

GETTING DOWN TO BUSINESS

CHARTING A FRESH COURSE FOR THE WELSH ECONOMY 2019-2021



CONTENTS

<i>Introduction</i>	<i>3</i>
<i>Recommendations</i>	<i>4</i>
<i>Economy</i>	<i>6</i>
<i>People</i>	<i>8</i>
<i>Place</i>	<i>10</i>
<i>Delivery</i>	<i>12</i>

The time for delivery is now

A strong economy provides jobs for over a million people in Wales and funds the delivery of our public services. The wellbeing of future generations depends on the stewardship of our economy and the continual search for new opportunities for growth. Wales is facing major social and economic challenges in the coming years - from Brexit and the fourth industrial revolution to more systemic issues such as productivity and an ageing population. All these issues are urgent, but challenge is also a moment of opportunity and business needs Welsh Government to be fighting fit and match ready if Wales is to meet these challenges head-on and build a stronger and more prosperous nation. To achieve this, the new First Minister must focus relentlessly on delivery and begin 2019 with a determination to deliver meaningful change for Wales and its people.

Doing what we've always done is no longer enough

It has been almost 20 years since the Welsh Assembly was established. Over that period, business people and politicians have had to adapt to the 2008 global recession, the impact of reduced public spending and frustratingly sluggish macroeconomic growth. The Welsh Government has responded to these challenges successfully but in some areas, delivery has been far too slow. For example:

- We still await the delivery of the M4 relief road – first proposed in 1991.
- Devolved public services remain largely unreformed. With 22 local authorities and 25 planning authorities to serve a population of just 3 million, Wales needs to grasp this nettle once and for all.
- Welsh productivity remains the lowest in the UK after 18 years of government and four successive economic development strategies.

The recommendations contained in this report will help Wales navigate a new course and close the gap between strategy and delivery. A more nimble, efficient and effective Welsh Government must be able to strengthen the business environment, boost economic growth and use growing tax powers to create a devolution dividend - not a devolution risk premium.

Wales will begin 2019 with a new First Minister. This is the ideal time to take a fresh look at the effectiveness of Welsh Government as a vehicle to deliver change. The devolution dividend the people were promised is still attainable, but we need an honest and open dialogue about past successes and failures and how government must change to face the social and economic challenges that lay ahead. Business is ready and willing to join government on this journey, but it is a journey only government can start.

“The new First Minister must focus relentlessly on delivery – not strategy.”



Ian Price, Director, CBI Wales

Recommendations

These recommendations complement our Wales manifesto, A Plan For Prosperity. Implementing these proposals will put Wales back on the front foot and make government an enabler – not an inhibitor – of growth.

Economy – unleash business potential to grow and prosper

- **Help prepare Wales for Brexit:** Support our economy's key growth sectors to best navigate the challenges and opportunities of Brexit; adopt a pro-active trade policy to strengthen economic resilience; protect the pillars of the UK internal market; underpin economic competitiveness by ensuring our business environment is prepared for Brexit; and ensure post-Brexit funding helps drive a more productive and innovative Wales.
- **Embrace the fourth industrial revolution:** Following the example of other European countries by putting in place a whole-government response to automation, AI, IoT and big data; develop a digital asset map for Wales and put in place permanent governance arrangements that optimise public-private engagement and commercialisation of research.
- **Deliver a competitive tax environment:** Closely monitor the economic consequences of all differential devolved tax rates; ensure an evidence-based debate is held on the question of varying income tax rates; consider innovative new approaches to taxes that would reduce rates and grow the economy.
- **Ensure the approach to post-EU funding delivers sustainable economic growth:** The Welsh and UK governments must work together to ensure the successor to EU funding – potentially the UK Shared Prosperity Fund – delivers tangible and sustainable economic growth within Wales' poorest communities.
- **Grow the Development Bank for Wales:** Enlarge the role of the Development Bank by considering giving it responsibility for delivering the functions of Business Wales and Careers Wales in a more responsive and effective way for business and the economy.
- **Create a Productivity Task and Finish Group:** Tackle Wales' productivity gap with the rest of the UK once and for all. Establish a task and finish group to determine if Wales should establish a New Zealand style productivity commission to consider how the laws, policies, regulations and institutions of Wales affect our national productivity and how it could be improved.

People – prepare for our changing economy

- **A fair deal on fair work:** Ensure the Fair Work Commission is given the space and resources to take evidence and make the right recommendations; ensure fair work legislation is used as a last resort not a first response and, if pursued, is subject to a comprehensive business impact assessment, oversight and review.
- **Ensure qualifications remain relevant to our fast-changing economy:** Ensure Welsh GCSEs, A-Levels and the Baccalaureate keep pace with changing business

needs and explore how Wales can learn from T-levels to improve the career path for learners and improve parity of esteem.

- **Ensure the Apprenticeship Levy system works for businesses:** Adopt the Scottish Government's Flexible Workforce Development Fund and fast-tracking in-demand frameworks - such as digital apprenticeships.

Place – build infrastructure to create strong regions

- **Deliver infrastructure improvements to drive growth:** Deliver the M4 Black Route, South Wales and North Wales metros, A55 improvements, the new Transport for Wales franchise and the expansion of Cardiff Airport; Maximise the benefit of the £15bn Wylfa Newydd project for North Wales; and ensure the National Infrastructure Commission for Wales delivers a step-change in how infrastructure projects are planned and delivered.
- **Develop stronger, more dynamic regions:** Develop a coherent vision for the economic regions of Wales that is coterminous with City and Growth Deals; secure a growth deal for mid Wales and keep open the options of regional development agencies if a clear need emerges.
- **Commit to local government reform:** Clearly with tightening budgets, local government is already delivering in challenging times. Reducing by at least half the number of local authorities in Wales would enhance public sector productivity, equipping the new authorities with the critical mass and capacity to deliver services effectively should be the goal of these reforms.

Delivery – make Welsh Government a driver of growth

- **Improve public service productivity:** Given many public services are anchors of our local economies, we need to ensure they are playing an effective role in the foundational economy. The Welsh Government should identify the role public services could play in driving up national productivity and regional growth.
- **Deliver a devolution dividend:** Create a First Minister's Delivery Unit at the heart of Welsh Government capable of tracking progress, measuring outcomes and intervening if delivery appears to be stalling or if devolved policy is placing a cumulative burden on key sectors of our economy.
- **Modernise public services:** Ensure public services have the right capacity and capabilities and to embrace the productivity enhancements promised by digitalisation, automation and AI. The Welsh Government should consider the recommendations of the Welsh Government Panel on Digital Transformation to determine how devolved public services are maximising the value of digitisation and ensure emerging technologies are used for the public good.
- **Share best practice between the public and private sectors:** Ensure a better exchange of ideas between the public and private sectors through a new secondment programme.

“The Welsh Government must ensure fair work legislation is used as a last resort not a first response”

Economy

Unleash the growth potential of business

In this global race for jobs, Wales needs to put in place the right conditions for business to drive growth, unleashing their potential to invest, invent, export and expand. Accounting for 4% of UK economic output, Welsh employment and productivity are both below the UK average. Despite these factors Wales exports more than other UK nations and has strong FDI performance. With Brexit on the horizon, growing devolved taxation and the rapid changes of the fourth industrial revolution, targeted action by the Welsh Government could make the difference between surviving and thriving.

Help Wales prepare for Brexit

The Welsh economy and its people are facing the biggest change in a generation. To ensure the key sectors of our economy can face the challenges and grasp the opportunities of Brexit, Welsh Government and business must work together to ensure firms have the support they need to succeed.

The Welsh Government should:

- Offer targeted support to our economy's key growth sectors.
- Introduce a pro-active trade policy to strengthen economic resilience and export diversification.
- Commit to protecting the pillars of the UK internal market.
- Underpin economic competitiveness by ensuring our business environment is prepared for Brexit.
- Ensure post-Brexit funding, such as the UK Shared Prosperity Fund, helps drive a more productive and innovative Wales.

Embrace the fourth industrial revolution

The challenges of automation and AI may seem like a distant concern, but these issues are already beginning to have an impact on the real economy. Wales must begin thinking today about what kind of Wales we want to emerge from the fourth industrial revolution.

The Welsh Government should:

- Put in place a whole-government response to automation, AI and IoT, listening closely to the recommendations of the Review of Digital Innovation.
- Developing a digital economy asset map for Wales and put in place permanent governance arrangements to optimise public-private engagement and commercialisation of research.

Deliver a competitive tax environment

Business is looking to the government to use their powers over business rates, land transaction tax and income tax to drive growth not inhibit it. A modern and efficient Welsh tax system should avoid duplication or confusion with existing UK processes and all Wales-only measures should require a high threshold for change. Certain Wales-only tax reforms are currently being used to prescribe cost on development rather than incentivise investment. The impact of such policy choices needs to be closely monitored to ensure they are not impeding growth.

The Welsh Government should:

- Closely monitor the economic consequences of all differential devolved tax rates.
- Ensure an evidence-based debate is held on the question of varying income tax rates.
- Consider innovative new approaches to taxes that would reduce rates and grow the economy.

Ensure the approach to post-EU funding delivers sustainable economic growth

The Welsh and UK governments must work together to ensure the successor to EU funding – the UK Shared Prosperity Fund – delivers tangible and sustainable economic growth within Wales' poorest communities. To date, the success of EU funds in Wales has been mixed. Wales has been given just over £4 billion of EU funding since 2000 and while some funding has been used successfully – including support for the dualling of the Heads of the Valleys road and the support of over 200,000 people to gain qualifications – the successor to EU funding must learn lessons from the successes and failures of EU funding to ensure Wales maximises the value of this new fund.

Grow the Development Bank for Wales

The Development Bank for Wales is making a good impression within the business community for its ability to quickly and effectively meet the needs of business and the economy. The Welsh Government need to learn lessons from good models of delivery and, like Cardiff Airport and Transport for Wales, the Development Bank seems able to drive through meaningful change. The Welsh Government should review the Bank's function in Wales with a view to extending its remit to include the running of Business Wales and Careers Wales.

Create a Task and Finish Group to close Wales' productivity gap

Tackle Wales' productivity gap with the rest of the UK once and for all. Establish a task and finish group to determine if Wales should establish a New Zealand style productivity commission to consider how the laws, policies, regulations and institutions of Wales affect our national productivity and how it could be improved.

“The Welsh Government should establish a productivity Task and Finish Group to, once and for all, close Wales' productivity gap with the rest of the UK”

People

Prepare for our changing economy

Improving education and skills is critical to the long-term prospects of the Welsh economy, especially given the significant changes that will be created by automation. Many of the government's recent reforms are steps in the right direction and have the support of business, but there is still a long way to go. We need to ensure that reforms are delivered and that they drive improvements in outcomes. In doing so, our colleges and universities have a vital role to play as the facilitators of the higher-level skills that can boost an individual's earning potential and improve productivity in business.

A fair deal on fair work

The UK's flexible labour market has been an invaluable strength of our economy, underpinning job creation, business investment and our competitiveness. These strengths cannot be taken for granted, so it is essential that flexibility is retained and enhanced. Fairness – the way employees are treated at work, and the opportunities open to them – is equally important. It is possible for work can be both flexible and fair. Creating a labour market which delivers both factors requires a partnership between business and government. The law should set appropriate and effective minimum standards, and good workplace practices should be promoted for the mutual benefit of business and workers in areas where the law is an inappropriate or ineffective tool for change.

The Fair Work Commission, established by the Welsh Government to promote and encourage 'fair work' in Wales, will report in March 2019.

The Welsh Government should:

- Give the commission the space and resources to take evidence from a wide range of stakeholders before making evidence-based recommendations.
- Consider the recommendations of the commission fully before deciding on the government's own fair work action plan.
- Consider a collaborative approach, like the Scottish Business Pledge, where organisations are able to collaborate and where best practice is recognised.
- Ensure fair work legislation is used as a last resort not a first response and, if pursued, is subject to a comprehensive business impact assessment, oversight and review.

Ensure qualifications remain relevant to our changing economy

With the proportion of young people not in education, employment or training at 15.7% compared to 14.2% for the UK as a whole, the education system is not working for too many young men and women. In addition, automation is predicted to effect 1 in 3 jobs by early 2030s. Wales needs a long-term vision for education and skills that delivers young people who are rounded and grounded and better prepared for the rapidly changing labour market. Delivering more routes to higher level skills, particularly science, technology, engineering and maths (STEM) skills, will be vital for our future knowledge-intensive economy and Wales cannot close our productivity gap without boosting the take-up of such courses. However, caring skills, interpersonal skills and communication skills will be of growing importance in our increasingly automated and digital economy but so too will resilience training and the ability to drive your own learning.

The Welsh Government should:

- Ensure Welsh GCSEs, A-Levels and the Welsh Baccalaureate keep pace with changing needs of the economy and explore how Wales can learn from T-levels to improve the career path for learners and improve parity of esteem.
- Put in place a whole-government response to automation, AI and IoT, listening closely to the recommendations of the Review of Digital Innovation.

- Make greater progress on implementing the digital competency framework in all Welsh schools.

Ensure the Apprenticeship Levy system works for business

CBI members tell us that skills shortages are the biggest risk to national growth and competitiveness, so it's essential that apprenticeships lead to high-skilled, high-paid jobs that are competitive in the 21st century. Despite this, the post apprenticeship-levy system is complicated the landscape for employers everywhere. Firms that operate across the UK face four different systems in Wales, Scotland, England and Northern Ireland - all funded by a UK-wide levy. While devolution rightly means policy diverges to meet local economic and social needs, there is no need for the underpinning administrative systems to be so different that it undermines the UK internal market. In Wales the levy has had a different impact than elsewhere. The levy is a tax on certain large employers with funding being routed to Welsh Government and not into digital accounts controlled by employers. Wales has a supply-driven not a demand-led system. To ensure levy-paying employers are able to get the training they need the Welsh Government should consider introducing the Scottish Government's Flexible Workforce Development Fund. While not perfect, the purpose of the fund is to ensure those firms that pay the levy get a guaranteed level of training. This has merit and is worth exploring as a way of enabling firms in Wales to fully utilise the apprenticeship route.

There is growing concern about a lack of appropriate apprenticeship frameworks for certain anchor employers in Wales, with some having to develop their own framework or work with a non-Welsh provider in order to meet their training requirements. The Welsh Government needs to ensure that employers in Wales have access to the frameworks they need to train their employees:

The Welsh Government should:

- Consider adopting the Scottish Government's Flexible Workforce Development Fund in Wales.
- Fast-track in-demand apprenticeship frameworks – such as digital apprenticeships – to ensure employers in Wales can meet the training needs of their employees.

“To ensure levy-paying employers are able to get the training they need the Welsh Government should consider introducing the Scottish Government's Flexible Workforce Development Fund”

Place

Build infrastructure to create strong regions

Infrastructure is a critical element of our nation's economic and social fabric: affordable homes for people to live in; roads and railways that take people to work and enable businesses to move products to market; reliable digital connections allowing information to be shared at speed; and energy to power it all. It's easy to take these things for granted and too often we only notice when things do not work as expected and Wales is already falling behind its competitors with little significant economic infrastructure build over the last decade. Wales needs a strategic long-term plan for infrastructure that is insulated from the political cycles that hamper and constrain progress.

Deliver critical infrastructure improvements to drive growth

The saga of the M4 relief road is now infamous in Welsh political history. First considered in 1991, the need for the relief road continues to grow but the project remains stuck in political and administrative bureaucracy. The M4 underpins two thirds of our nation's GDP. The Welsh Government must green light the black route and remove the strangle hold the Brynglas tunnels has on our nation's economy. However, whatever the latest decision on the M4 relief road is, the congestion around the Brynglas tunnels will get worse in the short term. There has to be a better way of deliberating and delivering Wales' economic infrastructure and the Welsh Government must task the newly established National Infrastructure Commission for Wales to deliver a step change in how infrastructure projects are delivered.

The £15bn Wylfa Newydd project is by far the biggest capital project in Wales. The Welsh Government must work closely with the North Wales Growth Deal and the region's business community to maximise the local benefits of the project.

In this fast-changing digital economy, it is not just roads and rail that need investing. Data and its manipulation will increasingly become vital for future economic growth and the Welsh Government needs to start thinking now about delivering infrastructure for our digital future. Wales needs to start building a national 5G network as well as investing in our energy infrastructure to ensure we are able to meet our ambitious renewable energy goals.

Other important infrastructure projects need to be delivered including the South Wales and North Wales metros, long-awaited A55 improvements and the success of the Transport for Wales franchise.

The Welsh Government should:

- Deliver the M4 Black Route, South Wales and North Wales metros, A55 improvements, the new Transport for Wales franchise and the expansion of Cardiff Airport.
- Ensure the National Infrastructure Commission for Wales delivers a step-change in how infrastructure projects are planned and delivered.
- Maximise the benefit of the £15bn Wylfa Newydd project for North Wales.

Develop stronger, more dynamic regions

As local devolution in England empowers local communities to drive forward their own growth, Welsh regions must not be left behind. In much of Wales, the existing governance landscape remains confused and contradictory. With a population of just three million, we do not need 25 planning authorities, 22 local authorities and dozens of government organisations delivering separate strategies.

In recent years, the Welsh and UK governments have taken positive steps towards regional working, creating city and growth deals for South East, South West and North Wales. After a slow start, the city regions are starting to make a difference on the ground, but the pace of change needs to increase for businesses to retain confidence in these exciting initiatives.

The early implementation of local government reorganisation will encourage a more strategic approach to growth, and this must be matched by the government adopting a regional approach to economic planning. The Economic Action Plan is a step in the right direction, appointing Chief Regional Officers to restructure economic policy along regional lines. These regional officers now need the support, authority and resources to make a meaningful difference.

A forthcoming decision point for regional growth will be the future shape of the UK Shared Prosperity Fund. While we await a consultation, it is difficult to say what the options will be but whatever government decides, the fund needs to deliver meaningful and sustainable local growth.

We remain of the view that the government should not rule out enhancing the powers of our city regions, creating regional development corporations (RDCs) for South East Wales, South West Wales and North Wales. Working under the guidance of the Welsh Government, each RDC should develop and deliver a long-term regional economic strategy in partnership with business and Strategic Development Plans as set out under the Planning (Wales) Act. Empowered to enhance economic competitiveness and renew local infrastructure, RDCs could manage their region's enterprise zones, sector specialisms, anchor companies, and identify local skills needs. Free from local bureaucracy, the RDCs must be outward looking, forging dynamic partnerships with neighbouring English cities and exploring opportunities for UK growth deals.

The Welsh Government should:

- Develop a coherent vision for the economic regions of Wales that is coterminous with City and Growth Deals; secure a growth deal for mid Wales and keep open the options of regional development agencies if a clear need emerges.
- Recognise that with tightening budgets, local government is already delivering in challenging times. Reducing by at least half the number of local authorities in Wales would enhance public sector productivity, equipping the new authorities with the critical mass and capacity to deliver services effectively should be the goal of these reforms.

“The Welsh Government needs to start thinking now about delivering infrastructure for our digital future.”

Delivery

Make the Welsh Government an enabler of growth

With Brexit on the horizon and digital transformation sweeping through the world, the old delivery model of government is no longer fit for purpose. The Welsh Government needs to take a fresh look at how it delivers change and adapts to new and emerging challenges. Welsh Government has been a very effective developer of strategy, but delivery on the ground has often fallen short of expectations. Under a new First Minister, the government must focus their limited resources, on the right priorities to deliver a devolution dividend. Government departments must work together to become generators - not inhibitors - of growth with modernised public services such as education and health at the heart of a healthy, skilled and productive society.

Improve public service productivity

Given many public services are the anchors of local economies, we need to ensure devolved public services are playing an effective role in the foundational economy. The government must be an agile partner in driving the economy forward, demonstrating Wales is open for business and maximising local procurement spend. Business wants to see the government make progress towards a more joined-up and nimble approach to supporting growth, one that focuses on ambition and delivery. The Welsh Government should conduct an efficiency and productivity review of devolved public services to maximise the value Welsh taxpayers get from the services they pay for and ensure more resources are available for front-line services.

Government Delivery Units now exist in over 25 countries. To ensure the recommendations of the 'efficiency and productivity review' are implemented the new First Minister needs to establish a delivery unit at the heart of government, reporting directly to them and chaired by them. The unit should have a clear cross-government remit, receiving and analysing a stream of performance data and work with the Permanent Secretary to intervene if delivery appears to be stalling or if devolved policy is placing a cumulative burden on key sectors of our economy.

Digitalisation is transforming the way we live, work and play. Welsh public services must keep up with the rapidly changing nature of digitalisation to ensure services are delivered as efficiently and effectively as possible. With private providers now making doctor appointments available via Facetime and wearables providing more real-time patient data, there is an emerging opportunity for Wales to take a lead in delivering public services in a more innovative way. If approached correctly, the utilisation of artificial intelligence could unlock major benefits for the people of Wales. The Welsh Government should consider the recommendations of the Welsh Government Panel on Digital Transformation to determine how devolved public services are maximising the value of digitisation and ensure emerging technologies are used for the public good.

Finally, more could be done to ensure the best of the public and private sectors learn from each other. The Welsh Government should establish a secondment programme where senior figures from both the public and private sectors in Wales are able to learn from best practice within each other's organisations.

The Welsh Government should:

- Identify the role the devolved public services could play in driving up national productivity and regional growth and implement a strategy to maximise their value to the regional economy.

- Create a First Minister's Delivery Unit at the heart of the Welsh Government capable of tracking progress, measuring outcomes and intervening if delivery appears to be stalling or if devolved policy is placing a cumulative burden on key sectors of our economy.
- Ensure public services have the right capacity and capabilities and to embrace the productivity enhancements promised by digitalisation, automation and AI. The Welsh Government should consider the recommendations of the Welsh Government Panel on Digital Transformation to determine how devolved public services are maximising the value of digitisation and ensure emerging technologies are used for the public good.
- Ensure a better exchange of ideas between the public and private sectors through a new secondment programme.

For further information or a copy
in large text format, contact:

Leighton Jenkins, Assistant Director/Head of Policy
CBI

T: 02920 977600

E: leighton.jenkins@cbi.org.uk

© Copyright CBI 2018
The content may not be
copied, distributed,
reported or dealt with in
whole or in part without
prior consent of the CBI.