

## Invitation to tender:

# A review of regulatory burden in the foundational economy

This is an invitation to tender for research into regulatory burden and how it affects firms operating in the foundational economy in Wales. The research has a maximum budget of £6,000 and a report is to be delivered within 14 week of awarding the contract. The research will encompass:

1. a literature review to summarise the theory of varied regulatory burden by firm characteristics, and
2. a review of regulation set by Welsh public bodies to identify examples within Wales.

Responses to this invitation must be submitted by 17:00 on **Monday 9 October 2020**

## 1. Introduction

The Institute of Welsh Affairs (IWA) is a think tank and charity, 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 supported by **trusts, foundations and other funding bodies**.

The IWA has been funded by [CREW](#) to explore ways for public policy to support a stronger 'foundational economy' in Wales. We are undertaking this work as a two-year project over 2020 and 2021. Through this work, we aim to promote the strengthening of investment in foundational sectors and ensure that this investment maximises wider effects on economic development and social benefit.

## 2. Background

### The foundational economy

The foundational economy is both a description of part of the economy and an associated set of proposals related to that part of the economy.

The concept was originally introduced in the 2013 [Manifesto for the foundational economy](#). This manifesto described the foundational economy as follows:

“...the foundational economy, which employs 40% of the workforce and is both private and public, is the sector of the economy that provides goods and services taken for granted by all members of the population and is therefore territorially distributed.”

Expanding on the concept of ‘taken for granted’ activities, the manifesto describes sectors of the foundational economy as follows:

- Food and food processing
- Labour-intensive activities in education and health and social care.
- Transport and logistics
- Utilities including piped or cabled services such energy, water, sewerage and telecoms
- Retail banking

As well as defining the foundational economy, this literature argues that these sectors have been ignored by industrial policy and have been underinvested in, relative to the social value that they provide.

“This reconceptualisation justifies a new kind of political intervention which would challenge public and private business models that privilege the point value of least cost and most profit and neglect the preconditions of national, regional and local economic security and social sustainability.”

The Federation of Small Businesses Wales commissioned a report from the group of researchers that developed the Foundational Economy Manifesto, entitled [‘What Wales Could Be’](#). This report and subsequent discussion made reference to the concept of ‘grounded firms’, meaning firms which are tied to locality by the resources they rely on as well as the nature of the goods and services that they sell.

## Policy and practice

Following the 2016 Senedd elections, the Welsh Labour-led government sought to act on the analysis and recommendations contained in the foundational economy literature. This has included the establishment of a £5m ‘challenge fund’ - a competitive fund that has

encouraged public and private bodies in foundational sectors to innovate to look at ways of extracting greater value (social and economic) from their activities.

The Welsh Government has also sought to use procurement policy to strengthen the role of grounded firms (i.e. those which are local and invested in a particular area) in providing key foundational goods and services. This work has come in parallel to other developments within local government across the UK, including the well-documented [‘Preston model’](#).

Furthermore, the Welsh Government has explored other mechanisms for supporting firms, such as non-domestic rate relief targeted at firm size and the limiting of economic resilience funding to firms that are on-shored for tax purposes. Some of these measures, or comparable approaches, have a degree of cross-party support, suggesting that there is an emerging consensus on aspects of the foundational economy agenda in Wales.

In addition, a wide range of civil society organisations - including the IWA - have developed their own approaches to promoting and supporting the foundational economy. Much of this is captured in semi-formal networks and through projects.

### 3. Definition of the knowledge gap

The foundational economy literature highlights the distinction between grounded firms (who are rooted in a place and invest in that place) and mobile firms (who may provide goods and services in a place but retain their management and decision-making hierarchies elsewhere, effectively contributing less to the local economy, and liable to withdraw their presence in a community for financial reasons).

The foundational economy literature also identifies ways in which mobile firms gain advantage when competing with grounded firms. Some of these advantages are natural, relating to firm size and economies of scale. However, some of these advantages are seen as resulting from the structure of capital markets, from public procurement practices, from policy support and from regulation.

In relation to the last of these, there is an established literature which identifies examples of regulation in developed countries that provides both implicit and explicit advantages to large firms over small and medium enterprises (SMEs). This literature identifies the following as features of this advantage:

- a lack of proportionality in rules, costs and penalties

- regulations that respond to the experiences of large firms more so than small firms
- regulatory barriers to new entrants
- regulatory capture and rent-seeking whereby existing firms in a market seek to influence regulators to create barriers to their competitors

This literature does not address the foundational economy explicitly, but firm size can be used as one proxy measure for many of the characteristics associated with grounded firms including ownership, location, investment in that location and access to finance. We therefore propose that regulation which imposes disproportionate impact on SMEs will have impacts on grounded firms, (however, we would welcome reflections from applicants as to whether other measures or firm characteristics might have value).

At UK government level there has been interest in the varied effects of regulation according to firm size, largely driven by the work of the [Better Regulation Task Force](#) and the [Department for Business, Energy and Industrial Strategy](#). As part of regulatory impact assessments, regulatory bodies are encouraged to undertake [Small and Micro Business Assessments](#) - though it is not clear the extent to which these are being used or are having an effect.

Devolution means that several areas of regulation are now controlled by the Welsh Government and other Welsh [public bodies](#). As far as we are aware, there has been no review of Welsh-controlled regulations with the specific aim of identifying variable impacts according to firm size.

There is growing evidence, put forward by business owners and business organisations and covered by the media, that despite the efforts described above, regulation in Wales (and in the UK more generally) is disproportionately burdensome on SMEs. Some recent examples have included:

- extensive evidence provided to the [Economy, Infrastructure and Skills Committee](#) of the Welsh Parliament that planning policy has provided barriers to SME housebuilders.
- complaints from licensed premises that licensing policy [provides advantages to larger chain pubs and bars](#)
- analysis by the Federation of Small Business highlighting that [UK-government policy is imposing higher burdens on SMEs in devolved nations than in regions of England](#)

## 4. Research questions

We want to contribute to the evidence set out above, both by exploring regulatory impacts on SMEs in general (through a literature review) and by focusing specifically on the experience of SMEs in Wales operating in foundational sectors (through a review of current regulation and policy)

This evidence should respond to the questions set out below:

1. What are the potential ways in which regulatory burden can differ according to firm characteristics, and which features of regulation produce these effects? (For example, direct and indirect costs, complexity of rules and of processes, non-compliance penalties, complaint and appeal processes, accessibility of consultation and engagement).
2. Are there examples of these variable impacts within the rules that are set by Welsh Government and public bodies in Wales, and if so, to what extent are mechanisms to mitigate variable impacts being utilised in Wales? (For example, Small and Micro-Business Assessments).

## 5. Research outputs

We expect two key research outputs.

1. Identify key academic and policy publications, and then conduct a review of them to present current understanding and debate about how regulation can have variable impacts by firm characteristics (including size). This literature review would not be specific to Wales but should be limited to comparable contexts.
2. A review of existing rules, processes and regulations set by Welsh Government and other Welsh public bodies to identify any which create proportionally greater impacts on smaller firms.

Potential suppliers are encouraged to develop distinct approaches to delivering these outputs. We anticipate that the majority of the work will be desk-based and make use of

documentary evidence, however, potential suppliers may propose any survey and interview methods that can be achieved within the outline budget. Interviewees will be agreed with the IWA, and might include:

- Representatives of relevant regulatory bodies
- Representatives of business organisations

The supplier must produce a report based on the IWA house style guide, targeted at a public policy audience.

## 6. Uses of the research

This research will be used to inform the development of a series of policy recommendations. The IWA promotes evidence-based policy making, and as such recommendations will make close reference to the evidence presented. We anticipate that the research report will be presented as an annex to a report detailing policy recommendations.

The recommendations will be developed by, and attributed to, the IWA. The supplier will not be expected to develop policy recommendations as part of the research exercise. However, the supplier will be asked to review and comment on the recommendations during their development, both in writing and in a meeting (this will be reflected in the contract).

## 7. Milestones for delivery of the contract

Following the award of the contract:

- (within one week of the award) attendance at an inception meeting via zoom. This will be an opportunity for the supplier to confirm their proposed approach, propose relevant literature to be reviewed and raise any questions with the IWA.
- (within six weeks of the award) attendance at an interim findings meeting via zoom. This will be a chance to present interim findings from the literature review and propose any necessary amendments to the approach or timescales.
- (within 10 weeks of the award) submit a first draft report of the findings from the literature review and the review of regulation. This will be reviewed by the IWA and by the multi-stakeholder advisory group for the IWAs work on the foundational economy.
- (between 10-13 weeks of the award) address any comments from the IWAs review of the first draft findings report, and provide comments on draft policy

recommendations produced by the IWA (in writing and as part of a meeting with IWA staff and the project advisory group)

- (within 14 weeks of the award) submit a final report of publishable quality and have submitted any comments on the IWA's proposed recommendations.
- (within 20 weeks of the award) present a summary of the findings at an online launch event for the report.

## 8. Resource and Structure

Amount for organisation/consultant: **up to £6k**

## 9. Evaluation criteria

Responses to this invitation must be submitted by 17:00 on **Monday 9 October 2020**.

Selected applicants will be asked to discuss their proposals with IWA staff on **Friday 13th November 2020**.

Applicants are asked to submit a written proposal (no more than 10 pages) addressing the knowledge gap, research questions and outputs described above. In addition, applicants should provide information relating to their experience, examples of previous work and a proposed implementation plan and budget for the work.

Proposals and any comments or queries should be directed to:

[jack.watkins@iwa.org.uk](mailto:jack.watkins@iwa.org.uk)

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| Technical experience                     | Evidence of providing similar services to other organisations and particular skills/experience relevant to the problem  | 15% |
| Methodology/approach                     | Details and suitability of suggested approach, proposals for literature searches and other sources.<br><br>Plans for dealing with any risks and contingencies | 20% |
| Understanding of need and policy context | Indication of a clear understanding of the policy area, knowledge gap and the research objectives   | 15% |
| Implementation plan                      | Details of your implementation plan to meet the timescales, including staffing.   | 10% |
| Quality                                  | Details of how you ensure that a high quality service is maintained throughout the contract period  | 20% |
| Price                                    | A full breakdown of all costs should be given   | 20% |