



IWA Economic Priorities for the Next Welsh Government





About us

We are The Institute of Welsh Affairs, Wales' leading think tank.

We challenge, inspire and drive change, making Wales a better place to live and work for everyone.

We are independent of government and political parties.

By bringing together experts from all backgrounds, we conceive ambitious and informed ideas which secure political commitments to improve our democracy, public services and economy.

We provide platforms for debate, opportunities for people to make their voices heard and agenda-setting research. We are funded by our members, income from our events and training sessions, and are supported by trusts, foundations and other funding bodies.

Our vision is to create a Wales where everyone can thrive.

For more information about the IWA, our policy work, and how to join, as either an individual or organisational supporter, contact:

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Our energy economy priorities

- 1 **A low carbon stimulus**, focussed on:
 - Decarbonisation of homes
 - A revamped Energy Service, focussed on digital, and the rapidly changing energy system
- 2 **Focus on delivery:**
Ensure the public sector has the knowledge, skills, and capacity to deliver the vision
- 3 **A future proof grid:**
Engage with reforms to energy networks to shape the future system

Our Foundational Economy priorities

- 1 **A better balance in business support**
 - Better and more widespread engagement with SMEs
 - Encouraging collaboration between firms through vouchers and networks
 - Funding and support for decarbonisation
 - Government-sponsored foresight and future trends activities
 - A more granular approach to defining priorities and setting targets.
- 2 **Better regulation**, which doesn't disadvantage foundational firms
- 3 Long term support for **innovation and improved productivity** in the foundational economy

Getting the structures right

- 1 Place Economy, Energy, and Transport into the **same ministerial portfolio**
- 2 Convene forums to develop successful, impactful bids for **economic development funding** post-Brexit
- 3 Develop a ten year **strategy for economic development**, with cross party support

Mapping the journey to a more successful, cleaner, greener, and fairer economy for Wales

What is the economy for?

This question commands more and more attention from policymakers, and there is no shortage of commentators and organisations who are happy to provide an answer. The IWA argues the focus of this question needs to become more granular, and focussed on what specific economic policies are for.

In Wales, the Senedd has legislated for a better balance between prosperity and economic growth, and the other social value objectives of the Future Generations Act. Maximising the contribution of decisions to each of these goals is now a legislative requirement of public bodies. In seeking to contribute to multiple outcomes, policymakers should be rigorous in clearly mapping a plausible path between their actions, and specific outcomes.

Economic policymakers are, quite rightly, moving away from thinking in terms of a straight line between policy and growth, adding stops on the way to contribute to social goals – including fairer work, environmental sustainability, and greater parity between places. However there is a danger that the route becomes overly complicated and we lose sight of the destination, or never get there at all.

Throughout the term of the current Senedd, the IWA has been mapping plausible routes from policy to both economic and social outcomes. We have undertaken major research projects making detailed recommendations on two key areas of economic policy: renewable energy, and the foundational economy. These in turn have led to higher level recommendations about the structures Wales will need to deliver these priorities.



Energy policy as economic strategy

Re-energising Wales set out a practical plan to deliver 100% renewables by 2035, and how we could use energy policy as an economic strategy.

There has been progress on some, but not all, of our recommendations. Methodologies we developed have been adopted in local energy mapping, marine energy has been supported, and the Energy Service has been launched successfully.

However the core premise of *Re-energising Wales* was that Wales, as a small nation could afford to give greater weight within decarbonisation policy to the economic opportunities that decarbonising energy brings. More can be done to bring these priorities together.

People in Wales have been repeatedly promised green jobs, green growth, and a just transition. The idea that renewable energy can power Wales economically risks losing support if the public continue to see projects fail, or look through their windows and see green infrastructure which they don't feel benefits them.



Recommendations

We believe the next Welsh Government should prioritise further progress on the following recommendations:

1 A low carbon stimulus

Post-Covid, the potential for renewables to jump start Wales' economy is clearer than ever. We continue to believe the Welsh Government should prioritise this, but the focus now needs to shift in two areas.

– Renewing Wales' homes

The Welsh Government should raise building standards, and invest in a long term greener homes programme with on site generation built in. Spending in this area should help build supply chains to ensure Welsh firms have a first mover advantage in meeting demand for low carbon homes from other parts of the UK.

– A SMARTer Welsh Energy Service

Energy generation businesses will need to deliver flexibility and ancillary services to the system to succeed in the future market. The next iteration of the Welsh Energy Service should be given a more explicit remit to consider digital issues, support Welsh firms and community groups to shape their offer to the needs of the future system, and ensure we have the digital infrastructure we need.

2 Focus on delivery

Wales needs improved skills, capacity and coordination across the public sector to deliver the vision set out in *Re-energising Wales*. The structural changes we outline below will be crucial to unlocking this.

3 A future-proof grid

There is an urgent need for the next Welsh Government to engage seriously with Distribution Network Operators' business plans, and Ofgem's RIIO-ED2 framework. These plans are vital to ensuring our grid infrastructure unlocks greater energy opportunities in Wales, and for Wales.

Refocusing Foundational Economic policy

Our research on the Foundational Economy aims to inform policies which do one of three things:

- Identify firms with **growth potential**, and help them to achieve it
- Support steady state firms to maximise their contribution to **social value**
- Support **innovation** across all firms and sectors of the Foundational Economy.

Covid-19 has shown the value and resilience of day to day parts of the economy where demand remains steady - including during a crisis. The Foundational Economy is an increasingly important theoretical lens through which to view economic development. Policy change to date has been focused on reform of procurement, and the innovative use of challenge funding, but there is more than can be done.

The out-going Welsh Government has emphasised the importance of the Foundational Economy in its economic development plans, but this is an emerging agenda and we still lack a detailed understanding of what a good outcome would be. The economy being 'more foundational' is not an end in itself.

What is clear is that the foundational economy can contribute to growth, particularly in the so-called 'missing middle' of medium sized firms, employing between 50-250 people and rooted in their communities. It can also contribute to wider social agendas such as place making, resilience, and decarbonisation. Perhaps it would be more accurate to say that these agendas cannot succeed if foundational firms and sectors do not play a role.

The next Welsh Government will need to look beyond the current focus on public procurement, and the welcome 'challenge fund' approach, to other policy areas which can help or hinder foundational firms.



Business support

At present foundational firms (who make up the majority of businesses in Wales) fall into a gap between business support and investment that targets fast growth and high tech sectors, and a public service improvement agenda that is dominated by statutory bodies.

Our report '*A Better Balance*', set out how business support programmes can be made more accessible to foundational businesses. The success of this investment cannot be judged just on jobs growth, but on the social value small businesses can and must deliver.

Recommendations

The next Welsh Government should improve the accessibility of business support through:

- better and more widespread engagement with SMEs
- encouraging collaboration between firms through vouchers and networks
- funding and support for decarbonisation
- government-sponsored foresight and future trends activities
- a more granular approach to defining priorities and setting targets.



Regulation

The IWA is researching the ways that regulatory impacts can vary across sectors, industries, and firms of different sizes. We want to understand whether regulation is a barrier to a stronger foundational economy.

The outgoing Welsh Government's Economic Action Plan set out an ambition to develop a modern regulatory framework to support responsible business practices, growth and competitiveness through improving impact analysis and engagement, and by monitoring competition. Five years later, it is not clear what has been done to support this ambition.

Recommendation

The next Welsh Government needs to develop a vision and set targets for **better regulation**, with a particular consideration for small, foundational firms that support local economies. This should include improving the tools and analysis used in Regulatory Impact Assessments, particularly on competitiveness.

Our work will identify further opportunities to improve regulation to benefit foundational firms.

There must also be focus on how the Welsh Government can support **innovation and improved productivity**, through action on skills and research and development, as well as bringing innovation into the remit of Business Wales and the Development Bank. This will be our next major area of research focus.



Getting the structures right

To achieve the changes to the economy we want to see, we must get the structures right, within the Welsh Government, and within the UK.

We believe this means Economy, Energy and Transport should sit in the same ministerial portfolio.

It also means the Welsh Government should use its convening power to support successful bids for UK Government controlled funds, so regional economic development in Wales doesn't falter post-Brexit.

A minister for economy, environment and transport

There is now a widespread acceptance that the global economy needs to go through a process of urgent decarbonisation. The threats of not doing so are clear, and we have seen the beginnings of the consequences of inaction in the recent floods in Wales. This problem is set to worsen, with Climate Cymru stating that by 2080 winter rainfall in Wales is projected to increase by 19%. Decarbonisation therefore necessitates the redesigning of economies towards more sustainable models.

Covid and Brexit mean that, in the short term, Wales' economy will face new challenges. Recovery cannot be taken for granted, and the next Welsh Government will have to deliver a successful, clean, green and fair economy against a more challenging economic backdrop.

Politicians of all stripes recognise that this creates opportunities as well as threats, and want to see the people and communities they represent benefit from high quality green jobs and an improved natural environment. This has led to an increasingly blurred line between economic and environmental policy, but the structures of government have not kept pace with this change.

Recommendation

Wales will only achieve green growth if decisions about 'green' and decisions about 'growth' go hand in hand.

This should begin at the top, with a cabinet structure which **places the economy and the environment in the same portfolio** alongside transport, which also has clear links to both.

These Ministers could then oversee a new office for economic development at the centre of government, which can coordinate the structures within the Welsh civil service to ensure these teams are working closely to shared priorities, rather than in silos.

Economic development after Brexit

The landscape of regional economic development is going through a series of significant changes. This means the next Welsh Government will need to devote energy both to delivery and to designing a new post-Brexit framework for economic development.

The core challenge will be ensuring Wales does not lose out in the shift from a needs-based approach to a UK Government approach to economic development that proposes moving away from industrial policy and sector policy towards more generic investments; and a series of competitive funds awarded at more local geographies and administered from London.

For Wales to not be left behind, all policy makers and political leaders in Wales need to recognise the pressing need for strategy, consistency and collaboration to get the most out of the new regional development funding regime. Achieving this means addressing some important questions about governance.

Recommendations

The next Welsh Government needs to use its convening power to rapidly establish effective **forums and structures to develop ideas for investments** that can generate meaningful impact. These should include local authorities, city and growth deals and Corporate Joint Committees, elected representatives in the Welsh and UK Parliaments and, crucially, industry figures.

To coordinate this work, the Welsh Government needs to **create an office for economic development at the centre of government** to oversee delivery against economic, environmental, and social goals.



A long-term vision

To further embed the aims of economic development across government, Wales needs an agreed set of priorities that will outlast individual Ministers, looking at structural changes over the long-term. A well-constructed vision with widespread support can take economic development out of the Economy and Transport section of government and make it everybody's business.

In a period when dedicated funding for economic development in Wales is likely to decrease with the loss of European Structural Investments, the next Welsh Government will need to ensure that all of its departments are investing in a way that supports economic priorities, whether through direct procurement, infrastructure, skills or health and well-being.

Recommendations

The next Welsh Government should create a **ten year strategy for economic development** that outlines priorities, weaknesses and strengths. This should be developed through widespread engagement, collaboration with researchers and experts.

Such a strategy stands the best chance of success if it is developed on a **cross-party basis**. All parties in Wales should collaborate in good faith to set out a plan that is not jeopardised by political cycles.

This strategy should build on existing work to identify [Future Trends](#), and set out national responses to the challenges of decarbonisation, digital technologies and the knowledge economy, fair work and demographic change.



