Green Bay Media, which was established in 2001. Recipient of a Royal Television Society award for his outstanding contribution to television, John is a member of the Arts Council of Wales and chairs the Skillset Cymru National Board.

Wendy Giles

Wendy Giles has worked in Human Resources in a senior capacity for the past 23 years and is a Fellow of the Chartered Institute of Personnel and Development. She is a Director of an electronics design and manufacturing company and currently works as Head of HR within the legal sector.

Alison Itani

Alison Itani has been a Director of Wiltan Limited, a company based in Pontypool which manufactures components for the transformer industry, since 2005. She has been an active contributor to the design and management of numerous public policy initiatives to improve skills and HR management in Wales.

Glyn Jones OBE

Glyn has been Principal at Pembrokeshire College since March 1998. He is a strong advocate of further education's role in stimulating economic prosperity and social well being. He has chaired *fforwm*, the colleges' representative body in Wales, and is currently Wales' representative on the Association of Colleges in the UK.

Iwan Trefor Jones

Iwan is a Corporate Director within Gwynedd Council and the Council's Lead Director for Children and Young People. He is also a Director on the Careers Wales North West Wales Board and a Corporation Member of Coleg Meirion-Dwyfor.

Rob Lloyd

Rob is General Manager, Human Resources at TRB Limited, St Asaph. He sits on a number of advisory bodies including the EEF (Engineering Employers Federation) Wales Council. Rob continues to work closely with Careers Wales on Work Focus events at secondary schools throughout the county, and with Rhyl City Strategy, Jobcentre Plus and Working Links on employment issues.

Martin Mansfield

Martin took up post as Wales TUC General Secretary in October 2008. He is currently serving as a member of the Economic Development and Transport Ministerial Advisory Committee and the all Wales EU Funds Programme Monitoring Committee. In 2003-2005 he worked as economic development special advisor to the Welsh Assembly Government First Minister and Cabinet.

Marcella Maxwell

Marcella is the Wales Director of Working Links, an organisation which specialises in the provision of employment and skills services across the UK. Previously, from 2005 until 2008, she was Chief Executive of Chwarae Teg which was established in 1992 to support, develop and expand the role of women in the Welsh economy. Prior to this she headed up Cardiff Council's Economic Development Division and has several years experience at senior management levels in local government.

Charles Middleton

Charles has recently retired as founder and CEO of (TSW) Training Services Wales which he established in 1974. His experience spans the private, public and third sectors both in Wales and other regions of the United Kingdom. Over the years, he has sat on a range of boards advising government programmes on skills development. He continues to operate as a coach/mentor to individuals and executive teams.

Professor Danny Saunders OBE

Danny is the Professor and Director of the Centre for Lifelong Learning at the University of Glamorgan. He has published over 100 articles and books and contributes to a wide range of lifelong learning committees and working groups. Danny is a member of the Ministerial Advisory Group within the Department for Children, Education Lifelong Learning and Skills within the Welsh Assembly Government. He is a chartered psychologist and a Fellow of the Higher Education Academy.



Annex 2: WESB – Terms of Reference

The essential purpose of the Wales Employment and Skills Board is to provide advice to the Assembly Government on all issues to do with skills, employment and related business support including focusing on demand-led approaches. The Board's remit is:

1. To provide evidence-based advice to the Welsh Assembly Government Ministers and, through the Chair, to the UK Commission for Employment and Skills, on the progress within Wales towards the high-level targets for both employment and skills in Wales by producing an annual report, identifying successes and problems, barriers and best practice and, where appropriate, solutions;
2. To contribute to the development and to monitor the implementation of future skills and employment strategies and action plans in Wales;
3. To provide advice about the perspectives and priorities of employers in Wales with regard to skills, employment and support for business development.
4. To contribute to the development and to monitor the implementation of an employment business plan for Wales to promote employment in conjunction with stakeholders and non-devolved government organisations;
5. To advise on skills and employment priorities and related business support in Wales, taking into account the different needs and requirements of different parts of Wales, including commenting on and contributing to the National Learning and Skills Assessment produced by the Welsh Assembly Government;
6. To advise on the adequacy and appropriateness of the supply of skills – including the Welsh Language – to the present and future economy;
7. To promote greater integration between employment, skills, economic development and other relevant policies (eg. health, transport) and to identify areas where such integration can be improved;
8. To consider the role and performance of Sector Skills Councils (SSCs) in Wales, including progress in implementing Sector Skills Agreements (SSAs), with a view to advising Ministers and the UK Commission for Employment and Skills and to identify any action necessary to improve performance;
9. To advise on how skills and employment systems might be improved from the perspective of the individual learner, the employed, the economically inactive, and the future workforce; and
10. To provide advice on an annual basis on priorities for labour market research, including the Future Skills Wales programme, working in co-operation with the Economic Research Advisory Panel.