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Institute of Welsh Affairs

TIME TO DELIVER
The Third Term and Beyond
Policy Options for Wales

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Preface

In November 1998 the IWA published a volume under the title *The National Assembly Agenda*, setting out ideas and recommendations for the policy areas with which the as yet unformed Assembly would have to grapple. It was a massive exercise, involving 21 working groups and more than 700 people. One of the authors (Paul Silk) has become Clerk to the Assembly; two (Jane Hutt and Sue Essex) are presently in the Cabinet; two (Professors Mark Drakeford and Ian Butler) are Cabinet special advisers. The atmosphere of high expectation was such that the IWA had to book overflow rooms at a Cardiff hotel for its launch by the then Permanent Secretary, Rachel Lomax.

At the end of the Assembly's second term the IWA thought it was timely to stage a similar exercise, albeit on a smaller scale, not necessarily to judge whether all those high expectations have been met, but to look forward again. The aim was to assess what choices and what directions of travel might be open now to our political parties and to the public that are asked to vote for them in May 2007, as well as to whatever kind of government lies beyond that date. It was never our intention to construct a programme for Government, but we hope that we can enrich the debate.

During 2006 the IWA brought together eight groups of experts (listed in the Appendix) to address the policy arenas explored in this volume.

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Each of the chapters they have collectively produced review what has been achieved during the first two terms. They then engage with the more challenging process of coming up with practical policy interventions that could be achievable in the four years following May 2007. In considering the various options, the authors have taken into account longer term issues and trends including:

- Climate change and sustainable development.
- Demographic trends and migration.
- The interface of the public and private sectors.
- Economic globalisation and its impact on Wales's manufacturing base.
- Sustainability of central government funding for Wales through the Barnett formula.
- Impact of enhanced powers for the National Assembly as a result of the 2006 Government of Wales Act.

In undertaking such an ambitious exercise the IWA has inevitably incurred many debts. The first of these are to the participants in the working groups, and especially the chairs and those who undertook the hardest task of producing the first drafts. Many meetings have been held, e-mails exchanged, and a great deal of time voluntarily given.

This project has been made possible by the generous financial support of the Joseph Rowntree Foundation which awarded an exceptional grant to allow it to be undertaken.

Equally, the IWA is grateful for continuing core-funding from the Joseph Rowntree Charitable Trust, without which we would be unable to undertake initiatives such as this which, we believe, enrich the development of civic society and democratic engagement in Wales.

Geraint Talfan Davies

Chair, IWA

October 2006

Overview

Ends and Means

This book examines policy options for Wales during the third term of the National Assembly. What will be the in-tray for the new Assembly Government Ministers following the May 2007 election? What longer-term, horizon, issues should be borne in mind when framing policies for the third term?

To have attempted this exercise at the end of the first term would have been premature. The new institution had to find its feet, and so had government. Politically, the Assembly Government has had to traverse a precarious ledge through minority government, coalition, and wafer-thin majority government, back to minority status. Opposition parties have also struggled to find an appropriate style. The shortcomings of the 1998 settlement have needed time – though not much – to become evident.

Delivery has been as problematic in Wales as anywhere else in the UK, arguably more so. The asymmetry of representation between the Labour party, on the one hand, and the three opposition parties on the other, is seen as a block to a more pluralistic policy approach by the one and a regrettable brake on a single coherent approach by the other. This unavoidable effect of the political arithmetic has been magnified by the absence of overt internal policy tensions within the Labour party in Wales, such as exist in the party at Westminster between Blairite and anti-Blairite wings.

But it is important that we do not view these issues solely from the point of view of the institution, rather than from the perspective of the public that it is there to serve. There is some credible evidence of public satisfaction with this young and novel democratic body, as evidenced in the report of Richard Commission. Many organisations also value the opportunity to make representations directly and speedily to Ministers, although they are often highly critical of poor departmental performance, lack of expedition and resistance to external advice.

But whatever degree of public support for the Assembly has been demonstrated in polls, that does not manifest itself in engagement with the democratic process. Turnout at Assembly elections declined from 46 per cent 1999 to 38 per cent in 2003. A similar trend has been apparent in UK General elections, down from 71.5 per cent in 1997 to 59.4 per cent in 2001, though up marginally to 61 per cent in 2005. Some have attributed this to the supplanting of competing and motivating ideologies by a duller and more uniform managerialist approach to politics, others to the predictability of results in UK General elections since 1997. Both arguments have to be sharply modified for the Welsh context. This third term project has, we believe, demonstrated that there are wider choices than the first argument allows. The latter argument also has less force in Wales, since things are more finely balanced, although, arguably, Labour seems more permanently dominant in Welsh than in UK politics.

In historical terms, the National Assembly is still a very young institution, and we are often warned against premature judgements. It is easy, but not very instructive, to compare its development with the centuries it has taken to develop Britain's Parliamentary democracy. It may be more relevant to look at the timescales for developing effective

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institutions in Eastern Europe or even Ireland, though the first fifty years of Irish independence present a gloomy parallel.

The public may be more demanding than students of the constitution. The National Assembly works within a UK context, and within public expectations of Government that are largely formed by UK politics and by British media as much as by Welsh institutions. Whatever shape the next Assembly Government takes – majority, minority or coalition – it will have to strive to meet those expectations and, in many contexts, even seek to raise them. The Welsh public wants to see a greater measurable improvement in its circumstances. Before that can happen all four parties need to give the Welsh electorate some clarity not just about particular policies but also about which direction of travel they have chosen. This is the background against which the IWA's eight policy groups have worked to look at both short-term priorities and the long term trends which policy makers will have to address in the next four years.

The Story So Far

The first year of the Assembly was characterised by political instability that played out in sensational terms. The institution was finding its feet in novel circumstances where the structures created by the 1998 Government of Wales Act blurred the distinction between the Assembly Government and the Assembly as a whole that tried to hold it to account.

The civil service was beginning the adjustment – still far from complete – from an administrative to a policy-making role. Indeed,

much of the first two terms has been bound up with internal institutional development culminating in the absorption of the WDA, ELWa and the Wales Tourist Board into the civil service, together with the report of the Richard Commission and the passing of a new Government of Wales Act that formalises the separation of executive and legislature, and grants the Assembly a considerable, even if constrained, primary legislative potential.

In many ways, therefore, the first two terms can be accounted a qualified success both in terms of institutional development and administrative and executive competence. The outbreak of foot and mouth disease provided an early challenge that was surmounted with some success, not to say élan. The most notable failure has been in the Assembly's scrutiny function – the one function that bridges the institutional and policy elements, and the one that the new Government of Wales Act does least to address. Nevertheless, the fact that there is now a cross-party consensus about the permanence of the Assembly speaks volumes.

In policy terms, too, it is possible to argue that it has been a creative period, even if people will differ on the rightness and efficacy of particular initiatives. In education and health there has been no shortage of initiatives, neither can one argue that Wales has followed England slavishly.

In education the Assembly Government can rightly point to initiatives in early years education, the abolition of SATS tests for seven and 11 year old pupils, the piloting of the Welsh baccalaureate and a different approach to the funding of university students. In health, the emphasis on well-being and health promotion has assumed a higher priority than in England.

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On the social justice front, free universal provision of bus travel for pensioners, prescriptions, entry to museums, and even swimming are, at the very least, distinctive, while the Communities First initiative is imaginative in concept, whatever the shortcomings in execution.

On the economic front, the development of the broadband network across Wales, even to include rural areas, has been impressive. Cultural spend has increased markedly and to effect.

Within discrete areas of policy there is no shortage of strategic frameworks, indeed the output of strategic documents has been prodigious. Where the Assembly Government has struggled is in changing outcomes. It can argue, quite justifiably, that results from investments in, say, skills or health promotion, can only have their effect in the long term, and to that extent government should be commended for taking the long view and laying down strategic platforms for the future.

On the other hand, the most common complaints from our policy groups have been that the strategic documents do not always address delivery issues, that there is often an 'implementation gap', that the institutional structures - particularly in health and local government - are not fit for purpose, and that the cross-cutting potential of government at the Welsh scale is not being realised. The fact that such criticism has arisen in so many contexts increases its force.

Key Challenges

What are some of the key challenges inherent in Wales's current position as seen by our policy groups? They can be summarised as follows:

Economy and Society

- Despite government policies, the GDP gap between Wales and the UK remains stubbornly wide. Assembly Government levers are limited and, so far have not proved efficacious.
- Growth in public sector employment has compensated for a decline in manufacturing jobs resulting from a combination of globalisation and an overvalued pound.
- A combination of public sector dominance and manufacturing decline has prolonged a traditional weakness in high value-added services in Wales. There are also too few individuals holding senior managerial positions.
- There is a need to bring back into work large numbers of the economically inactive. This is particularly necessary as demographic trends are moving against us.
- Wales suffers from low productivity in both public and private sectors. Performance management is weak and needs to be improved.

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- Investment in education is the surest way to build a better and more prosperous society. It needs to be at the top of our priorities, but isn't at present.
- Health service reforms, including a big shift to primary care and hospital specialisation are needed, but face virtually insurmountable resistance from the public.
- We have yet to resolve the tension between economic development and environmental objectives, because they are still being considered separately.
- The Welsh road and rail infrastructure is in need of updating to deal with problems of congestion, regional and national cohesion, and environmental objectives.
- The split of population between industrialized south and rural west and north makes it extremely difficult to create a coherent framework for urban planning. City-region approaches in south Wales and in the north-east need to be developed.

Government and Finance

- The public sector in Wales is massively dominant in our economy, in our society and in our mindset. Economically, it is more dominant than in any other part of the UK, except Northern Ireland. The balance needs to change. The fact that so much of our society and so many of our institutions are beholden to the state even constrains debate. State support is the nation's default setting.

- Capital investment in our health and education infrastructure is lagging behind the rest of the UK, partly because of an aversion to the use of private capital. On a wider front Wales cannot afford to ignore this source of finance, and could tap its potential without compromising public service objectives.
- There are severe doubts about the fitness for purpose of our local government and health service structures. Weariness about yet another reform seems to be the only thing suppressing the appetite for further change.
- Devolution has made it more difficult to measure Welsh performance vis à vis comparable areas. We need to be able to measure outputs and outcomes much more systematically if we are to improve performance management and the service to the public.
- Cross-cutting approaches to policy-formulation and, more importantly, delivery, are still under-developed. This is evident in many areas, including across economic development and the environment; across housing, poverty and regeneration; and across education and culture.

Powers and Policy

The Government of Wales Act 2006 gives to the National Assembly and its Government a new potential for generating and shaping primary legislation. It would be unwise to expect too much from this in the first

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years. The procedures in the Act are complex and depend on agreement with the Secretary of State and, ultimately Parliament. The Assembly and Assembly Government will be wise not to overload the system at the outset, especially given the Act's failure to increase the number of Assembly Members to cope with the new responsibilities. However, there should be opportunities to enshrine distinctive Welsh approaches in, for example, health, education, and culture in legislation that would be important not only for its detail but also for its declaratory effect.

The main thrust of policy-making even in the third term will be accomplished within the powers that were at the heart of the powers devolved by the 1998 Government of Wales Act. A glance through the recommendations made in this volume demonstrates that in only a few cases do the proposals suggested require changes in the law. Without underplaying the importance of law-making powers as allowed under the 2006 Act (through Orders in Council), we should emphasise the scope for change and intervention that has existed within the constraints of the powers enjoyed since 1998. Realism, imagination and leadership remain the essential tools of good government.

Direction of Travel

It is worth considering four possible directions of travel that are not necessarily synonymous with any one party.

In the first two terms of the Assembly only one piece of Welsh political communication has ever come near to sticking in the public mind:

Rhodri Morgan's "clear red water". There is some uncertainty about whether the First Minister uttered the words himself, or whether it was a media paraphrase, but it was a phrase that encapsulated not only a political hue but a distance from New Labour policy in England. Interestingly, the public discussion of this slogan centred almost wholly around that point of difference with London. There was little debate about the words as a statement of direction of travel for policy or for a society. That may have been because of a combination of broad unanimity within the Labour party in Wales, the complicity of the Liberal Democrats after a period of coalition, and the absence of a philosophic difference on the approach to public services on the part of Plaid Cymru. For whatever reason, the issue was a dog that did not bark.

Since then the substance of the Labour approach has been set out in more detail in the strategy for public sector reform, *Making the Connections*, and articulated most recently by one of the First Minister's advisers, Mark Drakeford, in a speech to a conference in Scotland in March 2006.¹ He characterised the Labour approach as one driven by an aspiration for social justice and based on a progressive universalism rather than means testing, cooperation rather than competition, high trust rather than low trust, and equality of outcome rather than equality of opportunity. He argued, as the First Minister has done, that these fit with and are rooted in the very nature and shape of Welsh society and tradition.

There is certainly a large body of tacit support in Wales for these general propositions – what might be called a Scandinavian vision of society – though the question will certainly arise as to whether you can realise a Scandinavian vision on an Anglo-American tax base or, for

¹ See Mark Drakeford, 'Progressive Universalism', IWA, Agenda, Winter 2006-07.

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that matter, on decidedly non-Scandinavian levels of political participation. This is especially the case when taxation will be decided elsewhere, possibly according to different criteria. That issue has to be faced, otherwise Wales could find itself sucking on a comfort blanket that might one day disappear. That does not necessarily mean compromising on social objectives, but it may mean reconsidering the means by which they are achieved.

The real challenge when heading in the first of these directions – universal benefits and the eschewing of market mechanisms – is that you need even greater efficiency in order to meet the cost pressure. Yet there is room to believe that the Government's collaborative route implies a softer approach to performance management and improvement that, in the Welsh climate, will deliver at a lesser pace and intensity. Fear of this continuing under-performance was a recurring sub-text in the Beecham Report on public services in Wales.²

This suggests a second possible direction, what might be called New Labour-lite. This could ease the financial corset by making greater use of private capital, although confining that use to a narrower range of functions than envisaged in England, within very strictly drawn public service objectives. Such a direction might also imply a tougher performance management régime and a small shift in priorities from social to economic objectives. In this case the debate might be around the extent to which the chosen means are incompatible with the social objectives.

A third feasible direction of travel might be a concentration on 'nation-building' as a focus for policy.³

² Beyond Boundaries: Citizen-Centred Local Services for Wales, June 2006: a review of local service delivery commissioned by the Assembly Government and chaired by Sir Jeremy Beecham.

³ See Cynog Dafis, 'Nation Building', IWA, Agenda, Winter 2003-04.

This would involve policies aimed at developing a sense of civic solidarity within and across Wales in the hope that it would not only consolidate but also deepen a sense of Welsh identity and have a significant motivational effect. It would seek to make a cohesive whole of aspirations, with an emphasis on even greater distinctiveness of Welsh policy, and issues such as a 'fair' geographic distribution of resources across Wales, reducing or halting the emigration of young talent from Wales, and improving north-south communications. While this would no doubt create a rhetorical cohesion with which more than one party might be comfortable, unless it were also to involve an approach to the public sector and to social justice radically different from Labour it would come up against all the barriers of cost and performance management that we have referred to above. It also appears to require far higher levels of political participation than those which exist at present.

A more radical, though less comfortable, fourth direction might involve discarding many of the assumptions that are implicit in the current Welsh consensus. This would give total primacy to economic objectives, involving conscious policies to rebalance the public and private sector divide in the Welsh economy and society, a move away from universal provision to targeted benefits, increased use of public-private partnerships, and the moving of some public sector executive functions into the private sector. For example, rather than the absorption of the Wales Tourist Board into the civil service, this approach might have pushed it the other way into being a private company operating a public franchise. Such an approach would undoubtedly flush out whether the assumed Welsh consensus is real and whether Welsh attitudes to individual and community aspirations are as different from those east of the border as we like to believe.

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It is not our place to write manifestoes, and we have not masked the fact that some of the recommendations from different groups cut across each other. But if we had to single out one issue for attention it would be an issue of cardinal importance that overlays both economic and social objectives – and that is education. When Tony Blair came into government he said, famously, that he had three priorities – education, education and education. Amongst the things for which he has been criticised has been a failure to stick to that assessment. If his initial judgment was right for the whole of the UK, it must have doubly right for Wales. Welsh educational funding and performance, as measured by GCSE results in our schools, or by the research income of our universities, or simply by the general shortage of skills, is lagging far behind the rest of the UK. It bodes ill – the more so when one considers that more than two-thirds of the workforce of 2020 is already of working age. If history has proved anything in the last century it is that education is the key determinant of economic progress and prosperity.

With that in mind, it is chilling to think that the growth in education expenditure in Wales is now lagging behind England, let alone Scotland, particularly in the higher education sector, and that there are no current signs that this will change significantly. Since a devolved administration has no levers with which to effect economic performance in the short term, it must concentrate on the long term, and nothing in that long term is as effective as investment in education. Despite the incontrovertible evidence to this effect, we do not doubt that it will require courage to make this shift of priorities. Moreover, it should be the job of all political parties and politicians at all levels to persuade the Welsh public of the absolute primacy of educational objectives. Success in every other field depends upon it.

Whatever combination of ideas and policies and directions emerge in the wake of the 2007 election, government will be faced with problems arising from the current administrative pattern. Several of our groups came up against the deficiencies of the present health and local government structures. There is virtual unanimity that they do not and will never have the strategic capacities that the situation demands.

The combination of too many small authorities, and talent stretched thinly in a climate where performance management has been weak, does not bode well. The only thing holding people back from recommending a wholesale revision has been a sense of weariness at the thought of yet another reorganisation.

The Beecham Report is, arguably, the most important document on governance produced since the Assembly's inception, and the Assembly Government deserves credit for commissioning it. Yet the report cannot have provided much comfort. It is sometimes thought that Beecham endorsed the Assembly Government decision to eschew further reorganisation and to go for a process of exhortation and collaboration. That should be qualified. Beecham was clear that though the chosen 'citizen-centred' model was wholly defensible intellectually and socially, it was also "an extremely challenging model and requires transformation in culture, capacity and processes." You do not have to be an avid reader between the lines to realise that Beecham did not think the odds on success were good.

Those who would argue for a prompt reorganisation are usually faced with the argument that reorganisation would cost and would involve two or three wasted years. That is incontrovertible. But if Beecham's hesitancy proves justified and the current path is less than successful,

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and reorganisation becomes necessary after a review scheduled for 2011, it is possible that Wales could have wasted a decade. Some may think that the chosen path exemplifies Wales's nervousness in confronting poor performance rather than demonstrating our capacity to tackle weakness vigorously.

Whichever path policy takes over the next four years it will be imperative to involve the citizens of Wales in some form or another. A citizen-centred approach, however defined, should be a *sine qua non* for all governments. The issue will be how to involve citizens.

The challenge is to get responsible engagement. This also requires from any Government a more relaxed openness to external ideas and informed debate than has been evident so far. A public that 'participates in decision making' via the internet on an occasional, uninformed basis is not necessarily a way to better decision making. It could even simply amplify populist pressures leading to gesture politics.

Mechanisms whereby ordinary people immerse themselves in issues and come to considered judgements will be needed. There is little evidence in Wales to date of innovation and experimentation in this area. Consultation has tended to be far too formulaic, sometimes perfunctory and, even if inadvertently, geared more to public sector involvement. Parties, in and out of Government, at national and local level, need to demonstrate a real appetite for engagement. It is one of the many transformations that Wales needs.

Finance

The only one of the eight groups established under this project that did not deal with a discrete policy area was the Finance Group. It was established because it was not difficult to foresee that in the Assembly's third term, the Assembly Government will be faced with tight financial constraints. We wished to ensure that the policy groups were given some guidance on what these constraints might be, although the work has gone beyond that.

Examination of the overall financial position of the Assembly has proved to be one of the most productive areas of study. Indeed, it has raised vital issues about the operation of the institution, the nature of its funding, the quality of financial and performance data, and the prioritisation of expenditure. It also impacts directly on the balances to be struck between the public and private sectors, public funding and use of private capital, economic and social objectives, efficiency and effectiveness, centralised and decentralised delivery.

Finance questions are critical for policy development and implementation across the range of the Assembly's responsibilities for the following reasons:

1. All projections indicate that the size of the Block Grant will grow much more slowly in the third term than in the previous two. To a great extent, in the first two terms, the Assembly Government was buoyed up and taken forward by an unprecedented period of growth in public expenditure. This will no longer apply. By the time of the May elections, the Chancellor's comprehensive spending review will

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have been completed. No other party is likely to take a softer line on public spending. The most optimistic forecast does not allow for more than 2 per cent real term growth. At the very best we can anticipate a slow down in spending growth, at worst cuts.

2. The continued application of the Barnett formula and its convergence mechanism will add a further squeeze.
3. Increases in public sector employment in the first two terms and new contract settlements in areas such as health will push public expenditure to the edge of the above limits and perhaps beyond.
4. The public service savings targets (Gershon) adopted in Wales are lower than those in England, while the absence of other service targets that, admittedly, can be counter-productive, may slow progress in achieving greater efficiency.
5. The combined impact of these factors will serve to increase sharply the importance of disciplined prioritisation processes. The political choices will be harder.

Yet it in this area of prioritisation that the Assembly's processes have seemed weakest. Our analysis has revealed large changes in spending patterns between the Assembly Government's policy portfolios, especially between capital and revenue expenditure. Most notable has been the lower growth in health and education spending compared with England, and the high growth in expenditure on economic development.

While the Assembly has often debated the content of individual policies, there has been no systematic examination of the extent to which expenditure priorities have shifted nor the justification for these changes. Understandably, prioritisation is usually centred in well-guarded, internal processes of government, but legislatures are there to hold executive government to account.

The scrutiny deficit in the National Assembly has been most apparent in the field of finance and needs to be rectified urgently. As the Finance Group argues, the most important gap is the absence of an Assembly Finance Committee. This should be established urgently, to work alongside the subject and standing committees. Such a step would not only assist in holding government to account, it should also make opposition parties more responsible when suggesting budget amendments. It is important that politicians in the Assembly develop a much more sophisticated understanding of fiscal realities and funding mechanisms. The current reconsideration of the National Assembly's mode of operation and organisation, as a result of the new Government of Wales Act, provides an excellent opportunity to make this change. The Act also requires an enhanced research facility for members that is within the Parliamentary service rather than part of the Government machine, a small scale version of the USA's Congressional Budget Office.

But the current aspiration to 'citizen-centred government' demands something more than this. A functioning democracy requires that an understanding of the financial realities is shared with a much wider public. And yet, public understanding of the funding mechanisms for the Assembly and their consequences over time, even amongst public bodies, is minimal.

Time to Deliver

Within Wales scrutiny of the public finances, other than through the Wales Audit Office, is currently somewhere between rudimentary and non-existent.

This is a dangerous state of affairs. If the Assembly Government has severely limited financial headroom even under a relatively benign public spending regime and a government of the same hue at Westminster, we need, at the very least, to think seriously how any future Government in Cardiff would cope, under a much stricter spending regime and a government of a different persuasion in London.

It is our belief that unless Wales develops a more sophisticated understanding of its public finances, the public interest will suffer and our politics will seem amateur. A fuller understanding of our public finances both in terms of expenditure and outcomes is an essential pre-condition of a more mature approach to policy development.

This is something much more than a debate about the Barnett formula. It is important that the debate on funding the Assembly does not become transfixed by a simplistic debate about 'Barnett', although discussion of the future of this mechanism should never be off limits.

As our Finance Group argues, we have to get beyond "more would be nice." We need a developed understanding of both UK and Welsh public finances, and their inter-action. Unless we fully understand the present, we will not be able to map the future.

Raising Our Game

In its eight years of existence the National Assembly has come a long way, confounding many of its sceptics and detractors. Paradoxically, it has become a modest source of pride to many Welsh people, even while some feel intense frustration at its weaknesses. There are few critical comments in the visitors book at the new Senedd building. People may agree or disagree with Government policies, but there is a more consistent disappointment at the standards of debate on the floor of the Assembly itself.

New powers will require all Assembly members to raise their game, since the framing of legislation will demand a different level of policy and textual analysis than has been required in the first two terms. While public servants are busily engaged in perfecting their skills in the Public Service Management Initiative, there are, strangely, few signs of training programmes aimed at preparing Assembly Members for their new tasks or even sharpening their ability to deal with existing tasks.

We do not underestimate the difficulties of running a modern society where many of the forces at work, such as globalisation and climate change, are beyond the ability of even the largest administrations to manage. The commentary offered in this report represents an effort by the Institute of Welsh Affairs and teams of expert individuals, of different persuasions but all passionately concerned with shaping a better future for Wales, to offer ideas at a crucial moment in our democratic process.

Chapter 1

Finance

How we pay for public sector services and how much of them we get are central concerns of government. In this discussion of Welsh public finance we first explain what we have paid for over the National Assembly's first two terms and how we have raised the money to pay for it. Then we turn to the third term agenda and consider the financial constraints and challenges.

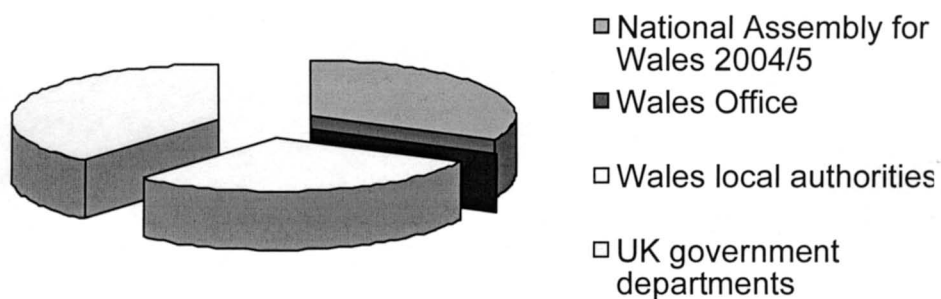
The Historical Record

The most prominent feature of recent years is the strong rise in public spending.⁴ We have lived through a golden age of the public sector. Assembly Government total spending rose by more than a half (55 per cent) in the four years after 2000-01. Of course, some of this increase was absorbed by rising prices, but allowing for inflation, real spending increased by more than two fifths. The block grant from the UK Government, that provides the Assembly Government income, grew by just under one half (48 per cent).

⁴ This chapter is concerned with identifiable public expenditure in Wales, but there is also £63 billion of spending which is not allocated regionally. From PESA (2006) Table 7.20 it can be inferred that Wales receives less than its population weighted share. Whether this matters depends on whether the concern is with the direct benefits of the spending or the indirect effects such as employment and supposed development impacts. Since the focus of this chapter is public finance, it is only the direct benefits of government spending that are of interest and therefore unidentifiable spending may be ignored.

The Assembly Government accounts for only about one third of total identifiable public spending in Wales - see Figure 1. Local authorities, who receive most of their income from the Assembly Government, spend more. Other UK government departments are also responsible for expenditure in Wales of broadly the same size as the Assembly Government's.

Figure 1: Sources of identifiable public spending in Wales 2004/5



All British public expenditure (total managed expenditure including current and capital spending), falls into two categories. The first is Departmental Expenditure Limit spending, such as that on health, which can be subject to budget limits and longer term planning. The block grant to the Assembly Government is (almost) Wales's Departmental Expenditure Limit. Put another way, this is the resource budget plus capital less depreciation.⁵

The second category is Annually Managed Expenditure, which is driven primarily by economic and demographic conditions. With exceptions small enough to be ignored for present purposes (£0.5billion), Wales's Annually Managed Expenditure is not devolved

⁵ The block is larger than DEL by depreciation, plus another small component.

Time to Deliver

and consists principally of 'social protection' – pensions, family income supplement, incapacity benefit and unemployment benefit.⁶

Spending requires provision in the budgeting process. The Assembly Government budget for 2006-07 consists of a Departmental Expenditure Limit of £13.2billion, at the discretion of the National Assembly for Wales divided between £1.5billion for capital and £11.7billion for revenue.

So far as population is a basis for capital requirements, in 2000-01 the devolved administrations undertook more than their fair share of capital spending. The subsequent fall of Wales's (and Scotland's and Northern Ireland's) capital expenditure relative to England's appears to be a case of England catching up, rather than Wales falling behind (see Table 1).

Yet Scotland and Northern Ireland remained far ahead of both England and Wales. Moreover, England's catching up investment was notably concentrated in health and education, unlike Wales's capital spending. Welsh investment in the health and education sectors was much lower than England's in 2005-06.⁷

Public investment in Wales is dominated by transport, housing and economic development. In 2005-06, while health had expanded its share relative to five years earlier, transport investment's slice reached almost one quarter of total public capital expenditure (see Figures 2a and b).

⁶ The £0.5b cannot be spent at the National Assembly's discretion but is predetermined.

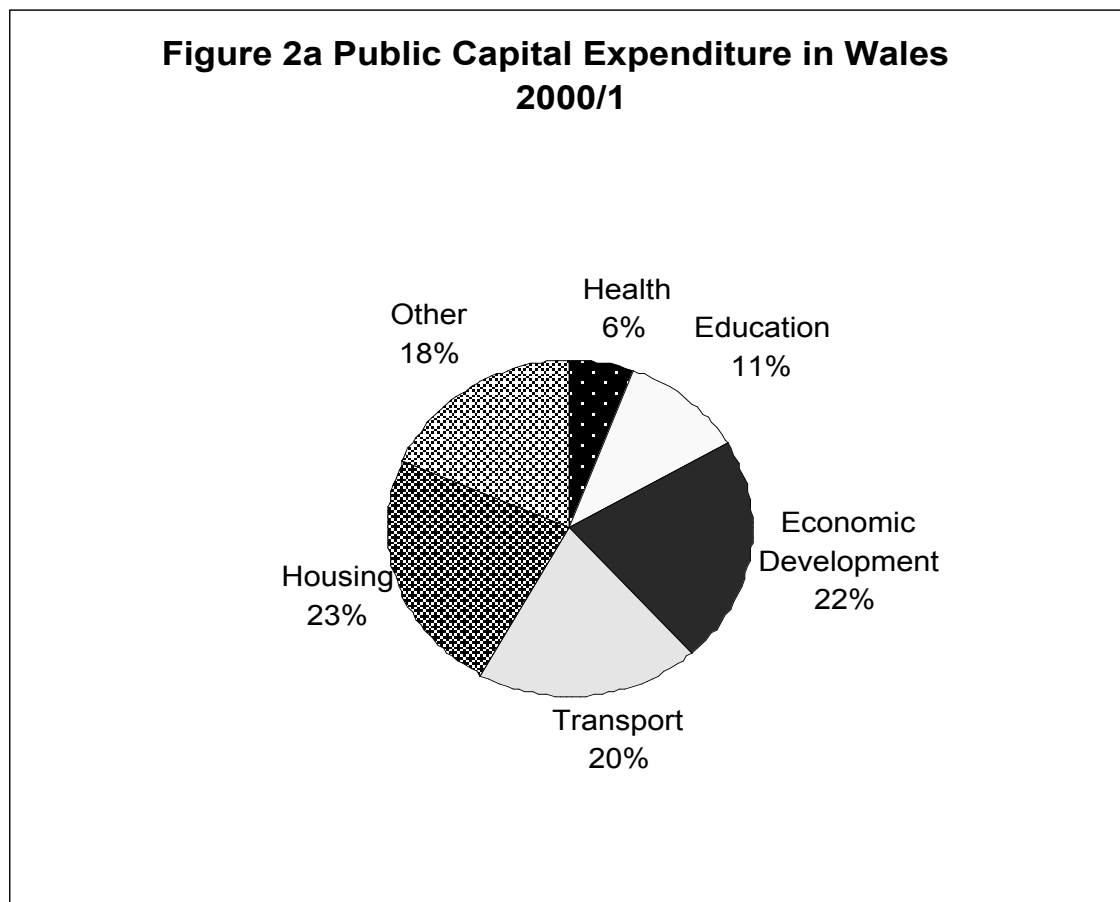
⁷ See Eurfyl ap Gwilym, 'Short Termism', in Agenda, IWA, Summer 2006.

Table 1: Public Capital Expenditure per capita £s

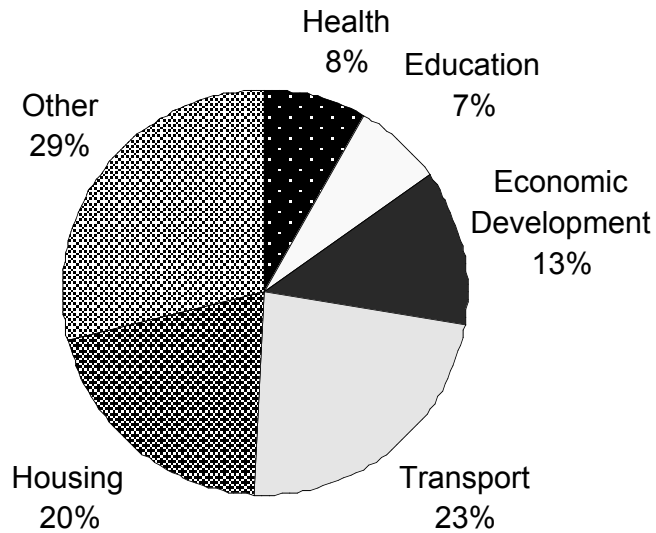
	Wales	Scotland	Northern Ireland	England
2000-01	324	344	498	227
2001-02	374	423	480	291
2002-03	376	463	504	330
2003-04	402	548	537	385
2004-05	470	640	673	446
2005-06	590	807	905	560

Note: Calculated from PESA (2006) and population figures.

Figure 2: Spread of Public Investment in Wales



**Figure 2b Public Capital Expenditure in Wales
2005/6**



Expenditure

Turning back to the whole budget, Assembly Government spending is dominated by health, which accounted for more than three fifths (62 per cent) of the total in 2004-05.

Education is a poor second with about 15 per cent (local authorities who receive most of their funding from the Assembly Government are important providers).

Third is economic development with approximately 8 per cent of the budget. Five years earlier, health accounted for a little larger proportion (64 per cent), as did education (16 per cent), but economic development has seen the biggest share change, from 3 per cent in 2000-01. Some of this increase, but not the greater part, can be accounted for by Objective One money.⁸

More generally, how does expenditure in Wales compare with that elsewhere? We can contrast total identifiable public spending in Wales with that in the English North-East region for they both have broadly similar incomes per head and populations. In 2004-05 spending per head of population in Wales was higher on culture, economic development, agriculture and the environment, and lower on health, education, housing and employment policies (see Table 2). Overall spending per head in Wales was lower than in the North East and much lower than in Scotland and Northern Ireland, even though Wales' GVA was the least of these four (see Figure 3).

In terms of total increased annual spending in Wales (block grant and non-devolved expenditure), the winning category has been 'social protection', absorbing one and half a billion pounds extra between 2000-01 and 2004-05.⁹ Health spending came in a close second, followed at a distance by education and training (see Table 3). In fourth place, an extra half a billion pounds was spent on economic development by the end of the period.

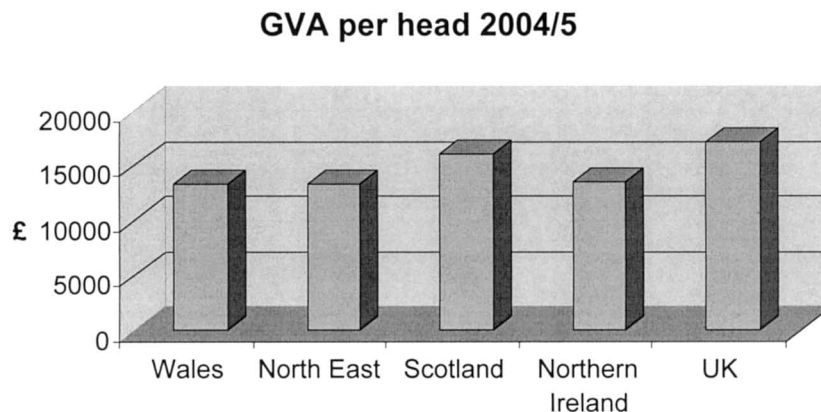
⁸ Comprehensive Spending Review figures show that Objective 1 funding (the above Barnett formula additions) were: £80m in 2001-02; £90m in 2002-03; £106m in 2003-04; £106m in 2004-05; £106m in 2005-06; £128m in 2006-07; and £147m in 2007-08. Normal UK government practice would have been to reduce the UK funded portion of the Welsh block grant by the amount of financial support from the European Union. However in the case of the Objective 1 money, this practice was not followed. Wales received from the European Commission Structural Fund Programmes (not just Objective 1) the following totals: £8.9m in 1999-2000; £177m in 2000-01; £18.4m in 2001-02; £136.2m in 2002-03; £56.6m in 2003-04; and £173.4m in 2004-05.

⁹ It should be noted that 'Social Protection' is almost entirely funded directly by the UK Government and is not part of the Assembly budget.

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**Table 2: Spending per head in policy areas across the UK
2004-05 £s**

2004/5	General public services	Public order and safety	Economic development	Science and technology	Employment policies	Agriculture, fisheries and forestry	Transport	Environment protection	Housing and community amenities	Health	Recreation culture, and religion	Education and training	Social protection	Total
Wales	190	399	289	16	52	118	244	120	123	1,421	184	1,107	3,050	7,312
North East England	93	418	229	21	106	82	223	93	140	1,494	148	1,204	3,115	7,366
Scotland	175	389	102	36	151	144	386	274	169	1,563	188	1,179	3,031	7,786
Northern Ireland	235	763	195	11	24	303	223	265	238	1,476	55	1,435	3,342	8,566
UK identifiable expenditure	106	405	111	28	55	92	300	121	122	1,375	117	1,105	2,680	6,617

Figure 3: GVA per head 2004-05

Wales	£13,292
North East	£13,433
Scotland	£16,157
Northern Ireland	£13,482
UK	£17,258

In terms of total increased annual spending in Wales (block grant and non-devolved expenditure), the winning category has been 'social protection', absorbing one and half a billion pounds extra between 2000-01 and 2004-05.¹⁰ Health spending came in a close second, followed at a distance by education and training (see Table 3). In fourth place, an extra half a billion pounds was spent on economic development by the end of the period.

The percentage winners were different. Starting from a low base a relatively small absolute increase in budget could be a large proportionate expansion, as was the experience of science and technology.

¹⁰ It should be noted that 'Social Protection' is almost entirely funded directly by the UK Government and is not part of the Assembly budget.

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The converse was true for social protection. Economic development was first with a spend which more than doubled. Environment was third. Big spending health was only in fifth place, judged by proportionate expansion. Culture, education and environment were approximately tied close to the bottom, but well above the losers, employment policies and agriculture.

Assembly Government spending, as against 'total identifiable' spending, reflected a lack of responsibility for social protection at the outset, but a strong move into the field (see Table 3 on the following page).

Value for Money: the Efficiency of Public Service Supply in Wales

A given block grant will provide more services the more efficient is the delivery.¹¹ Less finance is required the greater is productivity. How do we know what is more or less efficient? A number of initiatives from the Treasury under the Westminster government have been intended to improve measurement of public sector efficiency and to increase it.

Whitehall-based UK departments are required to formulate public service agreements, stating what they aim to deliver in return for their financing. Behind these agreements are technical measures of performance that monitor whether commitments are fulfilled.

¹¹ As the Beecham Review (2006) states, it is highly desirable that the Assembly Government develops performance indicators that permit comparison with public service delivery in other countries such as Finland, so that England is not necessarily the implicit or explicit model. But until such steps are taken we are obliged to restrict our comparisons to what is available.

Table 3
Increases in Total Identifiable Public Spending and WAG spending 2000/1 -2004/5

2000/1-2004/5	General public services	Public order and safety	Enterprise and economic development	Science and technology	Employment policies	Agriculture	Transport	Environment protection	Housing and community amenities	Health	Recreation, culture and religion	Education and training	Social protection	Total
% increase in total expenditure	54	48.9	126.8	69	-0.7	-20.2	47.8	63.4	15.6	49.8	41.9	37.7	20.5	33.7
Total identifiable expenditure £m	169	389	506	20	-1	-48	224	170	32	1427	168	899	1536	5491
WAG spending £m	113	-	339	-	-	-43	55	86	25	1426	40	306	103	2451
WAG spending % increase	82.5	-	151.3	-	-	-19.8	46.6	156.4		49.8	63.5	43.2	107.3	54.9

Note: It is interesting that the Assembly Government controls a minority of total spend in transport, Environment protection, Recreation cultural and religion, and Social Protection.

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Other institutional initiatives have attempted to reduce procurement costs: the creation of an Office of Government Commerce, and Partnerships UK, for instance. In 2003 as part of the Gershon review, consultations began on how public sector efficiency in non-devolved sectors could be increased.¹² The following year, the report's proposals of two and a half percent efficiency improvements a year and cutting 70-80,000 civil servant posts were accepted by the UK government. Effective use of IT technology promised a considerable proportion of these savings, as showcased by e-auctions. The NHS Purchasing and Supply Agency renewed its requirement for IT hardware, budgeted at £40 million, with such an auction among potential suppliers. The successful bidder offered a £12.7 million (31 per cent) saving over the prices paid in the previous contract.

Wales followed this lead slowly and with notably less enthusiasm. A year behind Gershon, Wales began a consultation to improve efficiency around a document *Making the Connections*, premised upon achieving the "best outcomes when those who provide services work in collaboration".¹³ This last phrase may be code for 'there are too many public sector bodies in Wales duplicating each others' efforts and we will try to pare them down'. One instance has been the merger of the Welsh Local Government Procurement Support Unit with the Welsh Procurement Initiative Team, carried out under the auspices of *Making the Connections*. The new organisation, Value Wales, is intended to provide procurement support and instigate improvement across the public sector.¹⁴

¹² Gershon P., *Independent Review of Public Sector Efficiency: Releasing resources to the front line*, 2004.

¹³ Assembly Government, *Making the Connections: Vision for Public Services*, 2004.

¹⁴ Welsh Procurement Initiative, *Annual Report*, 2004.

In 2005 another statement *Delivering the Connections* announced that one per cent a year efficiency savings – less than half of those accepted by the UK government - would be made and ploughed back into improved public services.¹⁵ Either the UK government's efficiency targets are far too ambitious, or Wales' public services are models of competence and effectiveness by comparison with those in England, or Wales feels it is politically inexpedient to attempt comparable improvements.

In support of this last conclusion is the following selection from the areas for action in the list of Assembly Government targets. They include (Section 3.9):

- “- ensuring that sustainable development is at the heart of future procurement, building on the work of the Sustainable Procurement pathfinder project;
- raising the game in each public sector body by rolling out procurement health checks and by improving project management;
- providing information, advice and support to improve access to opportunities and guidance;
- promoting race equality in the way that the Assembly procures goods and services; and
- developing ways of mainstreaming the other equality strands in Assembly procurement systems.”

There is a confusion here between efficiency and equity objectives that bodes ill for practice. It is entirely understandable that more

¹⁵ Assembly Government, *Delivering the Connections: From Vision to Action*, 2005.

Time to Deliver

people enter politics from a concern with fairness and justice than from a desire for efficiency. Nonetheless, the ability and willingness to draw a distinction between the two, and to ensure public services are run efficiently, is critical to the proper running of government.

In order to understand efficiency, we need to be able to measure public sector output, a subject discussed at considerable length in the 2005 Atkinson Report.¹⁶ The report offered 54 recommendations for improving measurement, including the radical proposal that 'complementarities with private sector output' be taken into account. These raise the valuation placed upon public services as the private sector generates more income. However, the most fundamental proposition was that the convention of measuring public sector output by some approximation to the cost of the inputs was inadequate. This cost should be less than the value of output for an efficient public sector, but it could be greater (as so much former Soviet industry discovered when opened up to world markets).

There is now within the ONS a UK centre for the measurement of government economic activity. In the light of the Atkinson Report they published revisions to major government output series including education and health (education went up and health went down a little). For our current interests it was significant that Northern Ireland and Scotland received a mention, but Wales did not. It is not clear when, if ever, any Welsh output measures will appear. So in evaluating financing requirements less complete measures must be utilised.

¹⁶ Atkinson A. B., *Measurement of Government Output and Productivity for the National Accounts*, 2005. However, judging by the discussion when the Statistics Commission visited Cardiff, and the difficulty of finding references to the Atkinson Report on the Assembly Government website, the impact in Wales has so far been negligible.

The conventional approach is to use performance indicators as partial measures of output or perhaps outcomes. So, in education we have value added indicators both of pupils over different Key Stage intervals, and of the schools they attend. The devolution of so much spending also offers opportunities for 'yardstick competition'. In Wales we can use changes in performance relative to England as indicators of feasible efficiency improvements.

However, we should guard against the possibility of 'indicator bias'. If England uses the chosen indicators to measure performance then resources may be directed to improving these service measures at the expense of others that are not targeted. Subject to this caveat, these partial 'output' or 'outcome' measures are worth looking at. It is very apparent that patients typically do not wait for hospital appointments more than six months in England whereas they do in Wales. The likelihood is that England focuses on this measure more single-mindedly than Wales, for which many English patients may be grateful.

An efficiency index uses output or outcome indices but needs also input measures.¹⁷ In the case of hospital admissions in Wales, it is often remarked that Welsh GPs are more prone to refer patients to hospital than their English colleagues. Under these circumstances, an additional handicap for reducing hospital waiting times, efficiency comparisons must control for this difference, as well as for the resources available to the two services.

¹⁷ The distinction between what a service is trying to achieve, 'output' or 'outcome', on the one hand, and what is needed to achieve these outcomes or outputs is apparently not always obvious. The 2006 Beecham Review, within the constraints imposed by a model of evidence-based policy, includes a substantial appendix of performance indicators used by the Audit Commission. In health one of these indicators is the ratio of doctors (GPs) to patients, according to which Wales outperforms England, with a higher ratio. But this tells us nothing about the service that patients receive because doctors are an input to the health service not an output.

Time to Deliver

However, in the following exercise, time and resource constraints limit us to financial resource inputs and to only two output measures. These last are for two largest components of devolved spending, education and health.

The Efficiency of Welsh Health

Turning first to the inputs, identifiable spending on health per head of population has been higher than in England but the gap has closed. Health spending in Wales increased by £10 per head more than in England over the four years to 2004-05 (see Table 4). Expenditure on education per head increased by less than in England, by £292 compared with £326, but remained ahead in total over the same period (though, as we have seen, relative to the comparable North East of England, Wales now spends less).

Table 4: Health and Education Spending in Wales and England

	Health (current £ per head)			Education and training (current £ per head)		
	2000-01	2004-05	2005-06*	2000-01	2004-05	2005-06*
Wales	985	1453	1486	820	1112	1170
England	891	1349	1460	752	1078	1147

Source: Treasury Public Expenditure Statistical Analysis *=provisional

Within health extra reorganisation is a reason to expect efficiency to advance less rapidly than in England. Reorganisations almost invariably lose at least a year of progress. Five Welsh health authorities have been replaced by 22 local health boards. This takes the number of administrative bodies running the Welsh NHS to 52, including 15 hospital trusts, 12 health partnerships and three regional offices of the Assembly Government's NHS directorate.

An obvious output measure of the health service is hospital patient waiting times. These deteriorated in Wales between March 2000 and 2003 when outpatients waiting more than six months almost doubled to 70,000. In 2005 the percentage was still 62.7 compared with 38 five years earlier. In-patients waiting more than one year and 18 months also increased slightly over the period to 2003, though falling in the intervening years. By 2005 the first category was down to 0.8 per cent from 11.4 per cent in 2000 and the second was zero compared to 4.3 percent at the earlier date.¹⁸

Comparable statistics for England, over the years 2000-2003, show an improvement when Wales was deteriorating (see Table 5). Even when Wales begins a secular improvement after 2003, England advances faster.

One possible explanation is the proportionately lower expansion of health spending. However, there are two reasons for doubting this. One is that the difference was only three per cent and the absolute nominal spending gap widened (in real terms it remained unchanged).

¹⁸ Auditor General for Wales, NHS Waiting Times in Wales, report presented to the National Assembly, 14 January 2005.

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The other is that the Welsh service deteriorated under the stress of the reorganisation, and it is unlikely that merely three per cent extra spending could have prevented this relapse. Because of this organisational difference, Wales apparently needs more money to match England's health performance.

Table 5: Hospital Waiting Lists and Waiting Times 2000-2003

(i) Wales

	2000*	(%)	2003*	(%)
Waiting lists (thousands):				
Out-patients:	160.8		216.5	
Waiting more than 6 months	38.0	23.6	70.1	32.4
In-patients and day cases:	79.9		74.6	
Waiting more than 1 year	11.4	14.3	11.8	15.8
Waiting more than 18 months	4.3	5.4	5.2	7.0

* For residents of Wales, all specialities 31 March

Source:

<http://www.wales.gov.uk/keypubstatisticsforwalesfigures/content/health/waiting.htm>

(ii) England

	2000*	(%)	2003*	(%)
Waiting lists (thousands):				
Out-patients:	1,968.5		2,424.8	
Waiting more than 6 months	148.1	7.5	9.6	0.4
In-patients and day cases:	1,024.6		992.0	
Waiting more than 1 year	48.1	4.7	0.2	0.02
Waiting more than 18 months	7		0	

Note: *March 31, All Specialities. #Number of GP written referral requests for first outpatient appointments.

Source: <http://www.doh.gov.uk/waitingtimes/> population based.

Another explanation is that the Welsh strategy is a long term one, to address the causes of ill health rather than the symptoms. There are two challenges in appraising such a stance. The first is that success of the long term approach can only be judged in the future, whereas the failure in 'treating symptoms' is immediately apparent. The second is that, even assuming that in future the causes of ill health will be reduced and we know by how much, there is still a trade-off possible between the benefits of health improvements now and those in the future. A given health benefit is likely to be valued more highly today than if it is received ten years in the future. Using the UK government's official rate of time discount, a benefit ten years hence is worth only about 70 per cent of the same benefit today. It seems likely that the Assembly Government has signed up to this discount rate as well, though whether it has influenced anything very much is unclear.

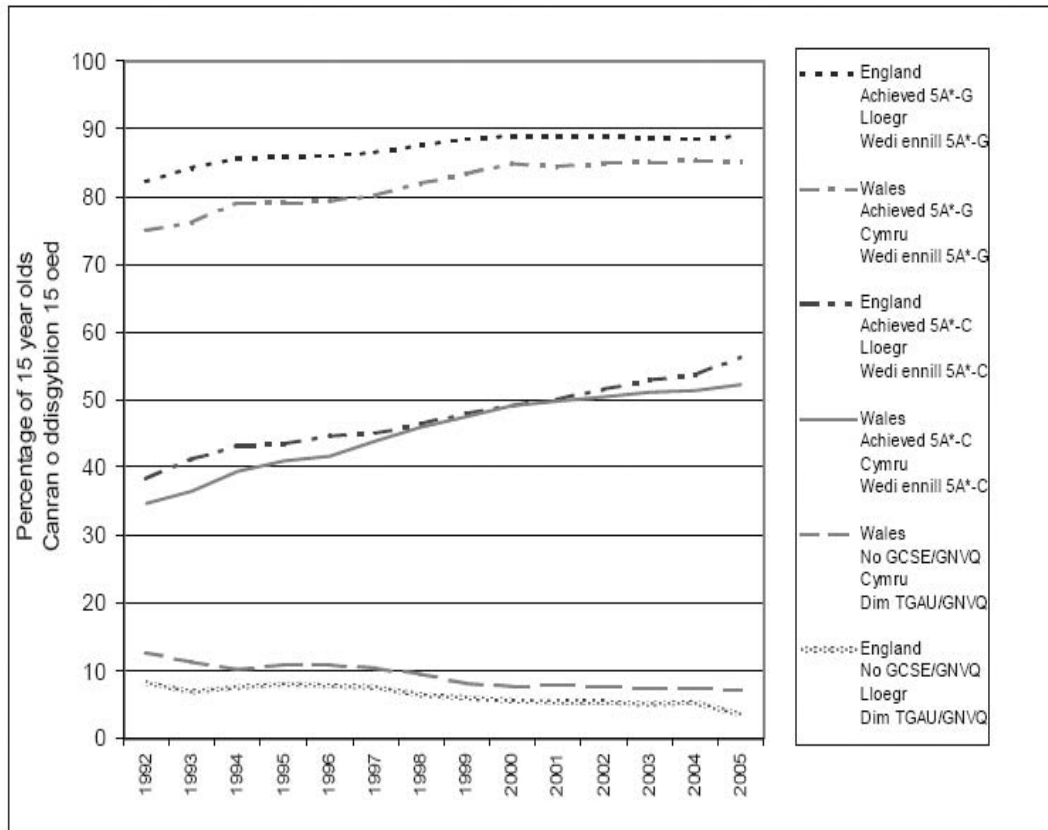
The Efficiency of Welsh Education

Turning now to education, the output indicator of principal concern is the proportion of students achieving at least five A*-C GCSE grades. Figure 4 shows Wales performing more strongly than England in the earlier 1990s, catching up and overtaking around the time of the formation of the National Assembly. After sufficient time for Assembly policies to take effect, Wales drops behind England again. Percentages rose more strongly in England than in Wales over the four years 2000-01 to 2004-05. In the first year the percentages were respectively 50 and 49.8. Four years later England's percentage had risen by around twice as much as Wales: 5.7 percentage points compared with 2.4.

Time to Deliver

Figure 4

GCSE/GNVQ achievements of pupils aged 15 (a) (b)
 Cyraeddiadau TGAU/GNVQ disgyblion 15 oed (a) (b)



Equally, the proportion of students who did not gain even one GCSE or vocational equivalent seems to have fallen less in Wales than in England. In the first year the percentages were 7.9 and 5.5 respectively. By the end of the period Wales had fallen by one half a percentage point, while England had cut their non-achievers by 1.8 percentage points. Could this be because spending has risen less rapidly in Wales? Given the strong performance of the earlier 1990s this seems unlikely, for the spending gap was closing more rapidly then. In 1993-94 Wales spent £36 a head more than England on education and in 1997-98 spent only £29. Here then is a prima facie case that Welsh educational policies, like those in health, have been less effective than those in England. More money is therefore needed to provide a given level of service. Alternatively, better performance could be extracted from the same block grant as at present simply by a feasible improvement in service.

Future Size of the Block Grant

The strong growth of real and nominal identifiable expenditure in the devolved administrations and the English regions between 2000-01 and 2005-06 will almost certainly come to an end. Wales's real identifiable public spending per head averaged 6.6 per cent growth a year over this period. But the rising share of government in the output of the (UK) economy implied by this strong growth cannot continue indefinitely. It cannot because public expenditure must be financed by taxes on the rest of the economy, and the larger the share of the public sector, the heavier the burden of taxation must be.

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The indications are that the limit of public acceptability has been approached. When it has, the public sector in Wales must then cease expanding its share, growing no faster than (UK) GDP per head, at little more than 2 per cent in real terms, and say 4 to 5 per cent nominal. Of course, the UK electorate might decide the present level is too high. In which case, the squeeze will be tighter.

More precise estimates of the implications for the block grant, and of the implications for how the block grant is calculated, can be offered.¹⁹ The Treasury has given projections for the real increases in total public expenditure for the years 2008-09 to 2010-11. These forecasts show that real increases in *total* public expenditure will fall from around three per cent in the years 2005-06 to 2006-07 to about 1.9 per cent in the years 2008-09 to 2010-11. Over this later period health expenditure grows faster in England, by 4.4 per cent per year in real terms and education, by 2.25 per cent. These two sectors absorb the bulk of increases in expenditure.

Changes in the block grant to Wales will be dominated by increases in expenditure in England on health, education and public order.²⁰ The real growth rates of these three sectors in England, weighted by their respective expenditure shares in 2004-05, for the period 2008-09 to 2010-11, is a little under three per cent. The corresponding nominal increase is around five per cent, assuming annual inflation of two per cent (the Bank of England's inflation target of two per cent is expressed in terms of an annual rate of inflation measured by the Consumer Prices Index).

¹⁹ See, for example, Eurfyl ap Gwilym, 'Barnett Squeeze', IWA, Agenda Spring 2006.

²⁰ See Eurfyl Ap Gwilym, 'Public expenditure: the outlook for an incoming Welsh Assembly government in 2007' IWA, Agenda, Autumn 2006 .

The block grant in 2010-11 can be calculated on various assumptions about the growth in English relevant spending and the application of the Barnett formula which governs changes to the block grant (see Table 6).

Table 6: How the Barnett Formula governs the block grant

Assumed English nominal expenditure growth	Squeeze 2010-11 £m	Block grant 2010-11 £b	Squeeze as % of block grant
4%	131.465	15,293.8	0.9
5%	167.392	15,707.1	1.1
6%	204.579	16,127.8	1.3
7%	243.041	16,556.0	1.5

Note: Assumes Assembly Government expenditure per head eight per cent higher than equivalent English spending. A higher percentage increases the 'squeeze' and conversely.

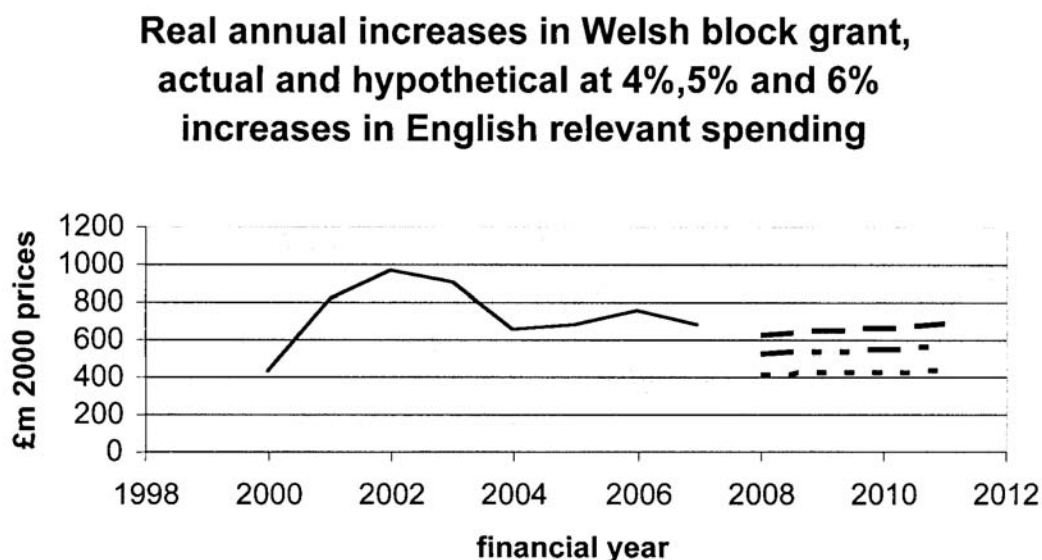
This formula imposes a squeeze on *increases* in Welsh public expenditure to the extent that the *level* of these disbursements per head is higher than comparable English spending. By 'squeeze' we mean the difference between Wales's public income per head increasing, on the one hand in the *same proportion* as England's (relevant) expenditure per head, and on the other, by the *same absolute sum of money*.

Looking at the 'squeeze' compared with the block grant in Table 6 suggests that, although absolutely the sums are large, they are less important as a potential loss of revenue than the uncertainties regarding English relevant nominal expenditure growth. If this growth was four per cent rather than five per cent then the 'loss' to the Welsh block grant would far exceed the effects of the squeeze.

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The figure would be £413million compared with £167million in the case where Welsh spending is eight per cent higher than English.²¹ Figure 5 shows by how much the real increases in the block grant may be expected to drop compared with the past on the assumptions of four, five and six per cent growth of English nominal relevant public spending. It is apparent that a different squeeze from that imposed by the block grant formula is in the offing.

Figure 5



Issues To Be Faced

1. Efficiency

The golden age of the public sector in Wales will end by the third term. The large real increases in the block grant that pay for

²¹ The impact of the squeeze is cumulative but so too is the effect of greater or less public spending in England. As discussed below, the fundamental issue is whether the 'squeeze' is warranted by the Whitehall government's assessment of 'needs' in the UK.

Assembly Government spending may perhaps be halved. However, the impact will be greater than this description implies, for so much of the block grant is spent on the one third of the Welsh workforce employed in the public sector. These employees will expect that their wages and salaries should stay ahead of private sector employees. Accordingly, their pay packets must rise not only to cover inflation (stay constant in real terms) but also in parallel with private sector labour productivity (increase in real terms). Unless public sector productivity rises as well, this will impose a tighter squeeze on Welsh public services.

These trends increase the urgency of improvements in public sector efficiency, some of which were outlined in the Assembly Government's *Making the Connections* and *Delivering the Connections*. The maxim of 'working together', which as far as procurement units are concerned, has meant merger, is timely. Almost certainly, there are too many public sector organisations in Wales for the most cost-effective delivery of public services - ignoring for the moment the costs of re-organisation.

In practice, however, too often mergers need more money. An all Welsh police force, for example, was going to require another £77 million. Meanwhile, the reward in improved performance remains wishful thinking, or at least unmeasured, because no credible measures of performance are available in the first place.²² Although a few targets are offered as hostages to fortune in the Assembly Government policy statements, there appears little enthusiasm for them. In any case they are a poor alternative to complete efficiency measurement, which requires measurement of output.

²² The optimist would contend that the one-off charge of £77 million would be paid for by savings on policing in future years.

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Most recently, the Beecham Review has been called upon to square the circle between the Assembly Government 'citizenship' mode of public service delivery and efficiency.²³ The citizenship approach is opposed to quasi-market reliance upon competition, individual choice and incentives. Instead exhortation, collaboration and participation are the hallmarks of Assembly Government's preferred style. Although Beecham does provide us with a set of historical performance indicators, there is no intention to review how well this style has been working before 2011 (a distant election year). In view of the experience already accumulated, this timetable is plainly inadequate.

2. Structural Change

The problems of the reorganised health service have been touched upon and are elaborated in the following chapter. Some of the multiplied bodies are in effect re-uniting themselves. Employing around one in ten of the work force, local government is a major industry. Yet it is not a *competitive* industry. There are serious concerns about the efficiency of the organisation, with as many as 22 local authorities for only 2.9 million people.

By comparison, four police forces for the whole of Wales looks parsimonious. There are practical difficulties in merging local authorities, and the danger is that any reorganisation will lower performance, at least temporarily. Perhaps a more promising line is to develop the cooperative working that has already begun on a small scale.

23 Jeremy Beecham, *Beyond Boundaries: Citizen-Centred Local Services for Wales*, Review of Local Service Delivery: Report to the Welsh Assembly Government, June 2006.

The Government of Wales Act 1998 not only left Welsh local government powers untouched, but required the Assembly to form a statutory partnership with local government. The Assembly has made less use of specific grants to local authorities, allowing them more policy discretion than did the UK government.

Even so, local government has sometimes questioned whether the Assembly's political mandate should ever over-ride its own.²⁴ Unlike the Welsh Assembly, local government in Wales does levy some taxation itself, and thereby perhaps acquires some legitimacy, in incurring a little responsibility for financing spending behaviour.

3. Capital Expenditure

Closely related is the question of capital expenditure. Does Wales have adequate or excessive capital to supply public services? We have seen that Wales has certainly not under-spent relative to England on the basis of population.

What is surprising at first sight is the low capital spend on education and health. But this could be simply that transport and housing for example are more capital-intensive. The Finance Minister contends that relative to England, health and education capital spending is an accident of history, and Welsh public capital in these areas is quite adequate.²⁵ In 2005-06 Wales spent less per head than England in these fields.²⁶

24 National Assembly, *Improving Local Democracy in Wales: Report of the Commission on Local Government Electoral Arrangements in Wales*, July 2002

25 Assembly Record, Q5 to the Finance Minister 14 June 2006.

26 In Health capital spending per head: England £83.9 v Wales £48.4; in Education England £94.6 v £68.8.

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'Innovative' finance for housing and transport capital expenditure could perhaps release funds for other areas, such as health and education. The Assembly Government cannot afford to fulfil its housing standard commitment for Welsh social housing. A housing stock transfer to housing associations would permit these organisations to borrow at very low rates to upgrade the properties, removing the obligation from the Assembly.²⁷ Finance could be ring-fenced for particular large capital projects by, for example, a bond issue. Whether it is desirable to give more financial power to the Assembly government depends on our judgment as to how well it will be used.

An attraction of Private Finance Initiatives and some forms of Public Private Partnerships, largely neglected in Wales, is that capital expenditure is transmuted in to current outlays (at a price). In addition, private sector discipline is supposedly brought to bear on public procurement so that cost and time overruns are eliminated.

It is possible both to believe that the Welsh neglect of PFI stems from a misguided distaste for allowing private profit to be made from public services, and that PFI has been overrated and misused in a considerable number of English cases. Where hospitals are concerned for instance, the nature of the distinctively private sector expertise brought with PFI is questionable, for most of the experience was in the public sector. This conclusion was supported by the very close values of the Public Sector Comparator to the PFI and the need often to add in implausible risk transfer values to get even that far.

²⁷ Institute of Welsh Affairs, *Future of Social Housing in Wales*, 2006.

Nevertheless, there must be lessons to be learned for efficient procurement from PFI, such as the possibility of employing private firms to conduct 'due diligence' exercises. Where there is obvious private sector expertise - as in the management of office accommodation and real estate more generally - appropriately designed Public-Private Partnerships can be expected to yield benefits for public services.

4. Taxation

Greater Assembly responsibility for revenue-raising is at least a theoretical possibility in Welsh public finance. Though not yet within Assembly Government powers it is desirable to have an informed view on the matter. Taxes should ideally be cheap to collect, fair, predictable, transparent and leave economic activity unaffected. This last criterion is an argument against taxing businesses or people that are able to move or that are likely to shut down or stop work to avoid the tax.

Such taxes or levels of taxation make the tax jurisdiction worse off even when they improve the public finances. Hence, there is a natural nervousness about allowing local authority powers over business rates. The level of such rates, unconstrained by immediate electoral impact, would be likely to depend on the planning horizon of the authority and their trade-off between need for revenue and economic development consequences. At present the Assembly Government cannot choose to reduce any tax, rather than increase spending, which must contribute to the upward ratcheting of spending and taxation.

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However, the economic development benefits of public spending – compared to those stemming from lower taxation – do not appear to warrant the bias in favour of spending. A recent rigorous statistical cross-EU study of European Structural Funds finds that, despite the concentration of development funds on infrastructure and, to a lesser extent, on business support, the returns to these outlays are not significant.²⁸ Support for agriculture has only short-term positive effects on growth that disappear quickly. Uniquely, investment in education and human capital – merely one-eighth of total spending – has medium-term positive and significant returns. Possibly Wales may be different from the EU average and total Structural Fund spending will exceptionally prove productive. Yet there is no obvious reason to believe it will.

In June 2004 Andrew Davies AM, Minister for Economic Development and Transport, re-launched the RSA discretionary capital grant scheme.²⁹ RSA Cymru Wales, as it is now known, will supposedly create and safeguard jobs in the Assisted Areas of Wales more effectively. It will do so by directly supporting the Assembly Government strategy of “encouraging innovation, research and development and high value added project opportunities.” Is this rebranding of Regional Selective Assistance (RSA) a triumph for evidence-based policy?

The Economic Research Unit of the Welsh Assembly had already found over the period 1990-98 that, at both Welsh and UK levels, non-RSA assisted plants tended to exhibit faster productivity growth. The latest work on the official website now shows that productivity in Wales on average is the same as elsewhere in the

28 Rodriguez-Pose A and Fratesi U., 'Between Development and Social Policies: The Impact of European Structural Funds in Objective 1 Regions' *Regional Studies* February Vol. 38.1, 2004, pp. 97-113.

29 Assembly Government Press Release RSA Cymru Wales – Building on success, 15 June 2004.

UK.³⁰ However, higher productivity is associated with *not* being in an assisted area and/or having received RSA. Welsh industry needs high and increasing productivity to maintain the international competitiveness necessary to provide jobs. Unfortunately the RSA appears to have been found wanting in this respect. Perhaps this explains the Davies initiative. On the other hand RSA's immediate objective was jobs, not productivity. Indeed, without increases in outputs, higher productivity means fewer jobs. So it is not so surprising that RSA has apparently not delivered greater productivity.

In addition to spending on RSA, the Welsh Development Agency was also busy 'creating and safeguarding', apparently on a much larger scale. Indeed, if the WDA's own figures are to be believed, the announcement of its absorption by the Assembly Government was certainly not an instance of evidence-based policy. For in each of the past five years WDA created and safeguarded more jobs than in the last. In the last full financial year the total was double that of 2001-02, and over the quinquennium the Agency claimed credit for 153,000 jobs, getting close to sum of all Welsh manufacturing employment!³¹

Despite the WDA's best efforts and the operation of RSA over 30 years, relative GDP/GVA per capita has fallen steadily. Public expenditure on economic development has not been notably successful. Instead of spending money to 'pick winners' or on politically acceptable projects, the increased economic development budget could be used for a general rebate on corporation tax. This

30 <http://www.wales.gov.uk/subiresearch/content/eru/projects/productivity-growth-e.htm>

31 http://www.wda.co.uk/resources/A3_Main_AR2004_E.pdf

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would increase the desirability of Wales as a location for internationally footloose industry and stimulate growth of indigenous, profitable companies. Of course, it would involve giving up political power and patronage, and rebating money to firms that anyway would stay in Wales. But it would eliminate the need to second-guess businesses and identify those that would be beneficial for Wales.³²

On the basis of the likely relationship between GVA and profits, the maximum take from corporation tax in Wales for 2006-07 will be about £1.9billion. A rebate of one third (10 percentage points) on corporation tax could be financed from the existing economic development budget, though of course the bulk of existing activities would need to be curtailed.

If there was an issue about the affordability of this proposal one option would be to grade the reduction in favour of smaller companies. A rate of, say, 10 per cent for the first £100,000 of taxable profit could be followed by a 20 per cent rate for the next £200,000; and the full rate on the balance of taxable profits. Such a scheme would favour not only smaller companies but those which are not very profitable. By helping smaller companies the graduated 'tax' helps redress the built-in advantages that larger companies enjoy due to economies of scale. Such a structure would also favour the many small companies in Wales which employ a significant proportion of those in the private sector.³³

³² Germany is the latest country to announce reductions in corporation tax: Financial Times, 13 July 2006.

³³ This approach of grading corporation tax reduction according to the size of company would also address a further problem. This is that a significant proportion of the economic development budget is sourced from the EU and is not available to the National Assembly. Another key issue is that any medium term increase in the tax take due to an effective reduction in the tax rate, does not accrue to the National Assembly but to the Treasury.

A second tax issue concerns the only regressive tax in the UK. Only the local government community charge does not vary with income. True, house purchase price does typically rise with income and the tax is related to house valuation. However, over the lifecycle income eventually falls whereas the community charge does not. Some, though perhaps not a majority, may think using the tax system to force older people to down-size is desirable. An alternative would be a local income tax that could be administered by the Inland Revenue very cheaply. Of course, the Scottish Parliament already has the right to vary income tax within a small range, but has not chosen to do so.

Would an Assembly Government ever rebate or reduce taxes, rather than increase spending, if it had a choice? The economic success of the Republic of Ireland, and the increasingly widespread low business taxes of Eastern Europe suggests that this line should certainly be considered seriously. There is already pressure to do so in Northern Ireland, where the border with the Republic is also a border between high and low corporation tax regimes.

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Why do we not see more efforts by the Assembly Government to address these issues? The existing committee structure is concerned with policy and spending on policy. There is no Finance Committee. Efficiency issues are left to the auditors. For instance, the absorption of the WDA into the Assembly Government seems to have been driven primarily by a concern with accountability, although there was talk about too many bodies in a small country undertaking similar activities.

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Certainly, the creation of a Finance Committee would serve to concentrate minds by inserting a body into the Assembly Government specifically concerned with resources.

A second improvement in the same direction would be an independent Public Finance Unit analogous with those in London or Dublin.³⁴ It would provide an element of analysis of the complex Assembly Government finances that is lacking in the public domain. For example, the change in focus of capital spending away from health and education and towards economic development, identified earlier in the chapter, deserves some public discussion. One reason it has not done so is because of the difficulty of extracting the information.

The proposed unit would need to be financed from the private sector so that analysis and comment on the public sector would not be constrained by fear of the consequences. The analysis provided by such a unit could stimulate public debate on the issues we have identified as critical in the longer term, the role of independent taxation and the finance of major capital projects.³⁵

In the short term, large projects like the Severn barrage or a major international airport should not necessarily require state funding because the production and sale of energy and air travel are private sector concerns, even though they have ramifications for public policy. Transport infrastructure, such as tramways/light rail, or a cross-Wales major road link, are public sector concerns that in principle might be financed by innovative methods such as bond issues.

³⁴ The Institute of Fiscal Studies in London and the Economic and Social Research Institute in Dublin.

³⁵ The Beecham (2006) Review recognises the need for something like these proposed changes, noting that the Assembly Government lacks an institution that performs a 'challenge' function that the Treasury undertakes in Whitehall.

The five per cent less per capita than the UK average indicated by the Treasury's Public Expenditure Statistical Analysis in 2006 does not suggest a significant shortfall. Moreover, although Wales does not have an equivalent to the debacle of the Scottish Parliament building, Portcullis House, the British Library or the Dome, care must continue to be exercised with major public works.

In view of the ending of the strong expansionist phase of public spending, improving the efficiency of service delivery should assume a higher priority. Improving efficiency is generally dependent on being able to measure it. Otherwise, for example, reductions in employment could be matched by reductions in service levels, so that efficiency does not increase.

Welsh public services do not appear to be so much better than those across Offa's dyke that the less enthusiastic approach is justified. We therefore recommend more effort be put into constructing believable measures of public sector outputs and productivity, and more effort devoted to improving this productivity.

Renegotiating Barnett: Needs and Spending

As we have seen, Wales does less well in cash terms out of the block grant formula than the other devolved administrations. But relative to needs the fairness of the budgets is less clear, in part because the concept of need is a slippery one. In the Treasury review of 1978 there was some discussion of the idea, which was measured as the expenditure necessary to fulfil the same policy in all areas.

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So the fact that Scotland has a great mileage of roads which are subject to more difficult weather conditions, requires additional expenditure to maintain them to the same standard as those of the South East of England, even though they provide for a much smaller volume of traffic. Similarly, Scotland needed much more money for council housing because there was a great deal of it and it was expensive to maintain. But if Scotland had been responsible for its own budget it might have chosen less expensive housing and roads policies, even though 'needs' were the same.³⁶

If all areas were equally efficient at meeting needs of their residents, and budgets were allocated to these jurisdictions efficiently, areas with greater need would spend more. In addition, the extent to which they spend more would reflect the value placed on ameliorating need by the budgeting central authority.

This also presupposes appropriate measures of need used by the authority. In deciding on the fairness of devolved administrations' block grants some measure of need is essential. Aggregate measures proposed include GVA³⁷, and poverty or 'social protection' spending.³⁸

Alternatively, it might be objected that needs are multi-dimensional and cannot be captured adequately by single aggregative indicators.

36 The problem is similar to that arising from the statistical approach to determining the block grant to local authorities; those that spent a lot were likely to be rewarded with a larger grant. This occurs when the allocation is determined by coefficients obtained when spending is regressed on need indicators, and the need indicators are influenced by local authority policy.

37 McLean I., and McMillan A., 'The distribution of public expenditure across the UK Regions' Fiscal Studies 24 1 45-71, 2003. Their approach of increasing the budget per head exactly as the reciprocal of GVA per head is arbitrary and likely to prove expensive, but the same criticisms do not apply to the use proposed for GVA per head later in this chapter.

38 Mackay R. Ross, 'Identifying Need: Devolved Spending in Wales, Scotland and Northern Ireland', Contemporary Wales, 2006. The bulk of 'social protection' is in fact pensions, so the age structure of the population is likely to influence this measure as much as poverty.

Education needs may be of a different order from say health needs and therefore should be assessed separately. For instance, an assessment of Scottish education found that using the English Local Authority assessment of 'need', Scottish pupils would receive about three per cent more than the English – but actual spending is considerably higher.³⁹

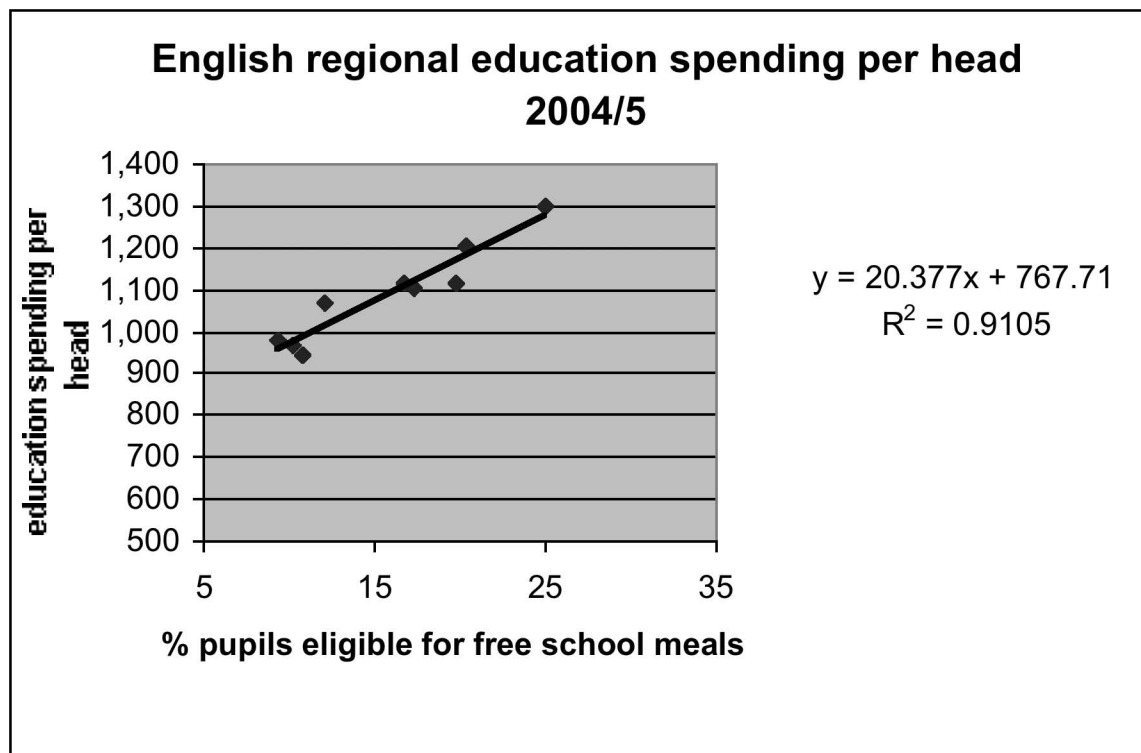
This analysis could be applied more widely. That it has not, most probably reflects current political realities. Scotland does well out of the Barnett formula. Any credible needs-based assessment could well reduce Scotland's budget and thereby threaten the power base of the present Chancellor of the Exchequer. So a replacement of the formula may be unlikely in the near future.

But to illustrate a more disaggregated approach and gain a little more understanding of the fairness of the block grant allocation, let us suppose resources for health and education are allocated equitably and efficiently across English regions. We then extrapolate from these allocations to the implications for the budgets and spending of the devolved administrations.

Each point in Figure 6 on the following page represents the educational spending and pupil deprivation (the needs indicator) of an English region. The close fit of the line to the regional data suggests English spending increases with this needs indicator. Using percentage of free school meals in Wales as a needs predictor (substituting for the x value in the equation of the line) shows that, with Wales's percentage, an English provision would be £1,140 per head (y value) compared with £1,107 actually spent in Wales in 2004-05 (about three per cent less).

39 King D, Pashley M., and Ball R., 'An English Assessment of Scotland's Education Spending Needs' Fiscal Studies 25 4 439-467, 2004.

Figure 6



A similar exercise, using the standardized mortality rate and an adjustment for London, predicts that Wales should spend £1,361 per head, compared with an actual spend of £1,421 or four per cent more, as shown in Table 7.

Table 7: Needs predicted and actual spending on Health and Education 2004-05

	Education predicted (£ per head)	Actual	Health predicted (£ per head)	Actual
Scotland	1,143	1,179	1,530	1,560
NI	1,190	1,435	1,322	1,476
Wales	1,140	1,107	1,361	1,421

These outcomes are obviously within the margins of error of the exercise. It is quite likely that Wales was spending at about English equivalent levels given needs in 2004-05.

The health results for unhealthier Scotland at £1,530, compared with £1,560, are even closer to English 'needs' levels of spend. But Northern Ireland, predicting £1,322 compared with actual spending of £1,476, almost 12 per cent greater, looks rather affluent. Similarly education in Northern Ireland appears 'gold plated' compared with the rest of the UK.

To some extent these spending levels reflect devolved governmental choices subject to the budget constraint. Since Wales's devolved budget is about eight per cent higher per head than available for equivalent services in England, Wales could spend eight per cent more than England on health and education without particularly jeopardizing other services – although, as we have seen, Wales has chosen not to for education.

Of course, the Assembly Government cannot do much, if anything, about the formula for determining the block grant. Yet, it should have a view, beyond 'more would be nice'. The nub of the problem is that, 'need' is a multi-dimensional concept and the assessment of need has to a large extent been devolved. Hence, it is hardly appropriate either for Whitehall or for an independent authority to second guess the devolved administrations in their assessments of various needs.

Scotland has a much higher standardised mortality rate than Wales but also a significantly higher gross value added (GVA) per head. Does this warrant a higher or a lower block grant on the basis of

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need? This leaves aggregate measures, the principal candidates being GVA per head or 'social protection' spending per head, which can give opposite indications. Northern Ireland's GVA per head is higher than Wales but so is 'social protection'. Does Northern Ireland therefore need more or less grant per head than Wales?

If these questions are resolved there is next the problem of quantification. How much higher grant is warranted by a given percentage greater 'need'? Answers to this problem might be sought by looking at the outcomes of English practice, as in the disaggregated needs exercise considered earlier. But in this case we propose using the relationship between public spending per head and GVA per head. Would the results of such a procedure be any 'fairer', and would it be much different, as far as Wales is concerned?

Mackay's analysis suggests the principal effect would be to reduce Scotland and Northern Ireland's grants by around 10 percent.⁴⁰ So support from the northern administrations for such a change is unlikely to be forthcoming, although it fulfils one notion of fairness. Wales looks very similar to the North East of England, and therefore the Welsh grant would not change very much.

A critical difference though is that the North East of England is not subject to the Barnett squeeze. Comparison between that region and Wales provides the strongest objective case to 'freeze the squeeze', solely for Wales, not for Northern Ireland and Scotland. Since Wales is now generating a gross value added per head of rather less than the North East of England, equity demands that Welsh public spending per head should not be forced below the level

⁴⁰ Mackay, R. Ross, 'Identifying Need: Devolved Spending in Wales, Scotland and Northern Ireland', Contemporary Wales, 2006.

in the North East. On these grounds, application of the Barnett squeeze should be frozen for Wales, but, by the same argument, not for Scotland and Northern Ireland. The only justification for continuing the 'squeeze' for Wales is if it is believed that too large a public sector is crippling the Welsh economy (and presumably all of 'outer Britain').

Policy Recommendations

Efficiency

- Increase Assembly Government efficiency targets to English Gershon levels.
- Ensure clear separation between efficiency and equity objectives in all Assembly Government strategic plans.
- Adopt Atkinson proposals for improving measurement of output.
- Create output measures for Wales that allow full comparison with rest of the UK.
- Review structures in public sector once output measures are in place.

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Capital Expenditure

- Consider objective tests of the appropriateness of Welsh capital expenditure.
- Review all areas of capital spend to explore options for private sector contributions to public service objectives.
- Develop Welsh approach to public/private sector partnerships.
- Seek to extend the principle of not for profit public/private enterprise.

Taxation

- Switch the bulk of economic development funding to rebate on corporation tax.

Funding the Assembly

- Establish a research programme to address options for improving or renegotiating Barnett.
- 'Freeze the squeeze' - suspend convergence element of the funding formula for Wales.

Governance

- Create a National Assembly Finance Committee.
- Create a Welsh Public Finance Research Unit funded from non-governmental sources.

Chapter 2

Health and Social Care

Since political devolution, health and social care policy has arguably been the Assembly's greatest responsibility, accounting for the lion's share of its budget. In 2005-06 it took 38 per cent of the Welsh block grant, a total of £4.6 billion which is budgeted to rise to £5.5 billion by 2007-08.⁴¹

The NHS in Wales has experienced significant growth in funding over the past few years, to levels which are unlikely to be sustained in the future. Any additional funding streams will be largely consumed by drug price inflation and pay awards for healthcare professionals. Meanwhile, the continuing impact of demographic change is likely to result in virtually zero additional real growth in resources for service provision.

Therefore, in considering future developments, it is highly probable that new services can only be financed from savings in existing provision. In this chapter we consider some of the key health policy issues that the new Minister for Health and Social Care will face, following the Assembly elections in May 2007. We focus on health, while acknowledging the integrated nature of health and social care policy.

⁴¹ A Budget for the Future of Wales: The Assembly Government's Spending Plans 2005-06 to 2007-08.

The chapter begins with a brief description of the health of the people of Wales and describes some recent policies which have been introduced to improve the health of the population and to reduce inequalities in health across Wales. It is suggested that a Health Minister will have to deal with five key issues following the election. We offer a series of what we believe to be representative, illustrative vignettes or fictitious personal stories, which raise many of the less immediately pressing yet fundamental health policy issues that the Minister will face. We conclude with some policy recommendations.

The Need for Health Policy

The people of Wales are not a particularly healthy lot. Wales's economic history, labour markets and the health of the population have been intrinsically linked.⁴² The Welsh Health Survey for 2003-04 showed that 54 per cent of adults were classified as overweight or obese.⁴³ Currently, 18 per cent of adults are being treated for high blood pressure, 14 per cent for arthritis, 13 per cent for a respiratory illness, 12 per cent for back pain, 10 per cent for a heart condition (other than high blood pressure), and 9 per cent for a mental illness. Overall, 28 per cent of adults and 5 per cent of children are reported to have a limiting long-term illness. Almost all these statistics are higher than the rates reported in England.

42 Williams, G., 'History Is What You Live: Understanding Health Inequalities in Wales', in Michael, P. and Webster, C. (Eds.) *Health and Society in Twentieth Century Wales*, University of Wales Press, 2006.

43 National Assembly for Wales, *Welsh Health Survey 2003-04*.

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In addition, Wales has a problem of health inequalities. In 2005 the Chief Medical Officer reported that death rates in Merthyr Tydfil were almost 50 per cent higher than in Ceredigion, adding that “there can be substantial differences within such areas as well as between them”.⁴⁴ Life expectancy at birth for males in Merthyr Tydfil is the lowest in Wales at 73.3 years compared with 78.5 years in Ceredigion, a difference of more than 5 years. The situation for females isn’t much better with Merthyr again having the lowest life expectancy at 78.1 years compared with 81.9 years in Ceredigion.⁴⁵

The link between poor health and deprivation is well-established. Poor health in children is a particularly clear representation of that link. It is also evident that poor health in childhood is a predictor of poor health in adulthood and the multiple disadvantages that it entails. A report commissioned by the Joseph Rowntree Foundation indicated that, between 1998 and 2001, the infant mortality rate in the most deprived fifth of Wales was 60 per cent higher than in the most affluent fifth.⁴⁶

There is evidence that the ‘inverse care law’ still applies. First coined in 1971 by Dr Julian Tudor-Hart (a Welsh GP who practised in the Afan Valley, one of the most deprived communities in Wales), the phrase reflects the fact that the availability of good medical care varies inversely with the need of the population served.⁴⁷

44 Welsh Assembly Government, Health Status Wales 2004-05: Chief Medical Officer’s Report Series.

45 National Assembly for Wales, Digest of Welsh Local Area Statistics 2004: Population and Migration: Expectation of Life at Birth 2000-02, 2004.

46 Kenway P., Parsons N., Carr. J and Palmer. G. Monitoring poverty and Social Exclusion in Wales 2005, Joseph Rowntree Foundation, 2005.

47 See Hart, J.T., ‘Inverse and positive care laws’; Hann M., and Gravelle H., ‘The maldistribution of general practitioners in England and Wales: 1974-2003’; and Shaw M., and Dorling D., ‘Who cares in England and Wales? The Positive Care Law: cross-sectional study’ in British Journal of General Practice, 2004.

Policy Inheritance

The increasing resources taken up by health provision has become perhaps the most contentious political issue facing the Assembly Government in its relatively short history. In 2003 an Assembly Government Review, advised by Derek Wanless, former Chief Executive of the NatWest Bank, demonstrated that the current profile of health funding was unsustainable.⁴⁸ Action was needed on a number of fronts to:

- Remedy system deficiencies.
- Secure developments in the Welsh health service.
- Generate improvements in health outcomes for the population.
- Redress inequalities in health that exist within Wales and in comparison with the rest of the UK.

Designed for Life, published by the Assembly Government in May 2005, set the policy for addressing these issues.⁴⁹ The ambition was to create a world-class health and social care service in a healthy, dynamic country by 2015. The three major objectives were:

- Lifelong health.
- Fast, safe and effective services.
- World class care.

The document supported an ongoing strategy to concentrate on delivering a healthy Wales through partnership by means of a series of three-year strategic frameworks to 2015. It declared that:

⁴⁸ Welsh Assembly Government, Review of Health and Social Care in Wales: Report of the project team advised by Derek Wanless, June 2003.

⁴⁹ Welsh Assembly Government, *Designed for life: Creating world class health and social care for Wales in the 21st century*, 2005.

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“... optimum improvement will be achieved if people become fully engaged with their own health and well being and also take seriously their responsibilities to adopt healthy lifestyles”.

There was a recognition that the NHS and its partners needed to demonstrate their commitment to the philosophy and aims of *Designed for Life* by adherence to a series of key milestones with specific targets in place to provide a short-term focus. The document stated that the targets would, among other things:

“... prompt a shift towards preventing problems rather than waiting for them to occur.”

The NHS, local government and their partners will, therefore, need to continue to focus attention on strengthening prevention at all levels. Greater efforts will be made to help people look after their own health better. Clearer service entitlements will be balanced by greater individual responsibility for healthy choices relating to lifestyle and behaviour.

In 2005 the Assembly Government established the *Health Challenge Wales* programme to act as the focal point of efforts to improve health and well-being. It recognised that a wide range of factors impact on health and that co-ordinated action can help to create a healthier nation. The initiative was set against the background of a report by the Chief Medical Officer for Wales detailing the work needed to improve the health of the nation.⁵⁰

⁵⁰ Welsh Assembly Government, Health Status Wales 2004-05: Chief Medical Officer's Report Series, 2005.

In the twelve months ahead of the 2007 Assembly Elections two important documents were published that are likely to have some considerable impact on the nature and direction of health policy within Wales. The Beecham Report, *Beyond Boundaries: Citizen Centred Local Services for Wales*, sets out the actions that might be required from local government and local health boards and other institutions to make a success of the Assembly Government's 'citizen model' for public services. The second publication, the 2006 Government of Wales Act, gives the National Assembly the power to draw up and debate legislation that would then be enacted by a fast track system procedure at Westminster. This is likely to have a strong influence on the nature and health policy determination within Wales. It is perhaps unfortunate that these powers were not available earlier since the Assembly had signalled its intention to prohibit smoking in public places a few years previously. However, it is only with accession of powers that such a policy becomes a possibility.

The Minister's In-tray: May 2007

The Minister's in-tray will reflect current health policy issues and priorities and determine the health agenda for a new term of office for the Assembly. While the strategic intent aims to shift service provision towards primary care and prevention, our prediction is that NHS waiting times, local hospital closures, access to expensive new drugs, and devolution of responsibility for service prioritisation will be at the top of the in-tray, alongside the changes needed to equip primary care for its increased responsibilities.

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NHS Waiting Times

Waiting lists and Wales's failure to match the success in England in reducing waiting times were major factors which led to the departure of a previous Minister for Health in 2005. Since devolution, Wales has pursued a far less aggressive target and sanction driven approach to managing NHS waiting times than England.⁵¹ During those years, England sustained a comprehensive focus on reducing excessive waiting times, starting with *The NHS Plan* in 2000, and continuing to achieve shorter maximum waiting time targets.

In contrast, the Welsh response has been less aggressive, characterised by specific initiatives on waiting times for cardiac and cataract surgery and intermittent injections of funds. An extra £5 million in January 2004 was followed by the introduction of the 'second offer' scheme. Patients whose wait for inpatient or day case surgery was likely to be over 18 months were guaranteed an offer of treatment in either the NHS or private sector in England or elsewhere in Wales. This initiative was fairly successful in reducing 18 month waits although some of this 'improvement' was due to the removal of patients' names from waiting lists (some died, moved from the area or paid for private treatment) rather than reflecting enhanced access to services. Moreover, some 22 per cent of long-waiting patients declined the offer of receiving treatment from an alternative provider, calling into question the practicality of such choices for many patients. The guarantee was expanded in March 2005 to provide a 'second offer' for patients waiting over 12 months.

⁵¹ Greer S., *The Politics of Health Policy Divergence. Devolution in Practice. Public Policy Differences within the UK*, The Constitution Unit: University College, London, 2004.

In January 2005, the Assembly Government was strongly criticised by the Auditor General of Wales for the absence of a clear strategy to reduce waiting times and for unacceptably long waiting times for some patients. He also argued that a waiting list funding initiative over 2002-03 to 2003-04 had neither been cost-effective nor achieved sustainable reductions in waiting times. In response, the Assembly Government released a new policy statement, including a waiting times strategy, in late 2005.

While the Assembly Government has set a target for a first outpatient appointment of no longer than 12 months, residents of England are likely to be seen within 13 weeks. The Department of Health in England has set a series of targets for waiting times as a result of which disparities will continue. The target for the total waiting time from GP referral to treatment in England has been set at 18 weeks by December 2008. In contrast, the combined inpatient and outpatient waiting time target in Wales will be 16 months by March 2007.

In England the lack of adequate diagnostic services was seen as a key blockage to the Government achieving its 18 week waiting time target. Consequently, there has been a large investment in diagnostic services to prevent hospital inpatients from having to spend excessive lengths of time in hospital waiting for diagnostic tests to be undertaken or evaluated. There may be a case for a similar level of investment in diagnostic services in Wales in order to improve efficiency elsewhere in the system.

However, Wales's poor record compared with England in terms of this single indicator of performance should be seen in the context of

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a fundamentally different approach to health policy. In contrast with England's focus on waiting times, the Welsh Assembly Government has pursued an overarching public health approach to tackling the upstream determinants of inequalities in health.

To achieve these public health objectives it will be vital to strengthen the ability and opportunities for economic, social and cultural participation for people who are economically and socially vulnerable. In this endeavour Labour market policy, gender equality, work-integration and disability policies will be particularly important. Culture, social movements, youth policy and initiatives to revitalize rural valleys and urban areas are among the factors that can increase individual's influence over their lives and health. Attention should also be given to securing better health in working life. Favourable working conditions reduce work related illnesses. Work environment initiatives should be a priority component of public health work. Work life balance policy is central for achieving the national public health objectives.

There is a political problem, however. The benefits of such preventive approaches to public health objectives are inevitably long-term. So it will be many years before a judgement can be made as to whether a focus on public health will ultimately produce a healthier Wales than a focus on waiting times would have. The problem facing all politicians is that the long-term is beyond their current term of office. Regardless of how much more effective a focus on upstream determinants of health may prove, there will always be the temptation to go for the short-term, headline-grabbing initiatives that may increase the prospect of re-election.

Hospital Closures

The term 'reconfiguration of secondary services' is used to describe the need to centralise clinical expertise, facilitate training and decide which hospitals should expand and which should be closed. No community wants to see its local hospital close or be downgraded. The recent rationalisation of paediatric cardiac care in south Wales and the closure of small community hospitals in north Wales have all provoked intense opposition. No Assembly Member is going to be popular for supporting the closure of a hospital in his or her constituency, no matter how rational the arguments or how under-used the facility.

However, if the Minister is serious about ensuring that the NHS operates as efficiently as possible, then the problem of closing inefficient hospitals is going to have to be tackled. It has to be understood that the NHS has multiple objectives which can and often do conflict with each other. For example, the efficiency objective states that NHS resources should be used in a way that maximizes health gains to the people of Wales. Any inefficient use of resources means that potentially achievable health gains are being sacrificed and this immediately raises ethical concerns.

On the other hand, efficiency can legitimately be compromised when the benefits of pursuing other noble goals - such as equity - are judged to outweigh those sacrifices. This is seen, for example when special efforts are made, and costs incurred, to increase utilisation of health services by particularly disadvantaged groups in society.

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However, sacrificing health gains in order to provide people with “what they want” is more difficult to justify. For example, the Assembly Government’s 2001 strategy, *Improving Health in Wales - A Plan for the NHS*, adopted a citizen-based approach stating that a “... determination to find out what patients want will underpin the process of continually improving our services.” Such commitments make it difficult for a Minister to go against the wishes of people who want to keep their local hospital open even when available evidence makes it clear that so doing would be highly inefficient. In such cases the price of inefficiency is paid by those who forgo, or wait longer, for health gains that they otherwise would have had.

A Minister’s concern to achieve maximum health benefits is made doubly difficult when the local media and politicians continually support any ‘save our hospital’ campaign. If the concerns relating to the sustainability of the NHS, as stated in the Wanless report and which *Designed for Life* has sought to address, are not to materialise it is essential that people’s expectations of the role and functions of hospitals need to change. The Assembly Government has a major responsibility to direct such change, ensuring at the same time that appropriate community-based services are in place to remove the present necessity for many people to use acute hospitals.

Furthermore, the need for collaboration and joint working-across agencies, as highlighted by the Beecham Report, especially in the context of the management of long-term conditions, is essential if Wales is to move towards the notion of a world-class health service fit for the 21st century.

The public also needs to be better informed about the risks associated with hospital admission. It has been estimated that one in every eight patients admitted to hospitals experience preventable adverse events, of which one third led to at least moderate disability or death. The overall result is an additional three million bed days at a cost to the NHS of £1billion a year. In other words the NHS incurs expenditure of £500 million on events and situations which could have been avoided.⁵² If the risks of errors leading to serious injury or death from hospitals were presented to aircraft passengers the likelihood is that many would not choose to fly!⁵³

Drug Costs

The resource implications of drug prescribing are enormous. Between 2002 and 2005, the number of prescriptions issued in Wales rose from 48.7 million to just under 54 million – a growth from 16.7 to 18.4 prescriptions per person per year, at a cost of nearly £200 per person per year. In England, by comparison 13.7 items per person per year were prescribed at a cost £162 per person per year. Welsh prescription costs reached £577 million in 2005, a 13 per cent increase since 2002.

Within Wales there was considerable variation across local health boards in the number of items prescribed per head – ranging from 15.1 in Flintshire to 22.1 in Merthyr Tydfil. There was also a large variation in cost per person – ranging from £170 in Cardiff to £243

52 Vincent C., Neale G., and Woloshynowych M., 'Adverse events in British hospitals: preliminary retrospective record review', British Medical Journal, 2001.

53 Berwick DM., and Leape LL., 'Reducing errors in medicine', British Medical Journal, 1999.

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in Ceredigion. The cost per item prescribed ranged from less than £10 in Swansea, Rhondda Cynon Taff and Merthyr to over £12 in Ynys Môn.

These demand levels for drugs are unlikely to fall. The ageing of the population will inevitably have a major impact. In particular, the 85+ age group will grow by 35 per cent in the next 10 years, compared with 20 per cent over the last decade. The younger pensioner group will also grow by 15 per cent whereas over the past decade it has hardly grown in size at all.

Conversely, it may be difficult to adjust supply side factors to deal with the increased demand, especially in primary care. In Wales as a whole 20 per cent of GPs are aged 55 or over. In Merthyr, Blaenau Gwent and Rhondda Cynon Taff more than 40 per cent of GPs are in this age bracket.⁵⁴

While drug costs are high, there are systems in place to ensure that the money is spent efficiently. In England the National Institute for Health and Clinical Excellence (NICE) reviews new drugs in terms of their clinical and cost-effectiveness and makes recommendations as to which should be funded by the NHS.

Wales has its own medicines management advisory board - the All Wales Medicines Strategy Group - which reviews the clinical and cost-effectiveness evidence for new drugs and makes a considered judgement as to whether they should be prescribed. This provides a much needed check on the inflationary pressures of new products from the pharmaceutical industry.

⁵⁴ National Assembly for Wales Statistical Directorate Bulletin, Workforce Statistics for General Practitioners in Wales, 1998 - 2004, 2005.

Although effective systems are in place to help the Minister ensure that public money is spent on drugs wisely, there have been a number of recent high profile media-supported cases which threaten to place limits on rational approaches to health care expenditure. Perhaps the most well known is the case of Herceptin for women with early stage breast cancer. Herceptin gained approval from the National Institute for Health and Clinical Excellence (NICE) in June 2006, two weeks after it received its European licence. In Spring 2006, despite the fact that Herceptin had not been licensed for use in early stage breast cancer and had not been through a NICE review, a patient took Swindon Primary Care Trust in England to court for refusing to pay for her use of Herceptin.

At the same time a Welsh sufferer, who had also been refused Herceptin by her (Welsh) Local Health Board, staged a sit-in in the lobby of the National Assembly – moving her protest to the new Assembly building when it opened in March 2006. The media attention on these two cases was huge and the focus on individuals being denied 'life saving' treatments in order to save money inevitably meant that public sympathy was on the side of these women.

Dr. Brian Gibbons, the Minister for Health and Social Care in Wales, responded to reporters' questions by saying (quite correctly) that in the Welsh case, the decision was for the Local Health Board to make and not for him as Minister. In contrast, the Secretary of State for Health in England intervened, saying that no patient in England should be refused Herceptin on grounds of cost.

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In the event, the English patient lost her case. The judge endorsed the long accepted view that, given the NHS has a finite budget, difficult choices have to be made. These choices were best decided by those who have the relevant knowledge and who have been given the responsibility, namely the Primary Care Trusts in England and Local Health Boards in Wales.

Subsequently, however, the Appeal Court found in her favour and ordered Swindon Primary Care trust to pay for her treatment with Herceptin. The implications of this precedent are potentially very large.

New and often very high cost drugs will continue to be brought to market. Rational mechanisms will have to be used to ensure that money is spent on drugs which have been shown to be both clinically and cost-effective. Yet, the experience of the Herceptin case suggests that, in future, decisions about how to spend health care budgets will be made less on the basis of trying to maximise the health of the population and more on the basis of who can shout the loudest, get the most media attention, persuade politicians to take up their cases or argue with a judge. This will be a tough challenge for the new Minister.

Post-code Prescribing

Before April 2003, the NHS budget in Wales (apart from that which was top-sliced for such things as regional services) was distributed between five health authorities, each having responsibility for the

health of the population in its geographical area. They commissioned health care services from NHS Trusts and other providers to meet the needs of their populations.

It was evident that no single health authority had enough money to commission all the health care services required to meet all the needs of its population. Each health authority was charged with determining its own priorities.

In April 2003, Jane Hutt, then Minister for Health and Social Care, introduced a major reorganisation of the NHS in Wales. The five health authorities were abolished and replaced by 22 local health boards, each with the same function as the former health authority but with responsibility for a much smaller population. The rationale behind this move was consistent with the prevailing philosophy. For many years policy documents had focused on a wish to see an increase in local democracy, put into practice through the devolution of decision-making from centre to periphery. If one community had a different set of circumstances, preferences and values from another then it should have the freedom to make decisions reflecting them. This philosophy would be adopted through local commissioning by *local* health boards in the NHS in Wales.

However, a problem with having so many Local Health Boards became evident as soon as they were set up. The increase in the number of commissioners added to the complexity of the commissioning process. In Gwent, for example, a single provider trust which used to deal with a single health authority now negotiates service provision with five separate health boards: Monmouthshire, Blaenau Gwent, Caerphilly, Newport and Torfaen.

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As a result the local health boards are informally beginning to work together with some creating consortia to make commissioning more efficient. To a cynic these consortia look much like the old health authorities. The Minister may want to reconsider whether the interests of efficiency are served by having so many separate health boards, or at least consider whether the Assembly Government should take the lead in encouraging the creation of commissioning consortia.

An NHS structure made up of 22 health boards exacerbates a related but separate problem, 'postcode prescribing'. The NHS does not have, never has had and never will have enough resources to fully and immediately meet all health needs. Hard choices are inescapable and some needs will have to be given priority over others.

One of the remits of the All Wales Medicines Strategy Group has been to develop timely, independent and authoritative advice on new drugs and on the cost implications of making them routinely available on the NHS. If the Minister accepts a decision arrived at by the Group, that particular drug becomes available for all people across Wales. However, the Group is not in a position to appraise all new drugs and has only dealt with drugs which cost in excess of £2,000 per patient per year. This means that for drugs below the threshold, decisions have to be made at a local level, with the inherent likelihood of different decisions being arrived at for different localities.

There are two ways that these hard choices could be made. The Assembly Government could provide All Wales Medicines Strategy

Group with additional resources to assess all new drugs at the national level and then ensure that they are applied consistently across the country. Alternatively, the status quo could remain whereby localities retain their autonomy in relation to new drugs which are not viewed as high-cost.

There are tensions inherent in both approaches. In the former, such a system would conflict directly with the long-prevailing philosophy toward more local democracy. As quoted earlier, the 2001 NHS Plan for Wales stated that a "... determination to find out what patients want will underpin the process of continually improving our services". It also asserted, "The new NHS in Wales is committed to.... putting patients first and building the health service around their perceptions of need." The patients and people referred to were *local* patients and people.

It is exceedingly unlikely that asking 22 separate Health Boards about *their* perceptions of need will produce the same answers in all cases. Indeed, if it were expected that they would all come up with the same answers, then there would be little point in asking them separately. In other words, devolving decisions about priorities to local levels is certain to result in different priorities being set. This means that two patients who are identical in terms of their needs will be treated differently according to where they live. This is what amounts to postcode prescribing.

The Minister is going to have to decide whether the bad effect of devolving responsibility to the local health boards (postcode prescribing) outweighs the good (more local democracy). Whatever the decision, he or she is going to have to move away from the

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current tendency among politicians to sing praises for local democracy and then declare its inevitable consequence to be wholly unacceptable.

Primary Care

If the aims of *Designed for Life* are to be realised, there needs to be a concerted effort to move from a secondary to a primary care based NHS. Commissioners need more teeth to support patients with long-term conditions and to realistically manage patient expectations.

The Assembly Government's response to the Beecham Report suggests that they will move towards the citizenship model of entitlement to services rather than the alternative, English approach based on consumerism and market choice. In so doing they will rely heavily on joint working and collaboration across organisational boundaries. Along with the opportunities provided by the additional powers conferred on the Assembly by the Government of Wales Act, this should result in a significantly enhanced role for primary care.

In many ways the development of primary care is the bedrock of health service re-configuration in Wales. The portrayal of such re-configurations as closures or down-grading fails to do justice to the rationale of improving health care provision that lies behind them. The role and functions of hospitals must change if the NHS is to be sustainable. The modernisation agenda must be clearly presented to the public, with emphasis given to effective, efficient and safe provision of relevant health and social care services, driven from within primary care at a local level.

This will involve some provision at hospital level, but the vast majority of services will originate and be provided from within primary care. The movement towards a primary care led NHS will depend on and shape the training needs of future GPs in Wales.⁵⁵ However, a number of problems will need to be addressed:

- A relatively high propensity by GPs to refer patients to hospital outpatients.
- Relatively high levels of emergency admissions by GPs to hospitals.
- Relatively high levels of people presenting themselves at accident and emergency (A&E) units.

In addition, there have been a number of concerns about the General Medical Services contract. Firstly, there was recent evidence that patient experiences of the new arrangements were not good. Secondly, its implementation has cost a lot of money, with considerable budget overspends, and it is far from clear that the extra money has produced commensurate benefits. Thirdly, there is increasing evidence from hospitals suggesting that A&E is facing increasing demands as a consequence of the new GP contract.

As well as managing demand, there are supply side problems resulting from the remuneration afforded to GPs on their retirement. Problems caused by the large percentage of GPs moving towards retirement age is likely to be compounded by the introduction of enhanced financial packages available for early retirement. In addition, GPs who came to the UK from the Indian sub-continent in the 1960s are now retiring.

⁵⁵ Matthew, P., and Lewis M., The future of GP training in Wales, NHS Management Board, 2005.

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Overall, these present significant challenges at a time when health policy is to try to build up primary care. Radical solutions will need to be considered including:

- How to increase self-treatment by patients.
- How to change the routes patients take through the health service, known as patient pathways, and GP involvement in them.
- The identification of new ways of primary care working (for example, triage⁵⁶, greater use of practice nurses, co-location of other professionals, and use of the voluntary sector).
- Improved access to diagnostic services for GPs.
- Improved premises – consideration of the use of schemes to lever in private capital for re-development.
- Development of a salaried GP service in some areas or contracts for GP services with private health care companies.

The Minister will be very aware that these five issues which we predict will be at the top of his or her in-tray will all be of interest to the media. The ability to make rational decisions is likely to be highly influenced by public and political reaction and the way in which the media report and comment. If there continues to be comparisons between Welsh 'failure' and English 'success' using the single issue of waiting times as the measure of the performance of health policy then the Minister's job will not be easy. A decision to close inefficient hospitals will be made more difficult if the issues are perceived as 'the people' battling against 'faceless bureaucrats', particularly if local Assembly Members seek to gain political capital by identifying with protests against closures.

⁵⁶ Prioritising sick or injured people according to the seriousness of their condition or injury.

Equally, a decision to stick with the rational approach to new drugs which has recently been put into place will be made more difficult by a press which invariably takes the side of the patient.

Finally, decisions taken with regard to postcode prescribing will only be properly understood if the benefits and costs of the systems which lead to (or prevent) it are clearly explained.

Because these five issues are so highly politically-charged and close to voters' hearts, they may eclipse other priorities for future health policy in Wales. The Minister should acknowledge that while they are important, there are other issues that need to be dealt with as well.

The next section of this chapter presents, through purely illustrative characters, a range of health issues that the Minister might think about. These fictional stories, none of which are meant to refer to real individuals, reflect the concerns of people in very different circumstances and describe the health policy issues that relate to them.

Voices From Around Wales

Granville Roberts

Granville Roberts is 51 years old, lives in Pontycymmer in the south Wales Valleys and has been unemployed since 1990 when a local steel works was closed down. Although he is a qualified electrician,

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he has chosen to claim carer allowance for looking after his wife June who has rheumatoid arthritis. He has often thought that he would like to go back to work if alternative care was available for her.

Granville's concerns about the NHS focus around access to primary care. He has noticed that it often takes three to four days to get an appointment with a GP at his local practice. He has heard that it is difficult to attract GPs to work in the Valleys – the current vacancy rate for GPs in the area is 50 per cent higher than the Welsh average.⁵⁷ He complains that many other people sitting in the waiting room are waiting to be signed off sick.

Granville has heard that the Assembly Government is putting employment advisers into GP surgeries to help people get back to work. Without a car, Granville's opportunities for work will depend on what the Assembly Government has planned for improving public transport in the Valleys. This evening Granville plans to go up to the Working Men's Club at the top of the Valley. He would like to quit smoking and has heard that the Assembly Government plans to follow Ireland and Scotland which have introduced smoking bans in all public places.

Sian Jones

Sian Jones is a 33-year-old lawyer living in Cardiff. She has private health insurance through her employer but uses the NHS. She wishes access and quality of services could be improved. She has heard about England's current focus on giving patients more of a

⁵⁷ National Assembly for Wales Statistical Directorate Bulletin, Workforce Statistics for General Practitioners in Wales, 1998 – 2004, 2005.

voice and allowing them to choose when and where they receive hospital treatment. She has also heard about NHS walk-in clinics in England in railway stations and supermarkets which she thinks sound convenient to a busy professional person. Sian would like to see such developments in Cardiff.

She recognises that there are many rural parts of Wales where few hospitals, distance, and lack of public transport make such concepts of choice impractical for many people. She was impressed by her recent visit to the Princess of Wales Hospital in Bridgend which was modernised under the Private Finance Initiative. She wonders why there are not more such hospitals in Wales. However, she has heard that the final costs of building and running PFI hospitals in England have proved to be way in excess of original budgets. She is concerned that PFI really means borrowing from public health spending in the future to keep public sector borrowing low now.

Sian would really like to opt out of paying into the NHS as she has private health insurance but is aware that if she were ever permitted to do so, this would probably be the death knell for the NHS in Wales. She realises that public health care systems like the NHS operate by pooling risk, so that young healthy tax payers subsidise the costs of the health care needs of older and chronically ill or disabled people. When Sian is elderly she will benefit from the NHS herself, providing it is still here.

Sian's only other concern about her health care is the fact that, for career reasons, she has decided to postpone having a family until her late thirties. She is worried that her fertility will have declined. Although she has private health insurance herself, she has friends

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who live in different parts of Wales, some of whom could get IVF on the NHS and others who could not. This kind of postcode rationing seems unfair to Sian, but she knows that it is the result of devolving local health service priorities to the 22 Local Health Boards.

Enid Morris

Enid Morris is 80 years old and lives in Prestatyn in north Wales. She is currently in hospital in Wrexham having experienced a minor stroke. Her daughter has not been able to visit her as often as she would have liked as there is limited public transport and she does not have a car. Enid's first language is Welsh. Only one nurse on the ward speaks Welsh. Enid is waiting for a suitable place to be found for her in sheltered accommodation.

She wants to stay near her friends in Prestatyn where she can walk to the shops and remain as independent as possible. She is aware that the ward she is on is very busy, and feeling well enough to be discharged, knows that the nurses really need her bed but cannot discharge her until there is somewhere for her to go. She is anxious, having had one health scare, as to what would happen in the future if she became muddled. She has read a lot about dementia and hopes that there are services to look after her if needs be.

The ward is noisy and Enid finds it difficult to sleep at night. Sometimes she wonders what will happen to her in the end. She has read that an increasing number of old people in Wales die in hospital and she doesn't want this to happen to her.

Daniel Ellis

Daniel Ellis is four years old, lives with his mother in Holyhead on Anglesey, will not be voting in the 2007 Assembly elections and is not much bothered about health care. However, the factor that is going to influence his future health is predominantly the lifestyle that he and his mother have.

Being on her own Daniel's mother has found things a bit tough and was recently asked by her health visitor if she was interested in going along to a parenting programme. Although apprehensive, she found it nice meeting other parents who were finding things a bit tough too. Transport, crèche facilities (for Daniel's younger sister, Elin) and lunch were provided. The Assembly Government is investing in parenting programmes such as the Incredible Years Programme developed in America. This is in recognition that challenging behaviour is on the increase in young children, resulting from Conduct Disorder and Attention Deficit Hyperactivity Disorder. If not tackled, they can have huge personal costs to families as well as financial costs to health care, social services, education and even the judicial system in the future.⁵⁸

Daniel's mother has found it impossible to find an NHS dentist so he has never visited one. Until the mid 1980s the water supply around Holyhead was fluoridated, but this is no longer the case. Daniel's mother is sensible about his diet and encourages him to play out and get plenty of exercise and fresh air.

⁵⁸ Scott S., Knapp M., Henderson J., and Maughen B., 'Financial cost of social exclusion: follow up study of antisocial children into adulthood', *British Medical Journal*, 2001.

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Daniel is looking forward to starting school. His mother has heard about the programmes that the Assembly Government is supporting such as breakfast clubs, fruit tuck-shops and healthy schools' programmes. However, she has heard that children at the local secondary school don't get more than one hour of physical activity per week and that the school's playing field has been sold off to pay for repairs to the school's ageing classrooms. She worries about the significant drug problem in Holyhead and hopes that when her children are older they will be warned in school about the dangers of drugs and that there will be help under the NHS if things go wrong.

Dafydd Richards

Dafydd Richards lives with his wife, Megan, in Carno, near Llanidloes in Mid Wales. Dafydd is 74 years of age and Megan is 72. Dafydd has been suffering from diabetes for sometime but has recently been diagnosed with osteoarthritis. Megan has been virtually housebound over the past two years, due to her chronic obstructive pulmonary disease. She is getting increasingly depressed at the inability of successive treatments to deliver any significant improvement, while the increasing health problems facing her husband only serve to exacerbate her mental condition.

Powys Local health Board has been running a relatively successful chronic disease management programme in diabetes, which has ensured that Dafydd's condition is reasonably well controlled and he is regularly monitored for early signs and symptoms of complications resulting from his diabetes.

However, the onset of arthritis has restricted his ability to engage in his strict exercise regime and also attend the diabetes clinic run by his GP practice. Meanwhile his wife's deteriorating mental state is making it more difficult for him to leave her at home alone. Megan's respiratory problems are not responding well to treatment and she is reluctant to travel to Shrewsbury to take part in the 18 week rehabilitation programme that is successfully run at the Royal Shrewsbury Hospital Outpatient Department. Powys Social Services has been asked to undertake a full assessment of the Richards's 'needs', but they readily admit that budgetary constraints impose a serious limitation on the care and support package that can be provided.

Dafydd and Megan's two children live away – one in London and the other in Canada – but are increasingly concerned about the condition of their parents and the lack of choice of appropriate service provision. The Local health Board co-ordinator for managing patients with long-term conditions has spoken to Dafydd and Megan (and also written to their children) to keep them informed of what services they propose in order to avoid hospitalisation or long-term nursing care. However, Gwyn's osteoarthritis and Megan's mental health problems are going to place considerable additional pressures on an already overstretched social care budget.

Challenges for the New Term

The levels of growth in public finance going into the NHS over the last few years will not be sustained in future years. Future funding levels are more likely to be of the order of 2.8 to 3 per cent a year.

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Allowing for the excess costs of drug price inflation, pay awards and the impact of demographic change, this amount can be regarded as approximating to nil real growth. Consequently, any new NHS or social care services will only be financed from savings in existing services.

In the medium term the pattern of health service configuration will be broadly as it is today. The NHS will continue to be publicly financed and publicly provided. We can expect limited growth in the size of the private health care sector in Wales. The purchaser/provider split is likely to remain in some form or another. The NHS will remain accountable directly to the Welsh Assembly Government and will not in the medium term anyway fall under local government or some form of arms length agency. However, it is possible that some or all aspects of social care could transfer to NHS responsibility in the interests of better integration.

The first two terms of the Assembly Government have involved either a Labour administration or a coalition with the Liberal Democrats. It is unlikely that a change in government would in the medium term lead to major changes in the finance or organisation of the NHS.

The Government of Wales Act will provide the Assembly with the powers to draw up and debate legislation that would be fast tracked through parliament in Westminster. Given the powers the Assembly does have, the new Minister might well be advised to listen to voices from around Wales.

Policy Recommendations

1. Pursuit of healthy public policy rather than just public health goals , right across the breadth of policy areas for which the Assembly Government has responsibility. This would be helped by statutory routine use of Health Impact Assessment.
2. Adoption of practical steps to move towards a truly primary care led NHS. This requires a better understanding of why Wales has relatively high referral rates, high prescribing rates and high levels of emergency admissions. There is a need to monitor and ensure patient satisfaction and value for money from the new General Medical Services contract. We need to invest in new ways of delivering primary care through investment in premises and the training of future GPs.
3. Pursuit of a fully integrated health and social care service is especially relevant in the light of the Beecham report. In particular, this should assist with the discharge of elderly people from hospital, and promote independence, well-being and choice within available social care resources.
4. Restructuring of the NHS into rational sized health economies that allow for local priority setting but acknowledge our limited skill base and experience of commissioning and financial management in the NHS. The impact of any reorganisation will need to be monitored to minimise managerial and transaction costs.

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5. Increased attention to improved performance and financial management. The Wales Audit Office has criticised the standards of performance management in the NHS in Wales. One of the key failures of many aspects of public policy is the inability to translate policy into action. If performance cannot be managed effectively then the most appropriate health strategy is unlikely to deliver the services needed by the public. Performance management is concerned with the operational management of services and can be thought of as managing the:
 - Volumes of services delivered compared to target.
 - Quality of services.
 - Costs of service compared to budget.
 - Changes needed to make services clinically and economically sustainable.
6. Promotion of a culture of policy evaluation and evidence based policy. No publicly funded initiative should be exempt from appropriate evaluation and evaluation should be a requirement of programme funding.
7. Use of incentives to bring health professionals to Wales and reduce vacancy rates and encourage clinical career development in Wales. There is a need for investment in human capital at local health board level to improve skills, expertise and experience in commissioning services.

8. Policy choices that will balance encouragement of personal responsibility for lifestyle, encourage informed and knowledgeable self treatment (where appropriate), against an awareness of the responsibility of government to create life chances through good housing, safe play areas, accessible and reasonably priced food, education, and employment opportunities.

9. Open debate about the options for capital investment in the NHS in Wales and the relative merits and dis-benefits of public borrowing versus public private partnerships, plus the Private Finance initiative which has gained support in England. Attention should be given to the development of a PFI model attuned to Welsh concerns and needs.

10. Political courage to look beyond England, for example, to Scandinavia, Europe and New Zealand for models of good practice in health policy development.

11. Fostering of a free but responsible media that supports health goals, through for example the convening of a seminar or workshop with representatives of the Welsh media, academics, civil servants and other community and public representatives to discuss the relationship between health care and health.

Chapter 3

Education

Wales has departed quite markedly from the rest of the United Kingdom in its educational policies since the National Assembly was established in 1999. The early emphasis on system maintenance that characterised Rosemary Butler's and Tom Middlehurst's tenure of the Education brief until the formation of the coalition administration in October 2000, was swiftly replaced by an ambitious programme of policy change under Jane Davidson, the current Minister for Education Lifelong Learning and Skills. The catch-all heading of Wales as a 'Learning Country' serves as both description and aspiration.

In the schools sector her initiatives have become known as the 'new producerism'. This rejects mechanisms for improving quality, such as the publication of school league tables and parental choice of schools, as 'consumerist'. Of course, 'consumerism' is likely to be much less appropriate in Wales where generally there has been no competitive independent sector. Moreover, many of the rural and small town communities of Wales only have one school within reasonable distance from home.

However, in Wales the 'new producerism' extends beyond a simple rejection of the international trend to 'consumerism'. It believes that working alongside the educational professionals is likely to be more effective than the emphasis given to accountability within the consumerist paradigm.

As in Scotland, the education debate in Wales has been notably less critical of the professionals than in England. Teachers are to be trusted, listened to and respected rather than criticised and 'shamed', as in some English policy discourse. Indeed, the historic closeness between the teaching unions and the Labour Party, coupled with the Assembly Government's emphasis on its 'team Wales' approach, has further reinforced Jane Davidson's consensual approach.

The 'new producerism' has some interesting educational consequences. For instance, at schools level, it is notably liberal in outlook, or 'progressive' to use that much misused term. The commitment to the importance of 'structured play' in the discussion of the upcoming Foundation Stage for children from ages three to seven has no English parallel. Indeed, one can imagine such a commitment sticking in the throat of many of the New Labour Ministers in the Department for Education and Skills since 1997. Likewise, is the continuing commitment to community comprehensive schools as the sole state provision for secondary education, and more generally the belief in state rather than private provision.

At the same time, there are elements within Welsh provision that do not fit a simple 'new producerist' label. The introduction of a Children's Commissioner, the statutory commitment to Children's and Young People's Partnerships, and the introduction of School Councils from Autumn 2006, all increase the rights of the child 'consumer'. Post sixteen, there is a consumer choice between schools and colleges, and there is competition between colleges and training providers for work-based learning.

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In addition, once learners reach 19-plus, a wide variety of bodies compete. Despite this yet they are expected to plan collaboratively at the same time, via the Community Consortia for Education and Training (CCETs).

The Policy Inheritance

Since 1999 Wales has developed distinctive initiatives on, for example:

- Abolition of externally based assessment of pupils in Key Stages One and Two (at seven and eleven).
- Introduction of the Foundation Phase.
- Making the Assembly Learning Grant available to students in further and higher education since 2002.
- Remission of the new 'top up' fees for Welsh domiciled students in HE from 2007.
- Ambitious targets for widening participation in HE, including targets set for Communities First wards.
- Piloting a Welsh Baccalaureate in 31 schools and colleges, with a Foundation level and pre-16 provision currently in development.

- Learning Pathways for 14 to 19 year olds allowing students to choose from a series of offers containing both a learning Core (a set of experiences in common), plus personal support from Learning Coaches and specialist careers advice.

In addition, numerous interventions are common across the four nations of the United Kingdom, including:

- Widening participation.
- Enhanced early years provision, an increasing amount of which is provided in an integrated fashion.
- Reduction of class sizes.
- Initiatives on attendance, particularly to get at the 'hard core' who are rarely seen in school, and on bullying, school meals and pupils' health.
- Improvement in the estate for schools and further education colleges.
- New inspection frameworks that emphasise self-evaluation and review of institutions.

Some Contemporary Cross-sector Issues.

Whilst the vision behind the Assembly Government's education agenda may be commendable and interesting, delivering policies on

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the ground is more problematic. The individual, the community and the central state are seen as the three parts of the tripod upon which civil society rests. Consequently, delivery of education in schools is in the hands of the 22 local authorities of Wales, with the addition of the FE colleges, the Higher Education Institutions and private providers of work based learning.

Few would now choose this number of local authority organisations. On the one hand, they are too big to be able to relate very locally to their communities. On the other, they are too small to be capable of high level strategic thinking. But given the stasis that another two years of local government reorganisation would provide, any move to a more rational local government organisation based upon, say, the four cities and the five historic regions, may be impossible in the short term.

Ensuring that the best is made of a bad job by pooling advisory and inspectorial services to get critical mass (on the cross-LEA model in South East Wales, and on the lines of developments upcoming from Anglesey in north Wales and also from west Wales) is axiomatic.

But the 1999 settlement between the Assembly Government and local authorities also had profound implications for the funding of education, Local authorities have held on to about 20 per cent of their Assembly Government funding (intended for education) for the provision of common services such as administration, compared with a comparable English figure that is now approximately just 5 per cent and dropping.

Admittedly, much of the English budget that is delegated to schools is then used by the same schools to 'buy back' precisely the

services that are provided by local authorities out of their budgets in Wales, making the English apparent delegation more cosmetic than at first glance. At the same time, it is important to note that from 2001-02 to 2005-06, the amount of money 'held back' by local authorities actually rose by a full five per cent in Wales, with the result that we are one of a handful of countries in the world to proceed in the direction of re-centralising rather than decentralising school funding.

The effect of 'local authority hold back' in Wales is indeed seen as negative by teacher associations and unions. In part, the effect is a psychological one. The budget that a head teacher in England gets for an average size (850 pupils) comprehensive school is probably some £350,000 more than his or her Welsh equivalent, a difference rudely brought home to Welsh heads at cross-border events.

However, in part any English 'delegation effect' may be about 'quality' rather than 'quantity'. This is because giving head teachers greater budgetary control provides them with more discretion to replace local authority services with other providers and an enhanced ability to vire across expenditure areas.

The resources available to education is the second likely problem that will be affecting all educational provision over the next few years. Although expenditure on education and training has increased by 41 per cent since 2001, the relatively generous budget settlements for the Assembly Government from 2002-03 to date are being replaced by smaller rates of increase. The 4.9 per cent increase in educational expenditure in Wales in 2006-07 is below the 5.6 per cent level for England, as has been the case in every year since 2002.

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In capital spending the story is the same: Welsh plans to spend £140 million a year until 2007-08 in Wales compare with English funding levels three times greater per head of population.

For the college sector, between incorporation in 1993 and the year 2005-06, the value of the funding unit (which determines college funding) has fallen by 18.7 per cent allowing for inflation. The position has been made even more difficult by the FE pay initiative to generate parity between lecturers and school teachers. This has long term financial consequences for colleges which have to fund salary increases that are not funded by the Welsh Assembly Government.

In addition, top slicing budgets to provide the Common Investment Fund, for which institutions have to bid for relatively small sums, increases work but not overall resources. The result of these factors is that the college sector is likely to see zero growth in numbers at a time when the widening participation agenda is being emphasised.

Such issues question whether the Assembly Government is allocating to education and training the full amount of resources received for this area from the Treasury under the Barnett formula. It is impossible to be certain. However, if public expenditure per head in the areas of devolved powers is 10-12 per cent more in Wales than in England (the corresponding Scottish figure is 20-22 per cent more), then one might expect educational expenditure per pupil to be higher also. It is, in fact, about 4 per cent per head lower, a gap that is increasing towards the end of the present Assembly cycle, when in 2005-06 for example, it widened in real terms to £273 per pupil (see Tables 1 to 3 below).

Interestingly, in Scotland the overall enhanced public expenditure per capita appears to have resulted in enhanced educational expenditure per head, which is approximately 20 per cent more per pupil than in England.

Table 1: Total Education Spend, Wales and England 1990-01 to 2004-05 £m

Year	WALES		ENGLAND	
	Total Spend	% increase	Total Spend	% increase
1990-00	1,407		22,164	
2000-01	1,517	7.8	23,747	7.1
2001-02	1,651	8.8	26,121	10.0
2002-03	1,739	5.3	28,405	8.7
2003-04	1,921	10.5	31,293	10.2
2004-05	2,005	4.4	32,510	3.9

Source: Committee On School Funding Report On School Funding Arrangements In Wales Assembly Government, June 2006.

Table 2: Education Spend per Pupil, Wales and England 1990-01 to 2004-05 £s

Year	WALES		ENGLAND	
	Total Spend	% increase	Total Spend	% increase
1990-00	2,868		2,926	
2000-01	3,092	7.8	3,123	6.7
2001-02	3,372	9.1	3,432	9.9
2002-03	3,562	5.6	3,735	8.8
2003-04	3,955	11.0	4,128	10.5
2004-05	4,141	4.7	4,298	4.1

Source: Committee On School Funding Report On School Funding Arrangements In Wales Assembly Government, June 2006.

Table 3: Difference in Education Spend per Pupil in Wales and England at constant 2004-05 prices

YEAR	ENGLAND	
	£ per pupil extra spend over Wales	% more
1990-00	65	2.0
2000-01	35	1.0
2001-02	66	1.8
2002-03	182	4.9
2003-04	176	4.4
2004-05	157	3.8

Source: Committee On School Funding Report On School Funding Arrangements In Wales Assembly Government, June 2006.

In general the effectiveness of the 'new producerism' is the third problem that will be affecting provision over the next few years. It is impossible to be certain until the results of participation in the Programme for International Student Assessment study of 2006⁵⁹ are available for all the countries taking part, but there are hints that although the Welsh educational system may have improved year on year in attainment on public examinations and national assessments, this may not have been at the rate of England.

Interestingly, 2002-03 was the year in which England began to move ahead strongly in the money spent per pupil, and also the year in which Wales had to begin to put in match funding for Objective One. Since then a gap at sixteen has opened up which now approximates to a 4 per cent difference between the two countries in the proportion of pupils getting the benchmark 5 or more GCSE passes at A-C grades or vocational equivalents.

⁵⁹ Organisation for Economic Co-operation and Development (OECD), Programme for International Student Assessment, 2006.

One cannot be sure about the extent to which this is due to enhanced use by the English schools of the 'double entry' GNVQ's that convey extra GCSE passes. However, the hints are there, although it must be admitted that no comparable gap has opened up in the results at ages 7-11.

Making policies more effective remains a priority. If one does not operate on the 'pressure' side of the 'pressure/support' continuum, to use the English New Labour phraseology, then the 'support' side is at an enhanced premium. However, within Wales there has been a complacent feeling that the transmission of knowledge about 'good practice' may be left to the natural processes of what is seen as a relatively connected society, thus ensuring the operation of the 'support' side of the equation in terms of knowledge transfer.

Yet, Wales has many fissures that may limit the 'natural transmission' of good practice. These include language, geography, locality, and community. And while in England the 'centre' plays a large role in knowledge transmission, in Wales it is loath to indulge in what may appear to be the hated 'prescription' of practice. Add to this the reluctance of ESTYN, the inspection service, to make any effort to publicise its offerings and to offer opinions on cross cutting issues in the way the OFSTED in England has, and one can see how the 'new producerism' may not possess more than rudimentary capacity to self renew.

A fourth overarching contemporary problem relates to our cultural heritage that conveys a highly restrictive view of what education should be in Wales. Historically, Wales and the other marginal nations and regions of the UK saw education as an escape from

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drudgery and exploitation that direct wealth creation in workshops or factories would involve. Wealth consuming courses were of higher status than 'wealth generation' related ones.

The educational system that aided the escape accrued high societal status. A belief was born that 'education' was something that went on between 5 and 16 only, was formal rather than informal and was something that was a 'one off' rather than a lifelong experience. Given its short duration and high status, it was something to be experienced full time rather than in bits, part time. Whilst there was a proud tradition of adult part time working class education, the high status of education as a means of escape from an economically marginal culture tended to make more non formal provision difficult to root.

Given the high levels of recruitment historically of people into educational roles and jobs in Wales, it may have been difficult for more contemporary views to take root, views that see education as either full or part time, as taking place throughout the life cycle, and in some contexts as something more directly concerned with wealth generation.

The paradox here, of course, is that in seeking to address this historic imbalance, there is a risk of over-emphasis on skills based education and training at the expense – especially in the sphere of adult education – of a wider curriculum which also includes what are sometimes dismissingly referred to as 'liberal' arts and social sciences. A final and related issue, rarely mentioned, is that of the role of education across the lifespan in building and sustaining citizenship, defined broadly.

The low rates of electoral participation with regard to the Assembly suggest that political literacy is an area which ought to be considered in developing curricula, including – perhaps especially – for adults. It might also be argued that if it is to succeed, Beecham’s call for ‘citizen-based’ public services carries with it a need for informed citizens. The ever-narrowing focus of much lifelong learning provision to skills alone, important though this area undoubtedly remains, may yet contribute by default to a ‘hollowing out’ of Welsh democracy and public life.

Sector Based Issues

We now move to look at the issues and problems within each of the sectors of education. For primary and secondary schools, key issues are:

- Falling rolls, which are due to decline further as the birth cohort coming through into compulsory education declines. In turn this exacerbates the problem of surplus places which the Audit Commission has identified as being more prevalent in Wales than in the other UK countries. Small rural schools and their problems relate closely to this issue.
- The Welsh language, where rapid rises in the proportion of an age cohort going to Welsh medium schools have been followed by a plateau and where the sector itself may still be digesting children from new backgrounds that came into the schools from the early to mid 1990s.

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- Poor linkage between the primary and the secondary school experiences, a problem which will intensify as the Foundation Stage increasingly changes the overall early years experience. The Key Stage Three age 11 to 14 experience – where Wales does worst of all in its assessment results by comparison with the other UK countries – is in many ways the educational poor relation, as it is neglected by comparison with the demands of Key Stage Four, age 14-19. This experience itself is fragmented by the existence of the GCSE at 16, an increasing anomaly when 85-90 per cent of young people continue with their full or part time education after it, rendering redundant its traditional role of 'rationing' of opportunities. In fairness, the Assembly Government has made Key Stage Two/Three transition a priority, with transition planning to be statutory from 2008

For further education colleges, key issues are:

- Their organisational quality, related to the need for management training for those in leadership positions, a lack of a clear national steer for staff development for lecturers, the increasing responsibility placed on governing bodies and the limited volume of performance data for institutions to use for self evaluation.
- In future they will need to work collaboratively rather than in competition with schools to enable students to have a greater range of choice in post-16 provision. At present, by simply being geared to numbers funding encourages competition.

- An ageing workforce and the need to attract new recruits into FE from the older sections of the workforce.
- The potential conflict between their diversity of mission as developed locally and any national remit across all colleges.
- The implications of direct funding from the Assembly Government.
- Responding to the National Planning and Funding System for post 16 provision. This is 'demand led' in that it focuses on learner take up and programme type. However, as a result it may not be able to bring about a level playing field in post sixteen education. There are particular issues here with regard to non-accredited education for adults, with some claiming that the National Planning and Funding System for post 16 provision poses a potential threat to its future.
- Responding to the Credit Qualification Framework for Wales, (CQFW) with its commitment to fund formal learning and, more problematically, informal learning.
- Providing a Welsh medium experience for those that wish it.

For Higher Education institutions, key issues are:

- Continued under-funding of the Welsh HE sector compared with the rest of the UK. This is unlikely to be remedied post 2007 by 'top-up' student fees, given the likelihood of virtually the entire UK HE sector maximising its fees levels for all courses.

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- Poorer performance of Wales in the area of research, as measured by successive Research Assessment Exercises, with large economic implications.
- Difficulties that have been encountered in reconfiguring the sector, which contains a number of relatively small and therefore vulnerable institutions.
- Development of more collaborative arrangements between institutions, between HE and FE and the development of greater outreach into communities, and especially those that are disadvantaged. Part-time opportunities for adults are a key component part of this, although hitherto, the main emphasis has perhaps been on younger age cohorts.
- Welsh medium provision, particularly since the Welsh HE sector is likely to be taking a higher proportion of Welsh domiciled students in the years post 2007.
- Relationship between the HE institutions and their local and national economies. This is particularly important given the lower numbers of students in Welsh HE studying science, technology and business.
- The considerable tensions between the expectations of the sector for the production of high quality, industrially relevant research and the expectations of greater community/locality involvement.

For those past age sixteen, key issues are:

- The expansion of work based learning, and an improvement in its variable quality.
- The encouragement and funding of non-formal and informal learning through the Credit Qualification Framework for Wales, and of community education more generally.
- Development of a comprehensive funding policy for the accreditation of prior learning.
- Encouragement of 'adult returners' to take up some of the places released by the smaller younger age cohorts. This is necessary if educational expenditures are to be maintained against the rising demands of health and welfare activities. The response of a new Government in the Assembly to the forthcoming review of skills by Lord Leitch will be crucial. Leitch has already drawn attention to the impact of demographic changes, pointing out that over two thirds of the 2020 workforce is already of working age. This attention to the skills levels of older workers becomes as imperative for the future economic development of Wales, rather than just a desirable strategy.
- Maximising of opportunities for participation of all age groups in public, private and voluntary sector offerings, other than those related to the tail of the achievement range involved in the basic skills initiatives.

Education in the Longer Term

We have so far looked at the Assembly Government's actions to date, some contemporary issues that relate to all sectors of the educational system, and more sector based problems. In addition, we should underline longer term considerations that are requiring the education system to take different directions determined by global economic and social change.

By their nature, such questions would not require immediate attention by the incoming Assembly Government Education Minister in May 2007. However, as we consider policy trajectories from 2007 onwards, it will be important to bear these wider issues in mind. The following seem to be most important:

- How can we take advantage of the opportunities offered by a rapidly globalising economy, whilst still ensuring strong local identity to generate security? Welsh medium education, the Welsh Baccalaureate, and the likely increased proportion of young people obtaining all their education within Wales may help here. But what else is needed?
- How can we ensure that the 'affective' or social aspects of people's development receive as much attention as the cognitive? In a more complex, stressed and insecure world 'social' attributes should take on a higher priority. Future Skills Wales reports have constantly shown that employers emphasise such attributes as team working and communication. The Credit Qualification Framework for Wales, the Integrated Centres and the Foundation Phase may help here. What else is needed?

- If knowledge becomes redundant in many spheres every ten to 15 years, how can we maximise the attention given to skills development? The Foundation Phase and Welsh Baccalaureate may help here. What else is needed?
- How can we broaden the focus of education to interact more with health matters, economic well being, social welfare and environmental and community concerns, whilst at the same time delivering more conventional educational goals? The National Headship Development Programme, the Statutory Induction period and the emphasis upon investing in the development of FE staff and managerial quality may help. What else is needed to develop the capacity of professionals, and the 'silos' of the civil service to cope with an ever more complex task? Such consideration of the wider benefits of learning applies right across the age range.

Policies Post 2007

Thus far we have provided an account of distinctive Welsh educational policies since 1999, and discussed the problems of the various sectors of education and the 'macro level' factors that will be affecting all societies into the longer term. What specific actions should be proposed from May 2007 that can change policies to maximise their existing effectiveness whilst increasing the chances of coping with the specific sector problems and the long term imperatives?

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Of primary importance will be to develop the capacity of educational professionals to manage and direct change in productive ways. *The Learning Country 2* joins the plethora of Assembly Government documents that have multiple visions but no apparent means of delivering them.⁶⁰ They seem to assume that stating targets or objectives brings them about.

Although it has some useful pointers about performance systems and leadership development, the section on 'Supporting Practitioners' in *The Learning Country 2* is the shortest, most simplistic and the most intellectually lightweight of the entire document, when of course it needed to be the strongest.

We know that the simple prescription of professional roles and activities is inadequate as a policy mechanism. Likewise we know that leaving professionals alone to reinvent the wheel simply wastes valuable time and leads in some cases to wheels that don't go round. Sensible capacity building combines the provision of useful knowledge with the capacity to invent better, to get the knowledge applied in settings of multiple and increased complexity.

Initiatives to improve capacity would start with enhanced opportunities for governors of schools and colleges, a group strangely neglected in contemporary educational discussion. It would involve a greater range of people helping teachers in their schools – the Learning Coaches, classroom assistants and, indeed, parent educators, with attention also given to child protection issues.

⁶⁰ Assembly Government, *The Learning Country 2: Delivering on the Promise*, 2006.

It would need to involve using ESTYN, the local authorities and other partners such as the General Teaching Council for Wales to deliver improvement. Logically it would also involve taking responsibility for teacher pay and conditions, since this would rid us of some of the more inadequate formulations of professional needs such as the Threshold teaching characteristics. It would also enable us to recast salary scales to give higher rather than lower salaries to head teachers in very small schools, whose stressful role approximates to the heads of larger schools. It would also enable us to enhance salaries for teachers in more disadvantaged catchment areas.

The second area for policy innovation is that of IT, very much 'the dog that doesn't bark' in *The Learning Country 2*. It is extraordinary that information and communications technology, which is a near obsession in most countries of the world, and which is referred to frequently within Assembly Government publications on economic issues in Wales, merits the sole mention that "...we shall draw up a new ICT in Schools strategy, to issue in 2007"

It is easy to see why there is inaction. Responsibility for IT has been shifted around frequently. IT is expensive and has disappointed policy makers everywhere since it has been used within the system as a 'bolt on' rather than as an integrated part of classroom pedagogy and experience. But it is IT that is central to many of the key sectors and across sector issues in Wales. It has the potential to enhance lifelong learning, to transmit good practice within the system, to tackle disadvantages associated with small schools and colleges, and to promote the internationalisation of the system in Wales. Indeed, population sparsity demands exemplary use of IT.

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The third area is Welsh medium education, where the rather reluctant praise of *The Learning Country* has given way to neglect in *The Learning Country 2*. Using the Welsh medium system to help in the teaching of modern languages in other schools could be sensible. Perhaps mainstreaming in all schools the Welsh medium experience, and the skills that professionals have learned from delivering it, would provide the challenge that the sector now needs. At the very least, ensuring that the sector develops in FE and HE in the way that it has in schools is axiomatic. However, it is acknowledged that the FE sector has a lack of lecturers who feel competent in Welsh and that demand may be limited.

The fourth area is reform of some of the age phases of education in schools. The development of the Foundation Phase up to age 7, and of the pathways in schools and colleges from 14 to 19, leaves untouched the age phase from 7 to 14. But of course this contains the Key Stage 3 experience where Wales performs so poorly. Planning an enhanced transition from primary to secondary schools at age 11 will undoubtedly be helpful. However, it may be that a cross sector approach is necessary that would not necessarily involve the development of middle schools but a middle phase.

This middle phase might also more usefully maintain the concentration upon skills that is a focus of the new assessment regulations. Linked with this might be a reform of 11-16 education that acknowledges the historical 'tail' of low achievers in Wales for whom a more vocationally orientated curriculum in Key Stage Three, as well as Key Stage Four, may be necessary.

Principles that Should Guide Change

What are needed above all for us in Wales are interventions which, in an era of financial tightness, promise powerful results and impact in relation to expenditure. We may be able to raid the experience of our neighbour over the border to pick up their policies that have been jettisoned because they were unfashionable or did not fit the intensely political nature of their educational discussions. Examples include using the mentors components of the English Excellence in Schools Programme, or the focus on using within school variation rather than between school variation as the 'engine' of development.

An international reach might also be helpful. In international surveys Cuba has the steepest curve of achievement gain. Many put this down to a teaching force that is trained in 'the enquiry model' of capacity building. In this model time is devoted to research training in initial teacher education.

Overall, however, the key issue is that it is 'Time To Deliver'. The absorption of ACCAC (the Qualifications, Curriculum and Assessment Authority for Wales) and ELWa (the National Council for Education and Training) into the Assembly Government Training and Education Division creates the critical mass that many societies would regard as essential at the educational 'centre'. But more far reaching changes are necessary to ensure delivery, including:

- Reducing the overload in the number of initiatives to which school and colleges are expected to respond.

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- Providing Wales with some of the educational apparatus available in England, for example the National College for School Leadership.
- Ensuring that policies are subject to detailed research and evaluation.
- At the most basic level of all, ensuring that the 'branding' of Wales as a 'Learning Country' is based upon sound analysis of what this entails.

Policy Recommendations

The new powers consequent upon the 2006 Wales Act will give any incoming government enhanced levers it can pull to generate desired outcomes. It is interesting, however, that in the education field the National Assembly already has most of the competences it requires in order to bring about change.

The following three themes suggest themselves as important areas where new policy initiatives will be required during the third term:

1. Develop distinctly Welsh approaches to teachers' pay and conditions, which might involve attempting to deal with some of the problems facing small rural primary schools and paying their head teachers more than others, not less, as at present in the combined England and Wales arrangements. The much disliked 'Threshold' salary scale point (at which rather dubious

teaching characteristics have to be deemed present in order for teachers to move on to a superior pay scale) would also benefit from attention, particularly in the areas of classroom observation and use of benchmarking data. This area would require new primary legislation to be passed through Westminster under the auspices of the 2006 Wales Act.

2. Develop further the quality of the transition experience from primary to secondary schools, in addition to the required Transition Plans from September 2007. Key Stage Three, for children aged 11-14, has long been the area where Wales has historically under performed in comparison with England, for reasons that are unclear. Some have argued that this reflects the effects upon schools of Wales' high levels of deprivation in areas such as the Valleys, where perhaps 30 per cent of children may be turned off by the secondary schools' unimaginative curriculum. Piloting 'middle tier' schools for pupils aged 7-14 or 9-14, before separate 14-16 or 14-19 provision, as a means of reducing disruption is one possibility, but any initiative would need to be carefully evaluated. The Assembly Government's *Raising Attainment and Individual Standards in Education in Wales* (RAISE) initiative, which is providing additional funding for schools in disadvantaged authorities may have effects through the appointment of learning mentors. Evaluation of this programme will test whether a more 'root and branch' reform of middle school education is needed in Wales. It was noteworthy that in October 2006 publication of national assessment results for Welsh children at age 14 in Science, Mathematics, English and Welsh, showed results were much lower compared with those at age eleven.

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3. Develop further the Welsh Baccalaureate by expanding the central common core which, at the moment, is substantially under-developed in comparison with the International Baccalaureate. Indeed, the International Baccalaureate should provide the template for the WelshBac, with the proviso that vocational subjects should be given equal prominence and esteem to academic. There are only three to four additional hours per student per week for the current Welsh Baccalaureate. However, most societies adopting a baccalaureate approach have a common core that is closer to 10 to 12 hours. It is this substantially expanded common core that would generate so many of the social, group and individual outcomes demanded by Welsh employers.

Chapter 4

Economy

This chapter highlights some of the important issues involved in seeking to raise the Wales gross domestic product (GDP). Policies to attract and develop high value added industry and skilled workers clearly play a key role.

Equally important, firms and workers will need to have the incentives and financial resources to develop more efficient production methods and embrace innovation and change. As such, the Assembly Government has a vital role to play in facilitating and partnering private sector investment to spur development in ways that will improve the business environment.

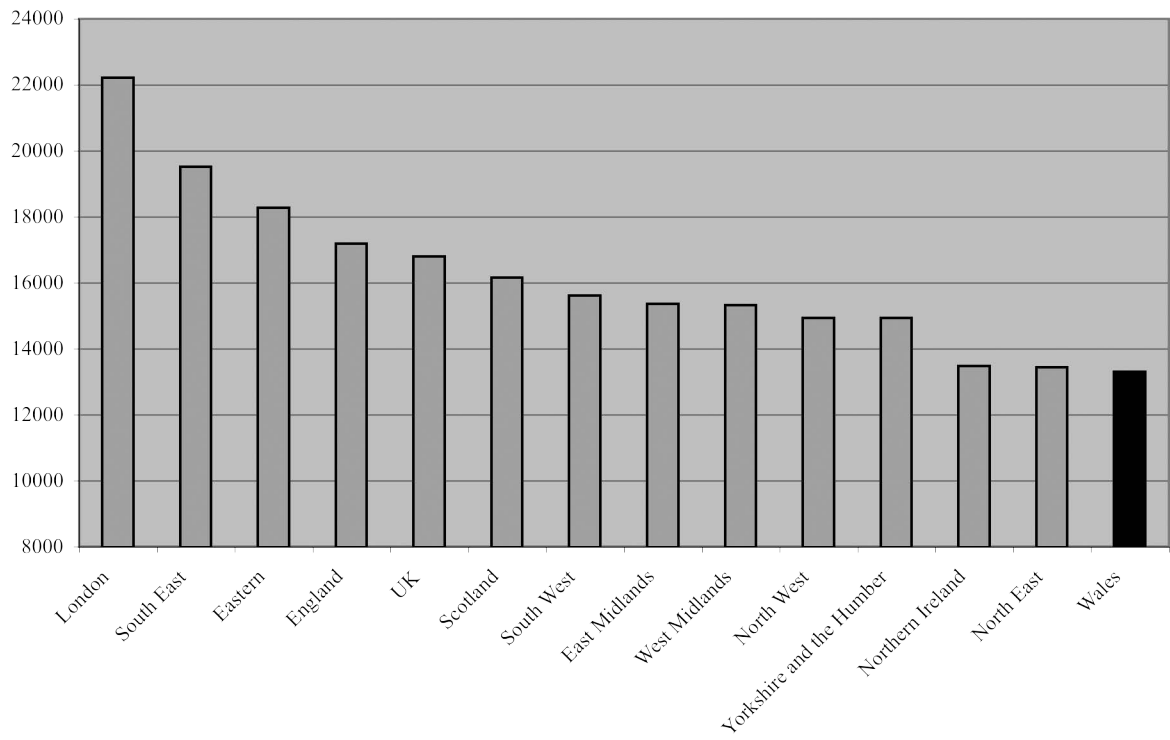
Raising economic prosperity across Wales will not be easy to achieve. The magnitude of the challenge facing the Assembly is highlighted in Figure 1. To close the current 20 per cent GDP gap between Wales and the rest of the UK within an acceptable timescale will require economic growth in Wales to exceed that in the rest of the UK by some considerable margin each year.

Early indications from published data suggest that the European Objective One programme has failed to make a significant impact on reducing the prosperity gap - either within Wales or with the rest of the UK.

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Figure 1

GVA (formerly GDP) per head by region 2004



Source: Stats Wales

Current Welsh Economic Performance

Relative GDP

Relative GDP per person in Wales has remained stubbornly fixed at around 79 per cent of the UK average since 1999 and current performance falls behind every other UK region.⁶¹ Similarly average earnings in Wales are relatively low and remain at 88 per cent of the UK average – although similar to areas such as the North East.

The GDP gap has three components: (i) differences in the working age population; (ii) differences in the employment rate; and (iii) differences in value added per worker. These differences are analysed in the Assembly Government's 2005 publication *Wales: A Vibrant Economy* where the dominant explanation is identified as low value added per worker (that is low productivity) which accounts for two thirds of the overall gap.

A good indicator of productivity is GDP per workforce job. Figure 2 confirms that Wales lies below the UK average in both manufacturing and services.⁶² However, since 1996 there has been a faster rise in labour productivity within the service sector in Wales than in manufacturing. Indeed, GDP growth in manufacturing in Wales at 11 per cent remains the slowest growth of any region.

The main causes of low productivity can be summarised as follows:

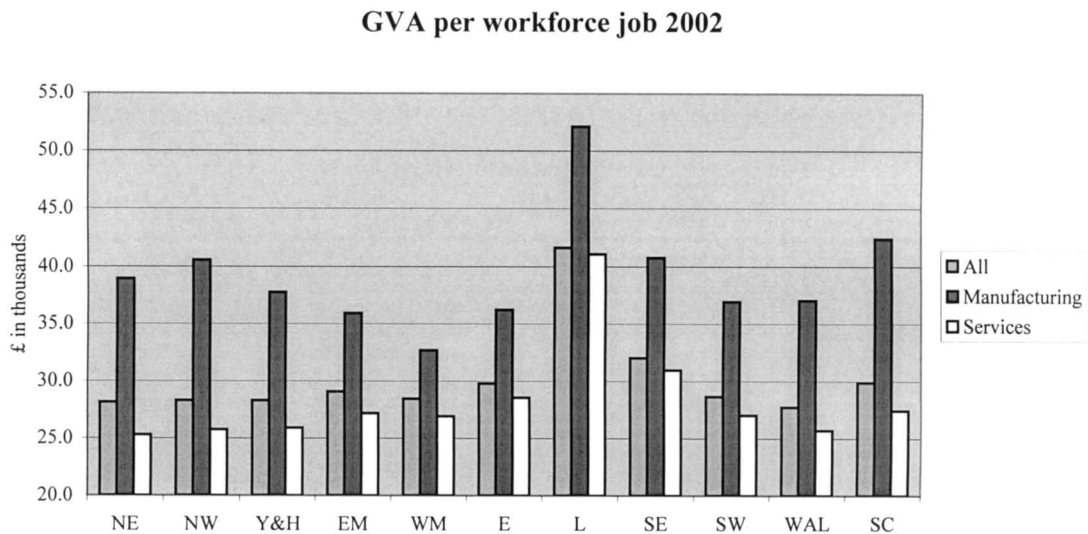
⁶¹ Most recent figures relate to 2004. Source: Stats Wales.

⁶² GVA (or GDP) per hour worked confirms that Wales is the least productive region in the UK with the exception of Northern Ireland.

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1. Low levels of business investment. This is partly the result of reduced flows of new inward investment into Wales and the loss of existing foreign investors to low cost economies overseas. In addition, the regulatory and tax burdens facing companies and the pensions deficit in the corporate sector has reduced the funds available for capital investment by indigenous firms
2. Poor transport infrastructure. Congested roads, poor rail links and lack of inter-modal freight options have raised business costs and constrained the introduction of productivity enhancing systems like 'just-in-time' delivery. Wales does not have one inch of electrified rail track and not one inch of motorway linking north and south.
3. Lack of investment in generic and technical skills, particularly managerial and leadership skills. Wales has a much higher share of low skilled people in the labour force compared with competitor regions in Europe.
4. Low levels of innovation, research and development and registered patents compared with the rest of the UK and other parts of Europe.

Many of these constraints to productivity growth apply to other UK regions but they are more problematic within Wales because the economy is much more dependent on manufacturing (and to some extent agriculture) than the rest of the UK. These are the sectors where low levels of capital investment and poor transport infrastructure can cause the most damage.

Figure 2

Source: DTI, Regional Competitiveness indicators, 2005.

Intra-regional variations within Wales are also dramatic. Current GDP per person in Cardiff and the Vale of Glamorgan is more than twice that in Anglesey. In general, the largest growth in GDP has been experienced in the large urban areas of Cardiff and Swansea. Objective 1 funding may have arrested further relative decline in West Wales and the Valleys, but it has not done much to close the GDP gap within Wales, let alone with the rest of the UK. Another key comparison is between Cardiff's GDP and that of competitor cities like Leeds and Edinburgh - even Cardiff it seems lacks the 'economic mass' to compete effectively with other UK regional capitals.

Business Growth

The development of a successful enterprise culture to increase the birth rate of new business was highlighted by the IWA in 1998.⁶³ In

⁶³ Brian Morgan and Kevin Morgan, 'Economic Development' in The National Assembly Agenda, IWA, 1998.

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the first two Assembly terms the principal policy vehicle designed to address this was the WDA's Entrepreneurship Action Plan. However, data from the Labour Force Survey show no significant difference in the overall rate of self employment between Wales and the UK which lies at about 12 per cent.

Table 1: Intra-regional GDP

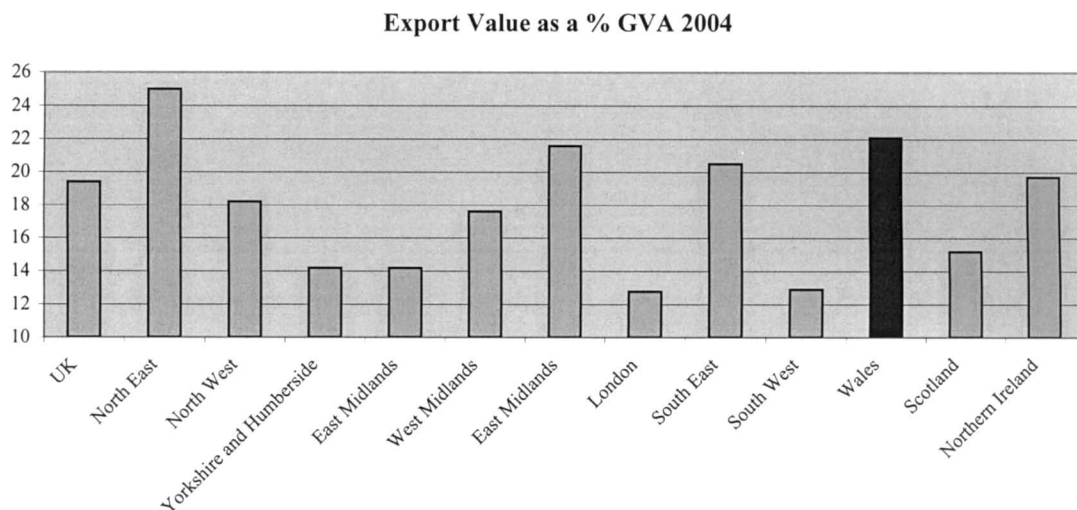
	1999		2003		% growth
	£ per head	Index	£ per head	Index	£ per head
Isle of Anglesey	6,865	51	8,747	54	27.41
Gwent Valleys	8,544	64	9,531	59	11.55
South West Wales	8,167	61	9,659	60	18.27
Conwy and Denbighshire	8,480	63	10,071	62	18.76
Central Valleys	8,607	64	10,486	65	21.83
West Wales and the Valleys	8,894	66	10,578	66	18.93
Bridgend and Neath Port Talbot	9,991	75	11,094	69	11.04
Gwynedd	8,967	67	11,820	73	31.82
Powys	10,108	76	12,459	77	23.26
Wales (average)	10,506	79	12,716	79	21.04
Swansea	10,590	79	13,507	84	27.54
Flintshire and Wrexham	13,489	101	15,384	95	14.05
Monmouthshire and Newport	13,091	98	15,503	96	18.42
East Wales	13,354	100	16,446	102	23.15
Cardiff and the Vale of Glamorgan	14,356	107	18,794	116	30.91

Source: Stats Wales.

Similarly, figures relating to VAT registrations (as a proportion of the existing stock) confirm the rate of business formation is lower in Wales than in all UK regions except Northern Ireland.

Recent evidence on entrepreneurship from the Global Entrepreneurship Monitor (see Figure 3) reveals that, whilst entrepreneurial activity in Wales increased in the period 2000-2003, it has declined during the last two years, particularly amongst women.⁶⁴ This suggests that after some initial growth, entrepreneurial activity may have found a natural 'level' as it has in the majority of European nations. This has considerable implications for enterprise policy in Wales because it suggests that, without further economic or fiscal stimuli, entrepreneurial activity may stay at this level for the foreseeable future.

Figure 3



Source: *Economic Trends*, August 2005.

Source: GEM (2005)

⁶⁴ Brooksbank, D. and Jones-Evans, D., Global Entrepreneurship Monitor for Wales Executive Report, National Entrepreneurship Observatory, 2006.

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Improving the productivity of indigenous businesses within Wales will be key to reducing the GDP gap. The Assembly's strategy has focused on its Innovation Action Plan which aims to support innovation in firms through, for example, the Technium network. However, there is no evidence that the Techniums are having an impact and the low level of innovation and research and development (as a percentage of Welsh GDP) remains a major barrier to increasing productivity. It is perhaps worth noting that the majority of structural funding support for innovation has gone to academic institutions rather than Welsh businesses. Low levels of innovation are predominantly the result of low levels of business investment in research and development rather than government investment.

Despite relative success in the 1980s and 1990s, it is becoming increasingly difficult to attract further rounds of foreign investment, given growing international competition and the movement away from manufacturing to services. While Wales gained nearly 20 per cent of the successful UK inward investment projects in manufacturing in 2001, the corresponding figure for non-manufacturing was less than three per cent.⁶⁵

Another way to increase GDP is to increase the total value of Welsh exports. Whilst the value of exports in Wales is small and accounts for only five per cent of the UK total as a proportion of GDP, the relative value of exports in Wales actually exceeds the UK average (see Figure 4). Moreover, statistics from the National Assembly also shows that export growth has been greater in Wales than the UK average since 2003.⁶⁶

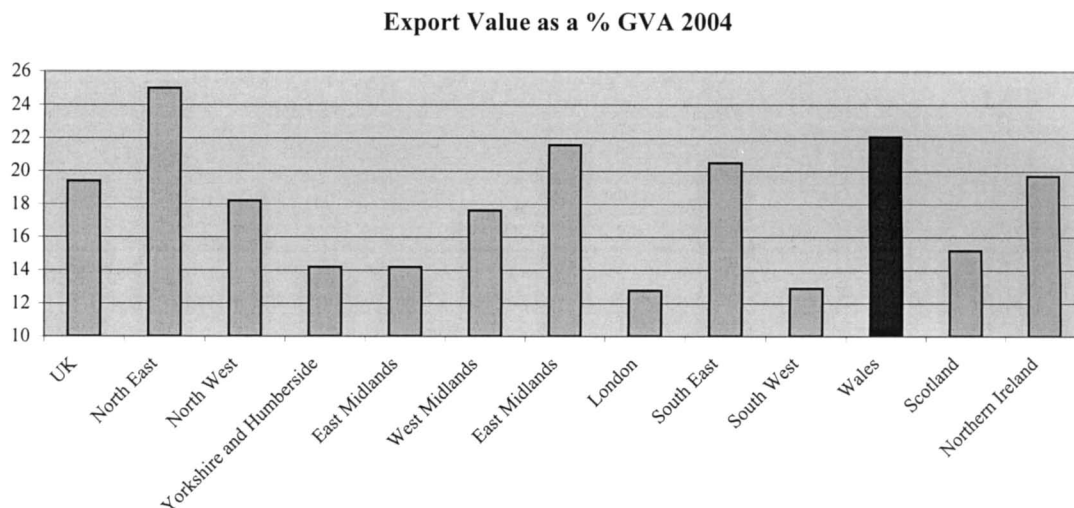
⁶⁵ Source: regional Trends, from invest UK, DTI, 2001/2.

⁶⁶ Source: Statistical Bulletin 2005. Welsh Exports.

However, it is important to note that energy and metals, the sectors that have experienced the strongest export growth, are not those being supported through Assembly Government programmes. This may suggest that traditional sectors where we still have critical mass – energy and metals – will need to feature more prominently in business support programmes if we are to achieve a step change in economic performance.

In assessing the contribution of Assembly policies to indigenous business growth there is a need for more robust, independent and honest evaluations of existing programmes. For example, policy evaluations are commissioned by the programme deliverer and then strongly edited before publication. Often the result is an anodyne document that makes it difficult for practitioners to learn from previous mistakes.

Figure 4



Source: *Economic Trends*, August 2005.

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Following the integration of the WDA into the Assembly it is particularly important that robust independent evaluations are commissioned to assess the policies emanating from the now renamed Department of Enterprise, Innovation and Networks.

Employment Trends

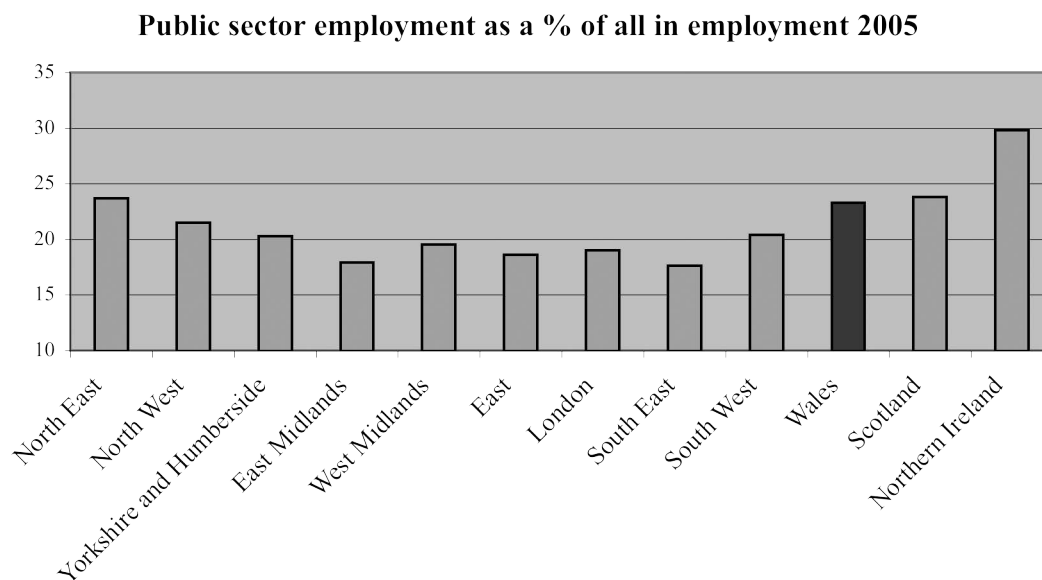
Since 1999 Wales appears to have enjoyed some success in terms of employment growth and there has been some convergence with the UK. Although this has largely been driven by increases in female employment, it does suggest the active policy measures (such as Pathways to Work) have had relative success. These will need to be sustained in the future.

However, despite increases in the employment rate, areas of high economic inactivity remain in the south Wales Valleys. Moreover, there is no evidence of a significant Objective 1 effect on employment compared with the rest of Wales - the rate of inactivity in 2003 remained at 30 per cent compared to a UK average of 21 per cent. Differences in long-term sickness have an important role to play and the inactivity rate for the disabled was 72 per cent in Wales compared with 64 per cent for the UK (2003).

Looking at the composition of employment across sectors, the decline in the share of employment in manufacturing has continued since 1999. In contrast, employment growth has been achieved in transport and communications, and in public administration, education and health.

In general, Wales continues to rely on a concentration of public sector employment (see Figure 5) and the impact of a large public sector on overall productivity in Wales remains a key question to address.

Figure 5



Source: Public Sector Employment Trends 2005, ONS and LFS.

A recent report by the Reform policy institute has compared these trends in public spending across the UK regions and produced some radical suggestions for policy:

"A series of key indicators show a clear and growing difference between dynamic regions ... the South East, and challenged regions"... such as Wales. In these challenged regions, the Report continues, "public sector employment represents a large share of total employment ... [and this has] become much more accentuated as a result of the recent unprecedented increases in public spending. Certain regions are, in effect, becoming client areas dependent on state employment and state funding:

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public spending-to-GVA ratio is 61 per cent in Northern Ireland, around 54 per cent in Wales and the North East, and 47 per cent in Scotland. It is around 29 per cent in the South East and East and 34 per cent in London.

The main solution is a general one – to allow the growth of a stronger private economy through slowing down the growth of public spending and lowering taxation. A low tax economy is the only route towards regional revival in the UK. But there could also be some value from improved transport links and through tax and regulation holidays to firms – including the self-employed – starting up in the regions. Better local councils, with an innovative and pro-business approach to local development, may be a key factor here.

The key changes would be to develop new public/private partnership for local enterprise; incentives to encourage more migration out of the South East by highly qualified young people; and an innovative and pro-business approach to local development on the part of local councils.”⁶⁷

Longer Term Trends

In considering challenges for the future, we highlight two key areas: the first highlights demographic changes whilst the second focuses on skill shortages and technological change.

⁶⁷ Reform, Whitehall's last colonies: Breaking the cycle of collectivisation in the UK regions, www.reform.co.uk, July 2006.

Demographics

Increases in life expectancy and declining birth rates raise concerns about the decline in working age population and the corresponding increase in the dependency ratio. Although over the past decade Wales has experienced net in-migration, this has been concentrated amongst those aged 45 to 64. Wales continues to lose individuals aged between 16-24. Moreover, recent research suggests that Wales has experienced a net brain drain, with more educated individuals emigrating to pursue opportunities elsewhere.⁶⁸

These trends are partly driven by the best students choosing to study at universities in England, and by differences in occupational structure meaning that Wales simply does not have enough good jobs to retain its talent. Hence the importance of the Assembly Government developing a strategy for attracting working age population and the encouragement and relocation of professional jobs back to Wales linked to the development of indigenous high quality business. It is noteworthy that both Ireland and Scotland have effective programmes in place to encourage their diasporas back to the homeland and to invest in it.

Skills and Structural Change

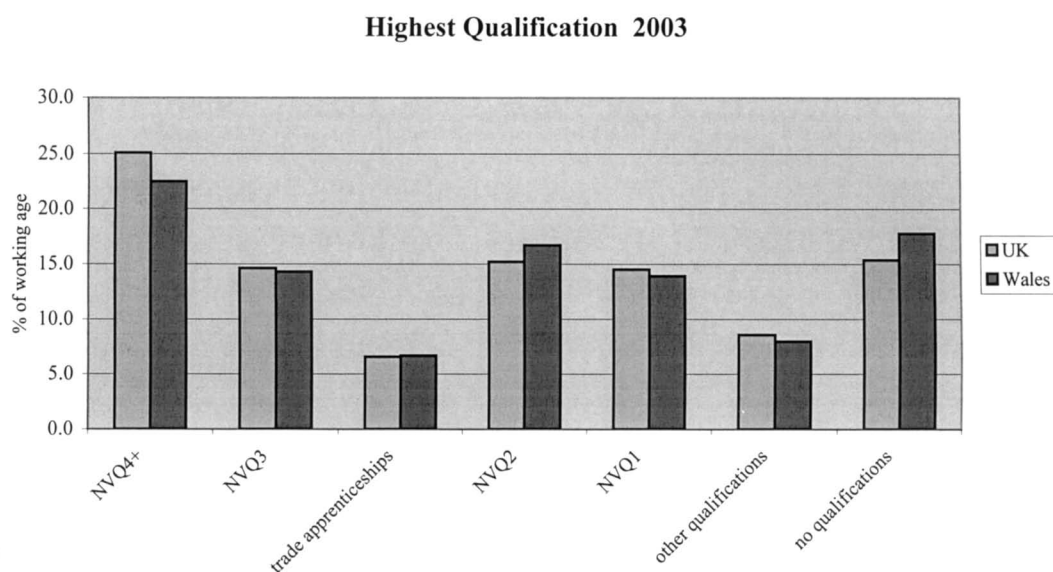
Trends in the composition of employment away from manufacturing and agriculture towards services are likely to continue. Technological change will reinforce the need for a substantially higher skilled labour

68 Drinkwater, S. and Blackaby, D., 'Migration and labour market differences: the case of Wales', IZA Discussion Paper No 1275, 2004.

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force, and the employment opportunities for the low skilled are likely to become even more scarce. Also, there is no reason to suppose that the growth of global trade and the competitive pressure on Wales from low cost providers in the newly industrialising world will relent. At present the occupational structure in Wales lacks managerial and professional employment relative to the rest of the UK. In part, this reflects the lack of head offices and high value added service sector companies. It could also be related to the lower level of qualifications in Wales: a higher proportion of the Welsh population have no qualifications and few have qualifications at the highest level, NVQ4 or higher (see Figure 6).

Figure 6



Source: Nomis, Local Labour Force Survey 2003.

The skills deficit in Wales is a major weakness and the prime cause of our lacklustre economic performance. Another instance is the relatively low percentage of the working population in Wales with degrees compared with the rest of the UK, though Wales did improve its relative position between 2001 and 2005 (see Table 2).

The Reform policy institute report, quoted earlier, draws attention to the importance of higher educational attainments, concluding:

"... there are significant challenges for regions like the North East and Wales to overcome if they are to catch up with regions like London and the South East. .. they suffer from a relatively low proportion of graduates and low productivity, which makes it difficult for these regions to show sustained high growth rates. Without a radical change in the investment and education patterns in these regions, they will continue to fall behind, and the inter-regional output gap will widen."

Table 2: Percentage of working population with degrees

	2001	2005
London	25.0	26.1
South East	17.8	20.5
Scotland	14.1	17.6
UK	15.2	17.6
East	14.4	17.5
South West	15.5	16.6
Wales	12.3	15.1
Northern Ireland	12.8	15.0
East Midlands	12.6	14.9
North West	12.9	14.8
West Midlands	11.9	14.8
Yorkshire and Humberside	12.2	14.5
North East	10.4	12.4

Source: ONS, Regional Trends 36, Table 4.12; Regional Trends 39, Table 4.10

Policy Options

A range of policy measures will be needed to address the prosperity gap and productivity shortfall in Wales. However, with the limited powers available to the Assembly, raising prosperity and productivity is not going to be easy.

Our analysis suggests that the Welsh economy remains overly dependent on the public sector and therefore, in order to raise prosperity, the Assembly needs to initiate radical change in the way the economy functions.

Success will require policy makers to be smarter and more innovative. If history has shown us anything, it is that the people of Wales can respond positively to change – we are used to mobilising behind radical ideas and changing with the times. Today, this mobilisation should focus on three things:

1. Mobilising Business Investment: Working more with the private sector to access capital and raise business investment.
2. Mobilising Infrastructure Investment: Developing public-private partnerships (PPP) to generate more investment in infrastructure.
3. Mobilising Talent: Incentivising the natural talent that exists in Wales and raising skill levels to more effectively tap into our rich seam of creativity and entrepreneurial activity.

Business Investment

(i) Business Rates and Regional Assistance

Although major tax breaks are not an available policy instrument, it might still be possible to create incentives for businesses to reinvest profits to promote innovation and support future growth. This could involve targeting RSA grants and local Business Rates on further investment to ensure that profits are ploughed back into business growth. For example, Non-Domestic Rates (the Uniform Business Rate) raise almost £750m per annum in Wales. Part of this could be targeted on growth businesses, so that businesses that succeed in expanding sales revenues by, say 20 per cent, will be eligible for 50 per cent reduction in the rates they pay.

Companies must be encouraged to make profits and to re-invest these in Wales. This is a prime mechanism for boosting business investment and hence productivity. The Assembly Government has few levers of economic power but everything it does should be focused on supporting those companies that reinvest their profits in the Welsh economy. In this way, without having to identify growth sectors, the Assembly could reward successful companies and encourage innovation and research. Other policy tools such as Regional Assistance could support this by being focused away from just safeguarding jobs to encouraging further capital investment. This may take the form of incentives to invest in skills or product and process innovation.

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The key policy options for the Assembly Government to mobilise investment: use RSA and Rate rebates to incentivise successful Welsh businesses to invest for growth.

(ii) Reducing Red Tape

To reinforce the message that the Assembly Government is committed to supporting business growth, it should commit to reducing the proliferation of rules and regulations that currently stifle the SME sector. Companies in Wales are rightly annoyed about the seemingly endless stream of new regulations that flow unchecked from Brussels, Whitehall and now Cardiff. If this is allowed to proceed it will make Wales one of the most expensive places in Europe to do business. There is also growing evidence that productivity is adversely affected by excessive red tape in highly regulated economies.⁶⁹

The Assembly Government can do four things to remedy the situation:

- Start the deregulation process off by announcing that they will not introduce any new regulation – whether from Cardiff, Whitehall or Brussels - until they have identified and abolished an existing directive.
- Commit to an overall reduction in red tape by working closely with the Better Regulation Task Force, to measure the administrative burden that government regulations impose on firms and agree to reduce these costs by a fixed percentage each year.

⁶⁹ 'Regulation, Competition and Productivity Convergence', OECD Economics Dept Working Paper No. 509, September 2006.

- implement the recommendations of the Hampton Review⁷⁰, and merge the plethora of government inspection agencies in Wales into larger bodies.
- Use its new powers to force inspection agencies to develop a risk-based approach to inspections: that is, well-behaved firms would be inspected less often than those who have a record of breaking the rules.

By introducing a more flexible, risk-based approach to the problem, the regulatory outcomes need not be adversely affected and successful SMEs in Wales can then invest more time and resource into finding, winning and keeping customers.

(iii) Financing Company Expansions

Equity guarantee schemes could be an important additional support mechanism to sustain growth and could be linked to the reinvestment of profits through greater involvement of venture capital firms. These guarantees would seek to encourage companies in Wales to harness investment finance from the private equity sector and reduce their dependence on debt finance. In addition to lower debt servicing costs, private equity companies inject higher managerial and strategic skills into SMEs to ensure that a healthy return is made on capital invested. The outcome of this process is to give companies the best chance to become more efficiently managed, expand, and survive in a competitive environment.

⁷⁰ HM Treasury, Hampton Review of regulatory inspections and inforcement, Pre-Budget Report, March 2005.

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Finance Wales operates in this area and although it has brought some improvements in the availability of finance, there are several reservations concerning its ability to deliver. Venture capital exists at the sharp end of the private sector, and it requires a different set of transactional skills from that normally found in a publicly-funded agency.

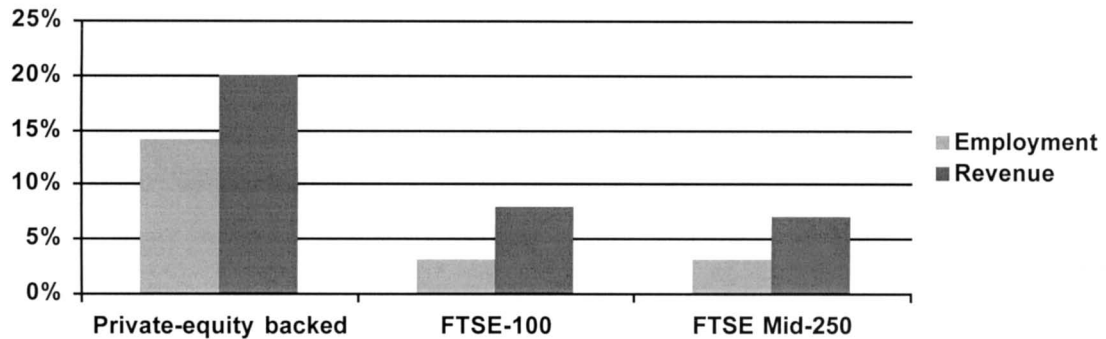
We need to attract professional private equity firms from the UK financial sector to invest in Welsh growth companies. In particular, Welsh business needs access to the discipline of venture capital funds, while the more mature medium-sized companies may require access to specialist debt products – the very opposite of grant dependency.

Harnessing investment finance from the private equity sector has longer-term benefits because equity investors seek out winners, and supports them with contacts and management, as well as technical and strategic advice. The outcome of this investment discipline is to give companies the best chance to become more efficiently managed, expand, and survive in a competitive environment.

The statistics shown in Figure 7 on the following page highlight sales revenue growth by private equity-backed companies of 20 per cent during 2000-05, twice the rate of non-backed companies. Additionally, private equity-backed companies increased employment. Equity investors do not go into an investment to create jobs, but the conclusion is that their activities do, in fact, create jobs faster than other investors (including the public sector).

To stimulate the flow of external capital into Welsh business, the Assembly Government should consider the following policy options:

Figure 7: Differential firm growth by sector between 2000-05 show that private-equity backed companies grow faster.



Source: BVCA, 2006, data on growth rates 2000-05.

- Task Finance Wales or International Business Wales to match fledgling companies to specialist funding houses and undertake regular formal investor road-shows of Welsh companies in the major financial centres.
- Set-up a Welsh Investment Fund or Venture Capital Trust for established businesses with either their headquarters (national or regional) or research and development function in Wales. These funds could offer tax-incentives to Wales-based investors, including the retired population. Such a fund could be linked to financing the formation of an asset management sector in Wales to attract financial talent and expertise – perhaps linked into a strategy to encourage the Welsh diaspora to become more directly involved in the economy.

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- And, in a more radical step: either limit Finance Wales's scope to smaller firms so that it can then develop a proper focus, or spin out Finance Wales. The benefits would be to reduce the chances of political interference in Finance Wales, and it might incentivise the partners to produce better returns on investment.

(iv) Developing the Financial Services Sector

This sector could provide significant employment opportunities. Small-scale wealth management hedge funds could be a key sector where Wales could develop an edge. With Europe's pension deficits, and increased investor liquidity, this will be a high growth area for the foreseeable future and expertise exists at Welsh universities to support its development.

Asset managers are not tied to any particular international financial centre and have the ability to relocate to more attractive environments. Indeed, the lifestyle-friendly bias of asset managers could be a key selling point for relocating to Wales. Additionally, these firms would require professional services from accountants, lawyers, IT support and so forth, in addition to "back-office" financial services, such as processing, where Wales already has a good track record. Assembly Government policy options to mobilise the financial services sector would be:

- Build a small-scale financial centre to attract boutique hedge/asset managers and provide common support services.
- Market Cardiff as a lifestyle location to hedge funds and smaller asset managers.

Infrastructure Investment

(i) **PPP / PFI opportunities:** Modern PPP schemes (Public Private Partnerships) are refinements of PFI (Private Finance Initiative) by which the Government gets the private sector to raise the money, design and build some public asset and then operate and maintain it. The main attraction is that PPP allows the Government to undertake additional investment in public sector assets without coming up against troublesome borrowing constraints.

Most of the policy proposals discussed in this book will require significant capital investment but the budget constraints facing the Assembly Government mean that it is unable to invest in these options on the scale and in the time frame needed to create a step change in the pace of economic development.

PPP is now used widely across the EU to replenish public infrastructure and it offers one route forward for the Assembly Government to support both infrastructure investment and business growth:

- It provides access to capital which might not otherwise be found in the public purse and frees up funds for other public needs.
- It lessens the burden of direct management of the physical infrastructure on the public sector.
- It provides greater certainty for the public sector that services will be delivered to a specified standard.
- It provides a long term focus on whole life cost.

Essentially PPP introduces private sector efficiency and management

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skills into the public sector environment. In theory, users receive better service delivery, and tax-payers no longer subsidise inefficient infrastructure delivery.

At present, Wales is the smallest user of PFI, with £600m (or 1.3 per cent of the UK total) spread over 39 projects. Scotland has five times the capital, and Northern Ireland also makes more use of PFI. A key question is the extent to which greater use of modern PPP schemes will allow more infrastructure investment that will boost relative GDP. There has been a reluctance by the Assembly Government to interact with PFI, perhaps because some of the early PFI schemes were poorly structured. Also, many participants were left disillusioned by the bid costs and protracted legal negotiations. However many of these problems have been addressed, and for those still worried about the political correctness of PPP the following equations offer a way forward. In general:

$$\mathbf{PPP = Design + Build + Finance + Operate}$$

However, the Assembly Government could develop and organise a 'Welsh PPP' that replaces some of the 'plus' signs with a 'negative'. For example:

$$\mathbf{Welsh\ PPP = Design + Build - (minus)Finance - or (minus)Operate}$$

That is to say, the private sector could be invited to design, build and operate the scheme without financing it or design, build, finance and NOT operate it - or any other combination that the Assembly Government felt attractive and deliverable.

Another innovation for a Welsh PPP would be for the Assembly Government to re-package these projects into smaller bundles that would be more attractive and more manageable for smaller Welsh companies.

PPP is an option not an obligation and is only one of a number of procurement options that the Government can use to invest in public services. The Assembly Government should only use PPP where it can be shown to deliver value for money and does not come at the expense of the terms and conditions of employees. A Welsh PPP should be based on best international practice for the type and scale of projects that are appropriate for Wales.

The vast majority (90 per cent) of public investment in the UK remains conventionally procured: PPP represents only 10 per cent of public investment. However, PPP is now very flexible and can be structured to accommodate different aims. It is increasingly being used where it is most appropriate and where value for money can be demonstrated based on clear criteria. Our Celtic cousins have been far more analytical in their approach to the use of PPP as a procurement option when faced with the need for major capital investment across the entire spectrum of economic development.

For example, in 2003 Northern Ireland established the Strategic Investment Board to develop a ten-year programme setting out capital investment plans until 2015 across a full range of government activities, such as education, health, transport and water. Not all of this will be financed through PFI but many of the larger projects will. Similarly, in 2000 the Irish Republic established the National Development Plan worth Euro 57 billion. This was an ambitious

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investment strategy for public, private and EU funds targeted on education, roads, public transport, health, social housing, water and waste services. The plan has already allowed the Borders, Midland and West Region of Ireland to benefit from a massive concentration of resources, integrating EU, national and regional funding.

There are significant areas of expenditure in the Assembly Government's budget which could be similarly ring-fenced to create critical mass. These strategic initiatives highlight the need for an assessment of the future development of infrastructure across Wales and the Assembly Government should actively explore access to international capital markets as one means of financing it.

Most Welsh projects are currently in hospitals, schools and roads but many infrastructure PPP projects in England have been developed in other areas of specific interest to Wales. For example:

- Waste management: 23 projects, £1,258m of capital value
- Social housing: 13 projects, £630m.
- ICT: 81 projects, £4,126m (this could be used to mobilise innovation as well as regional development).
- Leisure and Culture: 9 projects, £122m.

An important policy option would be for the Assembly Government to target the UK national average for PFI – currently 10 per cent of expenditure. The aim would be to encourage investment in areas which would add specific value to Welsh infrastructure and where there is an immediate investment need. Examples include social housing, energy and integrated transport networks:

a) Stock Transfer

Stock transfer organisations are Registered Social landlords - mostly housing associations or community mutuals - regulated by the Assembly Government. They are 'not for profit' independent social businesses that are able to borrow money from the private sector and are expected to plough back all surpluses into delivering services to the local community. To ensure that these goals are achieved they are accountable to a board that is made up of one third tenants, one third councillors and one third independent representatives.

A PPP that facilitated stock transfer of houses to new social landlords could be used to refurbish homes and maintain them while receiving the rents. The potential for stock transfer across Wales is substantial. For example, the Assembly Government estimates that around £4 billion is needed to bring the 160,000 council houses in Wales up to the Welsh Housing Quality Standard at an average cost per dwelling to 2012 of £11,000. To fund this and achieve the quality standard, stock transfer via a PPP is the only viable option.

At present Valleys to Coast in Bridgend is the only Large Scale Voluntary Transfer organisation in Wales. It was set up in 2003 and it has spent £27m on major repairs and improvements and a further £16m on bringing empty properties back to use. It has a stock of 7,500 homes and has an agreement with suppliers and contractors that over 75 per cent of all labour employed in refurbishment programmes will be drawn from the county borough. If a PPP can be set up along the lines of Valleys to Coast to raise the capital for housing renewal and deliver the improvements needed to meet

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housing quality standards then the potential for stock transfer to regenerate communities and assist economic development is considerable.⁷¹

b) Severn Barrage

A Severn Barrage, calculated to produce six per cent of the UK's energy needs, would be a renewable energy source as well as a focus for regional economic development. There is potential for it to be supported via PPP. Though the costs and benefits of the Barrage are open to debate, it is not the case that renewable energy developments on this scale necessarily lead to environmental degradation. This is especially so when viewed against the option of doing nothing and allowing global warming to continue apace. The Barrage will be controversial but a number of factors should be borne in mind:

- The Barrage will permanently affect environmental ecosystems but so will the predicted rise in sea levels and storm surges over the next century. These will inevitably change existing ecosystems in various ways so a well-designed Barrage could optimise future arrangements. For instance, the Barrage will slow down the Severn current and make it easier for birds to find fish so the net result need not be less bird life.

⁷¹ See also *The Future of Social Housing*, IWA, March 2006, One of its recommendations was that a new housing finance company should be established to raise the £3 billion that is needed to bring Welsh council housing up to standard. The new company could raise the money at favourable interest rates from the UK and European capital markets, using the asset-based financing market route already pioneered in Wales by Welsh Water. Its not-for-profit parent company Glas Cymru has secured some £3 billion for funding for the water sector on extremely attractive terms. If this precedent were followed for council housing, using the property as the asset guarantee, there would be enormous potential for economic regeneration.

- The Barrage opens up the opportunity for carrying road and rail transport infrastructures that have European importance (the TENS network). It offers the prospect of reducing the peripherality of Ireland as well as radically reducing travel times between south Wales and the Continent – bringing them closer to those planned in relation to the English regions and the Channel Tunnel. This has positive implications for the competitiveness of Welsh business.
- Other possible technologies such as tidal lagoons do not offer transport opportunities but these could be built *as well as* the Barrage. They are not mutually exclusive policy options. The Barrage could become a big ‘sustainability’ icon if it supported a rail transport network operated by tidally generated electricity.
- A Barrage would result in a massive bounded area of water that could be used to catalyse development of a new metropolis on the west coast of Europe – outside the ‘Golden Triangle’. The Assembly Government could play a major part in ensuring it becomes a model for ‘sustainable urban development’. A Severnside ‘Atlantic Gateway’ would reduce the pressure to develop the ‘Thames Gateway’ with all its attendant environmental problems – particularly water supply and traffic congestion – and reduce or avoid the adverse impact it would have on Wales’s access to the European market.

The Severn Barrage is a unique opportunity for Wales and it would also open up Cardiff International Airport to a much wider catchment area. This could be linked into other investments in airport terminals and runway extensions that would create a truly international airport for Wales with an expanded list of destinations.

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The two together - the Barrage and the airport - could act as important symbols of a modern Wales. At the same time the environmental problems associated with airport development should be acknowledged, problems that are highlighted in the following chapter.

c) North-South Links

Investment in North-South links will be an important factor in galvanising and integrating the Welsh economy around development options linked to city-regions. The road option should include widening the A470 for two or three mile stretches at key sections along with by-passes for major congestion points.⁷² The rail option will require partnership with Network Rail and Arriva Trains to bring forward investment in infrastructure and rolling stock.

Infrastructure improvements to reduce the north-south divide in Wales are long overdue. The Assembly Government's response to this issue (and other infrastructure developments like the Barrage) will determine whether in the future we can really talk about a 'bold and confident nation'.

Supporting or enhancing the concept of 'nationhood' in Wales may require bold investments that are controversial on purely economic grounds.

⁷² This was first proposed in the IWA report, *Uniting the Nation*, 1999, which commissioned consultants to undertake a comprehensive survey of the main road links between north and south Wales.

City Regions

The interaction between city and region has a key influence on competitiveness. Cities augment regions through the provision of such facilities as transport hubs, universities, financial service institutions and higher value businesses, higher paid jobs, as well as cultural and leisure facilities.

But cities in turn rely on regions for a wide range of amenities. In particular, they provide space for regional airports, for a wider range of urban and rural housing options, business parks and industrial premises, and they make available a wider skills base to organisations in the city, as well as affording niche retail experiences and rural leisure opportunities. In this way linked closely together they can offer a much more varied and competitive business and tourism product than either could provide alone.

The key arguments in favour of city regions are well set out in the recent papers from the Core City Network and can be summarised:

- In other advanced countries the major regional cities have significantly stronger economies and act as 'motors of growth for their regions'.
- Continental cities have responsibilities for a wider range of functions which affect their economic competitiveness than do their English counterparts; this combination of powers and resources seems to make continental cities 'more proactive, more entrepreneurial and probably more competitive'.

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- Successful urban regions have successful cities at their core, hence the 'core cities' in England are being encouraged to re-connect with their economic hinterlands.⁷³

To achieve the most from the city-region concept in Wales the Assembly Government should focus attention on the following:

- Building up the institutional capacity of areas surrounding Cardiff, Newport, Swansea and Wrexham to enable them to implement *regional strategies* in sectors that offer the greatest number of opportunities for harnessing economies of scale: for example, waste management, integrated transport facilities and housing policy.
- This will require more public and private investment within areas close to large urban populations to address the key problems of economic inactivity and low skill sets. It will also require better links, in both policy and physical terms, between the hinterland areas of Wales and the city-regions. This approach will be necessary to harness more of the agglomeration economies that can enhance productivity.
- Enhanced transport networks into cities will help harness spillover benefits from commuting flows – currently the largest inflow is into Cardiff and Newport from surrounding areas.

However, infrastructure developments will need to go beyond transport and communication networks towards developing an attractive business environment where individuals will want to relocate

⁷³ For a discussion of these issues in the Welsh context see Kevin Morgan, *The Challenge of Polycentric Planning: Cardiff as a Capital City Region*, Papers in Planning Research 185, School of City and Regional Planning, Cardiff University, 2006.

and work. This highlights the importance of integrated policy development across other areas from housing and education to the environment and leisure.

Capitalising on Demographic and Social Changes

Although changing demographic profiles can have a negative impact on health care provision and other areas, anticipating these changes, and to some extent influencing these trends, presents exploitable opportunities for growth.

- These would include encouraging investment in businesses that will be able to meet the new demands for products and services generated by demographic changes. For example, the median age of the Welsh population in 2012 will be around 56 and there will be a large increase in the number of single person households.
- These trends will have implications across many policy areas including food policy and agriculture. Farmland will be progressively wound down and farmers will require incentives to reinvent themselves to take advantage of new opportunities.
- More leisure time will provide tourism opportunities – many parts of Wales are only a two-hour drive or rail journey from large centres of population and are in a good position to offer activity holidays including 'extreme sports'.

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- The increasing awareness of the negative environmental impact of long haul flights will make Wales a very attractive option for short breaks. To capitalise on these trends and the increasing interest in environmental issues Wales could develop PPP schemes in areas that highlight environment and ecology, health and well-being, and culture, creativity and heritage.

A useful way forward would be to develop a list of future prospects that offer the possibility of harnessing these opportunities and targeting resources to generate critical mass in these key areas of future growth. Partnerships with private sector companies wishing to invest in these targeted areas will be an important way forward.

Mobilising Talent

Developing, retaining and attracting talent: Despite a range of recent policy initiatives to improve educational standards, average attainment levels in Wales remain below other parts of the UK and the skills deficit remains a key policy challenge. This is highlighted by the concentration of economic inactivity amongst those with no formal qualifications.

It is therefore vitally important to attract disillusioned young people out of the 'Not in Education, Employment or Training' group and reduce future inflows. The economic cost of this group within the 16 to 18 age range include forgone earnings, educational underachievement

and the mental scarring that may occur from a period of non employment.⁷⁴ In addition, the wider macroeconomic and intergenerational effects may be equally significant - young people from workless households with low skilled parents are most likely to enter the 'Not in Education, Employment or Training' group.⁷⁵

Improving the educational level of individuals entering the workforce is probably the most important challenge facing Wales and it may require precedence over other claims to the public purse. Ireland virtually starved other sectors to give priority to skills development during the 1990s and we may need to do the same today. Indeed, if the third term focused on only three things – Education, Education, Education! – and really put some resource into it then its long term success would be assured.

Education and skills are so important that it is worth considering a wider range of actions to raise average qualification levels. These would include introducing incentives for undertaking job-related training and retraining for those out of work. In addition, given the important link between skills and migration, other initiatives aimed at retaining and attracting talented individuals to work in Wales must be developed. Whilst demand side policies, in creating appropriate opportunities for highly skilled individuals are important, simultaneous initiatives on supply side such as existing Scottish and Irish policies to attract their diaspora should be undertaken.

74 Godfrey C, Hutton S, Bradshaw J, Coles B, Craig G and Johnson J., Estimating the Cost of Being 'Not in Education, Employment or Training' at Age 16-18, Department for Education and Skills, Research Report No 346, 2002.

75 Rennison J, Maguire S, Middleton S and Ashworth K., 'Young People not in Education, Employment or Training': Evidence from the Education Maintenance Allowance Pilots Database, Department for Education and Skills, Research Report No 628, 2005.

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Wales's greatest export, for too long, has been our talented young people. We invest significant resources in educating talented people who subsequently emigrate. It is time to bring the talent home. This is being addressed to some extent through the Department of Enterprise, Innovation and Networks's 'Routes' programme to keep in touch with Welsh graduates. However, we need to bring home more experienced business talent, who can make a more immediate impact on the economy. These are people in mid-career and at the top of their game, who could be offered incentives to return to Wales. Packaged relocation and active head-hunting of Welsh ex-pats can swing the balance between obtaining a talented, worldly and motivated individual and having to recruit from a much smaller pool.

Additionally, Wales needs to attract non-Welsh talent. There has been far too much negative copy written about Polish waiters and Czech plumbers, when these workers are adding great value to our economy. However, the Assembly Government needs to better target recruitment campaigns abroad to attract well-qualified non-Welsh workers. (Scottish Enterprise currently advertises at London airports to encourage East European migrants to visit and work in Scotland.) Ensuring that these migrant workers stay is another issue, and the Assembly Government should consider developing a Welsh citizenship course as a means of ensuring that inward talent builds a deeper sense of identity with Wales.

Training the talent we have is perhaps the most important factor of all. From our review, there is a gap in formal business and management training, particularly for younger managers and entrepreneurs. Bespoke development programmes are needed which engage participants in the complex challenge of leadership. For example, the

DTI has recently identified three things which need to be addressed in terms of the graduates of tomorrow. These were entrepreneurial skills, fundamental management skills, and the development of leaders. The report highlights a key task for universities (and business schools in particular) in preparing and developing people for these roles – calling for greater focus on soft skills, interpersonal skills and practical management skills. The report concludes that excellence in leadership and management are essential to provide strategic direction for organisations - particularly SMEs.⁷⁶

Policy options for mobilising talent should be:

- Expand the current Routes database to track and build serious links with Welsh business talent over-30, supported by an active head-hunting policy of successful Welsh ex-pats.
- Initiate recruitment drive in key sectors within Emerging European states
- Develop leadership skills and co-ordinate current range of business and management education to ensure that courses are standardised, of comparable quality to best of breed, and are available throughout Wales.
- Further develop the 'GlobalWales Database' that has been pioneered by the IWA to provide a worldwide list of Welsh business and industry contacts around the world.

⁷⁶ Leadership and Management Advisory Panel: Summary Report, DTI, May 2006.

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Entrepreneurship

In mobilising business investment and infrastructure we have highlighted mainly supply side issues but there are also demand factors to take into account. New and existing businesses must be made 'investment ready' and be in a position to successfully apply for equity finance. In relation to new start-ups this will involve 'mobilising ideas' because Wales appears to have a cultural problem in the area of entrepreneurship: business issues are not appropriately addressed by educational institutions from primary to tertiary level.

This is borne out at school age by widespread ignorance of business as a force for national development. There are few role-model business leaders and it is unsurprising that entrepreneurial levels in Wales are below the UK average. There is a subsequent lack of wealth creation and the economy and employment are strongly dependent on the public sector. Even the long-running Young Enterprise scheme has failed to correct the effects of this damaging bias over the long term.

At the tertiary level, it is has become clear that Welsh university colleges do not engage as fully as their UK counterparts with exploitation of intellectual capital, which is shown in the relatively low number of patent applications filed by Welsh institutions (with one university accounting for the bulk of existing applications). The latest available figures for patent applications filed show that Wales has the lowest number of applications of any UK region, and a below average conversion rate to granted patents. A similar story exists in licence agreements.⁷⁷ Welsh academics as wealth creators are punching below their weight.

⁷⁷ Source: UK HEI-BCI survey, 2005, data for 2002-03.

This leads us to concerns about the uneven impact of the various Technology or Knowledge Transfer Offices in the universities. This was reiterated in a recent Higher Education Funding Council-sponsored survey, where the tertiary institutions were asked how many full-time staff they had supporting external links with the commercial, social, cultural and public sector communities. The study showed that Welsh HE institutions had just 31 per cent of such staff specifically facing the commercial sector, against 52 per cent in Scotland, 56 per cent in England and 71 per cent in Northern Ireland.⁷⁸

There also appears to be a substantial gap between knowledge development and bringing the ideas to market. Wales needs to embed innovation in the broader economy. The Technium concept is still in its infancy but it needs to be focused more on capturing the existing ideas within university research departments and transforming this intellectual capital into its financial equivalent. Of course, there is the Wales Spin-Out programme, sponsored by Finance Wales, but as with our commentary in 'mobilising capital' above, if we are to mobilise highly specialist and technical ideas, then specialist expertise will be required, and this is more likely than not to lie outside our borders.

Successfully engaging business is benefiting many English universities, the most notable example being the Gates endowment to Cambridge University and the recent Oxford University link-up with a private equity fund. Similarly the ongoing expansion of Imperial College is being enabled by private funds and the tradition has been taken much further in America. This illustrates how academic institutions are engaging with the private sector without detriment to their core aim: the production and dissemination of knowledge.

⁷⁸ Ibid.

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Finally, we address the issue of clustering. Although it is difficult to pick winners, emerging trends suggest that certain technology areas, such as IT, biotechnology, and environmental services, are likely to experience higher growth rates than the mainstream economy. It is our contention that the policy of the Assembly Government should be to provide the framework – including seed capital – to support these business clusters. Small-scale funding across all sectors, such as RSA, will only result in a safety net mentality which will translate into long-term failure. Successful economies are flexible dynamic economies with high rates of ‘churn’ (high rates of start-up alongside high failure rates). Support policies will have to allow weak or unviable businesses to wither in order to better support successful developments.

We propose a concentration of effort that diverts piecemeal funds to larger strategic aims, thereby enabling research and development in environmental fields and properly developing a limited number of clusters based around established research hubs. Many research facilities in Wales are well placed to commercialise their knowledge with a step-change funding.

Policy initiatives to promote these ideas would include:

- Twin each secondary school with a local business-person, who can inspire pupils and also provide advice or mentoring to the school's management.
- The Department of Enterprise, Innovation and Networks should formally partner selected university departments with venture capital-private equity houses operating in their specific area, as a means to identify viable ideas and develop them to market.

- Promote an active policy of focused clustering to attract start-up and established businesses, providing assistance to these clusters in the form of seed capital, advice and the provision of infrastructure.
- The Assembly Government should fund two university chairs (with subsidiary research staff funding) for established internationally-renowned, academic star performers in research areas related to target industries and geographically based in or near the clusters.

The Creative Sector

To support technological clusters we have a strong creative sector in Wales which has a major role to play in sustaining entrepreneurship through the design, marketing and branding of successful products. Rural arts centres and other centres of creativity can forge key partnerships to contribute to economic regeneration in many of the areas highlighted above. For example:

- ***Social regeneration*** The creative industries can provide routes back into training for disaffected and disadvantaged people (see discussion of those 'Not in Education, Employment or Training' above). Wales has a number of very experienced groups working in the arts and social regeneration that can build capacity to reduce inactivity.

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- **Cultural tourism** The creative economy, especially in areas such as new media, music, design and fashion, can provide links into cultural tourism that could develop this sector into a major growth pole. This could be supported by the integrated scheduling and marketing of Festivals across Wales, linked into City-regional strategies. For example, Hay Literature, Brecon Jazz, Cardiff Singer of the World, and Artes Mundi could be coordinated and marketed in the south. In the same way, Faenol and the Llangollen International Festival could be linked together in the north. Ideally, tourists coming to Wales could be guaranteed tickets to the festivals. Through re-scheduling and improved marketing considerable impact could be achieved relatively easily.
- **International links** Closer partnership between the cultural sector and International Business Wales could build markets for the export of cultural product as well as other trade links. Wales Arts International linked to Visiting Arts in London could help to build networks across the UK as well as internationally. This concept could be cemented if cultural organisations specifically addressed the tourism agenda. At present, many of the 'theatre-in-education' companies only perform during school terms. They need to be incentivised to provide product for peak tourism times to show case Wales to international tourists while the programmes could also be linked with accommodation to provide short courses and activity holidays.

Conclusions

Despite some success in raising the employment rate, the experience during the first two terms of the Assembly has highlighted just how difficult is the challenge to raise GDP per head relative to the UK average. The differences between Wales and the rest of the UK and also within Wales will remain key challenges for policy development far beyond the third term of the Assembly.

The analysis in this chapter identifies the productivity lag as a key component of the GDP gap. Future policy should address this by focusing on providing an economic climate within Wales where high growth, high productivity business can find both the skills and financial resources needed to expand, coupled with the infrastructure to support their growth.

Many of the challenges identified will continue far beyond the next term and policy development in terms of infrastructure and incentives for business will take time to impact on Welsh economy.

Finally, economic policy should not be considered in isolation. It needs to take into account significant environmental and technological changes and, similarly economic changes will have a significant impact on a range of social issues and other policy areas.

Chapter 5

Environment, Energy and Transport

In addressing these three broad policy themes a fundamental dilemma opens up at the heart of policy-making, one that will confront governments throughout the world during the next five years. There will be conflicts between technological optimism and economic competitiveness on one hand, and the precautionary principle and long term goals on the other.

Energy and transport are two policy issues that are caught between short-term, local political pressures to protect jobs and increase economic growth, and a long-term imperative to protect the local and global environments that ultimately sustain our economies and communities. Another key driver of these conflicts, economic development, is covered in chapter 4, and the reader must decide whether proposals made there help resolve or exacerbate this dilemma.

The policy challenge is demonstrated clearly when considering our response to what is widely acknowledged to be the greatest threat to society and the planet: climate change. A recent Met Office report, *Avoiding Dangerous Climate Change*, warns that we must take action on carbon emissions immediately.⁷⁹

79 Department of Environment, Food and Rural Affairs (Defra): report of a symposium held in Exeter in February 2005, published in May 2005.

At a global level, carbon emissions are growing by around 1.9 per cent a year, while on current trends the Assembly Government's target of a 20 per cent cut in carbon dioxide by 2020 will be missed. Transport and energy are major contributors to carbon emissions. By 2015 we need to reduce them by three per cent every year. Without this it may be too late to avoid irreversible global warming and its catastrophic consequences.

The dilemmas and conflicts identified above force us to consider whether we should retain our current unsustainable economic model, or whether we should reduce our emissions substantially, even if growth is compromised. Should we do what is 'politically acceptable' within the four to five year electoral cycle, or attempt to gain consensus for radical changes based around 50-year projections?

Although the three policy themes have some crucial areas of intersection regarding emissions, global warming, resource consumption and land use, each has a range of very specific issues and policy options that the Assembly Government must consider in the future. This chapter will outline the key environmental, energy and transport challenges for Wales, and particularly how we can combat climate change by developing a less carbon intensive economy and society.

We start with a brief analysis of the policies adopted by administrations in the first two terms leading to the current situation, then offer options for the Third Term to address immediate as well as longer term objectives.

The Policy Inheritance

The policy context for environment, energy and transport is set by the Assembly Government's Sustainable Development Scheme *Starting to Live Differently* in conjunction with *The Sustainable Development Action Plan, Wales: A Better Country* and the *Spatial Plan* for Wales. In many ways the Assembly Government led the way in understanding the role of governments in sustainable development. What has been lacking is the courage to turn policy into practice.

Although environmental policy is a largely devolved matter, policy initiatives exclusive to Wales were limited in scope in the early years of the Assembly. The requirements of the Habitats Directive and the Countryside and Rights of Way Act were interpreted into policy, and agriculture waste and energy policy decisions had implications for the natural environment. In May 2006, the first Environment Strategy was published providing a framework within which to achieve an environment which is "clean, healthy, biologically diverse" and which prioritises action on climate change.

The strategy was developed through an extensive consultation process in partnership with key stakeholders, and was widely welcomed. The strategy goes beyond the traditional waste and nature issues, identifying the environment as a key asset underpinning our health, our economy and our quality of life, but concerns remain that other government functions (such as transport and economic development) will undermine its effectiveness.

While responsibility for energy policy is reserved to the Department of Trade and Industry in Whitehall, a number of areas relating to energy

policy are devolved to Wales. Amongst these are support for innovation, planning (apart from power station consents over 50Mw) and control of the budget for energy efficiency schemes and some of the work of the Carbon Trust. Critically limiting the Assembly Government's influence are the reserved matters: promotion of renewable energy and energy efficiency, building regulations and power station consents over 50Mw. In 2003, in an attempt to overcome its lack of powers on energy issues, the Assembly's Economic Development Committee produced reports on renewable energy and energy efficiency, steering Wales towards becoming "a global showcase for clean energy developments and energy conservation". This followed the vision set out by the Assembly Government in its 2002 national economic development strategy, *A Winning Wales*. It reflected UK national energy strategy in setting a benchmark of generating 4TWh per year (ten per cent of Welsh electricity production) from renewable sources by 2010, and supporting the UK government's targets for energy efficiency.

In addition the Assembly Government has made use of the planning system to influence energy developments. It published *Technical Advice Note 8 on Renewable Energy*, receiving praise and condemnation in equal measure. TAN 8 covered a range of renewable energy issues, but it was its establishment of "strategic search areas" for on-shore wind developments that proved controversial. The incoming Government in 2007 will need to take a proactive role if the potential is to be fulfilled. An offshore wind farm off the north Wales coast at North Hoyle was well received, but another at Scarweather Sands was deferred for financial reasons. Construction of a major liquefied natural gas terminal at Milford Haven began in 2005, together with a cross-country pipeline, amidst debate about safety and security of supply.

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Energy efficiency is a devolved issue, but to date the Assembly Government's 2004 *Energy Saving Wales: Energy Efficiency Action Plan*, is perceived as doing little more than highlighting well-rehearsed arguments about the benefits of energy savings and providing further access to information. Reducing emissions linked to energy in the home is an important policy goal. According to UK National Statistics, UK households were responsible for the direct emission of 162.3 million tonnes of greenhouse gases in 2004, up 14.2 per cent on the 142.2 million tonnes emitted in 1990.

Part L of the Building Regulations for England and Wales, which governs energy efficiency, has been repeatedly tightened. The changes introduced in 2002, 2005 (covering new boilers and windows) and April 2006 have collectively delivered a 40 per cent improvement in the energy efficiency standards of new houses. However, a study conducted by the Building Research Establishment found that 43 per cent of new homes it checked should have been failed by the inspectors. For existing housing stock, techniques are available to retrofit energy efficiency, and the Assembly Government has supported this through a programme of targeted Home Energy Efficiency Scheme grants. These had assisted 38,000 households by 2004 but the target of reaching 95,000 homes by 2007 is a challenging one.

Considerable powers over transport policy have been given to the Assembly Government in the last few years, and more are likely since the Transport (Wales) Act was implemented in May 2006. The Act gives the Assembly Government powers to plan a more co-ordinated and integrated transport system for Wales, and imposes on the Assembly Government a general duty to develop policies for the

promotion and encouragement of safe, integrated, sustainable and economic transport facilities. Much of the policy emphasis has been on structure rather than infrastructure, with the creation of a single rail franchise and the establishment of Joint Transport Boards for north Wales (TAITH) south east Wales (SEWTA), south west Wales (SWITCH) and mid Wales (TraCC). These are charged with integrating transport mode strategies at a regional level.

The approach to transport planning has continued to be dominated by the provision for the growth of road traffic. This is demonstrated by investments in the Heads of the Valleys Road, the Carmarthen bypass and the commitment in the December 2004 Transport Plan to build the M4 Relief Road to the south of Newport. While 76 per cent of the Assembly Government's 2005-06 transport budget was for roads, the Scottish Executive committed to spend 70 per cent of its budget on public and other more sustainable modes of transport. The Assembly Government's continuing policy approach of 'predict and provide' rather than demand management or the promotion of alternative transport modes.

The effectiveness of these policies and strategies are as yet difficult to assess: passenger-miles travelled by train have increased but so has the proportion of travel undertaken by car. Overall, therefore, the contribution of transport to climate change emissions has increased, and it could be argued that transport policy is failing in this regard.

A consultation on a new Transport Strategy was published by the Assembly Government in July 2006. This clearly identifies the interactions between environmental and social policy but suggests that trade-offs will be made, rather than looking for the most sustainable options. The test will be whether in implementation the Strategy

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supports or undermines the climate change objectives set out by the Environment Strategy, published only a few months earlier. A full Strategic Environmental Assessment of the Transport Strategy will reveal the extent to which it contributes to or reduces Wales' contribution to global climate change.

Public subsidy of north-south air routes was roundly condemned on environmental grounds, and contradicted the Government's claim to be serious about reducing climate impacts. Promoting the air link is expressly about stimulating demand in the name of economic development, despite the Transport Strategy's aims to reduce the need to travel and reduce emissions. This is perhaps the clearest example of the dilemma at the heart of government. If climate change really is the overriding concern, no trade-off is possible here.

Environmental Policy in the Third Term

The environment is important to the Welsh economy and to the quality of life of those living in Wales, as well as for its own sake. The deterioration of global environmental systems through global warming and the loss of biodiversity are also having increasingly severe impacts in Wales.

Climate change and the role played by emissions of greenhouse gases, and carbon dioxide most particularly, is widely accepted as the most significant policy challenge. The major sources of CO₂ emissions within Wales are shown in Table 1.

Table 1: Sources of CO₂ emissions within Wales (2003 figures)

Sector	% of total Wales CO₂ Emissions, 2003	% Change in each sector against 1990 baseline
Power Generation	32.3	+ 21.8
Petroleum Refining	7.9	- 7.0
Manufacture of Solid Fuels	0.8	- 48.0
Manufacturing Industry and Construction: Iron and Steel	17.6	- 5.3
Manufacturing Industry and Construction: Other	6.8	- 23.9
Road Transport	14.0	+ 7.3
Commercial / Institutional	2.4	- 29.8
Residential	10.8	+ 13.6
Cement Production	1.0	- 19.6
Changes in Temperate Forest Stocks	-3.3 (SINK)	+ 4.2 (stored)
Emissions from Soils	2.8	- 10.7

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It must be remembered that much of our consumer goods and industrial commodities and feedstocks are now manufactured overseas, and although we are responsible for the CO₂ emitted during production this is not represented in the table above. Reduction in the consumption of resources, and efficiency of their production wherever that takes place, should be top priorities for an incoming Government, as should energy generation, road transport and domestic energy consumption as the three fastest growing sources of CO₂ emissions within Wales.

Agriculture will continue to evolve in the next five years, and land will continue to be a dwindling resource. However, land owners and managers will have new opportunities to adapt and mitigate for climate change, and Wales is well provided with water resources and carbon sinks. These 'ecosystem services' need to be well managed, and positive land-use changes need to be incentivised. Energy crops will begin to replace some older established farming practices.

There will be a wide range of other environmental challenges for Assembly Government policy makers in the Third Term. Space does not permit a full description so they are summarised in Table 2.

Table 2: Environmental Challenges Facing Third Term Assembly Government

Issue	Key Environmental Policy Challenges
Access to green space	<ul style="list-style-type: none"><li data-bbox="517 1644 1388 1787">▪ balancing access to green spaces for social amenity and health benefits with protecting environmental quality<li data-bbox="517 1805 1388 1948">▪ increasing opportunities for people to access their environment especially in areas of poor health, through promotion of cycling & walking

<p>Agricultural land and soils</p>	<ul style="list-style-type: none"> ▪ balancing the needs of farming with environmental protection ▪ shortage of cash for Tir Gofal and other agri-environment schemes ▪ review of 2005 CAP reforms ▪ global food/commodity market versus promotion of local markets ▪ encouraging energy crop plantations without sacrificing wildlife habitats
<p>Biodiversity</p>	<ul style="list-style-type: none"> ▪ achieving favourable condition status of SSSIs as they adapt to climate change ▪ adoption of a landscape-scale approach, especially in relation to the likely effects of climate change ▪ a duty for all public bodies to further biodiversity, as in Scotland ▪ encouraging 'out-of-classroom' learning in schools
<p>Bio-security</p>	<ul style="list-style-type: none"> ▪ managing risks to the rural economy from Foot and Mouth, bovine TB, bird flu etc.
<p>Built environment</p>	<ul style="list-style-type: none"> ▪ adoption of an indicator of the cleanliness of streets and public areas, as in England and Scotland
<p>Climate Change</p>	<ul style="list-style-type: none"> ▪ setting of annual reduction targets for greenhouse gas emissions ▪ major expansion of sustainable renewable energy technologies and energy efficiency measures ▪ public information, and promotion of mitigation and adaptation measures
<p>Environmental justice</p>	<ul style="list-style-type: none"> ▪ ensuring participation and representation in environmental decisions for people in Wales and promotion of environmental equity

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<p>Flood risk management</p>	<ul style="list-style-type: none"> ▪ preparing for an increase in coastal flood risk of 2-20 times by 2080 and mounting costs of defending most vulnerable areas ▪ ensuring public acceptance of political decisions for extent of protection for people and habitats
<p>Forestry</p>	<ul style="list-style-type: none"> ▪ improving the economic sustainability of forestry resources while protecting their environmental, recreational and educational value ▪ extension of semi-natural woodland to allow for climate change adaptation and loss of existing tree species
<p>Landscape and historic/cultural environment</p>	<ul style="list-style-type: none"> ▪ need for national strategy to better integrate management of historic and cultural resources into economic and sustainability planning
<p>Marine and coastal environment</p>	<ul style="list-style-type: none"> ▪ devolved governance of the marine environment within an integrated UK/EU context ▪ management of activities via marine spatial planning, more protection for marine wildlife through extension of existing enforcement powers ▪ sustainable management using an ecosystem approach and integrated coastal zone management to balance economic and environmental value ▪ promotion of appropriate marine renewable energy systems
<p>National Parks</p>	<ul style="list-style-type: none"> ▪ maintaining environmental and public value in the face of increasing private development pressures

<p>Planning</p>	<ul style="list-style-type: none"> ▪ Climate Change Impact Assessments for major planning decisions ▪ public involvement in development control ▪ increased status for species and habitat protection in local plans ▪ climate change as a pre-eminent consideration in regional and local policy and in development control decisions
<p>Water resources</p>	<ul style="list-style-type: none"> ▪ maintenance of water quality of Welsh rivers ▪ freshwater management incorporates projected impacts of climate change ▪ implementation of Water Framework Directive
<p>Waste management</p>	<ul style="list-style-type: none"> ▪ achieving the targets within <i>Wise about Waste</i> for waste reduction and growth in recycling & composting ▪ extracting energy from waste without incineration

Energy Policy in the Third Term

The policy background in energy will be one in which global peak oil supply will be reached within fifteen years. The run up to this is likely to see the continuation, and possibly exacerbation, of the high energy prices experienced recently. These two factors, together with the growing imperative to reduce CO₂ emissions and our contribution to global warming, means that the Welsh economy needs to move towards much less dependence on fossil fuels, more efficient use of energy, and an energy economy with far lower carbon emissions.

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Some key policy areas relating to energy markets (for example, climate levies and energy performance certificates) or building regulations are not devolved, and can only be tackled at a UK level. However, a range of other policy options could influence Welsh energy demand and supply. Directing European Structural Funds towards renewable energy solutions would be a bold policy step by the Assembly Government that could help to develop 'win-win' developments for the economy and environment. Other policy areas are partially devolved: for example, the Assembly Government could exert significant influence on the EU Emissions Trading Scheme, which could have the biggest impact on CO₂ reduction up to 2012.

The accepted wisdom of mainstream economic theory is that energy costs should be low to minimise costs to businesses to aid competitiveness, but higher prices also encourage efficiency and in the case of fossil fuels can lead to lower emissions. Social dimensions of energy use usually focus on issues of fuel poverty, and access to sufficient energy in relation to social inclusion and protecting a basic standard of living (with a particular emphasis on heating costs for the elderly). Wales is committed to the UK Fuel Poverty Strategy target of eradicating fuel poverty among vulnerable households as far as possible by 2010. Social policy should ensure that high energy prices do not impact disproportionately on the poorest members of society.

Energy Generation and Supply

The energy sector (including generation, refineries and solid fuel transformation) is the largest Welsh contributor to greenhouse gas emissions with electricity generation contributing 32.3 per cent of total

Welsh CO₂ emissions in 2003. Opportunities to reduce greenhouse gas emissions are presented both by reducing the level of demand for energy, and by changing the sources of energy to a less carbon-intensive mix. The current electricity generating mix in Wales is shown in Table 3.

Table 3: Electricity generating mix in Wales

Generation sector	Terawatt Hours (TWh)	Percentage
Gas	12.401	41.37
Nuclear (Wylfa)	7.291	24.32
Coal	7.116	23.74
Pumped Storage	2.064	6.88
Renewables	0.782	2.61
Other thermal	0.276	0.92
Oil	0.049	0.16

Source: *Our Environment, Our Future, Your Views*, Assembly Government, 2005.

Controversy surrounds the relative costs of different sources, and depends strongly on assumptions about the costs ascribed to waste disposal, decommissioning, environmental impacts, research costs and supply security. Table 4 provides a cost comparison, though not necessarily a definitive one.

A government wishing to address the supply-side of energy in the next five years, aiming to balance low cost with low emissions and security of supply, will probably favour a mix of gas, oil and wind, with a steady but residual element of coal. For Wales the generation mix will be largely influenced by decisions at a UK level, particularly through the 2006 Energy Review. As existing nuclear power stations are

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Table 4: Comparative costs of energy sources

Technology	Capital cost (£/KW)	2020 Cost	Cost trend to 2050
End use efficiency	-2693 to 449	Low	Decreasing, but variable
Fuel cells	?	Unclear	Sustained decrease
Large CHP	590	Under 2.0p/KWh	Limited decrease
Micro CHP	590	2.5-3.5p/KWh	Sustained decrease
Transport efficiency	?	Low	Unclear: fuel switching
Photovoltaics	1500 to 1950	10-16p/KWh	Sustained decrease
Onshore wind	670 to 819	1.5-2.5p/KWh	Limited decrease
Offshore wind	988-1532	2.0-3.0p/KWh	Decrease
Energy crops	1275	2.5-4.0p/KWh	Decrease
Wave	?	3.0-6.0p/KWh	Uncertain
Fossil generation with CO ₂ C&S	698-1625	3.0-4.5p/KWh	Uncertain
Nuclear	1407	3.0-4.0p/KWh	Decrease
CCGT	440-828	2.0-2.3p/KWh	Limited decrease
Coal (IGCC)	1069-1715	3.0-3.5p/KWh	Decrease

Source: UK Government Performance and Innovation Unit Energy Review 2000, except capital costs which are from various industry sources

closed, the case will be made for new build, but firm proposals are unlikely to emerge in the Third Term, apart possibly at Wylfa on Anglesey.

The 2006 Energy Review concluded that "new nuclear power stations would make a significant contribution to meeting our energy policy goals", but that "it will be for the private sector to initiate, fund, construct and operate new nuclear plants and to cover the full cost of decommissioning and... waste management". Despite this deference to the private sector, new nuclear build (and indeed the development of any major energy infrastructure) should be a matter of public policy in Wales in the Third Term.

Coal is intimately woven into the history of Wales and was the source of much of the wealth and jobs until 1970s. The environmental and health legacy, from slag heaps to silicosis, has given it a bad image and there are many who believe what remains should stay underground. Its CO₂ emissions per unit of energy is the worst of any fossil fuel. But if the carbon dioxide arising from combustion can be captured and stored it provides a secure domestic supply of energy. This option is being actively promoted by the coal industry but will involve substantial capital investment and a significant energy penalty. It remains a medium-to long-term option if the cost or the problems inherent in the techniques do not prove to be prohibitive. There may be significant economic benefits to be derived from Welsh involvement in this technology as the international dimensions are huge. However the technology is not easy to fit on existing stations.

Two Liquefied Natural Gas (LNG) Combined Cycle Gas Turbine (CCGT) power stations are proposed for the Milford Haven waterway. Both would waste over 50 per cent of the energy content of the fuel because of the energy involved in extracting, liquefying, transporting and re-gasifying the LNG prior to burning it in a power station of 55 per cent efficiency. This wastage is unacceptable in this age of climate

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change and the LNG power stations should only be allowed if they also supply heat to local consumers through a Combined Heat and Power (CHP) system.

Renewables

In proportion to the size of its economy, Wales comes second only to Scotland amongst UK nations in developing clean and renewable energy sources. Wales represents 25 per cent of capacity and 28 per cent of generation for UK wind power. However, renewables account for only 2.96 per cent of Welsh electricity supply at present, although the Assembly Government has set a target of 4TWh of energy from renewable sources by 2010.

If the Government's target was achieved, a 25 per cent reduction in the energy footprint would be achieved, the most substantial reduction in the footprint of Wales (WWF/SEI 2005). At present, though, domestic energy consumption is increasing year on year, so this reduction would be achieved only if energy consumption remained stable.

The July 2006 Energy Review promised new fiscal measures in favour of renewable energy. The level of the Renewables Obligation will be maintained above the level of renewables actually installed, up to a 20 per cent obligation, until the scheme closes in 2026-07. There will be a consultation on 'banding' the Obligation to provide differentiated levels of support to different renewable technologies after 2009.

During 2006 the Severn barrage re-emerged in the policy debate with

Ministerial backing. Developers have been quick to highlight the economic development opportunities from associated infrastructure developments, transport links, and housing, leisure and commercial sites around the barrage, as well as the electricity generation potential. This is consistent with the Assembly Government's 2005 economic development consultation *Wales: A Vibrant Economy*. This identifies the need for an "agglomeration" of economic mass in south east Wales linked to South West England.

The Assembly Government is keen that the barrage has a wider economic impact, suggesting that it is primarily an infrastructure project with spin-off benefits of low-carbon energy generation. However, the sum total of carbon emissions from the construction and operation of all the associated developments will considerably reduce the savings made from the tidal generation itself. The third term Government may be presented with serious development proposals that would, if supported and followed through to construction, transform forever the ecological, hydrological and human geography of south east Wales. The barrage typifies the conflicts that can arise between the needs for energy generation and environmental protection. Government Agencies believe that it cannot legally be built, given current European habitat directives. Putting all available public funds into a single option like the barrage may divert investment from other technologies which could provide a longer term basis for sustainable energy generation.

On behalf of the UK and Welsh Governments, the Sustainable Development Commission is currently exploring the tidal resource of the UK, including the Severn Estuary, to assess potential costs and benefits of developments using the range of tidal technologies and their public acceptability.

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Tidal lagoons have been proposed in Swansea Bay and on Rhyl Flats and the Welsh Affairs Committee recently criticised the Assembly Government for not taking them seriously enough. Modular installations of these tidal stream and wave devices could capture the high kinetic energy around our shores with very low environmental impact and little modification to the ecology. Wave energy prototypes are being developed in Pembrokeshire and one of the best sites for marine current turbines is off the Anglesey coast near Wylfa Head.

A policy alternative to large-scale centralised schemes such as the barrage and nuclear power would be to focus on decentralised electricity generation. Some encouragement was given to these ideas in the July 2006 Energy Review. This argued that a 'distributed energy' system using these technologies could radically change the way we meet our energy needs in the long-term. Heat and electricity can be created together from renewable sources. Smaller-scale systems also have the potential to be more flexible and to reduce the energy we lose in networks. Moreover, a more community-based energy system could lead to a greater awareness of energy issues, driving a change in social attitudes and, in turn, more efficient use of our energy resources. Directing new European funding towards renewable and distributed energy systems could usher in a low-carbon era for Wales.

Micro-renewables integrated into the fabric of buildings could reduce the losses from distribution and minimise conflicts, whilst also distributing benefits throughout all of Wales. Firm targets would be required to drive their acceptance. Options for developing small-scale generation of heat and electricity from low carbon sources (for example, solar photovoltaics, solar thermal, micro-wind, heat pumps, and microCHP) will depend partly on the UK government strategy for micro-renewables under development and its integration with building

regulations and planning policy. The challenge for the Assembly Government will be in ensuring that Welsh opportunities are identified, funded and taken. The Assembly Government's strategy on microgeneration was out for consultation during spring 2006.

Hydrogen

Hydrogen provides an alternative to fossil fuels that can meet the two most pressing demands we have for our energy - security of supply and low carbon emissions. It can be viewed as an energy carrier, just like electricity, and can be produced from a variety of primary energy sources, including renewables.

Rather than competing with electricity for renewable resources, hydrogen can add flexibility to a renewable electricity scheme through balancing supply and demand and providing the opportunity to translate renewable energy into a clean, safe and convenient transport fuel. Emerging technologies, particularly those being developed in Welsh institutions can have economic as well as environmental and energy benefits for Wales if prototypes prove to be commercially viable in a highly lucrative global marketplace.

The transport sector has the fastest growing demand for energy in Wales, yet it is currently almost entirely dependant on fossil fuels. When used in either internal combustion engines or in fuel cells hydrogen produces little or no greenhouse gases and no carbon dioxide. The introduction of hydrogen will require support through the development of infrastructure, investment in research and the development of markets.

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Worldwide there is significant effort in hydrogen energy development, although much of the current emphasis is on technology. Without consumer demand, promising hydrogen technologies may fail, as have numerous other energy technologies before. Significant efforts are required to increase public awareness, understanding and acceptance before a market pull towards the hydrogen economy can be established. Early demonstration projects sponsored by the Assembly Government could have a fundamental role to play in addressing these issues of public acceptance, whilst proving the technologies themselves.

Biofuels

The potential in Wales for biomass energy is considerable and along with tidal power could be the most consistent and reliable power supplies of all renewables energy sources. Evidence to the Welsh Affairs Select Committee suggested that biomass had the potential to generate between a quarter and a half of The Assembly Government's renewable energy targets. Despite the potential for energy crops in Wales, no specific energy crop scheme has been developed. The Assembly Government has focused its resources on "expanding demand for energy crops rather than risk oversupply of a fledgling market". However, the Assembly Government has supported the development of a Welsh-based energy crop trial known as 'Willows for Wales', funded by the European Regional Development Fund and coordinated by the Institute for Grassland and Environmental Research at Aberystwyth.

Wood fuel biomass could bring the highest level of local and regional economic benefit to Wales. About 195,000 hectares of Wales is conifer plantation. The Mid Wales Energy Agency believes that if converted into wood chips or pellets, it would be sufficient to heat between 10 and 20 per cent of the Welsh housing stock. The increase in oil and gas prices should lead to a reassessment of the viability of biomass district heat networks and installation for schools, hospitals and factories. Coed Cymru have developed a small scale wood pelleting process which supports the development of such initiatives, allowing pellets to be produced locally. For example the new Senedd debating chamber in Cardiff Bay is heated through a 360kW wood-chip or pellet burning boiler.

Biomass electricity plants are also possible but the capital costs of plants are high. Nevertheless, the situation could change if fossil fuel prices continue to rise. Biodiesel crops such as rape-seed might also get a bigger market share in Wales if the Assembly Government supported the development of production and extraction facilities.

The third term Government should provide incentives for renewable heat generation, and support large biofuel district heating demonstration projects. The Assembly Government should also join up its biomass strategy with policy-making on rural development, land-use planning and housing.

Managing Energy Demand: Moving towards a Low-Carbon Wales

The environmental consequences of energy use could be reduced without any negative side-effects if energy efficiency in homes and

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commercial premises was improved. Powers to set Building Regulations could be devolved to the Assembly under the Government of Wales Act 2006 and a wide range of new tools introduced. Surprisingly, however, Environment Minister Carwyn Jones announced on 21 June 2006 that "there are no plans to seek the devolution of building regulations at this time."

One emerging policy approach to reducing carbon emissions is an 'area-based' approach which seeks to integrate the efforts, policies, knowledge and funding of the many organisations within an area with an interest in reducing carbon emissions. Such an approach may be very suitable for Wales and its sub-regions, but to be effective it would need policy changes. An example would be to ensure that energy/carbon intensity was a factor in planning decisions, in public sector purchasing, and in construction projects. The Tyndall Centre for Climate Change has constructed a specific range of new energy scenarios for the UK. The methodology and tools developed in the project can be used to generate an infinite number of future energy scenarios. Five such scenarios are shown in Table 5, reflecting different levels of GDP growth and energy consumption.

Table 5: UK Energy Scenarios

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
UK GDP Growth %	3.3	1.6	2.6	3.9	3.9
Energy consumption (Million tons oil equivalent: 241 today)	90	140	200	330	330

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Dominant economic Sector	Commercial	Commercial Public Admin Non-intensive industry	Commercial Public Admin Construction	Commercial Non-intensive industry	Commercial Non-intensive industry
Energy Use per household	Large reduction	Very Large Reduction	Small reduction	Same as today	Same as today
Supply mix	Coal Renewables Hydrogen Biofuels	Coal (with CCS); Nuclear; CHP; Biofuels	Gas; Biofuels; Nuclear; Hydrogen; renewables	Nuclear; renewables hydrogen; biofuels	Nuclear; CCS (coal and Gas); renewables; biofuels
Decarbonisation policies	Innovation and technology	Collectivist approach to demand-side	Similar to today with focus on supply	Very Market focussed	Very Market focussed
Transport	Low growth Aviation; low growth cars; very large increase in public transport	Medium growth aviation; low growth cars; large increase in public transport	Large growth Aviation; no growth cars; small increase in public transport	Very large growth Aviation; large growth cars; large growth public transport	Very large growth Aviation; large growth cars; large growth in public transport
Transport fuels	oil; electricity; hydrogen	oil; electricity; hydrogen	oil; biofuels; electricity; hydrogen	oil; biofuels; electricity; hydrogen	oil; biofuels; electricity;

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Hydrogen	Transport and stationary. From gasification with CCS and renewables	Transport. From gasification with CCS, nuclear and renewables	All sectors including aviation. From gasification with CCS, nuclear and renewables	Stationary and transport. From renewables and nuclear	No hydrogen
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Source: Tyndall Centre for Climate Change, *Decarbonising the UK: Energy for a climate conscious future*, 2005.

The energy performance of the average Welsh house remains relatively poor, partly due to properties being larger and older than the UK average. Nonetheless, the techniques required to create energy-efficient new builds are available. Different housing policies adopted by a third term Government could make a dramatic improvement in the energy footprint of new homes in Wales.

The 2006 Energy Review confirmed the UK Government's long-term ambition to move towards carbon neutral development through a mixture of regulation, guidance, and encouragement and pointed to the value of "consolidating these measures in a series of demonstration projects". In a proposed 900 home development in central Cardiff, a target of 60 per cent reduction in carbon emissions from the 1990 base line has been included in the Design Guide. However, the Assembly Government has yet to publicly champion this project (or any others) as exemplars and so drive up standards in the public and private sector.

The Home Energy Efficiency Scheme provides an excellent opportunity to deliver the sustainable development benefits of reduced fuel use

and associated emissions, lower fuel bills, improved health and job creation. A National Audit Office report, quoted in the Energy Saving Trust's report *Energy Efficiency and Jobs: UK Issues and Case Studies*, stated that the Home Energy Efficiency Scheme programme has created an extra 5,000 jobs annually in the UK. Although the scale of change is more difficult to achieve than with new build, it would be possible to save an extra 766,000 tonnes of CO₂ (a 17 per cent reduction) if home energy efficiency measures were implemented across all houses in Wales.

Table 6: Potential Improvements from Home Energy Efficiency Schemes in Wales

	% houses with...	Number of houses for improvement	Energy Saving tCO₂/yr
Roof/loft insulated	81	243,578	87,049
Cavity walls insulated	26.6	940,982	449,666
Windows double glazed	67.5	416,647	150,502
Doors and windows draft stripped	53.2	599,972	62,551
Hot water tanks insulated	89.3	137,173	16,851
Total		2,338,352	766,619

Source: Stockholm Environment Institute

There are practical barriers to such improvements in many homes. The Centre for Sustainable Energy is assessing the number of 'hard-to-treat' properties in Wales and why uptake of Home Energy Efficiency Scheme grants is low in some areas. Acting on the findings of this research should allow the Assembly Government to improve the targeting of Home Energy Efficiency Scheme support to both reduce fuel poverty and reduce greenhouse gas emissions (important matters for housing policy makers).

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Taxation on the basis of energy efficiency is also of some interest, from the simple variation in stamp duty on house purchase to the more significant energy rating of households as a precursor to any changes in local council taxation.

Although houses have become more energy efficient, this has been offset by a growth in the use of energy intensive appliances in the home and an increase in the total number of households. The recently published UK Government Energy Review did little to reverse this trend, preferring vague aspirations such as "we will put in place measures to take us towards our long-term ambition of making all new developments carbon neutral."

Retrofitting existing stock will be a slow route towards a low-energy housing sector, since two thirds of the stock that will exist in 2050 has already been built. This could be an argument for speeding up the replacement of old housing stocks, but an assessment of the CO₂ embedded in the existing housing stock would have to be made if a rebuilding programme was to deliver reductions in carbon emissions.

Commercial and Public Sector Energy Efficiency

Total CO₂ emissions from Wales could also be reduced if energy efficiency within commercial premises and public sector organisations was improved. At a UK Government level funding for the Carbon Trust to provide energy efficiency advice to the commercial and public sector. Initiatives like the *Invest to Save* energy efficiency project grants, sponsored by the Treasury, aim to improve energy efficiency.

Within Wales, the Assembly Government could also improve energy efficiency through better advice for businesses, championing the issue of energy efficiency within the public sector and spreading best practice. Examples of good practice include the energy efficiency reviews conducted amongst NHS facilities, and Gwent Healthcare Trust's Energy Management Pilot.

Transport Policy in the Third Term

Transport, like energy, has economic, social and environmental dimensions. From an economic perspective, the accepted wisdom of mainstream economic theory is that investment in transport infrastructure enables economic growth by reducing journey times and improving access to markets. Efficient transport links lower the costs incurred when moving people and goods from A to B.

EU Transport Commissioner Jacques Barrot recently identified boosting mobility in order to deliver economic growth as his key priority. From a social perspective, mobility is seen as an important part of the social inclusion agenda, since limited access to transport also tends to limit individuals' opportunities for employment, consumption and social activity (particularly in rural communities). At a broader level, there are also suggestions that a strong transport infrastructure helps to develop the sense of Wales as a nation.

However, transport is also a significant contributor to greenhouse gas emissions. Road transport is the largest single source after power

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generation and iron and steel, and comprises 14 per cent of the total Welsh CO₂ emissions in 2003. These emissions have risen by 7.3 per cent from 1990 to 2003 compared with an 8.2 per cent rise for the UK.

Energy use and CO₂ emissions are not the only environmental issues linked to transport. However, emissions from transport are growing faster than from any other sector, largely due to continuing growth in road traffic and the disproportionately high impact of aviation emissions as demand for air travel increases. A more localised economy could reduce the need to travel, improve quality of life and support local businesses.

The July 2006 Energy Review did little to address impacts from the transport sector, preferring exhortation to policy commitments. The UK Government would:

- "... continue to examine how fiscal and other policy instruments can achieve" more energy efficient transport;
- "... continue to press the European Commission to seriously consider the inclusion of road transport and aviation in the EU Emissions Trading Scheme"; and
- "... seek to raise awareness amongst consumers so that they can make informed choices about the type of cars they buy and how they use them."

Little progress can be expected as a result of this Review. On the other hand we can anticipate the following trends in transport in Wales⁸⁰:

- Increasing road length (up 111 km to 33,987km during 2004).

⁸⁰ All the statistics that follow are estimates, sourced from the Welsh Transport Statistics Summary, July 2005.

- Increasing road users (licensed road vehicles up 3 per cent in 2002-03 to 1,547,000, with 82 per cent of people using private vehicles as their main mode of travel to work).
- Decreasing exports by road (569,000 tonnes in 2003, down 17 per cent since 2002); but increasing imports (369,000 tonnes, 12 per cent more than in 2002).
- Reduced central government expenditure on roads and transport (down by 4 per cent per cent to £156 million in 2003-04).
- 14,036 road accident casualties in 2003, 300 fewer than in 2002 (but deaths increased by 26 to 173, against long term trend downwards).
- Increasing road use (volume of motor vehicle traffic up 1.5 per cent 2002-03).
- Bus use decreasing marginally (108 million passenger journeys on local bus services in 2003-04, down one per cent on 2002-03).
- Increasing rail use, with 19.5 million rail passenger journeys to, from or within Wales in 2003-04 which was up five per cent.
- Increasing air travel: passenger numbers for Cardiff International Airport increased by 35 per cent in 2003, to 1.92 million; and in 2003 overseas visitors to Wales were up 4 per cent in 2003 to 894,000.
- Decreasing domestic tourism: 11.6 million UK domestic tourists in 2003, down 3 per cent, and 2 per cent fewer sea passenger trips between Irish Republic at 3.5 million.

Many transport policy issues are dictated by Wales being connected to UK transport systems (for example, rail regulation or vehicle emission standards) and also to global transport systems for air and sea.

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However, there are opportunities for policy interventions that will influence the distances that people travel and the modes of travel that they use that can reduce energy use and emissions. Development of hydrogen fuelled road vehicles should be encouraged, although cost and infrastructure barriers will limit their introduction during the Third Term. And whereas public support for renewable energy and energy efficiency is high, there is little public appetite for reducing travel. If governments take climate change seriously, personal mobility provided by fossil fuel transport will become more expensive, partly through increased taxation.

Types of Journey

For some types of journey, increased energy efficiencies and reduced environmental impact are difficult to achieve. The movement of goods within Wales is difficult to reduce unless more localised systems of production and consumption can be created. Research has demonstrated that if all food were sourced from within 20km of where it was consumed, environmental and congestion costs would fall by more than £2.3billion. Similarly policies to support local retailing would help since car-based food shopping contributes 0.72 per cent of the total CO₂ emissions in the UK.

Particular types of journey can be eliminated, or their impacts reduced, through policy interventions such as 'local schools for local children' and 'safe routes to school' initiatives and school bus services. Also journeys to work can be mitigated through the promotion of car-sharing, congestion charging, home-working, tele-conferencing and

the use of public transport. The public sector is also a major user of transport services and, through education, has the opportunity to influence attitudes and lifestyles to encourage the more sustainable use of transport.

Reducing the need to travel for shopping through internet ordering and home deliveries can have some effect for individuals. Companies and other institutions can promote tele and video conferencing. Making car travel uncool and bad for your health can be seen in parallel with making smoking similarly unacceptable, a process that has taken over 30 years to have a significant impact.

Shifts Amongst Modes of Transport

Reducing energy use and environmental impacts of travel will partly depend on the modes of travel people use and the technologies available to move people. Unfortunately, public transport is often perceived as an option of last resort, rather than what it should be, a high quality option of first choice for everybody. Public policy should focus on moving people away from individualised journeys in private cars and the promotion of other modes of transport:

- **Bus:** outside urban areas the future of bus services remains uncertain, but they could play a valuable role within rural communities if developed through innovative schemes linked to multiple transport objectives such as local postal services, and tourism. An example is a radical new rural bus system called BWCABUS. This combines a primary route serviced by conventional bus with a clock face frequency which is linked into

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a secondary demand responsive system based on satellite GPS communication from vehicle to controller. Scheduling and route planning ensures buses meet one another at hubs. It also provides new travel opportunities between villages in addition to links into main routes. Capital and research costs are estimated at £0.5 million over 5 years.

- **Walking and cycling:** Cycling is a hugely under-rated transport means for addressing congestion. Copenhagen, for example, has almost achieved its target of 40 per cent of journeys by bike, with significant health benefits. At present Cardiff, with similar topography, has 5 per cent of its journeys by bike. More than half of car trips are less than five miles. Even in rural areas a high proportion of car trips are short. Making more of these trips by foot or bike would cut traffic and make us healthier. Walking and cycling have suffered a steady decline for key journeys such as shopping, going to school or commuting. Policy options to encourage greater use of walking and cycling (cycle paths, safe-routes to school, transport planning for public sector bodies, bike purchase subsidies, increased parking charges, marketing the benefits to the individual of walking and cycling) would promote health, community-building and economic benefits in addition to a reduction in CO₂ emissions. Each region of Wales should develop an Active Travel Action Plan. These should include comprehensive cycling and walking networks within every town and city linking them together, as well as routes radiating from small market towns to link them to their surrounding villages.
- **Road:** Road transport is a major contributor to climate change emissions, but demand is likely to continue to rise during the

third term. East-West links are good, and congestion should be managed by policies which encourage shifts to other modes. 'Nation-building' continues to be given as a reason for improving north-south roads. Although vehicle numbers are relatively low there is scope for selective upgrades of the A470 and other major highways. The emissions impacts of road transport could be reduced through incentives to use alternative fuels including biofuels and hydrogen.

- **Rail:** Investment in new rail links and stations, as well as light rail systems in south east Wales, would provide choice for the travelling public. However, without deterrents to private car use the necessary modal shift may not take place. Those deterrents would need to be spatial (such as planning restrictions) and financial (congestion charging from local authorities and road tax/fuel tax from Westminster). Investment of £75m in capital expenditure for rail upgrades to increase line speeds to 100 mph on the north Wales main line, the Marcher Line and the south Wales main line would reduce the journey time between Bangor and Cardiff to 3 hours and improve north-south connectivity. This could negate the need for a north-south air service and also serve a wider range of users from the more densely populated parts of the north of Wales.
- **Air Travel:** Demand for air travel is increasing, and expansion of air travel capacity is viewed by some as central to the development of the Welsh economy and the identity of Wales. As the Cardiff Wales Airport Master Plan 2006 submission to the Government White Paper on the future of aviation put it:

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"The development of Cardiff International Airport is an important component in the development of the Welsh economy and the provision of employment in Wales. A strong international airport for the capital city enhances the image and 'brand' of Wales, helping it to sell itself as a location for both foreign business investment and tourism."

However, modern jets consume 3 to 4 per cent of fossil fuel production (as kerosene) and emit carbon particles, water vapour, nitrogen oxides and carbon dioxide. Emissions at high altitude have a particularly strong impact on climate change. These pollutants tend to turn airports, and neighbouring communities into emission hotspots. Offset programmes for flights made by government and public sector staff are a minimum requirement for the third term, together with the rescinding of the public subsidy for north-south air services which gives all the wrong signals about the Assembly Government's commitment for action on climate change. A climate levy escalator for flights from UK airports would also be a positive contribution.

South East Wales Tram Network

A light rail (tram) network is proposed covering current rail operations from Taffs Well, Coryton and Rhymney to Barry, Penarth, Cardiff International Airport /Bridgend, and a new line via Cardiff Bay, Greyfriars Road and St Mary Street, Cadoxton, Wenvoe and St Fagans.

A new bridge across the River Taff would link to the present Coryton line. The City Line could be developed as part of the heavy rail or the light rail network. With preservation of the line of route through a moratorium on British Rail Property Board land sales and some acquisition of publicly owned land, the existing heavy rail operations from the upper valleys (Treherbert, Merthyr and Aberdare) would continue. The big benefit would be to reduce the need for car travel to many of the new proposed shopping developments in west and north west of Cardiff. The cost would be £950 million to be funded by bonds over 15 -20 years.

More Integrated Transport

Wales needs a more integrated national bus rail and train network franchised by the Assembly Government, to provide the backbone of public transport in Wales. Components would include through ticketing, integrated timetables, secure park and ride for cars and bicycles, and ease of interchange between public transport modes.

Waiting areas at bus and rail stations need to be upgraded, information provision improved, and rail and bus stations provided with limited mobility compliant accessibility. The total cost for such integration would be £100 million per annum over ten years (capital and revenue expenditure). It is also important to link transport with other key policy areas, particularly land use planning.

All future land use changes should have fiscal constraints such as development gain tax and a requirement to provide the funding for

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public transport facilities in the early stages of development before, for example, new housing estate dwellers have adopted car based travel habits. The public sector should take the lead in avoiding out of town office developments and promoting the inclusion of sustainable transport solutions within proposed developments.

The regional transport consortia are the bodies best placed to take on the role of determining the overall shape and quality of bus and rail services. The Assembly Government, regional transport consortia and local authorities should develop region-wide demonstration projects, to show what an integrated bus and rail network could be like. Such demonstration projects could use 'Quality Contract' powers for buses and the Assembly Government's newly acquired powers to specify rail services. A more distinctively Welsh branding of the integrated transport network would attract a new generation of users.

However, continued adherence to the 'predict and provide' approach to road building will undermine efforts to promote public transport. Because of this, schemes such as the new M4 motorway to the south of Newport should be reconsidered.

Table 7: Summary of Key Policy Options and Opportunities for Environment, Energy and Transport.

	Achievable within five years	Begin now – benefit later
Environment	<ul style="list-style-type: none">Fully fund agri-environment schemes such as Tir Gofal to enable efficient operation and sufficient incentive to join.	<ul style="list-style-type: none">Use targeting in agri-environment schemes to benefit priority species, habitats, water catchments, landscapes, and climate change.

	<ul style="list-style-type: none"> • Introduce transparent arrangements for governance of the marine environment, and effective protection for wildlife through a new Marine Act. • Achieve favourable condition status for 95 per cent of SSSIs by 2010, incorporating climate change adaptation. • Ensure that the economic value of the environment to Wales (over 170,000 full-time equivalent jobs and nearly £9 billion of output) is reflected in policy decisions. • Develop national strategy for the historic environment, to protect the assets that underpin our identity and sense of place. 	<ul style="list-style-type: none"> • Biodiversity maintained and enhanced by means of a landscape-scale approach, especially in relation to the likely effects of climate change. • Adopt a three per cent annual carbon-equivalent reduction target for greenhouse gas emissions • Sustainably manage activities and resources in Wales' territorial seas via a marine spatial plan which integrates with wider UK and EU regional plans • Provide and promote guidance on a system of Climate Change Impact Assessment, both mitigation and adaptation, for all significant planning decisions.
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	<ul style="list-style-type: none">• Require Site Waste and Energy Plans for all developments, to minimise emissions, waste and use of toxic materials.• Provide assistance to private woodland owners to achieve sustainability certification under a credible independent, globally applicable scheme such as FSC.• Introduce targets for local authority recycling of specific materials, for example plastics.• Support biomass energy projects, subject to environmental, habitat and biodiversity evaluation.	<ul style="list-style-type: none">• Create wider areas of semi-natural woodland in close proximity to existing ancient woodland to allow adaptation to climate change.• Review the National Waste Strategy by 2007 and move it towards a sectoral Zero Waste policy for Wales• Protect peat uplands carbon sinks and managed land so as to minimise carbon loss to the atmosphere.
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<p>Energy</p>	<ul style="list-style-type: none"> • Produce an energy CO₂ reduction strategy that sets radical targets for Wales and demonstrates how it will meet its own • 4TWh by 2010 renewable energy target. • Reduce greenhouse gas emissions annually by 3 per cent with a 'carbon budget' and a clear implementation strategy. • Set targets for retrofitting micro-renewables on existing homes and schools, to help people make connection between their energy use and climate change. • Support renewable hydrogen energy technologies through demonstration centres. 	<ul style="list-style-type: none"> • Invest in and expand modular renewable energy technologies and energy efficiency measures, obviating any need for fixed developments such as nuclear stations and estuarine barrages. • Develop a working economic model that can track the links between national income and resource consumption underpinned by comprehensive accounts of resource flows within the Welsh economy. • Fund renewable hydrogen research, demonstration and industrial network activities. • Support and enable the construction of an exemplar low-energy (near zero carbon) community in Wales, and set similar high standards for new-build elsewhere.
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	<ul style="list-style-type: none"> • Make all central government buildings carbon neutral by 2012. • Increase support for energy conservation in all sectors. 	<ul style="list-style-type: none"> • Use Assembly Government's international networks, such as NRG4SD (Network of Regional Groups for Sustainable Development), to promote robust climate change mitigation policies and best practice.
Transport	<ul style="list-style-type: none"> • Use provisions of Wales (Transport) Act to subsidise only the most sustainable, low-emission modes of transport: withdraw public subsidy from north-south air route. • Improve the integration of public transport services, increase the provision of cycle routes, pedestrianised areas and Home Zones. 	<ul style="list-style-type: none"> • Set targets for reducing road traffic growth in absolute terms. • Reduce need to travel by planning guidance and behaviour-change campaign. • Use social marketing to make driving less socially acceptable and other transport modes more attractive and accessible.

	<ul style="list-style-type: none"> • Increase the opportunities to access the natural environment by means of Green Gyms, Walking Your Way to Health and Safe Routes to Schools projects, especially in areas of poor health. • Increase proportion of journeys made by public transport by 20% (from 10% to 12%) over 5 years. • Introduce congestion charge to Cardiff following extensive education campaign. • Reduce journey time between Bangor and Cardiff to 3 hours by increasing line speeds to 100 mph. • Extend successful 'BWCABUS' experiment in Carmarthenshire to other rural areas. 	<ul style="list-style-type: none"> • Establish South-East Wales light rail (tram) network. • Encourage development of hydrogen fuelled vehicles. • Promote biofuel production and distribution. • Fiscal constraints such as development gain tax and public transport requirement in the early stages of development control. • Refuse out of town developments which cannot be reached by sustainable means. • Integrate national bus rail and train network, with through ticketing, integrated timetables, and ease of interchange between transport modes.
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Conclusions

A sustainability-orientated perspective in relation to the environment, energy and transport should yield a very different approach to traditional policy-making based on driving up economic growth in the hope that this will fund the solution of more problems than it causes.

A key focus of a sustainability-based approach to policy is on quality of life and maintaining the environment within which we live, and on which we depend. Reducing our energy use, including our demand for travel, will have considerable long-term effects on our environment.

Sustainability also encourages us to return towards more community-orientated policies and placing a priority on our quality of life. Within industrialised economies the past 50 years have been characterised by increasing centralisation and the pursuit of economies of scale in which cheap fuel (and a lack of concern about environmental consequences) have allowed our needs to be met through supply chains that span the globe. The end of cheap oil, and awareness of the serious risks of climate change, mean that in future we will need to be more conservative about the distances we are willing to travel and that we expect goods to travel to us.

A focus on the localism to meet our needs for food, entertainment and services has the potential to revitalise many communities within Wales, boost our quality of life, and reduce our ecological footprint. Policies that deliver this would put Wales at the forefront of the transition towards a sustainable global economy.

Recognition that the economic activity and lifestyle of the people of Wales is unsustainable means that sooner or later significant changes will be necessary. It is a political irony that the sooner the changes are made the less disruptive they will be, but the longer they are delayed, the more obvious the case for having to make them becomes.

Legislative Priorities

Energy

Powers relating to power station consents over 50Mw and the setting of Building Regulations to be devolved to the Welsh Assembly Government.

Environment

The Marine Act will be the first to cross the Minister's desk with new powers available under the 2006 Government of Wales Act. Legislation should be introduced to rationalise the many disparate and illogical anomalies that exist in the powers the Assembly Government has over the seas within its territorial waters, and to introduce a system of marine spatial planning.

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Transport

The Assembly Government currently has powers to invest in the rail infrastructure and to enter into contracts with Network Rail and the train operators. New legislation should be introduced to provide statutory powers to direct Network Rail, to enable Welsh priorities to be reflected in the rail infrastructure (for track, signalling, and stations) in Wales.

Chapter 6

Poverty, Regeneration and Housing

A concern with social justice has perhaps been the clearest hallmark of the first two terms of the Welsh Assembly Government. First evident in the 2000 document *Better Wales.com* which laid out related policy objectives of sustainable development, tackling disadvantage and equal opportunities, subsequent policy statements such as *Wales: A Better Country* (2002), *Wales: A Learning Country* (2003), *A Winning Wales* (2003) and *Wales: A Vibrant Economy* (2005), have all acknowledged that acute social disadvantage is experienced throughout Wales. Assembly Government policy has also recognised the complex relationship between housing and patterns of social exclusion in Wales. The establishment of the Welsh Housing Quality Standard and its mandatory achievement by 2012 has set the social housing agenda since 2004.

Poverty, regeneration and housing are policy areas where considerable changes of direction have occurred in recent years. A web of disadvantages embracing housing, health, education, the labour market, leisure and transport lead to what we now describe as social exclusion. Much of the analysis of this complex multi-dimensional poverty has recognised its spatial concentration in specific communities. This has influenced the design of Assembly Government programmes such as *Communities First*. However, the farming crises of the mid-1990s also brought rural poverty into focus and there is increasing recognition of the needs of the poor who live outside the

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more obvious urban concentrations of poverty. The Rowntree Foundation's *Monitoring Poverty and Social Exclusion in Wales* report, published at the end of 2005, leaves us in no doubt about the existence of acute poverty in Wales. It records the improvement of poverty rates in Wales, which now reflect the UK average. It also notes improvement in unemployment rates which have halved since the mid-1980s. However, sickness and disability remain major causes of economic inactivity. Additionally, being employed in low wage work represents a major cause of poverty, with 40 per cent of low income working age households now having someone in employment.

Educational under achievement remains a key issue with almost half of pupils failing to reach five GCSEs at Grades C or above. More worryingly, those who leave school with that disadvantage have generally failed to acquire further qualifications by the age of 25. Ill health also stands out in the report as a major contributor to poverty and is cited by half of men and a quarter of women as the 'principal thing preventing them working'.

Current policy has tended to emphasise the very visible 'poverty of place'. However, it should also be understood that poverty is not just area based but is experienced by specific social groups regardless of where they live. Poverty also has a gendered nature with a specific impact on women and their children. Rural poverty has received increasing attention, as have the associated problems of dealing with it when it is dispersed widely and not spatially focused. Notably, *Monitoring Poverty and Social Exclusion in Wales* points out that one third of children in poverty live outside the major urban areas of Cardiff and the south Wales Valleys. Older people also experience poverty independently of where they live, with pensioners representing

20 per cent of all low income households in Wales. Similar concerns can be identified for disabled people, ethnic minorities and asylum and refugee groups.

The next five years will be a period in which it is essential that the foundations for a 'better Wales' are fully laid. The policy statements from the Welsh Assembly Government in its first two terms of office have identified the direction in which the country needs to be developed. Its first forays into policy development have established mechanisms which can begin the process of regeneration and the eradication of poverty.

In common with the rest of the UK, what we currently experience is an 'implementation gap'.⁸¹ Poverty and social exclusion and the related issues of health, education, housing and environment present intractable barriers to change. However, change is a necessity and not a choice.

Changing Approaches to Regeneration

Anti-poverty policy has moved from the redistributive justice models of the post-war welfare state, to the social justice models of social inclusion policy. Consequently, there has been an emphasis on physical and social regeneration as the primary method of tackling the multi-dimensional disadvantages associated with social exclusion.

⁸¹ Marilyn Taylor and Mandy Wilson, *The importance of neighbourhood. Tackling the implementation gap*, Joseph Rowntree Foundation, 2006.

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Gradually, the artificial separation between economic and community regeneration has been challenged and area-based regeneration strategies now give a central role to voluntary and community organisations. In England the *Strategy for Neighbourhood Renewal* has delivered considerable investment in the country's 88 most deprived local authorities while *New Deal for Communities* has targeted 39 areas of high deprivation. Additionally, a wide range of programmes such as the Housing Renewal Pathfinders and housing and health action zones have all been spatially targeted. Local strategic partnerships have had an important integrative role within these spatial models of delivery.

In Wales *Communities First* has targeted 132 physical communities and 10 communities of interest. This new focus in regeneration theoretically harnesses the experience and knowledge of those living in the communities themselves in the design and delivery of solutions. Contemporary policy consequently links community development practice with physical and economic regeneration objectives. The approach seeks to address shortages of social capital as much as the degraded physical and economic environment.

Key objectives, such as empowerment and capacity building, inform the regeneration process. In simple terms the social inclusion of the previously socially excluded now ranks alongside improved employment and physical renewal as the key objectives of the regeneration process. However, it is important to remember that much of the experience of social exclusion is shaped by mainstream service delivery and its failure to meet the needs of both disadvantaged areas and excluded social groups.

Community based strategies can only succeed against a backdrop of improving economic performance, housing renewal, health gain and educational improvement. Local initiatives can support such objectives and contribute to their achievement, but national leadership and action must be the primary approach.

The First Two Terms

The National Assembly commenced its regeneration agenda with the *People in Communities Programme* inherited from the Welsh Office. Sixteen area based regeneration projects were linked to local authority-led regeneration partnerships. The generally positive evaluation of its impact on the ground by Cambridge Policy Consultants pointed to successful change in local authority relationships with disadvantaged communities and clear impact on the capacity of the communities involved to engage with the regeneration agenda. These conclusions informed the design of the subsequent *Communities First* programme which emerged from an 18-month consultation process. This ensured a significant level of buy-in by a wide range of Assembly Sponsored Bodies, the statutory and voluntary sectors, and community organisations by the time of the start of the policy in late 2002.

Communities First is designed to regenerate the 100 most deprived Electoral Divisions in Wales (identified by the 2000 Welsh Index of Multiple Deprivation), a further 32 sub-ward pockets of poverty, and ten projects based on communities of interest such as youth or

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domestic violence. An investment of £83 million between 2002-05 and £131 million from 2005-08, is being made to develop Communities First Partnerships in each supported locality.

These Partnerships are based on the 'three thirds' principle of statutory sector, voluntary plus business representation, and community membership. In the majority of areas a team of co-ordinators and development workers has been appointed. Each partnership was charged with delivering a community audit which mapped problems and issues in the community. This was to inform the design of a capacity development plan and ultimately an action plan which would target solutions to the issues identified. Support for capacity development has also been provided by a £9 million Communities First Trust Fund administered by the Wales Council for Voluntary Action. Further support for community partnerships is available from the Communities First Support Network which brings together eight voluntary sector organisation funded to bring their expertise to the Communities First process.

It is currently difficult to assess the success of Communities First in delivering the regeneration agenda. As a programme funded for at least ten years it is too early to see the long-term changes which the programme seeks to achieve. Differences in structural organisation, delivery patterns and community development approaches, in what was designed as a non-prescriptive policy, also prevent any systematic overview emerging to date. However, considerable anecdotal evidence exists for significant variation in achievement. In 2005 an Audit Wales report *Regeneration: A Simpler Approach for Wales* identified a range of issues associated with the Communities First programme and the role of local authorities:

- Difficulties of recruitment and retention of regeneration staff.
- Lack of training for the requirements of Communities First.
- Bureaucratic over load associated with the system and the obscure approvals procedures for eligible expenditure.
- Difficulties experienced by external agencies in 'bending' their expenditure to fit with Communities First criteria.
- Poor strategic links with the Objective One programme.
- A promotion of insularity at community level.
- Political impact of the role of local members.

Many of these issues were also identified by the Assembly Local Government and Housing Committee Review of Regeneration in 2003 but have not yet been addressed. The training of development workers for example is of critical significance. In comparison with England where National Occupational Training Standards have been established and training is endorsed by the English Standards Board, Wales has no model of training recognition and approval. Schemes developed by Community Development Cymru have yet to be adopted by the Assembly Government. The Egan Review, *Skills for Sustainable Communities* produced for the Office of the Deputy Prime Minister in 2005, identified similar concerns in England. In Wales the Royal Institute of Chartered Surveyors and five other professional bodies are seeking to address these issues through the joint actions of the Regeneration Skills Collective.

Most recently the *Interim Evaluation of Communities First* has confirmed some of these concerns at the national level.⁸² The report endorses the community centred and non-prescriptive approach of

⁸² Assembly Government, *Interim Evaluation of Communities First: Summary of Conclusions and Recommendations*, September 2006.

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Communities First and commends the Assembly Government for holding to these principles in the face of calls for 'quick wins'. The report also suggests that the majority of Communities First partnerships are now established and most of them deemed to be "fully functioning". There is also evidence of successful development of projects across all elements of the Communities First Vision Framework.

However, the report also confirms that difficulties are associated with the Assembly Government decision to roll Communities First out in all areas at the same time, regardless of the level of community and institutional capacity. As a result some communities and their local authorities have had problems in understanding the purposes of the programme and delivering it effectively. Additionally, the Assembly Communities First team was inadequately resourced initially and there was a lack of guidance and ability to communicate the intent and purposes of the programme. This suggests that the way the programme has been introduced has seriously diluted its impact and points to a need to prioritise those areas with sufficient capacity to deliver major regeneration strategies, whilst continuing to build capacity in less developed communities.

Funding for Communities First compares unfavourably with regeneration expenditure in England. Promises of the 'bending' of mainstream funding and services have yet to materialise to any real extent and in itself will detract from other areas. The Interim Evaluation Report (WAG 2006) points to this as the most serious shortfall in the delivery of the regeneration objectives of the Communities First programme. The report claims that "there has been no evidence so far of the long term sustained mainstream programme

bending that would lead to service provision in deprived areas being more effective in resolving local issues.”⁸³ Equally concerning are the conclusions that there are no strategic connections with local authorities or other agencies and that the ‘silo-based’ structure of the Assembly Government and national and local agencies prevents the joined up working required to make Communities First a success.

Regeneration of our most disadvantaged communities must remain the major priority for the foreseeable future and will require significant hypothecated funding. Communities First must be more than a capacity development exercise. In short, it should deliver the regeneration objectives identified in the Communities First Vision Framework.

To achieve this Assembly Government must fund the process and lead Communities First partnerships into actions which directly tackle the issues in our communities. It must also encourage and compel service providers, at national and local level, to engage with programme bending and to adopt service delivery models which match the community aspirations for change. In this context the *Making the Connections* agenda and the implications of the Beecham Report will become vital areas requiring direct action in the third term.

The Assembly Government has also been concerned with aspects of physical regeneration led by the Welsh Development Agency and local authorities. Major physical regeneration has been evident in the Valleys and with urban projects such as the current Swansea SA1 project.

⁸³ Ibid., page 5.

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In 2004 the Physical Regeneration Fund was established to finance local authority capital schemes. To date this has allocated some £16.8 million to town centre renewal, industrial renewal and physical regeneration projects in Communities First areas. However, this investment does not amount to the spending for a Single Regeneration Budget programme for a single ward in England. There is also a Communities Facilities and Activities Programme which funds the repair and new build of community facilities, while the Assembly Government Housing Division funds regeneration through its Housing Renewal Area programme.

Housing

The Assembly Government inherited responsibility for housing from the Welsh Office which itself had previously taken over the functions of Tai Cymru. Initially, the Assembly Government developed its approach to housing policy from the 1999 *Framework for a National Housing Strategy for Wales*. This led to the consultation exercise *Better Homes for People in Wales*. Following the consultation the Assembly published *The Better Homes For Wales: A National Housing Strategy for Wales* in 2001. As well as identifying the centrality of housing in the regeneration and anti-poverty agenda, the document also set out a new national strategy for housing to resolve the key issues identified in the provision of housing in Wales. The document articulated four key concerns:

- Housing requirements and affordability.

- Condition of the housing stock.
- The role of social housing.
- The housing and support needs of vulnerable households.

Major issues exist around the suitability of the current housing profile in Wales to match the emerging demands for specific types of housing. For example, the *Strategy for Older People* recognises the challenges of demographic change and very importantly sets this in a positive context. However, the strategy has not gained wide local or national ownership beyond fairly narrow boundaries. It tends to be seen as being most relevant to the health and social care context, despite the importance of other policy areas, including housing and the economy.

An increasingly ageing population is already creating demand for properties which generally fit the *Homes for Life* criteria. Issues of supply, quality and affordability are important for the whole population but are more focused in the context of housing for older people. Equity release will play an increasing role combined with enhanced care and support options. Similar issues are experienced by other vulnerable groups with a range of support needs. In general, affordability issues require a more active role for the Welsh Assembly Government in land supply management and planning policy, linking more fully to the *Wales Spatial Plan*.

More attention will be required on assisted ownership schemes operated by local authorities and housing associations with greater promotion of the Home Buy programme. Past experience of the Right to Buy has produced problems with the replacement and supply side pressure as a result of the sale of good council housing stock. At the same time people who have exercised their Right to Buy have brought

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greater social cohesion to communities often characterised by transient populations. Consequently, equity can be seen as a lever to persuade local households to take a stake in their community and promote engagement rather than social exclusion. Properly managed, such programmes could promote greater balance in tenure patterns in some of our most deprived communities.

The homeless have been a central concern of the Assembly Government, which made an early commitment to eliminate rough sleeping. In 2000 a Homeless Commission made a significant range of recommendations, and led to the 2003 National Homelessness Strategy. Funding for voluntary sector homelessness services also grew in comparison to the previous levels but remained lower than in Scotland.

In 2001 the Assembly Government extended legislation to ensure that local authorities were required to house additional groups, including children who had been in council care, victims of domestic abuse, people leaving the armed forces, and ex-offenders. This went further than comparable English legislation of the time. Over the last four to five years there has been a rapid increase in homelessness in Wales and in the number of people in temporary accommodation. In 2004 over 10,000 households were accepted as homeless – the highest since records began in 1978. Over the last few years in any given quarter at least 3,000 households have been in temporary accommodation. Shelter Cymru estimates that around 24,000 people were accepted as homeless in Wales in 2004, of which 8,000 were dependent children. The primary influences are the lack of affordable housing in the current housing market and the low levels of new social housing being built.

There is a view that the National Homelessness Strategy lacks the resources to achieve its objectives and does not have sanctions to ensure local authority compliance. Moreover, the strategy is not integrated as a core corporate development by the Assembly Government and does not link with other strategic areas such as health.

The focus of much of the housing policy in the first two terms of the Assembly has been on the achievement of a decent standard of housing in the social sector. Compelled by clear evidence of the poor quality of a significant proportion of social housing in Wales, the Assembly Government followed the English approach of establishing a minimum standard for social housing. In Wales the standard went further than the English Decent Homes Standard by including quality of the community, environmental sustainability and accessibility, providing further linkages to the regeneration agenda. The Welsh Housing Quality Standard was announced in 2002 and local authorities were required to conduct stock condition reviews and provide plans for their achievement of the standard by 2012.

The Assembly Government has ruled out both Arms Length Management Organisations and Private Finance Initiatives as routes to the quality standard. Consequently, and in the absence of adequate financial support for the local authorities, social housing stock transfer has emerged as the primary method for achieving the Quality Standard. There remains considerable political resistance to this strategy, although some opposition has been neutralised by the development of the Community Housing Mutual Model. This model provides a transfer housing agency which is 'owned' by tenants and

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managed by a three thirds model of partnership between the local authority, the community and external experts drawn from industry, commerce and the voluntary sector.

In England over 120 stock transfers have occurred primarily into conventional housing association models. In Wales only one transfer has occurred, in Bridgend in November 2003 when the council transferred its housing to a newly housing association, Valleys to Coast. However, in March 2004 Wrexham tenants rejected the option in the ballot required for transfer to occur. Local authorities throughout Wales are currently preparing for ballot whilst a small number plan to achieve the quality standard without transfer. For the whole of Wales it is estimated that between £3-4 billion is needed to bring Welsh local authority housing up to the quality standard. While Treasury policy remains fixed in its refusal to consider funding this process, for most authorities stock transfer appears the only option. For those authorities with a negative stock value, some £300 million has been made available for debt write-off.

Housing and Regeneration: Creating the Link

There is widespread recognition that housing and regeneration are closely connected in securing a better future for socially excluded individuals, families and communities. In particular, the achievement of the Welsh Housing Quality Standard by 2012 provides a unique opportunity to develop an integrated approach to economic renewal, housing improvement and social regeneration.

The projected expenditure of £3-4 billion to achieve the standard would represent an unprecedented funding injection into the economy of Wales. The coincidence of that expenditure being directly targeted at the most disadvantaged communities would provide a further opportunity to maximise the regenerative impact. In our social housing communities we find the most disadvantaged sections of the population with the lowest skills base, the least educational qualifications and the lowest levels of labour market participation. The housing renewal agenda provides an opportunity to tackle these issues on the very doorstep of those who occupy this negative position. Reaching the Welsh Housing Quality Standard will require:

- Skilled, semi-skilled and unskilled labour.
- A growth of local SMEs to support the supply chain and contract implementation of repair programmes.
- Effective management of the renewal process by local government and its private sector partners.

Currently, no infrastructure exists to develop these processes. As councils move to ballot, new housing associations are created and the housing repair process begins, a parallel development of that infrastructure must occur. This must promote new business development and sponsorship of current SMEs. Further Education colleges must be funded to develop building trades skills within the population. Management and enterprise skills must be fostered in the Welsh SME sector. These measures must collectively ensure that local people are recruited to the housing renewal process. The alternative will see housing expenditure soaked up by European level contractors. In this eventuality there will be a total failure to harness the wealth created for the communities involved in the process and for the wider Welsh economy.

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A key element for securing regeneration outcomes from housing renewal will be the realisation of opportunities for development of the social economy in Wales. Community organisations must be encouraged and supported to develop social enterprises. The formation of co-operative consortia to win construction and building contracts, childminding networks and nurseries, creation of estate management businesses and community land trusts can all help ensure housing stock transfer is not simply a housing issue. Instead, it should increasingly be seen as a wider one of community regeneration with housing as the catalyst. This should equally apply even where local authorities retain control of the housing stock.

Opportunities exist in other areas such as social care, recycling, renewable energy, social firms and credit unions. However, there exists little or no cross department working, little co-ordination with local authorities and confused engagement from the social enterprise sector.

In 2003 Assembly Government responsibility for social enterprise moved from Economic Development into the newly created Department for Social Justice and Regeneration. On the one hand this provided an opportunity for greater attention and the emergence of the Social Enterprise Strategy in July 2005. On the other hand, social enterprise is in danger of being marginalised and seen as a solution just for deprived communities and not an important driver for economic and skills development more widely.

Realisation of the regeneration opportunities emerging from the housing renewal agenda should be a central concern of a third term Assembly Government.⁸⁴

Key Issues

The discussion thus far suggests that the Assembly Government has initiated an active programme for policy development in those areas in which it enjoys devolved powers. Major policy shifts have been initiated together with structural change in the delivery of services which interact with the poverty, regeneration and housing agendas. Distinctive Welsh policies have emerged in the housing and regeneration programmes being delivered in Wales.

However, change has not always been at the pace advocated in the policy documents. Barriers to the targets and aspirations of Assembly Government policy include:

Failure to Integrate Policy Initiatives

There is a widespread view in all sectors of Welsh civil society that despite considerable political rhetoric to the contrary, policy delivery is still confined by traditional 'silo' structures. This has most recently been confirmed by the Interim Evaluation of Communities First.⁸⁵

⁸⁴ For a comprehensive discussion of the potential of housing renewal combined with economic regeneration see the IWA report, *Future of Social Housing in Wales*, March 2006..

⁸⁵ Assembly Government, *Interim Evaluation of Communities First: Summary of Conclusions and Recommendations*, September 2006.

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Cross-departmental and joined up working has not emerged. Convention has frustrated initial optimism that, as a small country with clearly defined powers, a new politics and new way of working would emerge. The optimism was partly grounded in a view that the National Assembly began with a blank sheet and could determine its own internal structures. However, traditional departmental and divisional frameworks appear as solid now as they were in the days of the Welsh Office.

The Assembly Government has initiated internal forums and external partnerships in an attempt to promote better integration of policy. They include the internal Social Inclusion Network, the National Consultative Forum for Housing in Wales and the Voluntary Sector Compact. However, they have yet to deliver a clear pattern of policy integration. Re-organisation of housing and community regeneration under the auspices of the Minister for Social Justice has yet to yield any major commonality of action.

The existence of departmental boundaries is inevitable and a necessary element of organisational clarity. However, such boundaries must be permeable and flexible if the cross cutting issues of poverty and social exclusion are to be properly addressed. For example, one of the primary objectives of *Communities First* is to promote jobs and business recovery. Yet, the programme's relationship with key agencies such as the WDA prior to its absorption into the Assembly Government in May 2006 was extremely weak. Similarly, internally within the Assembly Government there is little evidence of integration with economic development initiatives and little mention is made of the programme in key strategies such as the 2005 document *Wales: A Vibrant Economy*. Furthermore, the document fails to mention the housing agenda and its potential to contribute to economic prosperity.

Whilst economic and employment strategies are best delivered at regional and sub-regional level, such initiatives need to connect with community based activities. This is to ensure that the long-term unemployed and economically inactive can be reintegrated with the mainstream economy through local activities such as training. The Assembly Government's *Making the Connections* initiative aspires to making this happen but there is little evidence of change to date.

Initiative Overload

Linked to a lack of integration of policy streams is a commonly cited problem of the capacity of statutory, voluntary and community sectors to deal with the number and complexity of initiatives which impact on regeneration and housing. Funding régimes are complex and the bureaucracy of engagement with multiple programmes can cause significant administrative overload even for large local authorities. This issue has been identified in the Wales Audit Office report *Regeneration: A Simpler Approach for Wales* (July 2005).

While in part this results from lack of joined up action within the Assembly Government, it is also a failure to address historical streams of programming and rationalise them within more co-ordinated policy frameworks. Wales has never experienced a rationalisation as comprehensive as the Single Regeneration Budget programme in England which has done much to co-ordinate physical and social renewal.

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Partnership Working

The plethora of initiatives also impacts on the extent of partnership working evident in Wales. In the last decade partnership has emerged as the predominant method for programme delivery across most of the Assembly Government's responsibilities, including health, housing, community safety, economic development, planning and regeneration. However, many voluntary and statutory sector agencies report difficulties in servicing the multiple partnerships to which their staff are expected to contribute. Equally, there is doubt about the capacity of many communities to fully engage with the many partnerships which require a community presence.

Civil Service and Micro-management

The role of the civil service is central to the delivery of the policy objectives of the Welsh Assembly Government. Initial fears that the Welsh civil service was unqualified to develop policy and secondary legislation have proved unfounded and innovative and high quality policies have emerged. However, at the lower levels of the service much innovation is stifled by adherence to traditional approval processes, monitoring and grant management. Many organisations complain of 'micro-management' in which all actions have to be justified within bureaucratic procedures which appear to duplicate information and present administrative hurdles to change on the ground.

Traditional patterns of civil service career development also frustrate those who deal on a regular basis with Assembly Government staff. The patterns of internal mobility often mean that relationships with

funding departments are fractured. Civil servants' knowledge of their portfolio is often seen as poor and there is a view that they are unable to develop a sustained commitment to the field in which they work. This is especially the case with regeneration and the initial development of the Communities First programme was hampered by the lack of training in community development amongst Assembly teams.⁸⁶ Housing has a more stable pattern, perhaps conditioned by the specific arrangements for the incorporation of Tai Cymru, which provided career progression within the Housing Directorate.

The Third Term

As the Assembly Government enters its third term one of its key priorities should be the comprehensive regeneration of all its communities, but especially those where poverty of income and poverty of place are critically evident. To achieve this there needs to be an agreed definition of what regeneration means and what policy seeks to achieve. All agencies and partners must ensure that regeneration in Wales achieves:

- Social renewal which creates confident and active citizens willing and able to participate in the key decisions which affect their communities.
- Economic opportunity which provides the population with a source of income which in itself does not create poverty.

⁸⁶ Ibid.

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- Equality of educational opportunity to ensure equal advantage in educational outcomes and subsequent labour market entry, regardless of the social starting point of the individual.
- Equality of health outcomes and access to health services which address the current health divide.
- Environmental renewal which eradicates dereliction and builds sustainable maintenance of the physical environment.
- Housing renewal which underpins a decent home for all regardless of income.

These are ambitious objectives but the opportunity to work at the scale of a small nation with concentrated population centres makes them achievable. Political will and integrated policies are essential to move change in this direction. Currently Wales is characterised by educational underachievement, poor health, waste of human resources and cultural and social fragmentation. To focus funding, policy and delivery towards these objectives there is the need for an integrated policy plan which connects and works in common concert on all these issues. This should include:

1. The establishment of three national objectives which in their character encompass positive programmes for change. These should be determined by public discussion and consultation but might include:

- Raising the level of economic activity.
- Promoting educational improvement.
- Removing health inequalities.

The objectives should also be translated into specific targets, for example:

- Raising GDP by 5 per cent by 2012.
- Ensuring that all 16-18 year olds are in education, training or work by 2012.
- Reducing levels of ill health by 5 per cent by 2012.
- Increasing social cohesion.

All policies and programmes would have to demonstrate how they contribute to the achievement of these national objectives. Such an expectation would be placed on all stakeholders in the policy and service delivery arenas. Assembly Government divisions would be required to integrate all policy initiatives with the three national objectives. All Assembly Government funded programmes, even at community level, would be required to demonstrate contribution to their achievement.

Local authorities would need to demonstrate service delivery models mapped against the objectives. Such a strategy would underpin local autonomy in that the specific nature of actions and programmes would continue to be determined at the local level. However, local authorities would be required to demonstrate how they were contributing to the national objectives.

2. A national strategy for poverty and gender proofing of all policy and service delivery. Policies and services would be required to assess their impact on poverty and gender distinctions. All actions by the state impact on the pattern of poverty in a society. Both

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positive and negative impacts can be identified. Poverty proofing seeks to minimise negative impact and maximise positive impact. Often minor changes in the design of policy and the pattern of service delivery can maximise positive impact on poverty.

Additionally, poverty proofing should be a component of inspection and audit to ensure that perverse policy effects are not sustained over extended periods of time. In June 2003 the Assembly's Equal Opportunities Committee undertook a review to consider how to ensure equality issues play a central role in public policy making and service delivery in Wales. A report on progress against a series of recommendations is due in Autumn 2006. If gender is not taken into account, programmes can result in reinforcing inequalities and gender stereotyping and result in unequal benefits for men or women. This is particularly important in Wales where the poorest communities have some of the most firmly held stereotypes of men and women's roles in society. At the same time Wales is well placed to showcase gender and equalities best practice. For instance, currently there is an equal gender split within the Assembly Government Cabinet with women holding responsible positions, including the portfolio for finance.

3. A participative approach to government which recognises the social and cultural diversity in Wales and harnesses it for positive effect. Social cohesion is a component of any successful society, yet many groups in Wales are under-represented within organisations. Such under-representation is based on intentional and unintentional prejudice against social groups that include women, the poor, ethnic minorities, disabled people, asylum seekers and older people.

Full integration of such groups into civic society ensures maximum use of cultural and social capital and provides a sense of belonging and motivation to all sections of society. However, to be successful, inclusion paths have to be real and avoid the tokenism that characterises many examples of 'participation'.

Such models are particularly valuable at neighbourhood level. In preparing its Local Government paper later in 2006 in parallel with the English Local Government White Paper, the Assembly should pay attention to the delivery of 'double devolution' in which local and community levels play an increasing role in the design and delivery of public services. The logic of 'subsidiarity', devolving decision making, resources and service delivery to the most local level possible should inform the functioning of central and local government in Wales

Current policy documents and strategy documents contain reference to such methods of government, but to date little has been delivered in reality. Yet, in June 2006 the Beecham Review underlined how appropriate the health and regeneration policy arenas are for these approaches.⁸⁷ This is because they are citizen centred and have the potential to give a voice to individuals and communities.

The National Assembly's third term should provide an opportunity to focus on achieving a consensus around these issues and harnessing enthusiasm for such ideals to make them a reality. Most critically, the Assembly Government must provide clear leadership and demonstrate to all public services that it expects these approaches to underpin delivery.

⁸⁷ Beyond Boundaries – Citizen Centred Local Services for Wales: Report to the Welsh Assembly Government, June 2006.

Policy Recommendations

This chapter has reviewed the first two terms of the Assembly Government and indicated some priorities for the third term set against the values and approaches which, it is recommended, should underpin the future social justice and housing work of the Assembly Government. It has also identified some weaknesses and failures in the current pattern of delivery. The following offers recommendations to bring about improvements to the commonly shared objectives that Assembly Government has for the achievement of social justice in Wales.

1. The Assembly Government should be more pro-active in developing the framework and infrastructure to achieve the advantages to be gained from linking regeneration and housing renewal. There is a requirement for leadership to bring local authorities, further and higher education institutions, the professional organisations, business and communities together within an all-Wales strategic framework. Only the Assembly Government can achieve this.
2. The Assembly Government should more actively promote housing stock transfer and the Community Housing Mutual Model. Reluctance to prescribe to local authorities should be counter-balanced by the benefits for tenants which have been generally observed in more than 150 stock transfers in the rest of the UK.
3. The co-ordinated policy and service delivery identified in *Making the Connections* should be made a reality by active pursuit of strategic management and rationalisation of programmes.

4. 'Subsidiarity' in decision making should be directly developed in Assembly Government relationships with local authorities. Publication of the Local Government White Paper in England should be an opportunity for the Assembly Government to promote 'double devolution' in Wales.
5. The *Communities First* programme should be re-focused to prioritise communities with developed capacity for change, whilst continuing to build capacity in less developed communities. This may require a two tier funding system which concentrates current expenditure where it can have most impact to deliver regeneration outcomes.
6. The *Communities First* programme should be described as a regeneration as well as a capacity building programme. The programme must deliver regeneration outcomes if it is to be successful.
7. Delivery of regeneration outcomes will require significant hypothecated funding. It will not suffice to rely on programme and funding 'bending' to achieve real change in our most disadvantaged communities. There should be greater flexibility especially where housing and regeneration needs could be jointly met. Links should be made between skills, training and employment opportunities.
8. The Assembly Government should establish national training standards and an accreditation framework for community work in Wales. Schemes exist 'on the shelf' and should be rapidly approved.

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9. The Assembly Government should support Communities First Partnerships moving beyond the organisation of events and community activities into actions which tackle the substantive issues. This requires leadership, support, funding and incorporation of a gender perspective.
10. The Assembly Government should develop better monitoring, evaluation and performance measurement. There is concern that despite excellent policy intentions there is a failure to follow through to the delivery stage, to tackle the 'implementation gap' between policy and delivery.
11. The Assembly Government should encourage local authorities to make more use of planning guidance to increase the supply of affordable housing.
12. The Assembly Government should support local authorities in pursuit of the Welsh Housing Quality Standard, in particular by promoting regeneration renewal area schemes.

Chapter 7

Culture

There is little doubt that the advent of the National Assembly in 1999 has proved hugely beneficial to cultural development in Wales. In May 1999 the cultural sector was suffering from the cumulative effects of four years of standstill funding, and many arts organisations were at risk of financial, if not creative collapse. There had been no proper forum for the debate of cultural issues, and the Arts Council of Wales was in the throes of a very difficult period. Within the political community it was impossible to detect any strategic debate on cultural matters, except perhaps on the Welsh language.

The Policy Inheritance

Within the first two terms the original Post-16 Education Committee carried out a review of cultural policy, *A Culture in Common* (1999-00); a Culture Ministry was created (October 2000) along with a ministerial forum, *Cymru'n Creu* (February 2001); an Assembly Government Cultural Strategy, *Creative Future*, was agreed (January 2002). This was followed by the national action plan for a bilingual Wales (2003) and a '20-year' sports strategy, *Climbing Higher* (January 2004).

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The Arts Council of Wales was put on a firmer footing in the restructuring of April 2002. The Assembly Government's creative industries strategy and the accompanying Creative IP Fund (Finance Wales) were also launched in 2004.

Alongside this process of policy development the funding of culture moved strongly upwards, in sharp distinction to the years before 1999. The Assembly's first two terms saw the introduction of free entry to major museums and galleries; the launch of the Music Development Fund within the education system (though it was allowed to decline during the second term); the completion of the Wales Millennium Centre along with a balancing commitment to the arts outside Cardiff; the completion of National Waterfront Museum at Swansea; the creation of *Theatr Genedlaethol Cymru*; and the launch of the *Library of Wales* scheme. Arts funding moved ahead more strongly in the first term and sports funding more strongly in the second term (see Figure 1 on the following page).

In summary, spending on culture (including CADW) has increased by 146 per cent and has also increased its share of the total Welsh budget by 25 per cent - from 0.84 per cent to 1.04 per cent. Culture, excluding sport, has increased its share by 20 per cent - from 0.75 per cent to 0.9 per cent. The Welsh Assembly Government's spend on culture also increased at a higher rate than for the UK as a whole. Taking 2000-01 as the base of 100, Assembly Government culture spend increased by 49 per cent as against an increase of 28 per cent for UK departments. Against the background of the 1990s, one has to acknowledge that these changes have been overwhelmingly positive.

Figure 1: Culture Spending 2000-01 to 2006-07 (£ms)

	NMW	NLW	ACW	WLB	RCAHM	Sport	CADW	Total
2000-01	14.8	7.2	15.4	6.9	1.3	7.0	5.9	58.5
2006-07	41.6	18.3	26.6	13.5	2.0	19.3	8.5	143.7
Increase	181%	154 %	73%	96%	54%	176%	44%	146%

Note:

(i) NMW – National Museums Wales; NLW – National Library of Wales; ACW – Arts Council of Wales; WLB – Welsh Language Board; RCAHM – Royal Commission on Ancient and Historical Monuments of Wales; Sport – Sports Council of Wales plus ‘Climbing Higher’ strategy; CADW – Welsh Historical Monuments.

(ii) Some important caveats have to be entered about the above figures:

- Sectoral figures are not 100% reliable, since they are based on budget rather than on out-turn figures which are not routinely available.
- The increases for the NMW and NLW, taken together, reduce from substantially when you exclude the funding made available to reduce their pension deficits – which account for a total of approximately £50m. over the last three years.
- The figures also exclude the Assembly Government’s contribution to the capital cost of the Wales Millennium Centre.
- From 2003-04 the programme costs of some of the culture ASPBs have been subsumed under the heading ‘Culture Fund’. A breakdown of this expenditure is not routinely available.

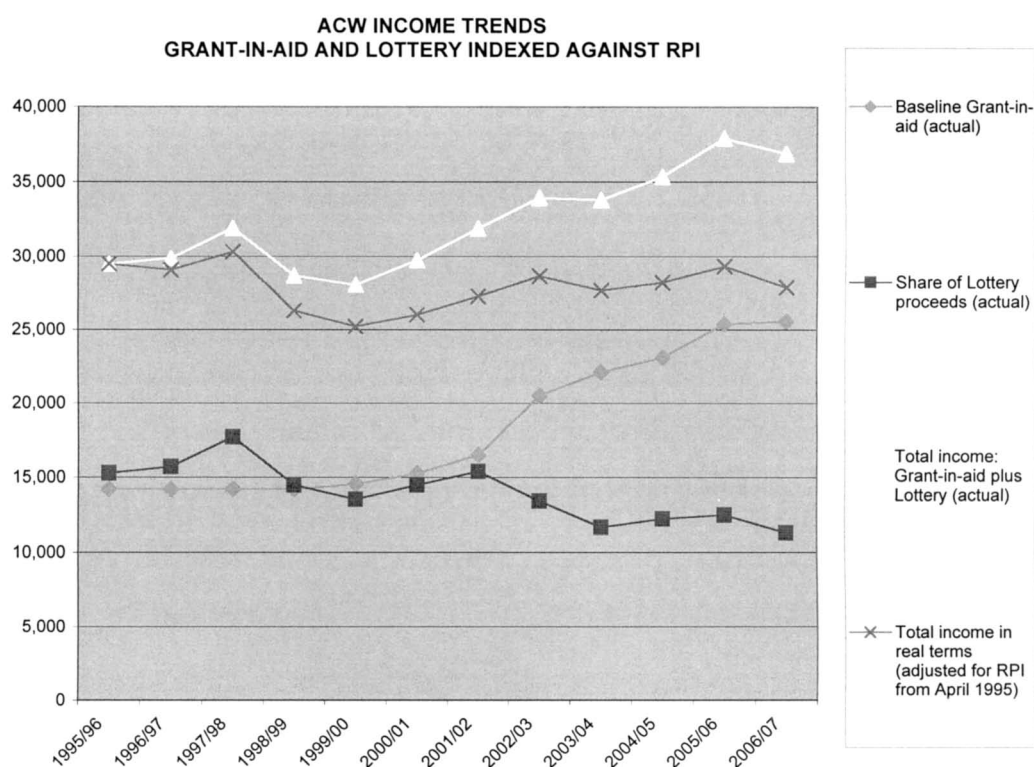
At the same time it would be wrong to ignore some countervailing factors and trends:

- Many cultural organisations entered the post-1999 period with their financial resources severely depleted, and their activity levels depressed. In many cases the increases in grant-in-aid simply provided a necessary lifeline. Many of those organisations remain fragile. Even those that have come out of the recovery stage have not been able to generate the reserves that would give any normal business some greater stability.

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- The adverse impact of the 1994 local government reorganisation is still being felt in some quarters, and the increasing budgetary pressure on local authorities in the last two years has seen many cutting back further on culture spend.
- The 1999-2006 period saw lottery income to the Arts Council and the Sports Council declining sharply from its 1998 peak, largely offsetting the increases in grant-in-aid (see Figure 2).

Figure 2



- The pension deficits at the National Museum and National Library have absorbed approximately £50 million, a significant proportion of their own funding increases. The only positive effect of this spend has been to obviate the need to cut activity.

- Comparisons with the UK spending levels neglect the fact that governmental spending on culture in the UK is low by European standards.

If there was one common theme arising out of the Education Committee's review of cultural policy and the subsequent culture strategy *Creative Future*, it was a wish to see culture defined broadly and become a wider task for government rather than a task solely for the Arts Council. In 2000 *A Culture in Common* said that "the arts must be welded to the fabric of the quality of life of our communities", although it also stressed that culture should not be seen as synonymous with the arts.

In 2002, *Creative Future*, responded to the spirit of the policy review by setting out a vision in which Wales "will be, and be known to be, a nation whose culture is indivisible from the rest of our living." To that end it set out five commitments:

1. Making cultural development a prime, cross-cutting theme for the Welsh Assembly Government.
2. Establishing cultural development as a primary task for local government.
3. Ensuring a strong, well-funded and efficient Arts Council of Wales.
4. Co-ordinating planning and activity across all cultural bodies.
5. Extracting cultural value from a wide range of public and private expenditure.

At the end of the Assembly's second term we have a paradoxical situation where it is possible for the Assembly Government and its

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cultural agencies to tick many of the boxes in the strategy's eight action plans, while still leaving the above prime aims of the strategy unfulfilled. Consequently, there is a pressing need to review the overall cultural strategy, not necessarily to define new principles, but in order to renew the focus on those prime aims.

The Arts Council of Wales is certainly in a much stronger position now, and better funded, than when the current cultural strategy was conceived. Its processes are more efficient, and it has become a more effective body. Perhaps one sign of its health is that it has strong aspirations to develop further as an organisation.

Point 4, the "effective coordination of planning and activity across all cultural bodies" has taken some strides forward through the establishment first of the ministerial forum *Cymru'n Creu*, and, as a result of the review of Assembly Sponsored Public Bodies, the Culture Minister's new Culture Board. However, the former was never as effective as it might have been, while the remit of the latter is still unclear.

We are still a long way from the second point, "establishing cultural development as a prime task for local government." Although the Wales Audit Office has looked at the management of culture within local authorities and there is now a formal memorandum of Understanding between the Arts Council and the Welsh Local Government Association, many local authorities still struggle to make the arts and culture more than peripheral.

It is in the first and last of the five aims that there is most still to do. We are a long way from "extracting cultural value" consistently from

Cabinet portfolios other than Culture, although there have been useful precedents. Sports strategy has been well connected to health objectives, and policy on the Welsh language has been stitched into the rhetoric, if not all the actions, of the Assembly Government as a whole.

In economic development, the creative industries initiative has been welcome, although it will be some time before it bears fruit. On the environmental side, the creation of the Design Commission for Wales, following the recommendations of an IWA report, has been a significant step forward. However, it has not been supported as it might have been through a much more demanding approach to architectural and urban design policy and practice across the board.

More widely, the Assembly Government as whole has not yet explored the possibility of using culture as a key organising idea for building the Wales it wants to see. This is an opportunity that is available to be seized in the Assembly's third term. It is also the surest way of building equality of access to the arts and culture for the long term.

The Minister's In-Tray

Any Minister taking up the reins of the Culture portfolio in May 2007 will be faced, in the first instance, with the need to bring some stability to the governance of the cultural sector, after a troubling period during which relations with three of the cultural bodies – the Arts Council of Wales, the Welsh Language Board and the Sports Council for Wales - have been under varying degrees of strain.

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It must be hoped that the report of the Welsh Arts Review (due before the end of 2006) will bring forward recommendations that provide for clarity of responsibility and long term stability. It is even possible that proposals for the future relationship between the Arts Council and the Culture Department will have relevance, too, for the relationship between the Sports Council and the department. It is not yet clear whether we shall see a set of proposals and the necessary political consensus to enable these issues to be put to bed prior to the May elections. But even if decisions are taken and actioned before May, the first years of operation of any new system will be a delicate time. In addition to imagination and sensitivity, the following will do a great deal to ensure success:

Recommendations

- A stronger Ministerial focus on high level issues - as was envisaged in the initial policy review *A Culture in Common* - including a lead role in the development of the cross-cutting approach.
- A strengthening of policy-making capacity within the Culture Department, but in addition to rather than at the expense of the strategic capacities of the Arts Council.
- The 'arm's length' principle to be sustained and strengthened, to ensure that any direct grants by Ministers are made via processes that are no less open than those operated by the Assembly Sponsored Public Bodies.
- The investment of time and effort in the successful re-structuring of the Arts Council to be recouped by encouraging its continued development as a prime source of intelligence and advice, with a strong focus on artform and organisational development.

- Formal protocols between the Assembly Government and its remaining Assembly Sponsored Public Bodies that will create smoother relationships by encouraging more disciplined behaviours.

In a prescient paragraph in *A Culture in Common*, the Assembly Committee concluded:

“It is for the Assembly Secretary [Minister], advised as appropriate by the Subject Committee, to ensure that the strategic and corporate plans of each sponsored body will make a genuine contribution to realising the Assembly’s overall priorities. It is neither the Assembly Secretary's responsibility, nor that of the Assembly itself, to second-guess or explain the detailed operational decisions of those bodies or to act as arbiter for disappointed grant applicants and the like.”

One further improvement is needed in the field of governance to ensure that both the National Assembly, through its committees, and members of the public can adequately scrutinise governmental action: this is the publication of full and detailed out-turn data for each year. Without such data Ministers cannot be fully and readily accountable.

Recommendation

- The Culture Minister should be required to publish, within three months of the year end, a full and detailed account of the expenditure out-turn for the year for the whole department, detailing total distributions to each cultural ASPB as well as direct expenditure by the Minister. This out-turn report should be subject to a formal scrutiny session by the Culture Committee.

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Lastly, if the 2006 Welsh Arts Review has not dealt with the matter in its report to the Minister, there is a need for detailed consideration of the role and remit of four parties which currently contribute to the policymaking process without real clarity about their relationships: the Culture Department, the Culture Board, the Culture Committee and the cultural Assembly Sponsored Public Bodies.

On the surface their respective responsibilities may appear distinct, but in practice there have been some confusions and overlap during the Assembly's first two terms. There is a particular need to redefine the role of the Culture Committee in the wake of the Government of Wales Act, especially as it is probable that it will be less often engaged in legislative issues than some other committees. There is also a need to define the remit of the Culture Board.

Culture – a Task for the Whole Government

It has been argued that the debate about Government support for culture has become sterile, relying on divergent emphases on either the intrinsic value of culture – art for art's sake - or their instrumental value in delivering on government's other social objectives. Neither approach has produced a route to a fundamentally different assessment of culture within overall public spending priorities.

This has led, in turn, to an alternative approach that defines a wider public value for culture. While this course has its attractions, it could simply lead to Governments waiting for some identifiable change in the public mood, rather than taking the lead in shaping that mood.

It is open to the Assembly Government, operating against a background of Wales's size and cultural traditions, to take a more imaginative lead and to carve out a distinctive position for Wales in cultural development. This would involve something much deeper than institutional tinkering. The Beecham report, commissioned by the Assembly Government, to support its *Making the Connections* strategy for public service improvement, has shown that progress on this front requires the sophisticated management of networks. The Assembly Government should demonstrate its capacity to be, itself, an exemplar by deploying this approach across its internal boundaries in support of culture.

This would also help define the role of Culture Ministers as Ministers of Culture, rather than as Ministers for a series of discrete functions – the arts, the language, heritage, sport, broadcasting and so on. Below are some examples that demonstrate how the adoption of cultural drivers can give Government as a whole an organising idea.

Education

The present Government's wish to extend access to the arts and culture is something that should be supported as strongly as possible. However, there is widespread concern amongst practitioners that initiatives by individual organisations, framed within their already tight financial constraints, will deliver outcomes that, though valuable, could lack real impact. A deeper approach to access needs the full engagement of the education system, throughout the age range. The 2000 cultural policy review, *A Culture in Common*, concluded that:

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“... in putting our young people first we must ensure that at **each** stage of their development, the impact of the arts - and particularly as manifest in Wales - permeate throughout the curriculum, and indeed outside the curriculum, at primary, secondary and tertiary levels.”

The review heard anecdotal evidence to suggest that:

“... there is a great flourishing of activity in the arts at primary school level, but when pupils move on to secondary education and the demands and pressures of the curriculum increase, this activity is relegated to the margins.”

The review recommended that Estyn should carry out a survey of arts provision at Key Stages 2 and 3 (ages 7 to 11 and 11 to 14) and provide guidance about arts provision within schools and also extra-curricular activity. It further suggested that, in order to ensure that “cultural matters have their proper profile,” ACCAC (the curriculum authority) should review the Curriculum Cymreig “to examine the extent to which it should be supported by new materials relevant to the arts and culture in Wales.” The first of these recommendations appeared in the action plan of the subsequent cultural strategy, but not the second. Estyn produced a short report on the arts and creativity in schools in 2003, but there is no evidence that this led to any change of policy.

In the meantime there has been a wealth of evidence that local authority support in this area has been severely constrained. The removal of ring-fencing around the Music Development Fund has seen a sharp decline in music provision that has hit the disadvantaged particularly hard.

This was in sharp contrast to the launch of the Music Manifesto in England in July 2004, when ministers at the Department of Culture, Media and Sport confirmed the continued ringfencing of music funding up to 2008. There appears to be a growing gulf between the low priority accorded to the arts and culture within education in Wales and the higher priority adopted by its neighbour. In recent years England has seen the following education-related arts initiatives:

- **Arts Alive!** – a website launched by the Qualifications and Curriculum Authority (QCA) as the result of a curriculum development project “to identify ways in which the contribution of the arts to pupils’ education can be maximized.” The QCA says that the messages coming out of research is that “investing in the arts can transform schools. The arts can raise standards, change attitudes, improve behaviour and increase the quality of teaching and learning.” QCA argues that “raising attainment in the arts is an excellent starting point for raising attainment across the curriculum.” It believes that emphasis on the arts can raise standards, and develop transferable skills as well as transferable understanding.
- **Artsmark** – an annual award scheme launched in 2000, managed by the Arts Council of England but also supported by the Department of Culture, Media and Sport, the Department for Education and Skills, QCA and Ofsted. The awards aim to recognize and reward schools that show a commitment to the full range of arts – music, dance, drama and arts and design. Schools can apply for one of three levels: Artsmark, Artsmark Silver and Artsmark Gold. In 2006 561 schools received a Gold Artsmark, 413 schools received the Silver Artsmark, and 252

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schools received the basic Artsmark award. (From 2006 an Artsmark scheme has begun to operate in Cardiff on the initiative of the local authority, which demonstrates that the lack of a national scheme in Wales is felt.)

- **Creative Partnerships** is England's flagship creativity programme for schools and young people. It was launched in 2002 and, again, is managed by the Arts Council of England but funded by the Department of Culture, Media and Sport and the Department for Education and Skills. It also goes beyond the arts into other areas of creativity. In its first phase it had a budget of £40 million and the current annual cost is £37.5 million. It is currently working with a 1,000 schools in deprived areas, and since its inception it has involved 5,119 schools and 3,507 creative organizations. It has recently been the subject of a favourable report by Ofsted.

There is no need to copy slavishly what is done in England. However, the fact that there is no apparent focus on these issues amongst education policy makers in Wales is something that should be remedied quickly.

It is noticeable that sport and PE have received considerable attention in the remit letters to Estyn over the last two years, whereas the arts and culture are not mentioned at all. These lacunae should receive close attention in the Welsh Arts Review. The gaps need to be plugged urgently, since recommendations arising from the current review of the National Curriculum in Wales are expected by September 2007, for review and implementation in September 2008.

It is also worth noting that the above considerations are also relevant in the context of science education – itself in many ways a cultural issue – that also needs an injection of creativity within the curriculum. The Director of the Royal Institution, the scientist Susan Greenfield, has stressed the similarity of the approach of good scientists and artists – questioning, challenge, interpretation, lateral thinking – and has argued for closer interaction to between the two to generate creativity in education.

Recommendations

- Define cultural entitlements in education at all ages.
- Provide a higher position for the arts within the National Curriculum.
- Exploit fully the potential for the arts to contribute to delivering other elements in the curriculum, and to enhancing creativity in general.
- Replace the Music Development Fund with a sustainable fund for arts development in the schools.
- With teacher training institutions, improve the training of teachers in the use of the arts within the curriculum.
- With teacher training institutions, improve the training of artists in teaching methods so that artists can have more consistent access to schools, including extended use of artists within the teachers' workload agreement.
- Ensure the existence of a network of agencies to supply specialist arts advice within the school system.

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Health

There is an opportunity for the integration of arts and culture into the Assembly Government's progressive emphasis on well-being in its health agenda. There is a growing body of evidence that the arts can contribute to the fulfilment of health objectives, through creating better patient environments and the deployment of art-based therapies, as well as the integration of the humanities into medical education.

This evidence has led to the NHS Trusts appointing design champions, commissioning public art and employing artists in residence who have worked with both patients and staff. In Scotland, £500,000 a year has been earmarked by the Health Department for a nationwide youth dance programme. Best practice in the field of health and arts needs to be identified and extended across the Welsh health sector. The Arts Council of Wales launched a report into this area at the May 2005 Health Challenge Wales conference and its recommendations could usefully be used as a basis for informing future planning.

Recommendation

- Agree an arts and health strategy for the whole sector, supported and funded by both the Culture and Health Ministries, following on the recommendations of ACW's Arts and Health Steering Group.

Social Justice

Arts, culture and sport have a powerful track record in contributing to community development. This was recognised in the Assembly Culture Committee's own report, *Arts, Sport and Community Regeneration*. It argued that arts and sport were "integral to the success of community regeneration, and not only in Community First areas, but throughout Wales."

It also argued that this was not fully recognised across Government, that regeneration policies did not maximise the use of arts and sport, and that they should be regarded as part of the long-term solution rather than a short term quick fix.

The work of *Valleys Kids* in Rhondda Cynon Taf, *Rubicon Dance* in Cardiff and the *Phoenix Centre* in Swansea are examples of what is possible when there is long-term investment. The fate of *Arts for Us* in Swansea is an example of how excellent practice can be lost and substantial previous investment vitiated by short-term economies.

The Culture Committee's conclusion that these approaches should be of benefit both within and beyond Community First areas, and the fact that local authorities are the key delivery agencies, dictates that close working between the social justice departments and the holder of the local government portfolio is essential. Local authorities should construct a proper long-term framework to give arts and cultural development a standing equivalent to that given already to sport.

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Local Government

Local authorities are key components of the cultural infrastructure of Wales. They spend as much, if not more than the Assembly Government in this field. However, the record across Wales is varied. Having perceived the potential for wider gains, some authorities have prioritised cultural development. Others, seeing it as peripheral, have given it a low priority in their organisational structures, plans and budgets.

In partnership with the Wales Audit Office, WLGA and the Arts Council, the Assembly Government should give a stronger lead to ensure that best practice is extended to all 22 authorities. New strategies at a local authority level should seek to implement the same cross-cutting approach as is recommended here for the Assembly Government. At the very least they should integrate arts and cultural development policies within the education, libraries and community services. In these ways we will achieve a substantially greater cultural return, even if it is not possible to increase overall local authority budgets significantly.

Recommendations

- Create a working group on local authority financing/management of arts and culture, comprised of representatives of the Assembly Government, the Welsh Local Government Association, the Arts Council of Wales, Voluntary Arts Wales and the Big Lottery Fund. This group should bring forward recommendations that would:

- Encourage a cross-cutting approach across individual local authorities.
- Evaluate the 'cultural planning' concept as a basis for local authority strategies.
- Provide for clear, unambiguous location of responsibility for arts and culture at a senior level within local authority structures
- Ensure the employment within local government of professional arts expertise that is properly respected and rewarded.
- Ensure clarity and consistency in the reporting of cultural expenditures and outcomes that will enable robust benchmarking of performance.
- Provide a template for the integration of culture, arts, sport within regeneration strategies.
- Examine options for securing a higher priority for arts and culture, either by making support for them a statutory responsibility or by the introduction of agreed targets for cultural provision and development.
- Suggest ways of better integrating arts and culture provision within and beyond the school system, including the potential for collaboration between local authorities across cultural services.

Social Justice

- Subject to the findings of the above group, the appointment of arts development officers within Community First wards should be prioritised within the existing resource allocation.

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- Within the housing part of the portfolio, the department should support the environmental objectives listed below by instituting new housing design initiatives and awards to raise housing design standards generally, but with full regard for sustainability issues.

Economic Development

In launching its Creative Industries Strategy in 2004, the Assembly Government took a brave and ambitious step in identifying specific areas for investment. Whilst the four target areas – music, television, film and new media – are not necessarily universally supported, the principle of targeted strategic investment should be continued. The Creative Industries Support Service now known as Creative Business Wales was established in January 2005.

Embedded within the International Business Wales division of the newly formed Department of Enterprise, Innovation and Networks, Creative Business Wales should be well placed to take forward an integrated approach to creative industries development. In particular it will need to maximise the use of the new Convergence Funds for strategic projects. One example would be the development of a digitalised cinema network across Wales.

The role of individual practitioners and micro businesses within the creative industries sector must not be overlooked. Currently generic business support for the sector is not effectively meeting its creative business needs.

A strategic approach to delivering a comprehensive support service via both Business Eye and specialist services such as Cultural Enterprise and the Welsh Music Foundation needs to be pursued. A truly integrated service needs to be adopted, ensuring that small Welsh businesses can access the opportunities to provide services in Wales and are not excluded by default as a result, for example, of government policies on procurement.

A review of the Creative Intellectual Property Fund is needed to see if it has in practice supported the Creative Industries Strategy (2004). This needs to be undertaken in the context of an update of the Creative Industries Strategy itself. The role of education and training in the creative industries needs to be acknowledged and given a higher profile if the next generation of creative businesses are to be developed and retained in Wales. The work of the sector skills councils, education and other professional development providers needs to be co-ordinated to ensure that the skills needed by the Welsh creative industries are met in future.

The interface between both the industry and the market needs to be effectively managed. A more market led approach needs to be taken, informed by an analysis of the industry in Wales, its strengths and weaknesses and potential opportunities. We should not ignore the markets available to the creative industries in England. Outside New York, London is the biggest market for creative industry businesses. The Creative Economy Programme being developed by the Department of Culture, Media and Sport includes cities as hubs of activity. There is no reason why Wales cannot position itself to be a supplier to city markets in England. Welsh businesses should be supported to take advantage of these opportunities, underpinned by a long-term view of strategic, sustainable investment.

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A second interface, between the commercial and the not-for-profit sectors, will require greater cooperation between Ministers and their respective agencies. It is too often forgotten that the seeds of commercial success are often sown by public investment in the arts. This interface needs further joint study by the creative industry agencies and the Arts Council to explore how both sides of the divide could benefit. In some areas, it is possible that the arts could also benefit from an investment-led approach by the Arts Council.

The design sector is the next area that the Assembly plans to move into and this is a classic example of where the creative industries meet the more traditional industrial sectors such as manufacturing. In the case of design an ambitious and visionary approach is needed to take advantage of the domestic and international opportunities. Linked into design, in a true sense, is the built environment, cultural tourism, education, employment and social inclusion.

To ensure that the peripheral benefits to society can be maximised a clear strategy is needed for investment across the Creative Industries. This is an example of where a national vision could deliver real benefits if government were prepared to take a confident and bullish approach to policy development and implementation. Partnership working between agencies and institutions in Wales and beyond is key to the success of this approach.

Recommendations

- Ensure that arts and creative industries are fully recognised and integrated into the operational programme for Convergence funding for 2007-2013, as being a sector that can contribute to the Lisbon agenda and to the competitiveness of the Welsh economy.

- That a strategic review of the Creative Industries Strategy (2004) and the Creative Intellectual Property Fund is carried out as a matter of urgency to ensure that the approach proposed is meeting the demands of both the industry and the market potential in Wales and beyond.

Environment

The buildings and landscape in which we live our lives are not only a key part of our visual culture, but also have a deep effect on our lives for good or ill. They send out signals about our present society and our aspirations for the future. They can also shape the competitiveness of our cities and our countryside. This is an area where it should be possible to generate a strong cultural return that would also make a crucial contribution to the fulfilment of sustainable development objectives.

Although there have been notable steps forward, such as the creation of the Design Commission for Wales, and the building of many distinguished new buildings such as the National Assembly, the Wales Millennium Centre, the National Waterfront Museum and Galeri in Caernarfon, too much of our commercial development and our public estate fails to meet the standards that we should expect. The design quality of most private sector housing, and especially its related public realm, is little short of a scandal, for which future generations will have to pay in otherwise avoidable social, environmental and financial costs. Too many of our public spaces are also of low quality, inviting a drift into seediness and insecurity.

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The effort that we put into protecting our countryside is out of all proportion to that which we devote to the safeguarding and raising the quality of the urban environment in which the vast majority live. A more appropriate balance needs to be struck, by strengthening the latter rather than reducing the former. It is an area where our practice is sadly adrift from other UK countries. England's architecture and design agency costs 24p per head, Scotland's, 12.5p per head and Wales's 8p per head. Such a strengthening should then be supported by improving public procurement practices across the board and using them pro-actively to encourage the best design. It will not be enough to confine best practice to a few showpiece buildings.

Government should not be happy to claim design as part of the creative industries if it is not also willing to recognise its key role in improving our lives in the most fundamental way. There are glaring deficiencies in the structuring of the planning function within our local authorities as well as a shortage of appropriate urban design skills.

Paradoxically, at the same time too many local authorities are maintaining in-house design teams not to aid the planning process but to deliver schemes themselves, discouraging open competition, lowering quality and crowding out private practices – the very high level service industries that the Government says it wants to encourage.

A concerted attack on these issues that embraces the private sector but also reclaims ownership of the public realm for the public, needs to be accelerated. The development of a better physical environment should be the clearest public expression of 'citizen-centred' services.

Recommendations

- The Government should recognise formally that the encouragement of good design and the fulfilment of sustainable development objectives are indivisible.
- The specific responsibility of the Environment Department for the quality of our built environment should be underlined by the development and active promulgation of a coherent set of policy initiatives aimed at raising design standards in ways that also support sustainable development objectives.
- Wales should follow the example of Northern Ireland and insist on a 20 per cent reduction in CO₂ above the present building regulation levels.
- The role of the Design Commission for Wales should be strengthened, allowing it to make a major impact on the training of planning professionals and the public's elected representatives.
- The Assembly Government and all its agencies should adopt best practice in the design and procurement of the public estate and its subsequent maintenance.
- Government should insist on the pooling of planning resources across groups of local authorities against an agreed timetable of not more than three years, together with an end to the current too common separation of strategic planning and development control.
- With the above local groups, the appointment of design champions should be encouraged, making the development of quality school environments a priority.
- The planning system should give greater encouragement to the development of high quality public art.
- The Department of Enterprise, Innovation and Networks, the Education Department, the Higher Education Funding Council for

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Wales and the HE institutions, should collaborate in establishing a Design Centre for Wales in line with the recommendations of the Cox Report on Creativity in UK Business. This development could be considered as a joint venture between the combined art and design forces of the University of Wales Institute, Cardiff (UWIC), and the universities of Newport and Glamorgan as part of a HE re-configuration agenda.

First Minister (International Policy)

Cultural activity in Wales cannot reach the highest standards unless there is a high level of active engagement internationally. A nation's arts have their distinct national features, but they also live within an international framework of values and practice. Culture plays a very important part in defining Wales's place in the world. For all these reasons the place of the arts in Wales's international representation needs to be more clearly defined.

In this way, too, the arts can help trade. Much good work has been done following the Art Council of Wales's establishment of Wales Arts International (a joint venture with the British Council) in the 1990s. However, the time has come for a step change. With the knowledge that the Foreign and Commonwealth Office, jointly with the Treasury, has already carried out a review – the Carter Review - of the UK's efforts to promote a positive image overseas, the Arts Councils of England, Scotland and Northern Ireland have already formulated international policies.

Wales needs to do likewise. There are actions that Wales can take unilaterally both in terms of increasing its presence abroad and attracting overseas artists to Wales, but we also need to ensure that Wales is fully represented in UK initiatives.

Recommendations

- The Assembly Government Cabinet Sub-Committee on Wales and the World, currently chaired by the First Minister, should require the Culture Department and the Arts Council to lead a review of international policy for the arts of Wales. This work should also engage fully with Wales Arts International, the British Council and Visiting Arts, as well as with the Department of Enterprise, Innovation and Networks.
- Within this context consideration should also be given to:
 - Underpinning the core administration of key international prizes such as Artes Mundi, the Dylan Thomas Prize and Cardiff Singer of the World.
 - Establishing a major international arts festival that could act as a fulcrum for a cultural tourism strategy.

Sectoral Issues

The Creative Arts

It is not the purpose of this review to attempt to propose strategies for all art forms. Such a task requires more extensive consultation than this project allows. In any case, that is rightly the role of the Arts

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Council. But we would point out that for all the successes of the creative arts in Wales – and they are substantial - they remain quite vulnerable in many ways. For understandable reasons the plight of individual organizations, or a political desire to undertake discrete initiatives, often takes precedence over the important long term task of ensuring that the ecology of the sector and individual sub-sectors is healthy and sustainable.

We would recommend that this should be given a degree of priority as the Arts Council updates its artform strategies, paying particular attention to the need to balance stability on the one hand, with the need for innovation and renewal on the other. This should inform a long-term investment programme.

Apart from this general point we will confine ourselves to four particulars, where there is a need for urgent decision or action: the display of contemporary art, theatre and dance development, investment in audiences and the wider issue of personal development and reward.

Investing in Audiences

One vital consideration within any review of the development of arts in Wales must be the audience. After all, through central and local government taxes and the purchase of Lottery tickets, it is the public which funds the great majority of cultural activity. Equally, without large and engaged audiences, much cultural activity will be the poorer for the lack of enthused support.

Arts in Wales 2005, published by the Arts Council of Wales, reveals that the most significant barrier preventing more people attending arts events is lack of interest, closely followed by lack of time. Proportionally, cost is far less of a barrier than these two factors. These responses mirror those displayed in similar surveys in England. Lack of interest and/or time may, of course, simply be excuses rather than reasons for respondents' behaviour. The issue would merit more detailed research. However, assuming that some people are being truthful in giving these responses, the cultural sector needs to consider what lies beneath.

Has the education system in Wales failed to generate a lively interest in the arts? Has a lack of vocational opportunities snuffed out interest which might have been stimulated but could not be properly satisfied beyond the formal education system? How can the marketing of the arts compete with the intensive marketing of other commercial leisure and culture providers? Are cultural organisations offering opportunities that chime with people's available leisure time or in locations which are the most convenient?

We have set out how some of these issues should be addressed at the most fundamental level through the education system and the development of cultural entitlements for young people. There are, nevertheless, still opportunities for direct interventions.

In England, the Government and Arts Council responded to similar dilemmas by investing £20 million over five years in the New Audiences Programme. Running from 1998–2003, the programme generated more than four million attendances to live arts events.

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It encouraged people to have a greater voice in how the arts are programmed and presented. By promoting innovation, New Audiences enabled organisations to devise fresh ways of reaching audiences and to take risks. Its philosophy was:

“There is no such thing as failure; all new approaches are valid as a way of testing and identifying ways to attract new audiences.”

The relevant website can be found www.newaudiences.org.uk

Recommendation

- The Assembly Government and the Arts Council should develop a Welsh version of a New Audiences Programme, designed to yield even greater value for the investment across the cultural sector as well as to address specific issues such as social justice and rural isolation. This could take the form of an open access scheme to specific funds with winning projects gaining for their organisation nomination as an ‘Investor in Audiences’. Although the Arts Council might take a lead in operating the scheme, it would need to draw in other partners representing other parts of the cultural sector.

Display of Contemporary Art

Recent investment in the improvement and expansion of gallery spaces across Wales has been substantial and is ongoing. Major projects are either in progress or have been completed at Oriol Ynys Mon in Llangefni, Oriol Mostyn in Llandudno, Oriol Davies in Newtown, and the Ruthin Crafts Centre.

Further projects are in the pipeline to provide a National Centre for Photography at Margam Park and to enlarge the Glynn Vivian Gallery in Swansea. Arts centres or theatres at Aberystwyth, Cardigan and Newport also incorporate gallery spaces of varying sizes.

However, Wales has not yet managed to create a central focus for the display of contemporary art: that is to say, a major international venue that can platform the best from Wales confidently alongside the best from the rest of the world. The issue has been researched, discussed and consulted upon for several years. Another report, this time commissioned jointly by the National Museum and the Arts Council of Wales, has been completed. Wales and its Government are now at a point of decision.

For the better part of the 20th century Wales has benefited from the existence of the National Museum, housing as it does the magnificent collection of French impressionists given by the Davies sisters, works that were themselves contemporary when acquired. That collection has been a priceless national asset, although it is possible to argue that it has been undersold to the rest of the world.

However, the world does not stand still. If we want future generations to be able applaud the vision of this generation as we have applauded the pioneers of the last century, then a positive decision must now be made to invest in the development of a true National Gallery with the space to assemble and display the best of contemporary art from Wales and the world.

The latest report has this to say about the potential impact:

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“The visual arts, and the role of significant institutions for the display of art is being increasingly recognised as an economic force. The impacts of new developments elsewhere in the UK (Tate Modern, Baltic, Walsall and others) and in Europe (Bilbao, Helsinki, Dublin) have demonstrated that both museum and contemporary gallery developments can create significant measurable economic benefits and drive wider economic growth through the raised profile of cities and countries and their reputation as creative and innovative places.

Alongside such a collection-based gallery, the report also argues for a National Centre for Contemporary Art that would not be collection based, but which would be a centre devoted to contemporary practice. This would not only have exhibition space but also working space for international residencies, and be a focus for developing our art and curatorial and educational practice.

These concepts will take some years to realise, enabling them to be funded in a realistic fashion over time, but the green light should be given as soon as possible.

Recommendations

- Authorise the development phase for the proposed National Gallery and a National Centre for Contemporary Art, together with a target for completion of each project.
- Urge the Chancellor of the Exchequer to ensure that a proportion of the funds currently lying dormant in Britain’s banks – it runs into billions – are released for long term investment in the arts, including purchasing, particularly in areas outside London.

Theatre

The history of theatre development in Wales has seemed eternally problematic. Aspirations for a national theatre have been persistent, but have not always convinced a theatre sector that in the last decades of the 20th century was more successful in the field of small scale physical presence than in larger scale text-based production. A sector that has lacked large-scale investment has been understandably nervous of the possibility of an over-concentration of resources in one major institution. The end result has been that theatre development in Wales has lagged a long way behind developments in England and Scotland, two countries that have seen major injections of cash in recent years. This gap needs to be closed.

Theatre in the Welsh language and theatre in education in Wales has received substantial investment. It is English language theatre that languishes. A report for the Arts Council of Wales on English language theatre by Peter Boyden has provided the conceptual basis for the strengthening of theatre ecology in Wales, and recent experience in Scotland of a non-building-based, commissioning model has been helpful. This latter model could provide a balance between central direction and distributed resources, enriching the wider sector while giving Ministers the necessary box into which to place additional funds as they come available. The £500,000 injection announced by the Culture Minister in the summer of 2006 is a useful start but it can only be considered as a down payment. Care should be taken that the adoption of the commissioning model should not be at the expense of strengthening individual producing theatres. Above all, theatre in Wales needs consistency of investment and policy for the next decade.

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Although the development of theatre in Welsh and in English has been treated separately to date, the adoption of the Scottish model for English language theatre in Wales should not preclude collaboration with *Theatr Genedlaethol Cymru*, across the language divide. Here is an obvious area for Beecham-style collaboration that could end with a valuable strategic alliance.

Recommendation

- Prioritise a five-year programme of investment for English language theatre in Wales.

Dance

Dance provision in Wales, mainly contemporary, is extensive. However, there is a need to underpin the leadership of the sector in a way that matches that which already exists in the fields of opera and orchestral music. If the concept of national companies is to be more than a mere label, then Diversions Dance, the national company, needs the resources to compete with similar leading companies in the other countries of the UK. This would also ensure that the public gets the full value from the capital investment made in the new dance premises contained within Wales Millennium Centre.

Recommendation

- Prioritise a three-year programme of investment to bring the national dance company's staffing and resources to a fully competitive level and allowing it to enhance its touring capacity across Wales.

The Human Side

The arts will face manifold pressures in the coming years, and not only financial ones. Changing social attitudes and behaviour, allied to mass use of new technologies will affect the ways in which artists and arts organisations engage with their publics.

As in every other area of employment, those working in the arts will need to commit to life-long learning. It is essential that this is addressed in a coherent way. There is a need for much closer study of the nature of work in the arts sector in order to equip it with the skills and the leadership to respond to the new environment. These will include reward, personal development and career progression.

In addition, Wales needs to give its artists proper recognition, in a way that would rebound internationally. Ireland provides an interesting model in the *Aosdana*, an “affiliation of creative artists” formed in 1981, “to honour those artists whose work has made an outstanding contribution to the arts in Ireland”. Its membership is limited to 250 living artists who have produced a distinguished body of work, and membership is by peer nomination and election. Members must be Irish born or have been resident in Ireland for at least five years. Up to five of the members can be nominated for the title of *Saoi* in recognition of outstanding achievement. The title is conferred by the President of Ireland and is held for life. Among those who have received this honour are Samuel Beckett, Seamus Heaney and Brian Friel.

There are also more tangible benefits. Members of the *Aosdana* are eligible to receive a five year annuity “to assist them in concentrating

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their time and energies in the full-time pursuit of their art,” and to participate in a defined benefit pension scheme to which the public purse contributes through the Arts Council of Ireland. The adoption of such a scheme in Wales would be a loud signal of its commitment to culture and creativity.

Recommendations

- Commission a study of employment issues in the cultural sector to include:
 - Pay and reward, including the incidence of low pay.
 - Impact of the tax and benefits system on artists.
 - Training and personal development.
 - Recruitment, retention and career progression.
 - Development of cultural leadership.

- Culture Ministers in all four countries of the UK should collaborate to present proposals for beneficial changes to the tax and benefits systems as they apply to artists.

- The Assembly Government should introduce a scheme for Wales, equivalent to the Irish *Aosdana*, to give public recognition to its artists and to facilitate the work of the best.

Libraries

Public library services are an under-sung part of our cultural infrastructure. At one level they are particularly valuable to more disadvantaged communities and individuals. They remain more popular than any other local authority elective service, and are often central to local communities, especially as common spaces.

Further, libraries are central to freedom of information, not in the narrow modern legal sense, but in the sense of giving access to knowledge unhindered by lack of personal resources. They underpin learning, all the way from the promotion of literacy and love of reading in small children to the support of academic research. They protect and extend use of the Welsh language, especially, but not exclusively, the written word. They preserve our cultural meanings and identities for the future, and allow the already preserved to be reused and re-interpreted.

Beyond that they are, comparatively speaking, 'enduring institutions'. That is to say, they can be used as they are, for example as electronic information or electronic learning points, or as European Union or Assembly information offices, without the need to invent new institutions with fragile futures. The fact that they have been a key element in our cultural history does not in any way imply that they have been made redundant by technology. Far from sounding a death knell of libraries, the new 'Googlised' world presents them with a giant opportunity that fits well with the Assembly Government's objectives for the use of broadband technology. It should be noted that, in December 2004, Google announced that it intended to digitise millions of printed volumes from five of the world's leading research libraries (including most of the nineteenth century works in the Bodleian Library, Oxford).

In this use of technology Welsh libraries have made a start in their own reinvention for the digital age, on which any future government should build. The People's Network (Lottery-funded) has established a network of internet access points in all fixed public libraries in Wales. The principle of uncharged access to the internet for all was established early and has been maintained, unlike in other parts of the

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UK. Through the agency of CyMAL (Museums Libraries and Archives Wales) and the National Library, a core of commercial information resources in electronic form is available from 2006, again free at the point of use, through all public, HE and FE libraries in Wales. It is a small beginning, but very few countries in the world have achieved this.

Wales also has a good record on digitisation: the conversion of educational and cultural knowledge from its original analogue format and its re-presentation or networking in electronic format. All-Wales examples include Culturenet Cymru's *Gathering the Jewels* (20,000-plus items) and the National Library's *Digital Mirror* (0.5m-plus items), Local libraries are also very active, for example in Rhondda Cynon Tâf.

Arguably, the library service has also led the field in the kind of collaboration sought in the Beecham report. Public libraries, HE and FE libraries and sometimes other libraries have combined to form consortia. Examples include ATLAS (Swansea Bay), GALW (Wrexham) and Linc y Gogledd (old Gwynedd). Areas of co-operation and partnership include common access. In Linc y Gogledd members of the public may borrow from Bangor University Library, the first service of its kind in the UK.

At the same time, it is important not to take too rosy a view. There are areas of continuing concern. On the whole public libraries are not well cared for or valued by their parent authorities. This is despite the introduction by the Assembly Government of new public library standards. It is obvious in meagre acquisition budgets, the downgrading of chief librarian posts in authorities' organisational structures, and a stock of library buildings that is declining in number

and deteriorating in condition. In pointed fashion, it raises the question as to whether Beecham-style collaboration is sufficient to overcome the service's fundamental problem of still being a small-scale service within small-scale local authorities and unable to command sufficiently high priority.

Public libraries also suffer from an image problem, although it is true that in this field public perceptions and stereotypes lag many years behind reality. Despite CyMAL's recently launched national marketing drive, it is undeniable that publicity and marketing budgets have been miniscule. This means that current services, and the social and personal benefits of libraries are not as visible as they should be. This is exacerbated by the frequent linking of new library buildings with commercial development in ways that overshadow the public facility.

Recommendations

- Restore the central place of libraries in local communities, as safe, welcoming and high profile, communal places for everyone, as information resources, as education centres and as cultural attractions.
- **EITHER** extend the regional consortia movement into a national scheme to open up all library services and resources to all Welsh citizens, irrespective of the nature of the parent body. (There are difficult obstacles in the way of this, but it is not an unrealistic objective given what has already been achieved between public and HE/FE libraries.)

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- **OR** consider the creation of a national public library service, using the Assembly's new legislative powers to free libraries from local government control and from the Public Libraries Act 1964. We acknowledge that there could be a strong counter-argument to this proposition, but it should be seriously considered in any review of local public services.
- Establish a 'citizens' smartcard' scheme for libraries as the first stage in creating a smartcard enabled cultural entitlement scheme.
- Support the *Theatre of Memory* project to translate into digital form as much as possible of the printed material published about Wales and Welsh people, in order to make this information easily available to anyone with a connection to the internet. This should be conceived as a public/private partnership with an organisation such as Microsoft or Google.

Conclusion

We are conscious that this analysis of cultural issues is far from comprehensive. We have not sought to deal with sport, the Welsh language or with broadcasting and media issues. However, even within self-imposed limitations, the analysis and the recommendations that flow from it demonstrate that there is a far larger cultural agenda waiting to be tackled than has yet been grasped. It has the potential to produce a fundamental shift in the texture of life in Wales and in the perception of culture's relevance within the lives of every sector of society.

Chapter 8

Planning Wales

This chapter reviews the planning experience of Wales since 1999, and in particular the Assembly Government's *Wales Spatial Plan*.⁸⁸ It also debates urban and rural regeneration, the needs of different parts of Wales economically and environmentally, and the structure and institutional framework within which planning is situated. Highlighted, too, will be role of local government in ensuring community well-being and as the convener of local services.

What we today refer to as 'planning' is, in actuality, a broad array of distinct but interrelated activities concerned with territories, their future, the coordination of government responses, development opportunities, growth, sustainability, and community needs. Planning does not merely concern itself with planning permissions or householder applications. It is engaged with a range of strategic, political and governmental activities that are necessary to deliver development opportunities and community well-being for quite diverse audiences.

Planning policy has to contend with an increasingly fragmented state, in which economic competition is prevalent and climate change is affecting all our futures. It has become an essential political tool for mediation between the competing claims of development and conservation.

⁸⁸ Assembly Government, *Wales Spatial Plan: Pathway to Sustainable Development*, 2001.

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By its very nature strategic spatial planning is a coordinating discipline, and cannot be considered as a separate or distinct topic. This is because planning's concerns embrace the provision of transport, environmental protection, housing growth, economic development, and other issues relating to the future well being of areas. Given that planning, and the socio-economic, environmental and infrastructure problems that it tries to tackle, extend across areas and regions, it is also inappropriate to look at planning from the sole perspective of rigid, possibly older, institutional boundaries. Many of the issues that Wales faces today extend across local government and other agency boundaries. This chapter discusses four issues:

1. The *Wales Spatial Plan* and its delivery.
2. Prospects for a new form of urban-rural governance in Wales.
3. Changing relationships and expectations in local government.
4. A new role for local planning and a desire for enhanced community well being.

The chapter begins with a broad discussion of devolution and planning in Wales since 1999. It then reviews the *Wales Spatial Plan*, the most significant, innovative, change that has occurred over the last six years within planning at the all-Wales level. This section will outline the plan's purpose, development, and form, and then go on to highlight some of the issues and uncertainties that arise from the document.

The chapter then reviews the needs of different parts of Wales, and how the *Wales Spatial Plan* could be taken forward as a framework for implementation at a regional and sub-regional level, utilizing governance and partnerships with other actors and agencies across Wales.

Finally, the chapter discusses the evolving nature of local government in Wales and refers to the role of community strategies in the planning process.

Devolution and Planning in Wales

The powers awarded to the National Assembly under the devolution settlement relate to the provision of secondary legislation and policy-making. Since primary legislative powers do not currently rest with the National Assembly, statutory planning legislation occurs on a joint English and Welsh basis. Despite this apparent weakness, powers over secondary legislation and policy-making allow significant ability to provide an alternative, distinctive Welsh planning agenda. This is because so much of planning practice occurs at the sub-national and local levels, utilizing local government and other agencies' discretion. As the *Wales Spatial Plan* acknowledged, "Devolution has given us the opportunity to shape distinctively Welsh answers to Welsh questions".

As Neil Harris and Alan Hooper have pointed out, one of the most significant impacts of the Welsh Assembly Government as far as planning is concerned is the politicisation of the Welsh territory.⁸⁹ The draft version of the Wales Spatial Plan of 2003 referred to "the space that is Wales", while the final version remarked upon "the management of resources and territory", a phrase that owes its origins to the sentiments of the European Spatial Development Perspective of 1999.

⁸⁹ Neil Harris and Alan Hooper, 'Redefining The Space That Is Wales: Place, Planning and the Wales Spatial Plan', in Mark Tewdwr-Jones and Philip Allmendinger (Eds.), *Territory, Identity and Spatial Planning: Spatial Governance in a Fragmented Nation*, Routledge, 2006.

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As was highlighted in the first IWA National Assembly policy overview in 1998, one of planning's first tasks would be to recognize the differences, lack of coherence, and various allegiances geographically and culturally that exist in different parts of Wales.⁹⁰ There are significant cultural and environmental differences between north and south Wales, while the western flank of the country stands in marked contrast with the eastern borders and their socio-economic similarities with adjacent parts of England.

Since 1999 these differences have been recognised by attempts to develop north-south transportation links, and north-south axes to counterbalance the infrastructure and geographical axes east-west. At its outset the *Wales Spatial Plan* sought to highlight the various existing sub-regional planning responsibilities and arrangements as a useful framework for the development of further planning policy at a lower geographical scale. Neil Harris and Alan Hooper have pointed out that, the apparent disjuncture between Wales as a functional or physical space and Wales as a political arena helps to explain both some of the content of the *Wales Spatial Plan* and the debates that have helped to frame it.⁹¹

Attempts were made in the draft of the plan to introduce loosely defined mapped coloured zones which transcended existing institutional, political and cultural boundaries. However, these proved immensely problematic and were subsequently deleted from the final version of the plan. Despite these teething problems, the process of formulating the spatial plan did at least attempt to tackle some of the

⁹⁰ Mark Tewdwr-Jones, 'Strategic Planning' in John Osmond (Ed.) *The National Assembly Agenda: A Handbook for the First Four Years*, IWA, 1998.

⁹¹ Neil Harris and Alan Hooper op. cit.

thornier issues that dogged political and planning problems across Wales. Only in this way would Welsh planning begin to address the distinctive problems faced within Wales and enable the development of a different sort of planning focus from that previously existing. Such a transition would not be easy, and certainly not straightforward, and would necessitate the introduction of 'spatial planning' alongside the traditional discipline of town and country, or land use planning.

Spatial planning differs from land use planning since it concerns a wider attempts to tackle urban and rural relationships, economic growth and core-periphery differences, beyond the confines of existing governmental boundaries. It encourages inter-agency collaboration, the direct linking of policy, location and resources, and a concern with place rather than plans.

In many ways, Wales had already worked on a form of spatial planning in the mid to late 1990s with the collaborative efforts led by the Welsh Office and the Welsh Development Agency to secure Objective 1 status for west Wales and the Valleys. Other regions of Europe have similarly seen the advantages of developing a spatial approach to strategic and national and regional policy development. Advantages include understanding the spatial implications of health or education policy, promoting transport and infrastructure links that extend across several different areas, and developing economic growth corridors and clusters. There are now distinctive economic advantages to be gained from developing a spatial planning approach, a point already taken up with alacrity by the Regional Development Agencies in England. And to some extent it reflects the transition of spatial planning in Wales from an initiative of the planning Minister, to a process owned corporately by the whole Cabinet.

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The decision to develop a spatial plan for Wales mirrored what was occurring in both Northern Ireland and London. However, the Assembly Government was one of the first governmental bodies to initiate a national spatial planning framework, a fact that still causes Wales to be viewed as an exemplar of spatial planning. Indeed, it required Wales to be rethought as a political space within which politically sensitive issues should be tackled, rather than as an administrative or local government entity.

Spatial planning would also have to address policy and strategy fatigue. As was to be expected, the period immediately following the creation of the Assembly witnessed the release of scores of different, Welsh-orientated strategies and policy documents. The spatial plan had to perform an integration role across these various strategies and their authoring agencies, a fact that has led the *Wales Spatial Plan* to be dubbed 'the plan of plans'.

The Wales Spatial Plan

The purpose of the *Wales Spatial Plan* was to establish a context for sustainable development, building on the legislative duty enshrined in the 1998 Government of Wales Act. The preparation of a national spatial planning framework was initiated voluntarily, although this has now become a legislative duty as well, under the Planning and Compulsory Purchase Act 2004. A key feature of the plan's preparation was extensive consultation with stakeholders, since so much of the document could only be dealt with by these other agencies and organizations.

And as an overarching framework the plan relies on Cabinet support for collaborative governance and resource allocation. The plan's objectives were to:

- Establish a spatial context for social, economic and environmental activity in Wales
- Act as a strategic framework for investment, resource allocation and development decisions.
- Explain the differential impact of policies across Wales and address the compatibility of different sectoral policies.
- Identify and express the character of different functional areas across Wales.

One of the more significant potential functions of the plan is for it to act as a strategic framework for investment, resource allocation and development decisions. Currently, however, it is not sufficiently detailed or related to funding programmes, nor does it provide confidence to the private sector in investment decisions.

On the other hand, the plan does provide a framework for future EU Structural Fund programmes. Indeed, this is the principal aspect of the spatial plan that needs to be developed and taken further by the Assembly Government in partnership with those responsible for funding programmes.

A further function of the plan is to reflect the identity and character of different areas in Wales. The various regions of Wales are provided

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with distinctive labels appropriately, such as the 'The Capital Network' for south east Wales. The *Wales Spatial Plan* vision identifies six Welsh areas with socio-economic growth points or hubs, international, interregional and regional links, and key centres. These already act as conduits for policy for other agencies, but at the moment, they are largely undeveloped. There is a need for them to be grounded in a more concrete pattern, in ways that differ in relation to rural Wales on the one hand and urban Wales on the other.

To date, a reliance on informal working and take-up of spatial planning has not materialised into anything substantive within Wales. Does this failure reflect a problem with the spatial plan itself, or an inability for agencies and stakeholders to think outside their particular institutional boxes?

In turn this begs the question whether informal partnership working can be relied upon to deliver more certain policies with commitment and predictability to which all relevant agencies would agree and sign up. The problem relates to the necessity to ground the spatial plan into practical contexts and deal with cross-border issues. The spatial plan is now being tested as a planning document in places like the south Wales Valleys where the politics of the five local planning authorities are coming to the fore.

On housing, to take just one example, there is a major concern that Cardiff will export its lower cost housing to badly located sites in Rhondda Cynon Taff, with the prospect of the Llantrisant to Caerphilly corridor becoming over-developed, not only with housing but with more and more retailing and leisure complexes.

Developments such as the Dragon film studios and new planning opportunities around Capel Llaniltern may be viewed as 'between Cardiff and the valleys', in a sort of no-mans-land, hugging the M4. The question is, whether these sorts of spatial planning challenges would be more easily resolved if there were less local planning authorities.

These problems are not unique to Wales. They are experienced elsewhere in Europe. In the UK the translation of spatial planning into grounded policy seems to require an intermediary strategic level or else some form of delivery mechanism other than existing local government.

In the interests of sustainability, it is a principal objective and responsibility of planning to consider the location of major development on public transport routes and to discourage car travel to work. There is a requirement to look much harder for more compact development, higher energy efficiency, more mixed use, and sustainable communities. This will be necessary if problems such as global warming and flooding are going to be tackled effectively. Currently, there is a lack of leadership to deal with these issues.

The *Wales Spatial Plan* has already gone some way to identify the attributes of the various areas. It should not be too difficult to utilise these as the basis of the next stage in forging economic and social cohesion with a reconfiguration of institutions and boundaries. These need not necessarily lead to a massive amount of institutional restructuring, involving local government reform, or amendment of the boundaries of health trusts for example. Rather, it would require agencies to recognise the functional city-region territory as a delivery and policy framework.

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They would also need to embrace the concept of 'development domains' in the more rural parts of Wales. This would then serve as an appropriate means to consider wider strategic issues, such as infrastructure and transport provision, housing growth, changing demographic and migration patterns, waste, energy needs, retailing and leisure aspirations. Developments in these fields do not occur in isolation within neat institutional boundaries. As the rest of south Wales knows only too well, what happens in Cardiff can actually affect a much larger geographical, economic and environmental territory.

City-Regions

In Scotland, the planning system is being restructured to provide two different types of processes. One is for the cities, a form of city strategic planning with an emphasis on bolstering economic competitiveness, and the other for the remainder of the country. In England, the regional spatial strategies are being translated into sub-regional strategies and there is enthusiasm, particularly in the north of England, for some form of 'city-regionalism' to deliver programmes and policies in a sustainable way. The latter is an idea that is developing quickly across Europe: local government restructured as city-regions, serving as economic growth hubs with full strategic planning powers.

The functional relationships between an urban area and its hinterland are very different across the countries of the UK. Designating a particular 'city-region space' can be constructed in a variety of ways

according to the topology, boundaries and jurisdictions already existing. In other words, there is no one model that could or should be applied, but one which is appropriate to a territory's circumstances.

The application of the city-region idea to Wales does not mean simply redrawing boundaries on a map. Rather, it involves notions of geographical space, territories and boundaries, cultures and identities, governance and institutional capacities, and is underpinned by assumptions of collaborative working.⁹² In a country the size of Wales, it is appropriate to think about the appropriate number of governing units for a small territory, in the interests of public expenditure efficiencies and to deal with cross-border spatial problems.

Below the all-Wales level, there are various institutional administrative boundaries, ranging from local government, Assembly regional committees, health trusts, police forces, the Structural Fund zones, the sub-areas identified within the *Wales Spatial Plan*, and informal strategic planning regions. The fact of the matter is that a form of sub-national policy making already occurs in a non-governmental approach. Applying the city-region idea to Wales' sub-national governance arrangements would seem at face value to merely add another layer to the complexity.

However, the thinking behind city-regions requires a new way of looking at the functional relationships between urban and rural areas in a positive and economically competitive perspective, reducing public expenditure excesses, removing overlapping administrative layers, and creating the functional policy units vital to help shape the places of tomorrow.

⁹² For a discussion of these issues in the Welsh context see Kevin Morgan, *The Challenge of Polycentric Planning: Cardiff as a Capital City Region*, Papers in Planning Research 185, School of City and Regional Planning, Cardiff University, 2006.

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This can be achieved in various models, focusing on the coastal cities as they currently exist – Swansea, Cardiff, Newport in the south, and Wrexham in the north, or alternatively by looking at the principal urban settlements – cities and larger towns – right across the country and identifying the economic and transport hubs surrounding them.

Wales has urban problems that require regeneration initiatives and an effective urban planning policy resting with a broader strategic agenda that addresses the urban-rural relationship.

'Development Domains'

In rural areas, there is also a need to think more creatively about the countryside, about more affordable housing, community wind farms, rural diversification, and the possibilities and problems created by massive gentrification. A revived market towns initiative could work as prosperity increases and gentrification spreads. Tourism also needs to be rethought as an economic generator and strategic tool.

The *Wales Spatial Plan's* vision of growth points conforms to Gareth Wyn Jones's and Einir Young's idea of 'development domains'.⁹³ However, their proposals are more specific. They envisage two types of development domains, although these do not represent discrete categories, see Figure 1:

93 Gareth Wyn Jones and Einir Young, A Bright Future for 'Rural' Wales, Centre for Enterprise and Regional Development, University of Wales, Bangor, April 2003.

Figure 1: Potential Development Domains in Rural Wales**Medium Development Domains**

- **Y Fenai:** comprising all communities on either side of the Menai and adjacent small towns and villages.
- **Llanelli:** including Burry Port, Felinfoel to Pontardulais
- **Aberconwy:** comprising Llandudno, Colwyn Bay and the lower end on the Conwy valley.
- **Dyffryn Clwyd:** comprising Rhyl, Prestatyn, Dyserth, Rhuddlan to Llanelwy/St Asaph.

Smaller Development Domains

- **Glannau Ceredigion:** Aberystwyth to Aberaeron and adjacent villages.
- **Tywi:** Caerfyrddin and adjacent villages to Llandeilo.
- **Glannau Madog:** Porthmadog, Penrhyndeudreath, Blaenau Ffestiniog Cricieth to Pwllheli.
- **Hafren:** Newtown to Welshpool
- **Daugleddau** Milford Haven, Haverfordwest and Pembroke.
- Llandrindod/Builth

- Medium sized dispersed conurbations with populations in excess of 40,000.
- Smaller development domains with populations about 15,000 to 30,000.

Jones and Young's proposals mirror, in part, the established concept of nodal point development but with three significant modifications:

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1. Development domains are areas rather than point sources, allowing a broader population and resource base and acknowledging the greater mobility of modern society. For example, instead of thinking of Bangor or Caernarfon or Beaumaris, it is suggested that the 'domain' should be all the communities on either side of the Menai Straits combining to give a total population, around 50,000.
2. The policy context must comprise social as well as purely economic factors ensuring that livelihood and aspirational issues are fully addressed.
3. Environmental factors must be a part of development domain planning including integrated transport, local energy use efficiency and waste management, that is a true response to the sustainable development challenge.

It could be argued that this focus will deprive other parts of rural Wales investment and will not address many of the issues arising from low population densities, from the crisis in agriculture and from the lack of affordable housing.

However, Gareth Wyn Jones and Einir Young argue persuasively that the creation of development domains strategically dispersed through Wales, and taking full advantage of existing economic assets and social and cultural strengths, is a necessary though in itself not a sufficient condition for high and sustained living standards throughout the country. And as they say, the large majority of rural Wales is within ten to 20 miles of the domains they identify.

Local Government Reform Since the 1990s

Changes to spatial strategy making, policy implementation and service delivery on an urban-rural basis can only be managed effectively when changes and reforms are prevalent at the local government level too. Since the 1990s local government reform has had major implications for the planning system which can be understood in three key ways:

- First, the new decision-making processes separated the 'executive' from the ability to make planning application decisions for the first time. It also required the full council, rather than the planning committee and planning department, to adopt the Unitary Development Plan.
- Secondly, new operational frameworks were introduced which have considerable influence on the way councils undertake their planning task. They now have a duty to prepare a Community Strategy that involves engaging the commitment and participation of local partners.
- The third element of the new operational framework is 'the power of well being'. Enshrined in statute, this is expected to be used as a first resort and to be a strong framework for a variety of new ways of working.

These reforms are part of a concerted effort to modernise local government and are influencing planning delivery methods. 'Modernised' local authorities have to deliver services that are demonstrably customer focused, consultative and efficient.

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To be customer focused, councils need to deliver services through multiple channels – face to face, phone and web – that need to be available when the citizen requests them. The objective is for services to be increasingly joined-up within the council and between the council and public agencies.

A council's progress in achieving this modernised agenda will be confirmed through the Best Value process and scrutiny by central government as part of the audit culture. The 1999 and 2000 Local Government Acts placed public scrutiny and accountability as principal concerns for local government. Taken together, these Acts, which covered different elements of the modernization agenda, have sought to ensure that:

- Political decision making processes are efficient, transparent and accountable.
- There is continuous improvement in the efficiency and quality of the services.
- The community is actively involved in local decisions.
- Councils have the powers they need to work with other bodies to ensure that resources are deployed effectively to improve the well being of their areas.

Since 1997, therefore, there have been significant reforms in both local government and planning, which have important implications.

For planning, local authorities have been required primarily to be focused on performance in this period, although there have been important changes in the decision making processes set out in the new constitutions.

For local government, it now has to meet a more joined-up approach to delivery, with one stop shops, customer tracking of their planning and licensing applications, a performance dominated culture, and increasing pressure to ensure full citizen engagement in decision making.

Governing Locally in Wales

The operation of local government in Wales prior to devolution and indeed the relationship between local government and central government was, according to Robin Hambleton and Liz Mills, “a picture of stability and consensus.”⁹⁴

Furthermore, when local government reorganisation occurred in Wales in the early to mid 1990s there was concern that this harmonious relationship between the two tiers of government would be lost. As it happened the 1996 reorganisation did not greatly affect the relationship even if strategic policy-making within local government became weaker as a consequence.

What is noticeable is that once the Welsh devolution proposals were announced in summer 1997, there was concern that the perceived good system of government would be affected once again. It was at a time when relationship building in the aftermath of local government reorganisation was entering a period of stability.

⁹⁴ Robin Hambleton and Liz Mills (1993), 'Local government reform in Wales', *Local Government Policy Making* 19(4), 45-55, 1993.

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It also is worth noting that discussion and concern at this stage mainly emanated from the local government associations. They were concerned at the prospect of the unitary local authorities losing their newly-acquired informal strategic policy-making powers (derived by inter-authority voluntary co-operation) to the new Assembly.

Welsh Local Government Association leader Sir Harry Jones, expressed his concern in 2000 by suggesting that the Assembly was attempting to 'muscle in' on the activities of local government.⁹⁵ What is also of interest is the fact that these debates revolve around the relationship between the perceived 'centre versus local' government levels rather than on the emerging process of Welsh governance. Indeed, one might go further and suggest that, despite claims by the new Assembly Government that it would be more inclusive in how it governed, there have been insufficient attempts at the local government level, or indeed on the part of some central government agencies, to broaden out national policy making and governance to other tiers of government or wider interest groups and organisations. This is reflected in the Beecham Report and a desire to create Partnership Action Contracts (PACts) between various delivery agencies.

Within 18 months of the establishment of the Assembly, there was concern about the degree of friction, and to some extent suspicion, between central and local levels of government. In September 2000, the then Assembly Government Local Government Minister, Peter Law, stated publicly that greater co-operation between the Assembly Government, its agencies and local authorities was needed to improve the quality of life in Wales. Addressing the Welsh Local Government Association annual conference, he stated:

⁹⁵ BBC Wales, Sir Harry Jones interviewed on Wales Today, 1 April 2000.

“We must be seen to add value to policies implemented in Wales. For this reason the Assembly expects much greater co-operation and joint working between its agencies, local authorities and others, to make things happen. Co-operation in the form of joint working, the sharing of information, staff and expertise and, most importantly, ideas is what should distinguish Wales from other regions in the UK. In a period of largely fixed budgets it is a way in which we can maximise the use of the limited resources available to develop new policies that will provide Wales with an improved quality of life and a competitive advantage.”

In an effort to develop more harmonious relations, the Assembly Government took the lead in 1999 in establishing a Partnership Council between the National Assembly and local government, an advisory body set up under the provisions of the Government of Wales Act 1998 and intended to promote joint working and co-operation between the Assembly and local government. The council comprises members of the Assembly of all parties and members from local government, drawn mainly from the Welsh Local Government Association but also including representatives of the National Parks, police and fire authorities, and two representatives of community councils.

Freedom and Responsibility in Local Government, the Welsh equivalent to the former Department for Transport, Local Government and the Regions’ Local Government White Paper, was hailed as a landmark for the partnership between the Welsh Assembly and local government in Wales.⁹⁶ Setting the context and framework for modernisation, the document describes the Partnership Council’s remit as to:

⁹⁶ Assembly Government, *Freedom and Responsibility in Local Government: A Policy Statement from the Welsh Assembly Government*, 2002.

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- Advise the Assembly Government and local government.
- Make representations to the Assembly on behalf of local government.

With the support of the Partnership Council, Welsh local authorities have moved ahead of the statutory timetable to establish new political management structures. And with the support of the Welsh Local Government Association, the Assembly Government has created a single new framework for standards of conduct, embracing all county councils, town and community councils, national parks authorities and fire authorities, giving the Commissioner for Local Administration a new role in overseeing it.

In February 2002, the Assembly Government and local authorities agreed targets for education, social care, the environment and transport in joint policy agreements. They focus on what results local councils are aiming to achieve in key areas, while giving councils themselves more freedom to determine the best way of achieving them.

The Assembly Government has been eager to emphasise the 'devolution dividend' in which advantage is taken of the particular circumstances of Wales in devising policy. There can be little doubt that the relatively small number of local authorities has assisted in the sharing of objectives to a degree that may not be possible elsewhere in the UK.

Among the indicators agreed are achievements in children's performance in education and care for children and the elderly, care for people with physical disabilities, mental health problems or learning

disabilities, and the proportion of household waste to be recycled or composted. Policy agreements also establish a framework for measuring how far people are choosing to use public transport rather than their own cars. They also address how closely local councils are working with voluntary and community organisations, and how they will reflect the Assembly Government's key policy themes of sustainability, equality of opportunity and tackling social disadvantage in their work.

Part of the agenda for relations between the Assembly and local government has been to carve out distinctiveness in policy formulation and delivery, since statutorily the Assembly relies on Westminster for primary legislation. In early 2003, the Assembly Government - in partnership with the Welsh Local Government Association and the Audit Commission - launched a new initiative intended to develop improved joint working arrangements. The 'Protocol on the Wales Programme for Improvement' is Wales' successor to the original Best Value regime.⁹⁷

As part of the programme for improvement, every county council and national park authority in Wales undertakes a comprehensive assessment of its own fitness to achieve improvement. It then prioritises areas for improvement through a risk assessment that, in turn, leads to an improvement plan which sets out what action the authority will take to improve its performance, as well as reporting on improvements to date. The improvement plan is complemented by a regulatory plan that is intended to summarise the work that independent auditors and inspectors undertake.

⁹⁷ Assembly Government, Protocol on the Wales Programme for Improvement, 2003.

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Despite early suspicions, there has been a maturing in the relationship between the centre and local government in Wales. This should not be that surprising since, in the absence of formal primary legislative powers, the Assembly Government has had to rely on local government to implement the 'devolution dividend' and create distinctiveness.

With respect to planning, many local authorities possess chronic skill and staff shortages, and workloads remain high. Planning at the local level is being squeezed and is not helped by a misjudged political and economic argument where planning is seen as an impediment to growth and investment. Wales does possess a more simplified development plan system than now exists in England, and there should be no barrier to local planning authorities adopting their own plans in a relatively speedy fashion. The Assembly Government needs to give the political signals to the authorities that plan preparation and adoption is a priority.

On the surface, therefore, the changes devolution has brought to local government appear to have created a much stronger relationship and a clear distinction in roles. There is some operational evidence to suggest that older approaches in central local relations remain evident in some parts of Wales, but this appears to be a minority element. Not only has the reality of a separate system of Welsh local government been formalised, but the Assembly Government is allowing local government to be understood as a maturing and separate tier of governance in its own right. The only problem is whether local government has sufficient resources and manpower, and is using its power of well-being and the development of effective community strategies to solve neighbourhood problems in a way the legislation was intended. This is a task for the Assembly in its third term.

Community Strategies and Planning

The establishment of community strategies illustrate the enhancing of neighbourhood partnerships and development of community voices in local government policy and decision-making at a time when the traditional approach and reliance on local government alone has been questioned. Community strategies, introduced under the Local Government Act 2000, are intended to provide a more robust assessment of the social and economic problems facing individual communities.

Community strategies form an important feature of the new structure of local government. Their preparation is a duty for the whole council of the local authority that now has more specific and defined roles than in the past. They are meant to be the local 'plan of plans' or overarching policy statements for each council. The purpose of the plan is to provide a coordinated approach to the social, economic and environmental well being of the authority area. As such, they provide an opportunity for a programmed approach and one where public sector and external funding can be targeted. The plan also helps ensure that sub-authority issues across the public, private and voluntary sectors are tackled in an integrated way.

Community strategies are also seen as a key component in the commitment to the reduction in the requirement on local authorities to submit so many plans to government as part of the audit culture. In their role as the local 'plan of plans', community strategies may also be seen to take precedence over all of the other policies and strategies produced by a council.

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It is fair to say that more effort should be directed at the relationship between the community strategy and other required plans – including development plans. Certainly, thus far it has not worked as successfully as it could.

Since the implementation of the Local Government Act 2000, a high percentage of local authorities have now prepared or are preparing their community strategies. However, in Wales the examples remain bland, overtly broad, and insufficiently focused on community well being.

A community strategy should have a spatial expression, although at present the relationship between a strategy and the development plan remains vague. The new planning legislation, the Planning and Compulsory Purchase Act, and policy documents in England certainly talk of Development Plans becoming the spatial expression of community strategies.

Traditional development plans have tended to focus on land use policies, narrowly defined, but the form of the new community strategy document is innovative and groundbreaking. It is essentially a vision and action plan for improvements in the district that local people need and want. It is not restricted to land use planning, or 'just housing' or 'just environment' - it can cover any topic. The community strategy is a more comprehensive and strategic multi-agency scheme.

According to the aim of government, the central role of planning is at the heart of the community plan. This role of planning in the strategy or the strategic partnership may be described as:

“Supporting communities that are economically prosperous; have decent homes at affordable prices; safeguard the countryside; enjoy a well designed, accessible and pleasant living and working environment; and are effectively and fairly governed with a strong sense of community.”⁹⁸

Therefore, although the local authority possesses ownership, the strategy is to be prepared in conjunction with local partners. Partnership working will provide a considerable input from other public agencies, the voluntary sector and the business community. The community strategy should not only be developed in conjunction with partners, it should also focus and shape the activity of local organisations, including those in the public sector, of which the council’s actions should be part. And this is the challenge for changing the culture of planning locally, while development plans are being adopted. Currently, parts of Welsh local planning appear archaic in this context.

A New Planning Role in Wales

Although both systems are in their infancy in terms of their implementation, the continuing relationship between community strategies and development plans are clearly fundamental for community well-being in Wales. It is possible to identify some tensions where these differences may become more apparent over time.

⁹⁸ Office of the Deputy Prime Minister, Planning Division, 2004.

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These might pose something of a cultural threat to planning within the authority that has always seen its 'own' planning processes as being at the heart of these activities. In fact, there is no doubt that the cultural challenge to Welsh planning processes is one of the main elements of this change that will have its own consequences.

There is great potential for conflict, tension and synergy between community Strategies and development plans. Both will need to be actively managed. They provide a range of issues to be marshalled in order for any local authority to gain the most from the two processes. These questions are further compounded by the lack of discussion about these tensions and how best they can be resolved to the community's best advantage.

All this suggests the development of elements of integration and submergence within planning. As a policy mechanism firmly embedded within the local government institutional context, local planning is being affected demonstrably by the modernisation process and public-orientation agenda. Three significant themes stand out:

1. Increased emphasis upon performance, monitoring and targets and their implications
2. The impact of community strategies in subsuming and broadening the scope of development plans.
3. The role of partners in embedding planning within frameworks of local stakeholders.

The duty to prepare a community strategy preceded the publication of the planning reforms of 2004, thus giving it a head start. Although the guidance indicated that there should be a link with the development

plan and that the community strategy should have a spatial expression, it is also clear that the linkages would have to be made at the local level. Initially, this would be undertaken in an informal way, in the absence of any guidance on a more formal relationship.

The leadership for the development of the community strategy in each authority will vary. In some cases, officers of the planning department are leading it; in others, the other teams are leading it. It seems clear that different timings will influence the process developed for the local product and how this can relate to the statutory timescale for the preparation of local development plans. In some local authorities, these two processes will be prepared jointly and the results will be interesting to review.

The second issue relates to contestation over the ownership of the community strategy. Each local authority owns the formal development plans. Indeed, the Local Government Act 2000 formally gives the responsibility to the whole council for the adoption of such plans. Their preparation has to be undertaken by the council in consultation with other agencies (for example, 'the community'), but these partners do not formally own the plan.

The community strategy should be owned by the community, with their needs, aspirations and priorities clearly reflected. Citizen needs will increasingly need to be evidenced-based which is an important consideration for those councils concerned to ensure that those most frequently not seen but possessing a voice are heard. Local aspirations are also important in terms of civic pride and a sense of place. However, communities also have a view on what should be done first in their locality. Perhaps on a finer grain than has been used in the

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past, the community strategy might well be able to contain different needs, aspirations and priorities, in varying geographic areas within one local authority where these needs differ. This will be a radical change in direction.

Community strategy guidance also states that the strategy must be owned by all elected members. It is seen as a programme for the improvement of social, environmental and economic well-being for the whole area, not just for specific areas or wards. This also suggests that the community strategy will result in a politicised process that in the past has benefited some wards and not others. These all remain contentious and difficult issues to deal with right across Wales.

Policy Implications

Spatial planning has been advocated as a means of addressing a number of issues within the European Union. These include addressing the changing political context within which policies are devised and executed, tackling problems of public policy co-ordination, devising ways of making urban regions more economically competitive, and securing a spatial form that is compatible with the aims of sustainable development. The *Wales Spatial Plan* is an example of an early innovative approach to spatial planning in the EU and to some degree works as an instrument to facilitate policy integration. However, it lacks the means to translate innovation and vision into programme and policy delivery contexts.

The emerging function of local governance across different territories appears to be reliant on both formal and informal structures of policy-making.

In the absence of strict codes and institutional, statutory, and political parameters provided by central government for the establishment of the more ad hoc, informal and partnership bodies, governance in different parts of the country presents a diverse picture which reflects local requirements increasingly over previous central direction. Partnership organisations may take responsibility for the continuation of the new governance structures and the feeding in of any output, recommendations, advice and policy in to more formal government mechanisms in due course.

Wales is already ahead of the game in Europe in producing a spatial plan that attempts to address contemporary broad interrelated issues. Wales can continue to be ahead of the game by ensuring that the vision is turned into a delivery vehicle through the creation of functional urban-rural policy areas and by enhancing its concern for community well being. Spatial planning, and the strategic governance arrangements within which it is situated, provide the essential context within which the future well being of Wales and its many diverse distinctive communities can be assured.

Policy Recommendations

Planning recommendations for the Assembly for the third term comprise:

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1. The Wales Spatial Plan should be taken forward by addressing resources, programmes and policy within the different areas of Wales, by grounding the vision into practicalities that can help shape planning locally.
2. Urban and rural issues should be considered together in the interests of dealing with cross-border planning problems, to avoid political self-interest on the part of smaller local authorities, and in an attempt to address sustainability issues.
3. A city-region model for the main towns and cities of Wales and their hinterlands should be considered, partly to deal with 'the spaces between'. In rural Wales the potential for 'development domains' should be explored.
4. The diverse range of formal and informal governmental and non-governmental agencies that have a spatial policy remit at the regional level should be examined with the aim of rationalisation.
5. Good design should be promoted as integral to the planning system in both policy and regulatory matters, and to take the lead in ensuring that design matters at the local level.
6. The chronic shortage of qualified planning personnel in Wales should be addressed to ensure that adequate resources are channeled into planning directly to assist with performance and delivery.
7. Priority should be given to the formulation and adoption of local development plans as a framework for the shaping of places locally.

Appendix

Membership of the Project Working Groups

Steering Group

Chair: Geraint Talfan Davies, Chair, Institute of Welsh Affairs

Dr Gillian Bristow, Department of City and Regional Planning, Cardiff University

Sybil Crouch, Manager, Taliesin Arts Centre, University of Wales Swansea

Rhys David, Associate Director Institute of Welsh Affairs

Professor James Foreman-Peck, Cardiff Business School

Clive Grace, Honorary Research Fellow, Cardiff Business School and Chair, Editorial Board, Solace Foundation Imprint

Gerald Holtham, Managing Director, Cadwyn Capital and IWA Board Member

Rob Humphreys, Director for Wales, National Institute for Adult Continuing Education

Chris Jones, Finance Director, Welsh Water

Ruth Marks, Chief Executive, Royal National Institute of the Blind and IWA Board Member

Brian Morgan, Cardiff Business School

John Osmond, Director, Institute of Welsh Affairs

Vivienne Sugar, Wales Adviser to the Joseph Rowntree Foundation and Chair, Welsh Consumer Council

John Wyn Owen, Chair, Board of University of Wales Institute Cardiff

Morgan Parry, Director, WWF Cymru

Professor Teresa Rees, School of Social Sciences, Cardiff University

Dr Ruth Williams, Welsh Affairs Manager, The National Trust Wales and IWA Board Member

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Finance Group

Chair: Professor James Foreman Peck, Cardiff Business School

Dr Eurfyl ap Gwilym, Cardiff-based businessman and board member of a number of listed companies

Dr Gillian Bristow, Department of City and Regional Planning, Cardiff University

Rhys David, Associate Director Institute of Welsh Affairs

Dr Steve Davies, School of Social Sciences, Cardiff University

Gerald Holtham, Managing Director, Cadwyn Capital and IWA Board Member

Chris Jones, Finance Director, Welsh Water and IWA Board Member

Russell Lawson, Head, Parliamentary Affairs, Federation of Small Businesses

Professor Ross Mackay, Finance Consultant

John Osmond, Director, Institute of Welsh Affairs

Dr David Pickernell, Welsh Enterprise Institute, University of Glamorgan

David Rosser, Director, CBI Wales

Geraint Talfan Davies, Chair, Institute of Welsh Affairs

Health Group

**Chair: John Wyn Owen, Chair, Board of University of Wales
Institute Cardiff**

Professor David Cohen, Health Policy and Economics, University of Glamorgan

Ruth Davis, University of Glamorgan

Dr Ian Lane, Medical Director, Cardiff and Vale NHS Trust

Dr Malcolm Lewis, Deputy Dean, Post Graduate Education, Cardiff
University

Dr Stephen Monaghan, Public Health Director, Cardiff Local Health Board

John Osmond, Director, Institute of Welsh Affairs

Professor Ceri Phillips, Institute of Health Research, University of Wales,
Swansea

Professor Malcolm J Prowle, Office of Public Management

Professor Stephen Tomlinson, Deputy Vice-Chancellor, Cardiff University

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Jan Williams, Chief Executive, National Leadership and Innovation Agency
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Education Group

**Chair: Rob Humphreys, Director for Wales, National Institute for
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Ceri Black, Head of Learning, National Museums Wales

Paul Croke, Principal, Yale College

Professor Richard Daugherty, Education Department, University of Wales
Aberystwyth

Professor John Furlong, Department of Educational Studies, University of
Oxford

Heather Graham, Director, The Open University in Wales

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John Graystone, Chief Executive, Ffowrm

Gerry Jenson, Deputy Principal, Llandrillo College

Brian Lightman, Head, St Cyres School

John Osmond, Director, Institute of Welsh Affairs

Geraint Rees, Head, Ysgol Gyfun Plasmawr, Cardiff

Professor David Reynolds, Faculty of Education, University of Plymouth

Maxine Room, Principal, Swansea College

Professor Danny Saunders, Centre for Lifelong Learning, University of Glamorgan

Annie Williams, Director, Coleg Harlech

Amanda Wilkinson, Director, Higher Education Wales

Economic Development Group

Chair: Brian Morgan, Cardiff Business School

Nick Bennett, Bute Communications

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Dr Nick Clifton, Centre for Advanced Studies, Cardiff University

Professor Phil Cooke, Centre for Advanced Studies, Cardiff University

Mark Davies, General Manager, Honda Motorcycles

Professor James Foreman-Peck, Cardiff Business School

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Gerald Holtham, Managing Director, Cadwyn Capital and IWA Board Member

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Professor Dylan Jones-Evans, National Entrepreneurship Observatory for Wales, Cardiff University

John Osmond, Director, Institute of Welsh Affairs

Jackie Royall, Managing Director, Buy as you View Ltd

Seth Thomas, Director, Global Financial Institutions, Citigroup

Environment, Energy and Transport Group

Chair: Morgan Parry, Director, WWF Cymru

Professor Stuart Cole, Director, Wales Transport Research Centre,
University of Glamorgan

Neil Crumpton, Friends of the Earth Cymru

Peter Harper, Centre for Alternative Technology

Professor Dennis Hawkes, School of Applied Sciences, University of
Glamorgan

Steve Hodgetts, Head of Commercial and Strategic Development, Cardiff
International Airport

Gordon James, Friends of the Earth Cymru

John Osmond, Director, Institute of Welsh Affairs

Professor Ken Peattie, Director of BRASS, Cardiff University

Robert Sully, Director, Strategic Projects

Catherine Tryon, Risk and Environment Manager, Arriva Trains Wales

Roger Wade, Policy Adviser, Environment Agency

Peter Wilkinson, Strategic and Policy Manager, Environment Agency

Dr Ruth Williams, Welsh Affairs Manager, The National Trust Wales and
IWA Board Member

Poverty, Housing and Urban Regeneration Group

Chair: Ruth Marks, Chief Executive, Royal National Institute of the Blind and IWA Board member

Professor David Adamson, Community Regeneration Programme,
University of Glamorgan

Wendy Bourton, Care and Repair Cymru

Helen Buhaenko, Oxfam Cymru

Peter Cahill, Valleys to Coast Housing Ltd

Barbara Castle, consultant

Steve Clarke, Policy and Projects Coordinator, Welsh Tenants Federation

Peter Davies, Sustainable Development Wales Commissioner and IWA
Board member

Deputy Chief Constable David Francis, South Wales Police

Simon Harris, Chief Executive, Wales Cooperative Centre

David Lewis, Chief Executive, Cynon Taf Housing Association Ltd

John Osmond, Director, Institute of Welsh Affairs

John Puzey, Director, Shelter Cymru

Dr Robert Smith, Generation Institute, Cardiff University

Sarah Stone, Political Officer, Age Concern Cymru

Vivienne Sugar, Wales Adviser to the Joseph Rowntree Foundation, and
Chair, Welsh Consumer Council

Culture Group

Chair: Sybil Crouch, Manager, Taliesin Arts Centre, University of Wales Swansea

Ron Adam, Director, Craft in the Bay

Janek Alexander, Director, Chapter Arts Centre

Roy Campbell-Moore, Chief Executive, Diversions Dance Company

Carolyn Davies, Arts Adviser, City and County of Swansea

Peter Finch, Chief Executive, Academi

Jackie Ford, Swansea Print Workshop

Hamish Fyfe, Arts in the Community, University of Glamorgan

Simon Harris, Artistic Director, Sgript Cymru

Val Hill, Administrative Director, Hijinx Theatre

Margaret Jervis, Director, Valleys Kids

Rhian Jones, Voluntary Arts Wales

John Matthews, Matthews Millman Ltd

Frances Medley, Creative Development Manager, Creative Hub, Welsh Assembly Government

Simon Mundy, creative industries consultant

John Osmond, Director, Institute of Welsh Affairs

Geraint Talfan Davies, Chair, Welsh National Opera and Chair, IWA

Planning Group

Chair: John Osmond, Director, Institute of Welsh Affairs

Professor David Blackaby, Economics Department, University of Wales Swansea

Time to Deliver

Dr Gillian Bristow, Department of City and Regional Planning, Cardiff University

Clive Grace, Honorary Research Fellow, Cardiff Business School

Dr Neil Harris, Department of City and Regional Planning, Cardiff University

Professor Kevin Morgan, Department of City and Regional Planning, Cardiff University

Paul Orders, Economic Development, Cardiff County Council

Professor John Punter, Department of City and Regional Planning, Cardiff University

Geraint Talfan Davies, Chair Institute of Welsh Affairs

Professor Mark Tewdwr-Jones, Spatial Planning and Governance, Bartlett School of Architecture