



August 2016

Challenges for the Welsh Economy

Data on Wales' economic performance paint a mixed picture. It lags behind the UK average on most measures but doesn't compare particularly unfavourably with other peripheral regions, and does relatively well on some indicators. Disposable income per person (the amount individuals have left to spend after tax deductions and other contributions) in Wales has grown at a [slightly faster rate](#) than the UK average since devolution and unemployment fell [below the UK average](#) in 2016. However, measures of [productivity and output](#) rank Wales among the lowest performing regions in the UK, and economic inactivity remains stubbornly high.

[Evidence from the OECD](#) shows that investment in infrastructure can help to drive growth in economies like Wales' and delivery of new infrastructure will be a key theme for the Welsh economy over the next five years. The [Cardiff Capital Region city deal](#) – worth £1.2 billion – will see the implementation of the Metro project across south-east Wales, with the aim of improving connectivity to bring people, jobs and businesses closer together. Plans for a transport project in north-east Wales are also being discussed, while the Swansea Bay region has [submitted a city deal bid](#) focused on smart specialisation in digital infrastructure. A decision is also expected on the preferred route of the M4 relief road. There will also be an emphasis on creating new apprenticeships and evidence from the [What Works Centre for Local Economic Growth](#) shows that this can be an effective way of improving skill levels, increasing wages and boosting longer term employment.

However, with these and other interventions competing for resources, a key challenge will be how to decide which policy options offer the best return on investment and have the greatest impact on living standards. The effect that Brexit could have on the level of funding available adds another layer of complexity.



Over the last two years, in response to Ministers' evidence needs, we have worked with experts to generate evidence on the Welsh economy, employability and infrastructure. What follows is a summary of the some of the key messages from this work.

Our work on **employability** has concluded that:

There is a strong case for devolving responsibility for the Work Programme

Our analysis of the Work Programme, undertaken with Dave Simmons from the Centre for Economic and Social Inclusion, showed that it has performed less well in Wales than the UK average and that the number of Employment and Support Allowance claimants and those furthest from the job market is much higher. We concluded that there is a strong case for a single integrated Welsh strategy for labour market interventions that establishes a framework for new interventions to address long-term worklessness. We recommended that in the short term the UK government should devolve responsibility for commissioning and managing the Work and Health Programme in Wales. The Welsh Government should also explore the potential for full devolution of the Work Programme over the longer term and identify existing funds and activities that could be integrated or aligned with it.



Wales needs a more holistic approach to promoting employability tailored to the needs of specific groups

We worked with a group of experts to review the evidence about the effectiveness of existing approaches to promoting employability. We found that there are four times as many Disability Living Allowance (DLA) and Employment and Support Allowance (ESA) claimants as Jobseeker's Allowance claimants in Wales. This makes it especially important to find ways of enabling those



receiving DSA and ESA to access employment opportunities and will require close working with health services and in particular GPs. The evidence shows that interventions need to be tailored to individual circumstances and the needs of the whole person. This is more costly than a standardised approach but is more likely to increase employment and reduce benefit payments in the long term.

As well as helping the unemployed to access work, policy needs to support career progression

We were asked to examine the scale and extent of intergenerational worklessness in Wales. We published analysis by Professor Anne Green and Dr Daria Luchinskaya from the Institute for Employment Research at Warwick University which suggests that it is unlikely to be a widespread problem in Wales but that there are households which experience fragile employment (repeated cycling in and out of low paid, insecure work). To date most initiatives have focused on helping the unemployed to access employment. Anne and Daria's analysis suggests that more needs to be done to support them to remain in employment. This requires work with employers and labour market intermediaries to develop a 'Career First' approach which encourages the development of sustainable jobs with opportunities for progression.

Employer subsidies can increase employment but need to be tailored to economic conditions

Our review of the evidence on subsidies to employers suggests that take up can be incentivised if they are large enough to offset the employer's costs. Direct wage subsidies that are easy to administer are attractive to employers. Schemes that combine employment with training to address skills gaps may be more effective than those which use employer subsidies in isolation. Employer subsidies focussed on private sector employment are likely to be more effective than those targeted at the not-for-profit sectors. There is evidence to suggest that a focus on training during an economic downturn and employer subsidies during periods of recovery may be an effective combination.

Our work on **economic development** concluded that:

Overseas offices play a valuable role in raising Wales' profile and promoting trade and inward investment and there could be benefits in establishing new offices in key regions



Our work on inward investment found that Wales had fewer overseas trade and investment offices than other comparable countries or regions for which data are available. Working with Professor Max Munday (Director of the Wales Economic Research Unit at Cardiff Business School), we identified key criteria to guide choices about new investment in offices and suggested that Wales could benefit from investment in some new offices and from the deployment of mobile specialist teams that can be called in to complement the work of in-situ staff.

A thriving airport is vital to realising the economic potential of the Cardiff Capital Region and South Wales

We worked with Chris Cain, an aviation industry expert, to review the evidence of the economic impact of regional airports around the world. Chris concluded that Cardiff Airport provides an important international gateway to Wales which supports key sectors of the economy. The evidence shows that maximising this growth potential will require further investment and a coherent medium term strategy which should include the creation of an airport business district.



Enterprise zones need to be embedded in longer term strategies for economic development

With Professor Peter Tyler from Cambridge University we reviewed the evidence about the effective governance of Enterprise Zones. Our report emphasised the need for effective governance of Enterprise Zones and for their activities to form part of longer-term economic development strategies for their areas which are tailored to local opportunities.

Our work on **infrastructure** shows that:

There is a need to improve strategic transport planning in Wales

We published a review of international theory and practice in strategic transport planning by Professor John Preston, a leading transport analyst from Southampton University. John identified



key features of good strategic transport planning that policy-makers in Wales should take account of. Our report recommended that the Welsh Government develops a clear vision and using a combination of policy instruments to meet anticipated demand. We also recommended more effective integration of transport planning with other aspects of policy and planning.

Bus service deregulation has had negative impacts in Wales

We also worked with John Preston to analyse the impact of bus deregulation in Wales. This showed that since deregulation fares have increased, while operator costs have gone down. Wales pays higher subsidy than most of the rest of Great Britain without noticeable added benefit, and it is likely that a lack of competition in some areas means that subsidy leaks into operator profits. Our report concluded that the industry is unlikely to deliver high quality integrated transport without wider application of quality partnerships.

We look forward to working with Ministers, officials, business, local councils and others to continue to generate and disseminate robust evidence about responses to the opportunities and challenges for the Welsh economy over the next five years.