



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

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The Sectoral Approach

Explanatory Note

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1. Purpose

This note outlines the background to the six priority sectors identified in *Economic Renewal: a new direction*, describes the sectors and points to some key facts and figures.

2. Background

In 2008, the Economy & Transport Ministerial Advisory Group (MAG) recommended that the Department for the Economy & Transport should align its activities to key sectors of the Welsh economy in order to improve the global competitiveness of Wales. It believed that the Department could achieve more strategic focus, greater critical investment mass, and better co-ordination and strategic management by:

- Covering fewer activities and sectors
- Operating fewer initiatives and schemes
- Simplifying the process of providing public sector led solutions and interventions.

The MAG undertook a comprehensive review of macro and technology trends likely to be important global influences on economic development. Following analysis of sectoral data at the Wales, UK and global levels, fourteen sectors were identified which had demonstrated above average growth, were projected to perform well into the future, and were of significant importance to Wales.

The sectors were identified as core or enabling sectors (those of significant importance to the Welsh economy), Tier 1 sectors (those strategically important to Wales), and Tier 2 sectors (those of importance to Wales and the global economy but less strategic in terms of developing Wales' competitive advantage). The fourteen sectors were grouped as follows:

Core or Enabling

- Energy
- Environmental management
- Telecommunications and ICT

Tier 1

- Bioscience
- Health
- Financial services/ products and professional services
- Creative industries
- Automotive
- Aerospace

Tier 2

- Construction
- Food
- Defence
- Retail
- Leisure and tourism.

The MAG revisited the sector prioritisation as part of the wide-ranging programme of work undertaken in light of the economic downturn. It noted that nature of the downturn had not been anticipated, and this made it necessary to review the recommendations and advice provided.

The review considered the foundations upon which the recommendations and advice had been provided and concluded that as a result of basing the analysis on broad trends and underlying long-term fundamentals the prioritisation remained valid. The MAG identified that the need to prioritise and achieve value for money was more critical than ever. It concluded that concentrating on sector strengths to increase Wales' international competitiveness will achieve more significant returns for Wales and bring about a more diverse and sustainable economy.

The Department affirmed its commitment to pursuing a sectoral approach, recognising that the targeting of key sectors would provide opportunities for Wales in the economic upturn.

In 2009, Ministers agreed that the Assembly Government's funding support for Research and Development (R&D) should be concentrated on a series of priority areas offering the best chance of outperforming the rest of the UK and maximising economic impact. The R&D prioritisation recognised strengths within the business base in Wales, performance in the Research Assessment Exercise (RAE), and opportunities to obtain external funding from the Technology Strategy Board (TSB) and European Commission (FP7).

3. Economic Renewal: a new direction

Economic Renewal: a new direction refined the fourteen MAG sectors to a more focused group of six sectors by prioritising and regrouping the two highest priority groups of sectors – those identified as core or enabling sectors and strategically important sectors. This is because it was acknowledged during the programme of work that there were too many sectors for an effective approach to economic development.

The six sectors are:

- Information and Communications Technologies (ICT)
- Energy and environment
- Advanced materials and manufacturing
- Creative industries
- Life sciences
- Financial and professional services.

As a result of the refocusing, there is now a clear correlation between the priority sectors identified in *Economic Renewal: a new direction* and the identified R&D priority areas.

Weighting has been given to sectors which are 'enablers' within the wider economy, for example in providing opportunities for exploiting ICT, creating green jobs, resource efficiency and moving to a low carbon economy.

4. Understanding the sectors

Private sectors panels are being recruited by the Assembly Government with a remit to provide Ministers with advice on opportunities for and the needs of the sectors, and they will help develop, and advise on the implementation of, policies, principally through sector action plans. To ensure that the benefits of the sectoral approach will be delivered, integrated sector teams, located across Wales, are also being established. The work of the Panels, supported by the sector teams, will develop the Assembly Government's understanding of, and improve support for, the sectors.

Economic Renewal: a new direction provided the following descriptions for the six sectors:

Information and Communications Technologies (ICT)

Information and Communications Technologies are a driving force in both economic development and wider societal change. In addition to being an important industry sector, the application of ICT drives productivity and competitiveness across the whole of the economy. Increased trade and globalisation is enabled by ICT, creating a 'flatter' world with more competition and more opportunities for Welsh businesses. ICT will also play an important role in helping us meet the challenges of climate change through efficient resource management and the creation of smart grids.

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

Energy and environment

Protection and enhancement of the natural environment is part of our commitment to sustainable development and itself forms an important business cluster. Environmental remediation and management has a long history in Wales with world-wide recognition.

As the cradle of the industrial revolution, Wales led the world in coal and steel; now it is well placed to take a leading role in low carbon and sustainable energy sources such as wind, tide, hydro-electric and biomass. With abundant natural resources and businesses that can exploit the opportunity, this is a sector with strong growth potential across low carbon energy, energy efficiency, energy storage and infrastructure, pollution control, environmental management, research and consultancy.

Groundbreaking research into hydrogen technologies has recently led to South Wales being designated as the UK's Low Carbon Economic Area (LCEA) for alternative transport fuels.

Advanced materials and manufacturing

The Advanced materials and manufacturing sector covers the composition, structure and properties of materials and their specific applications, arguably therefore at the forefront of technological innovation, as well as high value manufacturing based on high-level knowledge, skills and design and leading to technologically complex products and processes.

The sector's importance is based upon its activities underpinning future product development and innovations for most other sectors. In relatively high-cost developed economies such as ours, manufacturing has had to and will continue to change radically. This sector offers the opportunity for the strategic and employment benefits of manufacturing to be realised whilst remaining globally competitive. The sector is engaged in cutting-edge research with the engineering departments of Welsh universities. The market for high value goods and services associated with advanced materials and manufacturing is likely to increase significantly, particularly those produced to meet ever-evolving and exacting environmental standards. Our particular strengths in Wales include automotive, aerospace and electronics.

Creative industries

The Creative industries sector is well positioned to achieve greater momentum through the implementation of the recommendations from the Hargreaves Review (March 2010). These actions will sharpen strategic thinking, clarify accountabilities and improve our channels of communication with creative businesses. Their goal is to ensure that Wales advances its competitive position internationally against strong efforts in this sector from other nations and regions of the UK.

Life sciences

The Life sciences sector is diverse, research-driven and global, with the sector's characteristics constantly changing as new sub-sectors emerge and develop. The sector encompasses pharmaceutical, biotechnology and medical technology businesses, with wide ranging activities including research, testing, manufacture and the provision of specialist services.

In Wales, the sector has firm foundations within and links to universities, and we can rightly claim areas of world-class performance. Global trends have always played an important role in determining the sector's development, and changes in approaches to health care, demographics and technological advances are some of the many significant factors that make it difficult to predict how the sector will look in the future.

What is clear though, is that the Life sciences sector, and in particular some of its sub-sectors, will likely become significant global markets with strong

potential for growth. Specific strengths in Wales include wound healing, medical devices and technology, diagnostics and clinical trials.

Financial and professional services

As Wales increases its proportion of employment in services, there has been significant growth in the Financial and professional services sector. In financial services, traditional retail banking has been joined by growth in insurance, asset management, funds management and pensions firms. This is a vibrant and innovative sector with home-grown, household names competing with blue-chip, multi-nationals. There are significant opportunities for further growth in this area as the restructuring of the UK banking industry take place.

Increased outsourcing of HR, legal and other corporate services has created new opportunities in professional services in which Wales has a growing presence. The availability of a skilled workforce is essential to this sector.

5. Some facts and figures

Taken together, the six priority sectors account for around one third of private sector employers in Wales in business turnover and employment terms, compared to more than two-thirds of the private sector economy represented by the fourteen sectors originally recommended by the MAG.

The six sectors have demonstrated above average growth at the UK level, are projected to perform well into the future and are of significant importance to Wales in terms of employment.

As well as potential to grow, the six sectors have also exhibited high growth in the past. For example, the Inter-Departmental Business Register shows that between 2003 and 2009 the number of employees and the level of turnover increased faster in the priority sectors than in non-priority sectors.

The sectors typically contain higher-skilled jobs than the average. The Annual Population Survey shows that in 2009 whilst just over a third of non-priority sector employment is in the three top end occupational categories - Managers, Professionals, Associate Professionals and those in Technical occupations - over half of all priority sector employment is in these categories.

The sectors typically contain higher paid jobs than the average. The Annual Survey of Hours and Earnings shows that when taken as a whole, priority sector earnings for full-time employees are around ten per cent higher than those in non priority sectors in 2009.