



# Economic Renewal Programme

**Sustainable Development Commission  
Response to the Assembly Government's  
Economic Renewal Programme consultation  
(May 2010)**

Economic growth is supposed to deliver prosperity.

Higher incomes should mean better choices, richer lives, an improved quality of life for us all.

That at least is the conventional wisdom. But things haven't always turned out that way.

*Prosperity Without Growth?,*

Sustainable Development Commission

The Assembly Government  
should do what only *it* can do

Participant at the Sustainable Development Commission's Roundtable on Jobs & Wellbeing in a Resilient Economy (April 2010)

The Sustainable Development Commission greatly acknowledges the input from those that attended the Roundtable on Jobs & Wellbeing in a Resilient Economy (details available at [www.sd-commission.org.uk/wales](http://www.sd-commission.org.uk/wales))

# 1. About the Sustainable Development Commission

- 1.1 The Sustainable Development Commission is government's independent advisor on sustainable development reporting to the First Minister of Wales, and across the UK to the Prime Minister, the First Minister of Scotland, and the First and Deputy First Minister of Northern Ireland. Through advocacy, advice, appraisal and capacity-building, we help make sustainable development the central organising principle of the Assembly Government.
- 1.2 The Assembly Government has a statutory duty, contained in Section 79 of the Government of Wales Act (2006) to make a scheme that sets out how it intends to exercise its functions and promote sustainable development. The latest scheme, *One Wales One Planet* not only provides a commitment to make sustainable development the central organising principle of government, but also lays out an ambition that the people of Wales will use only their fair share of the earth's resources within a generation.
- 1.3 The guiding purpose of the Sustainable Development Commission is to help the Assembly Government and the wider public sector deliver more sustainable outcomes for the people and environment of Wales. The Commission seeks to help the Assembly Government and the wider public sector create a framework in which citizens, businesses, the third sector and all parts of Welsh society can move towards sustainability. In practice, this means all policies and programmes, incentives and regulations undertaken by the Assembly Government should be developed in accordance with the five principles of sustainable development agreed by the four Governments of the UK (see below):

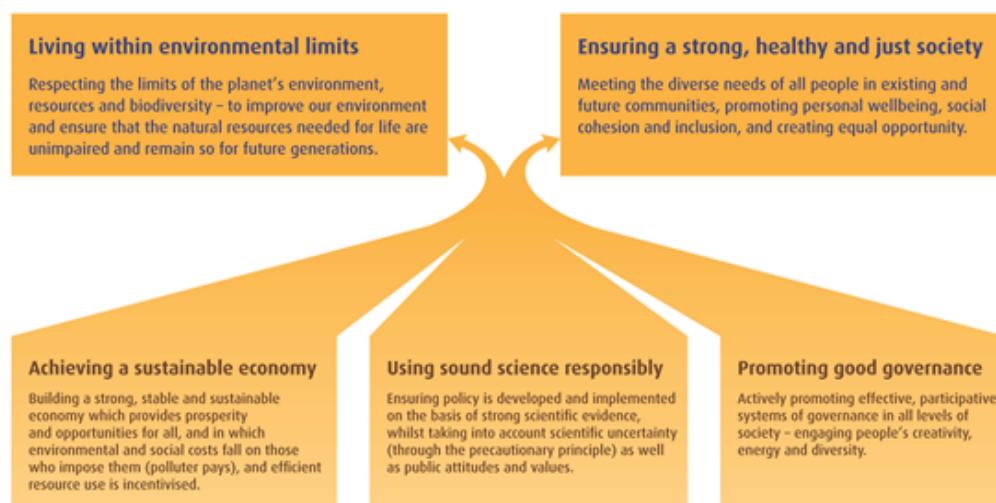


Figure 1: the five principle of sustainable development

- 1.4 These principles were agreed in 2005, and they in turn draw upon a long and strongly international strand of thinking. The Assembly Government's sustainable development scheme *One Wales One Planet* is consistent with this approach. The scheme seeks to:
  - Live within environmental limits by setting out a pathway to using only our fair share of the earth's resources, and becoming a One Planet nation within the lifetimes of a generation;
  - Ensure a strong, healthy and just society with a focus on how a sustainable approach will improve the quality of life and wellbeing of the people of Wales, and especially those in our less well off communities;
  - Achieve a sustainable economy by setting out how we want to transform our economy so that it is low carbon, low waste;
  - Promote good governance: through confirming sustainable development as the central organising principle of the Welsh Assembly Government, and through encouraging and enabling others to embrace sustainable development as the central organising principle.
  - Use sound science responsibly: through the use of our SD principles, as part of our evidenced-based approach to policy making.

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- 1.5 The principles state that, in particular, the cumulative impact of decision-making, in this instance in the future of the Assembly Government's approach to economic development, should be to ensure progress towards *both* a strong, healthy and just society *and* one which works within environmental limits. This is a challenge not just for the Assembly Government, but for all levels of government, business, civil society and every one of us in our own lives.
  - 1.6 Sustainable development offers the only framework by which policy-makers can 'manage competing demands' and provide a positive long-term future for both people and the environment on which they rely.

## 2. The need for a sustainable economy

- 2.1 Our traditional model of economic development has delivered benefits, but at best it has distributed those benefits unequally. Globally, a fifth of the world's population earns just 2% of global income. Across OECD countries, inequality is higher today than it was 20 years ago. This social injustice is just one of the weaknesses of our current economic model. As the global economy expands, resource demands also increase. In the last 25 years, 60% of the world's ecosystems have been downgraded; global carbon emissions have increased by 40% since the Kyoto Protocol baseline year of 1990. With a finite supply of natural resources, significant scarcity of key resources, such as oil, may be less than a decade away.<sup>1</sup>
- 2.2 There is a growing realisation, rooted in a tradition of questioning what prosperity is, which concludes that this model of global economic development is unsustainable. Climate change, fuel security, collapsing biodiversity and global inequality are issues that demand the attention of policy-makers now.
- 2.3 The Sustainable Development Commission has undertaken a programme of work looking at how prosperity can be redefined and the 'dilemma of growth' be tackled; an agenda that was further taken forward by the French President, Nicholas Sarkozy, in his Commission on the Measurement of Economic Performance and Social Progress.
- 2.4 In many respects, the question 'what can the Assembly Government do to make the Welsh economy more resilient' is, in itself also a dilemma. The scale of the threats posed to the future prosperity of Wales and its people by issues such as resource scarcity, climate change, fuel security, collapsing biodiversity and global inequality are such, that action must be taken by the Assembly Government to ensure the economy of Wales is resilient against these shocks and risks. However, while the scale of the risk is high, the ability of the Assembly Government to act exclusively is limited. Macro-economic and fiscal policy is the responsibility of the UK Government; and the Welsh economy is a regional, not a national, economy, in a European trading bloc which is itself part of a highly globalised economy.
- 2.5 In its 2009 report *Prosperity Without Growth?* the Sustainable Development Commission provides evidence and recommendations on what changes need to be instigated by the UK Government. The Sustainable Development Commission's response to the Economic Renewal Programme recognises the limitations of what the Assembly Government can do (and indeed, should do) with its available powers, and makes recommendations accordingly.
- 2.6 In addressing the dilemma of 'what can the Assembly Government do', the evidence is clear that the risk facing Wales is too great to do nothing (and on some measures, Wales is at greater risk in some areas, as discussed below); but limitation of powers should not be a cause of inaction. The Assembly Government must use its Economic Renewal Programme as a foundation stone for a transition in the Welsh economy.

### **3. Analysis of the current Welsh economy**

#### **Measuring success**

3.1 This section provides evidence for: Consultation Question 2:

How should economic progress be measured? Are Gross Value Added (GVA) per head, Gross Household Disposable Income (GDHI) and other common measures of prosperity the best way to indicate progress? Should we focus on productivity measures like GVA per worker or per hour worked? If not, what measures should be used?

3.2 There is a large base of literature critiquing the value of GDP as an appropriate measure of quality of life or overall social justice. As outlined in *Prosperity without Growth?* limitations include non-market services (household and voluntary labour), negative utilities (externalities) like pollution, and a failure to account properly for changes in the asset base which affects future consumption possibilities<sup>ii</sup>.

3.3 Growth in OECD countries over the last twenty years has not delivered a rise in prosperity for all: inequality has risen.

3.4 There is also a base of literature that criticises self-reported measures of happiness or wellbeing. The Sustainable Development Commission concluded that neither GDP (which measures mainly present consumption) nor self-report measures (which count mainly present 'happiness' of the individual) provide an exclusive, accurate measurement of 'prosperity'.

3.5 Where the evidence is clear is that attainment of a good quality of life is dependent on factors such as physical and mental health; education and progression; democratic entitlements and participation; trust, security and a sense of community; good relationships; meaningful employment, and the ability to participate in the life of society. Indeed, people suffer physically and mentally when these things are absent. All of these outcomes are outlined in the Assembly Government's vision of a sustainable Wales, contained within its sustainable development scheme *One Wales One Planet* and should provide the measure of success for the entire programme of government.

3.6 The overarching aim of the Assembly Government's economic policy should be to contribute to delivering this vision: essentially, providing meaningful employment within a resilient economy.

3.7 Despite the limitations of GDP, the Sustainable Development Commission does recognise that this measure cannot be unilaterally disregarded by the Assembly Government. The Sustainable Development Commission does recommend that the Assembly Government's economic strategy is re-calibrated towards securing meaningful employment through good jobs (outlined below) and that this becomes the primary measure of Assembly Government success in the field of economic development.

#### **Social impacts of current model of economic development**

3.8 This section provides evidence for: Consultation Question 1:

What do you think will be the key characteristics of the post-recession economy and do these present any special challenges for Wales?

- 3.9 On traditional measures of economic performance (the limitations of which have been discussed above), Wales has continued to underperform against other UK nations and regions, despite a decade of Assembly Government policy focused on growing relative GDP.
- 3.10 Wales' Gross Value Added (GVA) per head was just under three quarters (74.3%) of the UK average, and has since 1998 been the lowest performing nation/region of the UK<sup>iii</sup>.
- 3.11 On other measures of economic performance, measures which are arguably a better indication of whether Wales' economy is delivering social justice, Wales is also underperforming the UK average.
- 3.12 Figure 2 (below) highlights a range of socio-economic indicators in which Wales underperforms when compared with the UK average.

<b>Measure</b>	<b>Wales</b>	<b>UK</b>
Median weekly earnings (2009)	90.2% (of UK average)	100% (UK average)
Employment rate (Sept - Nov, 2009)	69.1%	72.4%
Unemployment rate (Sept-Nov, 2009)	8.5%	7.8%
Economic inactivity (Sept- Nov, 2009)	24.2%	21.2%

**Figure 2: comparative performance of Wales against rest of UK<sup>iv</sup>**

- 3.13 Within Wales, levels of young adult employment remain relatively high compared against the average for all working age adults. The Joseph Roundtree Foundation<sup>v</sup> cited that in 2008, the young adult unemployment rate in Wales stood at 16% compared to 6% for all working-age adults. This means that around 45% of all unemployed people in Wales during this period were under the age of 25.
- 3.14 Gross disposable household income in Wales (2008) was 87.9% of the UK average (and has been consistently around this proportion since 2002). Only the Northeast of England underperformed Wales, but even within Wales the areas of Southwest Wales, the Central Valleys, and the Gwent Valleys are all equal to or below the Northeast of England region.
- 3.15 In its 2010 report *Devolution's Impact on Low-Income People and Places*, the Joseph Roundtree Foundation<sup>vi</sup> argued that while Wales performance on a range of socio-economic indicators were still below the UK average, progress had been made over the course of the last decade. However, the report challenged whether these improvements were a result of action taken by the Assembly Government, arguing that many of the improvements in levels of social justice in Wales were part of an overall UK trend that also was present in English regions; and that determining a cause was difficult.

3.16 At best, the current model of economic development has not delivered a fair distribution of wellbeing for the people of Wales; and any new approach to economic development must address Wales below average employment rates and earnings.

#### **Environmental impacts of current model of economic development**

3.17 The Sustainable Development Commission's report *Low Carbon Wales: Regional Priorities for Action<sup>vii</sup>* outlines the scientific evidence on climate change and what this means for Wales in terms of public policy.

3.18 It is important to note that Wales remains a high carbon emitting country; emitting the highest amount of greenhouse gases (GHG) per head in the UK and is 13<sup>th</sup> globally.

Measure	Wales
Proportion of UK population	4.9%
Proportion of UK GHG emissions	7.4%

**Figure 3: Welsh proportion of UK population and GHG emissions<sup>viii</sup>**

3.19 This is largely explained by Wales' industrial background. Industry, in particular power generation and refineries, and iron and steel manufacturing account for over half of Wales' GHG emissions: industries which are part of a wider UK or indeed global supply-chain. Despite a period of de-industrialisation of the Welsh economy, Wales has proportionately more jobs in manufacturing (12.5% of all employees) than the UK (9.8%).

3.20 The Assembly Government's SD Indicators tracks progress on a range of social, environmental and economic measures. The latest set of indicators was produced in 2009.<sup>ix</sup>

3.21 On biodiversity, the total number of priority species in Wales has increased to 181 (from 174 in 2002). Of these priority species, the percentage classed as 'stable increasing' has improved, and is now at 54% (2005, compared to 40% in 2002). The percentage of species classed as 'lost or declining' has decreased since 2002. However, figures for priority habitat status show that the number of such habitats has increased to 39 (from 37 in 2002), and that of the priority habitats for which information is available, there has been little change in the percentage of habitats classed as 'stable or increasing' and the percentage of habitats classed as 'declining' increased from 57% in 2002 to 62% in 2005. Yet the *Valuing our Environment* partnership<sup>x</sup> found in 2001 that £6billion of GDP in Wales is directly dependent on the environment, and around 9% of Welsh jobs were supported by the environment.

3.22 The most recent calculation of Wales' ecological footprint shows that if everyone on Earth lived like we do in Wales, we would need 2.7 planets' worth of resources to sustain ourselves. The Assembly Government has made a commitment to reduce Wales' ecological footprint from 5.16 global hectares (gha) per person to 1.88 gha. However, on current projections (unless action is taken) Wales' ecological footprint will rise to 3.2 planets' worth of resources by 2020<sup>xi</sup>.

#### **The next ten years: energy insecurity and the threat of climate change**

3.23 The challenge facing Wales over the next ten – 15 years is four fold.

- Wales has for decades underperformed economically. This economic underperformance has compounded and is compounded by a range of social problems like low skills, lower quality of life, poor health and mental health, crime and community cohesion;
- Wales is still dependent on the industrial sector for jobs, particularly in areas of relatively high multiple deprivation. This energy intensive industrial sector is vulnerable to fluctuating and rising energy prices, energy insecurity, and resource scarcity (as well as the impact of existing (and future) multi-government arrangements for limiting GHG);
- Wales is behind others in the transition to a low carbon economy, and the capability of the public sector to invest in measures which can accelerate our progress is limited due to fiscal restraints. Allied to this a comparatively low base of R&D and innovation activities
- Most of the products and resources processed and manufactured in Wales, and much of the power generated are consumed outside of Wales. With few major businesses headquartered in Wales, and the 'domestic' Welsh market small, there is little incentive for companies to remain in Wales should externalities like Welsh competitiveness worsen.

3.24 The Sustainable Development Commission supports the Wales Employment & Skills Board's assertion that the challenge for Wales is not to simple recover from recession by increasing economic output, but rather also recover in terms of employment and job creation.

### **'Good jobs' and quality of life: the importance of skills**

3.25 A good job is still the fundamental pre-condition for personal wellbeing and a route of poverty. The Joseph Roundtree Foundation<sup>xii</sup> has attempted to define the characteristics of a good job, citing opportunities for progression, and sufficient security for people to stay out of poverty as two core elements. The Sustainable Development Commission would add that 'good jobs' need to be in the 'right places' for people to access paid employment and leave poverty, regardless of where they live in Wales and be in industries with a greater resilience against climate change, fuel insecurity, collapsing biodiversity and global inequality.

3.26 The Wales Employment & Skills Board has highlighted a number of remaining barriers that prevent people accessing meaningful employment, in particular the issue of skills for the long term unemployed or economic inactive. Action on skills, particularly basic and employability skills is a critical pre-requisite for preparing Wales for the transition to a sustainable economy.

### **Energy security**

3.27 Views vary as to when peak conventional oil and gas production will occur, but the natural rate of decline in established oil fields is now believed to be as high as 9% per annum<sup>xiii</sup>. The reduced supply of 'easy' oil will create an energy gap, increasing the price of energy. This price rise may further be compounded by the increased demand and purchasing power of developing economies like China. As Calvin Jones of Cardiff University argues '*peak oil, and the coming energy crisis, is not the same thing*'<sup>xiv</sup>. Wales is heavily dependent on fossil fuels and as such, is a greater risk of peak oil impacting negatively on the economy and employment. Wales is also underperforming in energy generation from renewable sources and could make progress in areas such as wind, wave and tidal power.

### **Low carbon economy**

3.28 There is a raft of evidence that decarbonising the economy: supporting current industry to act more environmentally sustainable; and create new low carbon industries; will be of critical importance to the future performance of the economy<sup>xv</sup>.

3.29 While the Assembly Government has made progress in recent years, with initiatives like the *Green Jobs Strategy*, significant opportunities remain to expand Wales' low carbon economy and employment opportunities within.

3.30 The UK Department for Business, Enterprise, Regulatory Reform (now BIS) published its *Low Carbon and Environmental Goods & Services* industry analysis report in 2009. The analysis for Wales showed that for 2008/9, sales worth £4.7 billion, from 2,200 companies employing 41,000 employees. Wales accounted for 4% of UK exports. The report found that the largest industries (in terms of jobs and market value) were:

- Alternative Fuels,
- Alternative Fuels for Vehicles and Building Technologies (Emerging Low Carbon),
- Wind and Geothermal (Renewable Energy)
- Water and Waste Water (Environmental)

3.31 The fastest growing industries were: wind, Geothermal, Biomass, Photovoltaics and Wave and Tidal (all Renewables).

3.32 The report concluded that Wales "performed above average for Environmental Monitoring, Noise & Vibration Control, Photovoltaics, Biomass, Wave and Tidal, Hydro and Additional Energy Sources. Wales accounts for £465 million or 4% of UK exports from the sector. The major exporting industries are Water & Waste Water (£53 million), Wind (£61 million), Building Technologies (£65 million), Alternative Fuels (£49 million) and Photovoltaic (£46 million). Exports amount to 10% of total regional sales, in line with the UK average of 9.7%. Major export destinations for Wales include China (£30 million, 6%), Spain (£16 million, 3%), South Korea (£16 million, 4%), USA (£14 million, 3%) and above average exports to Singapore and Chile."<sup>xvi</sup>

3.33 The Sustainable Development Commission recommends that an even greater priority is attached to developing Wales' low carbon economy. Our specific recommendations on how this might be achieved are contained below.

### **Innovation; and Research & Development**

3.34 The Sustainable Development Commission recommends in *Low Carbon Wales* that consideration must be given to how government can support research, development and the demonstration and commercialisation of sustainable technologies both within research institutions and businesses in Wales. There remains a role for the Assembly Government to provide support, financial and otherwise, to business for innovations that improve efficiency of new and existing products and processes. Such activities should be included within a renewed economic strategy, as detailed below.

3.35 There is further opportunity for the Assembly Government to use its power to convene and bring people together, to further foster collaboration in innovation and R&D; support businesses to better align organisational innovation and technological innovation.

### **Public procurement**

3.36 The Sustainable Development Commission continues to advocate the need for government to fully harness the power of public procurement to deliver sustainable outcomes, and ensure that the approximate £5bn the Welsh public sector spends on goods and services is done in a way which maximises social, economic and environmental advantage for the people of Wales. The UK Government's Sustainable Procurement Task Force report *Procuring the Future*<sup>xvii</sup> stated sustainable procurement should be seen as "a process whereby organisations meet their needs

for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and economy, whilst minimising damage to the environment.

- 3.37 Prof. Kevin Morgan of Cardiff University argues that there are two fundamental weaknesses in public sector procurement in Wales: governance and skills.<sup>xviii</sup> The Assembly Government has made welcome progress towards more sustainable procurement practices, with a commitment to meet Sustainable Procurement Assessment Framework (SPAF) level 5 by the end of 2010, with the establishment of a Programme Board led by a senior official to drive change forward.
- 3.38 To meet its commitment of SPAF level 5, and indeed to fully realise the potential power of public procurement, the Assembly Government must ensure that sustainable procurement is not viewed as a 'niche' activity; rather, that sustainable development is embedded across all procurement activities. Further, the Sustainable Development Commission would caution that as procurement is delivered by people; not systems, structures or processes; it is important that the Assembly Government's Sustainable Procurement Programme Board drives a cultural purchasing revolution through the public sector in Wales, enabling staff with the skills, confidence and competencies to deliver.

## **4. Vision for the current Welsh economy**

- 4.1 The Assembly Government has already articulated a positive vision for the Welsh economy and it is contained in its sustainable development scheme *One Wales One Planet* and its climate change strategy.
- 4.2 The sustainable development scheme *One Wales One Planet* states that “the role of business within a prosperous, sustainable economy is central to the generation of wealth and to the achievement of our vision. Local businesses can be central to community wellbeing, in a variety of ways. Through continuous innovation and technological advances, businesses must produce goods and services with much greater resource efficiency. Much more needs to be done. The purchasing power of the public sector, and the influence of business supply chains, will be a powerful influence. The direction provided by business leaders who are committed to sustainable development must become a catalyst for other businesses, shareholders and customers”.

## 5. Role of Government and Recommendations

- 5.1 The Sustainable Development Commission warmly welcomes the critical question the Economic Renewal Programme raises regarding the type of approach the Assembly Government deploys to stimulate economic development; highlighting a choice between a 'direct' approach of business support, advice, finance, provision of premises etc; against an 'indirect' approach that focuses on creating the conditions in which the economy can flourish.
- 5.2 There is, in the view of the Sustainable Development Commission, no simple 'either or' answer to this question, but that historically, the Assembly Government has been overly reliant on deploying direct measures; and that the Economic Renewal Programme is an opportunity for the Assembly Government to re-balance the use of the tools at its disposal.
- 5.3 The Sustainable Development Commission's *I Will if You Will* report highlights a framework of how change can be delivered by government, business and people (known as the '4 Es' model, first cited in the UK Government's Securing the Future strategy), below.

Encourage	Exemplify	Enable	Engage
Tax system	Leading by example	Remove barriers	Community action
Grants	Achieving consistency in policies	Give information	Co-production
Reward schemes		Provide facilitates	Deliberative fora
Recognition / league tables		Provide viable alternatives	Personal contacts/ enthusiasts
Penalties, fines and enforcement action		Education/ train/provide skills	Media campaigns/ opinion formers
		Provide capacity	Use Network

**Figure 4: The four Es model**

- 5.4 Considering this model, and reflecting on where the emphasis of Assembly Government activity has historically been; it is apparent that policy has tended to heavily focus on Encouraging Economic Development; with some but less activity as an enabling and engaging force.
- 5.5 The tools needed will depend on the job at hand, but there is clear scope for the Assembly Government to do more by exemplifying, enabling and engaging. The public sector in Wales is, in itself, a powerful economic sector and scope remains for the Assembly Government to ensure the public sector leads by example as an employer (socially in terms of providing accessible 'good jobs' with opportunities for progression, work life balance etc; and environmentally by reducing the public sector's ecological footprint and GHG emissions). The Assembly Government is already making progress in this area, but as ever in Wales: best practice is a bad traveller.

### **Creating the right conditions: planning, infrastructure, education and skills, and engagement**

- 5.6 To create the right conditions for sustainable economic development, the Assembly Government should focus enabling prosperity by introducing reforms to land use planning; infrastructure; and education and skills; and should further improve the means by which it engages business.

5.7 Significantly more can be done to enable sustainable economic development. Steep barriers remain that prevent Wales (government, business and people) from positively responding to the four key challenges this paper lays out in Section 3. The urgent task of the Assembly Government must be to assess such barriers and introduce reforms that better enable sustainable outcomes.

5.8 Action must be taken to drive up basic and employability skills amongst those not in work and not in education; and such efforts should be seen not just as a task for the Department for Children, Education, Lifelong Learning & Skills, but rather a cross-government priority for all departments. Allied to this must be a reassessment of our approach to pre-16 education, in particular whether schools could do more to ensure individuals' life chances are maximised at a much earlier age.

5.9 In the case of resolving Wales' reliance on fossil fuels, a raft of action including a fundamental review of the land use planning system, must be taken forward to ensure that planning enables and does not needlessly restrict the development of renewable energy generation.

5.10 Wales has a number of infrastructure needs, some of which are being addressed through programmes such as the 21<sup>st</sup> Century Schools Programmes; but such investment in infrastructure should be driven forward with a 'whole government' approach, so that the economic and employment, social and environmental benefits of such investment are maximised. Wales also has a number of outstanding infrastructure needs, in particular renewable energy generation, further improvements in public transport; ICT connectivity; and a massive home energy efficiency programme that will be required if Wales is to meet the Assembly Government's 3% GHG emission reduction target. Successfully executed, such a programme would not only create economic and employment opportunities within itself, but also further improve the business environment and competitiveness of Wales to out-of-Wales investors.

5.11 Lastly, the Sustainable Development Commission would recommend that the Assembly Government further develops its engagement role. The All Wales Economic Summit process has proved to be a valuable forum for government and its social partners to jointly deliberate on policy challenges and co-produce responses. This approach should underpin all of the Assembly Government's relationships with social partners in Wales; with a strengthening of the relationship between the Assembly Government and anchor companies generally, and a specific emphasis on a strategic dialogue with those companies with a particular interest in energy (generators and users).

5.12 The Assembly Government is able and should more fully exploit its ability to act as champion for Wales, in particular to attract sustainable Foreign Direct Investment and access to finance for sustainable Welsh start-ups. While it is right Wales looks to the global stage, parts of Wales including Cardiff are just two hours by public transport from central London which is, on a large number of measurements, one of if not the financial centre of world (the exploitation of this proximity should also be a key component of any co-ordinated infrastructure programme). The Assembly Government should utilise its role as a convenor and its ability to bring others together to foster collaboration; celebrating Welsh success much more (in particular companies shifting towards renewable energy supply, greater resource efficiency, or good job creation); and give greater public recognition to entrepreneurs.

### **Recommendations for Renewal**

5.13 The Assembly Government should lay out its thinking and new approach in an **Economic Transition Strategy for Wales**. This transition strategy should shift the focus of policy away from the traditional pursuit of raising Wales' GDP, and focus instead on the creation of good jobs in a resilient economy that operates within environmental limits. The transition strategy should be

consistent with the Assembly Government's sustainable development scheme and climate change strategy; and be cross-governmental: led by the Department for Economy & Transport, but delivered across portfolios.

The Economic Transition Strategy will provide a framework for economic recovery and will proactively respond to forthcoming key opportunities, such as the mandatory zero carbon new homes. This transition strategy will not only better align Assembly Government activity, but provide to business much needed certainty on the future direction of public policy in Wales. As important as the **Economic Transition Strategy for Wales** will be, the recommendations below should be enacted immediately and not postponed until the strategy is complete.

- 5.14 The Assembly Government must **raise Wales' collective understanding** of the future environmental and social risks facing the economy. The All-Wales Economic Summit process has been a useful mechanism for co-deliberating with social partners on the economic problems facing Wales. This type of engagement should be developed further. The Assembly Government should undertake analysis on issues such as the economic implications of stricter emission caps for individual sectors, and share this intelligence with business, trade unions and others as a means of co-generating policy responses.
- 5.15 The Assembly Government has an important role as a 'convenor': **fostering dialogue and collaboration between sectors**. Making progress towards a sustainable economy will depend on enabling business, households and communities to act together. The Sustainable Development Commission recommends that a forum called *Leading the Transition* is established. Linked to the Business Partnership Council, and co-reporting to the Minister for Economic Development & Transport and the Climate Change Commission for Wales, the *Leading the Transition* forum will bring together senior leaders from the private, public and third sectors in Wales to share intelligence around the delivery of the Economic Transition Strategy for Wales.
- 5.16 The Assembly Government must ensure its internal **governance and delivery arrangements are fit for purpose**. Despite recent, positive structural developments, private and third sector organisations in Wales still experience difficulties engaging with the Assembly Government in an effective and timely way. As a cross-governmental strategy, the **Economic Transition Strategy for Wales** should have identified leads within each of the Assembly Government departments. Single points of contact should be created to facilitate a strategic dialogue between the Assembly Government and anchor companies, with particular attention given to energy sector.
- 5.17 The risks posed to the Welsh economy are greater for some industries and communities than others. The Assembly Government should develop a better understanding of 'at risk' industries, and communities dependent on 'at risk' industries, and formulate **localized transition plans** in partnership with public (in particular, local authorities and the national parks) and private stakeholders to proactively manage risk. This work should be facilitated through the Wales Spatial Plan framework and the *Leading the Transition Forum*. For those communities, where the greatest risk of future job losses occur, this will involve additional investment in education and skills to ensure young adults are equipped with basic and employability skills to access employment in alternative businesses.

#### **Investing in good jobs, assets and infrastructure**

- 5.18 The Assembly Government should reject overly simplified assertions that the public sector in Wales should shrink; and instead focus on raising the productivity of all sectors. The Assembly Government should **prioritize public sector spending in areas that deliver the greatest multiplier effect in terms of job creation** within the private sector; building resilience in to the Welsh

economy so that it's better able to deal with future shocks like climate change. Focus areas should include: investment in renewable energy; public transport and the 'green' automotive sector; retrofitting of the existing building stock with energy and carbon saving measures; investing in ecosystem maintenance and protection measures; and providing fiscal support and incentives for existing businesses – large and small – to reduce emissions and improve resource efficiency.

- 5.19 The Assembly Government should develop a **National Infrastructure Plan** that analyses Wales future infrastructure needs and identifies investment priorities in areas such as the built environment (including school buildings), transport, ICT and energy supply. Consideration should be given as to how the Wales Spatial Plan framework can best deliver the National Infrastructure Plan.
- 5.20 The Assembly Government should build on the start it has made with the Strategic Capital Investment Fund and further investigate how it can creatively use its devolved powers to **finance new infrastructure programmes and improve access to capital** for businesses wanting to create jobs in Wales. The Sustainable Development Commission's *Delivering Neighbourhood Retrofit* project in England has explored how investment can be stimulated and direct when credit is limited. Other sustainable investment vehicles, such as Green Bonds, the re-establishment of Finance Wales as Welsh Sustainable Investment Bank, and the expansion of mutual and cooperative models for community infrastructure projects should all be urgently explored.
- 5.21 The Assembly Government should establish an **Independent Review of Planning** with the aim of reforming the planning system so that it is better able to deliver the infrastructure and jobs Wales needs; in particular whether the planning system can better enable the de-carbonisation of the built environment, provide for more sustainable communities, and optimise potential energy generation from renewables.
- 5.22 The Assembly Government should carefully consider the recommendations of the **Wales Employment & Skills Board** in relation to raising basic skills, transforming the incentive structure in schools and adult education.
- 5.23 Should **European structural funding** be made available to Wales beyond 2013, the Assembly Government should consider how best the programme can be used to deliver its Economic Transition Strategy for Wales and its National Infrastructure Plan; specifically how funding can be channelled to: develop 'good job' creation in sustainable, resilient industries; invest in sustainable infrastructure projects; skills provision; and encourage inward investment from sustainable companies in Wales.
- 5.24 The Assembly Government should ensure the **sustainable procurement** programme board is given prominence across the Assembly Government and is central to any new approach to economic development. Attention should be given to ensure the public sector has sufficient skills, capabilities and confidence to deliver any revised approach to procurement.
- 5.25 The Assembly Government should further explore supporting the developing of innovative finance vehicles for sustainable infrastructure projects and job creations. The Sustainable Development Commission recommends that this should include an exploration of using a reformed Finance Wales to act as a 'green bank', and investigating the potential of micro-finance; cooperative, mutual and community-own initiatives.

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<sup>1</sup> Prosperity without Growth? Sustainable Development Commission. Online at [www.sd-commission.org.uk](http://www.sd-commission.org.uk)

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## Sustainable Development Commission

**The Sustainable Development Commission is the Government's independent watchdog on sustainable development, reporting to the Prime Minister, the First Ministers of Scotland and Wales and the First Minister and Deputy First Minister of Northern Ireland.**

**Through advocacy, advice and appraisal, we help put sustainable development at the heart of Government policy.**

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