



Wales Co-operative Centre
Canolfan Cydweithredol Cymru



Creating an **INCLUSIVE ECONOMY** in Wales



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Summary

Since a majority of people in Wales, as in the UK as a whole, voted to leave the EU, the idea of an inclusive economy has gained ground. Inclusive growth is now at the heart of the **Welsh Government's Economic Action Plan**, although detail about what it means and how it will be achieved is, as yet, limited.

The Wales Co-operative Centre is working for a more inclusive economy, having placed this policy area at the heart of its new five year strategy. The Bevan Foundation has joined forces with the Wales Co-operative Centre to develop practical proposals that can help achieve an inclusive economy in Wales, its economic regions and its diverse communities. This has involved:

- **Defining an inclusive economy**
- **Identifying what an inclusive economy looks like**
- **Recommending six key steps towards increasing inclusion and prosperity.**

What is an inclusive economy?

There are many different definitions and interpretations of inclusive growth or an inclusive economy. Crucially it is different to the generation of wealth and its subsequent redistribution – it means making increasing equality an integral part of the process of creating prosperity. It is in effect a new economic model.

What does an inclusive economy look like?

We identify four separate, but linked, dimensions of an inclusive economy, based on the drivers of economic success. These are:

- **Inclusive businesses**
- **Decent work for all**
- **Knowledge and skill**
- **A say in decisions**

How do we create an inclusive economy?

We then identify six essential steps that evidence suggests are most likely to achieve economic inclusion, both socially and geographically. These are:

1. **Developing the Foundational Economy**
2. **Supporting the social business sector**
3. **Promoting fair work**
4. **Establishing a fresh and more strategic approach to procurement**
5. **Connecting people to jobs**
6. **Including citizens' voices in new regional economic structures.**



1.0 Introduction

On 23rd June 2016, **854,572 (52.5%)** voters in Wales voted to leave the EU, compared with **772,347 (47.5%)** who voted to remain. In total, a majority voted to leave in **17** out of Wales' **22** local authorities, with the proportion being highest in Blaenau Gwent where **62%** voted leave.¹ But even in areas where a majority voted remain, such as Cardiff, a substantial minority wanted to leave. The number of leave voters in Cardiff exceeded those in Merthyr Tydfil, Blaenau Gwent and Torfaen combined.

There is powerful evidence that the vote to leave was driven by people feeling 'left behind'.² Voting leave has been found to be very strongly associated with having low educational qualifications and skills. A major study of voters found that other things being equal, support for leave was **30** percentage points higher among those with qualifications up to GCSE than it was for people with a degree. Support for leave was also higher, by **23** percentage points, among those with household incomes of less than **£20,000** a year compared with those on **£60,000** per year or more. Age was also a factor, but it was outweighed by education.

Where people live also emerged as important. In general, people living in 'low-skill' areas were more likely to vote leave than those in 'high-skill' areas. This was the case for all levels of qualification, but it was especially marked amongst the more highly-qualified. Graduates were more than twice as likely to vote remain in high-skill areas than fellow graduates in low-skill areas.

The vote to leave can, then, be seen as a vote of dissatisfaction with current social, economic and political arrangements. In the immediate aftermath of the referendum, politicians of all hues claimed that changes would be made. Theresa May's first speech as Prime Minister referred to her '**mission to make Britain a country that works for everyone**'³ while Jeremy Corbyn said '**Labour will insist on a Brexit that works not just for City interests but in the interests of us all.**'⁴

The emphasis on the interests of everyone, not just the few, is all the more important in light of the possible impacts of Brexit on people who are the least well-off. Brexit is just one of many factors that will shape people's futures, and a great deal depends on the deal negotiated with the EU and how businesses and individuals respond to whatever terms are agreed.

Nevertheless, there are some warning signs that there is considerable economic upheaval ahead, in which those on low incomes and in areas of relative disadvantage are likely to fare worst.

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- **Economy:** Most mainstream economists estimate that at best the UK economy will grow more slowly than it otherwise would have done and at worst it will contract slightly as a result of Brexit.
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- **Household incomes:** Brexit is forecast to reduce household incomes of the least well-off.⁵ If welfare spending bears **50%** of the burden of adjustment to Brexit, low income households stand to lose between **£930** and **£2,771** a year, depending on the type of household, in 2020. This is a fifth of the already-low income of a lone parent family with two children.
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- **Household costs:** Tariffs on imports are forecast to increase average family expenditure on a weekly shop by around **£5** a week.⁶ However the impact on the poorest **20 per cent** of households will be a third greater than on the best-off **20 per cent**.
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Such gloomy, if not apocalyptic, forecasts require that the commitments to ensuring the benefits of economic growth reach everyone are turned into action. And it is the idea of **'inclusive growth'** or an **'inclusive economy'** that can offer some solutions.

2.0 What is an inclusive economy?

The idea of inclusive growth has been grasped with some enthusiasm recently. Pillars of the global economy such as the **World Economic Forum**, **International Monetary Fund (IMF)** and the **Organisation for Economic Co-operation and Development (OECD)** have begun to promote economic inclusion. In 2013, Christine Lagarde, Managing Director of the IMF, said:

'... we need more **fairness** in economic life, more **inclusion**. ... Surely we have all learned by now that it is no longer enough to focus on growth alone. We need all people to share in rising **prosperity** - and, by the same token, share fairly in any **economic adjustment** needed to achieve or restore prosperity.'⁷

The idea has also generated a great deal of interest and activity in the UK. The **Royal Society for the Arts (RSA)** established an **Inclusive Growth Commission** in April 2016, the **Joseph Rowntree Foundation** is supporting a wide range of work on inclusive growth including the **Inclusive Growth Analysis Unit** in Manchester, and the **Institute for Public Policy Research** has established a commission on economic justice,⁸ to name but a few. Almost all the interest in inclusive growth in England has been in the context of cities and more specifically, City Deals. This probably reflects both the anticipated increases in GVA and employment and the accompanying devolution of powers to new local arrangements.

In Wales, inclusive growth fits well with the shift in focus brought by the **Well-being of Future Generations Act**. It contributes towards meeting all seven of the well-being goals set out in the Act, and in particular the goals of prosperity, resilience, equality and cohesion. Indeed the **Future Generations Commissioner** has stated that:

'Our definition of a prosperous Wales is an **innovative, productive, low-carbon** society that acts within the limits of the global environment, and which focuses on a well-educated and skilled population with access to decent jobs. Nowhere in that definition ... does it say that the purpose of economic development ... is an uplift in GVA. Our mission is much broader than that.'⁹

The Welsh Government has put inclusive growth at the centre of its long-awaited **Economic Action Plan**:

‘Growing our economy **inclusively**, spreading **opportunity** and promoting **well-being**, are at the heart of this Plan.’¹⁰

However, there is relatively little detail about how inclusive growth will be achieved. The Welsh Government’s understanding of the term is not spelled out, the tools to be used to achieve inclusive growth are mostly not specified even though the Welsh Government commissioned a paper from the **Wales Centre for Public Policy** in summer 2017,¹¹ and there are no plans to measure and monitor progress. It is a moot point how successful the aim of inclusion will be without clarity, levers and intelligence.

Explicit reference to inclusive growth or an inclusive economy has yet to reach the City Deals and new regional economic structures. The existing **Welsh City Deals** and most discussion about regional economic development continue to focus on more traditional economic objectives such as boosting GVA and creating jobs, particularly in the city part of the wider region. This model implicitly relies on prosperity ‘trickling down’ to the least well-off people and places, with as yet limited discussion about how to ensure that in places such as the south Wales valleys, groups of people such as disabled people or black and minority ethnic communities actually benefit from growth.

So what does ‘**inclusive growth**’ and an ‘**inclusive economy**’ mean and how best can the Welsh Government, local authorities and other economic actors support it?



2.1 Defining inclusive growth and an inclusive economy

The first step is to be clear what is meant by the term inclusive growth or inclusive economy. There are a wide range of definitions on offer, with one of the most widely accepted being that proposed by the OECD:

'Inclusive growth is **economic growth** that creates opportunity for all segments of the population and distributes the **dividends** of increased prosperity, both in monetary and non-monetary terms, fairly across society.'¹²

Closer to home, the RSA Commission's definition is somewhat narrower but has nevertheless gained widespread endorsement, being adopted by several cities as well:

'enabling as many people as possible to contribute to and benefit from growth'

At the core of the idea of economic inclusion are two key elements – first, a concern about the overall size and performance of an economy and second, a concern about the distribution of its benefits. It is this combination of concern with **economic performance** and with **economic equity** that makes the idea of an inclusive economy distinctive from traditional ways of thinking about economic development.

In discussing inclusion, many contributors refer to 'inclusive growth', usually in connection with the economic development of cities in England and in particular City Deals. Generally, **'inclusive growth'** means harnessing the benefits of city development and spreading them as widely as possible, both socially and geographically. The emphasis tends to be on increasing participation e.g. through improving connectivity and employability. Other contributors use the term 'inclusive economy'. They question whether economic growth is likely or feasible and argue that the existing economy should be inclusive as well as new development. They therefore emphasise creating an alternative economic model.

Our view is that these approaches are not mutually exclusive and that there are merits both in extending the benefits of any economic growth that does occur and promoting alternatives to the mainstream economic model. Indeed, for areas outside cities that do not have either **'deals'** or the agglomeration of population on which much 'inclusive growth' is based, the focus must be on a broad approach to inclusion.

In the rest of this paper we use the term **'inclusive economy'**, because of the need to address existing inequalities as well as those that might arise from growth. In doing so we are not rejecting interventions that derive from a **'growth'** approach, which have a great deal of merit in Wales as elsewhere.



3.0 What would an inclusive Welsh economy look like?

For all the different definitions of **economic inclusion**, there is a broad consensus around its key features and how they should be measured and monitored. Some analysts have generated indicators of inclusive growth that measure prosperity and inclusion separately,¹³ and these are being used to monitor change in Manchester City Region.¹⁴ We have brought these together to identify four **'pillars'** of an inclusive economy. These are centred around:

- **The drivers of economic prosperity**
- **Ensuring people and places are included.**

An inclusive economy therefore has the following attributes:

- **Diverse and resilient businesses to create wealth and provide goods and services**
- **Decent work for everyone to generate an income to live on**
- **Knowledge and skills so people can secure a livelihood and progress**
- **A say in economic decisions so that people's needs are taken into account.**

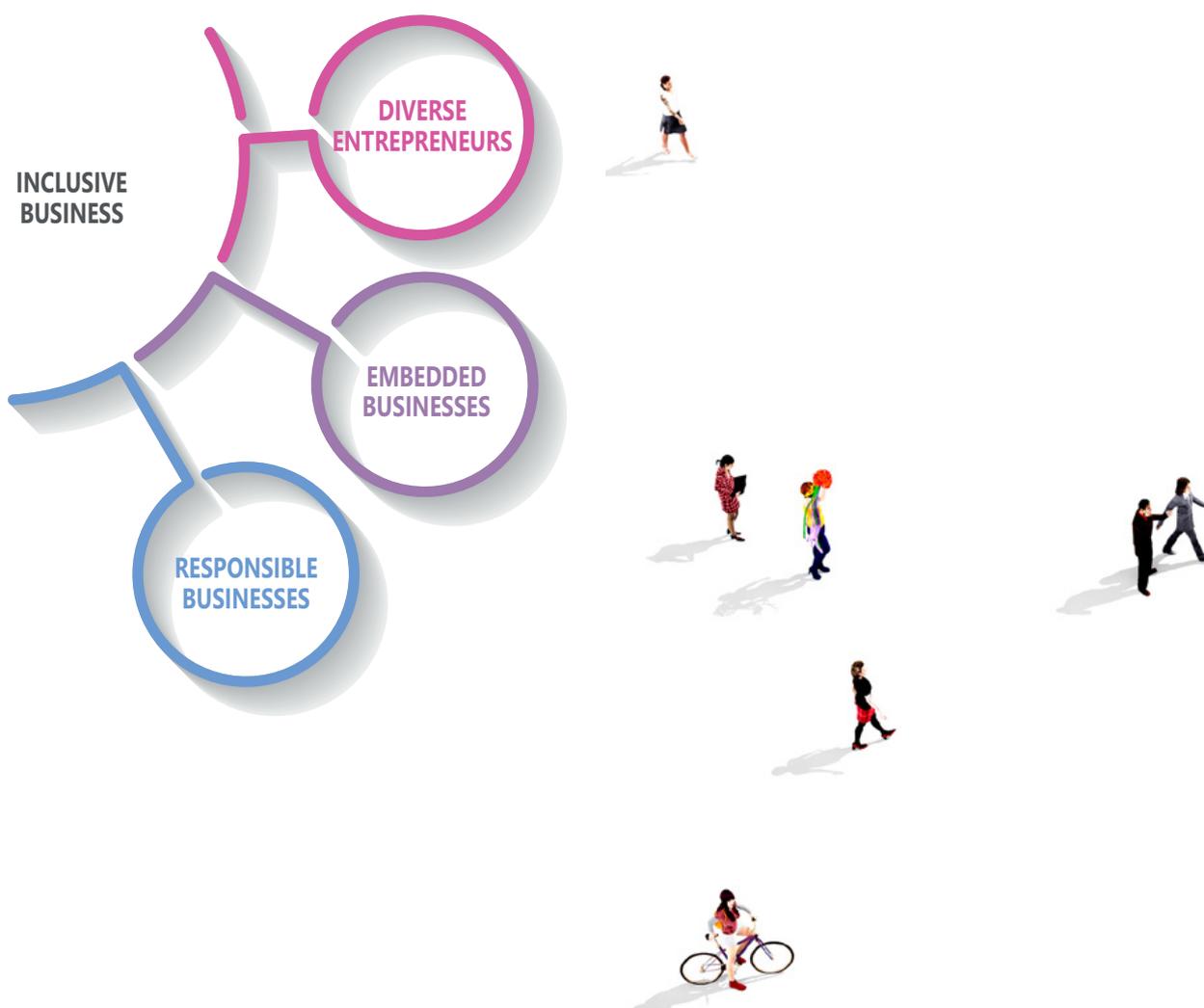
The rest of this section explores these attributes in more depth.



3.1 Inclusive businesses

Businesses are fundamental to creating both **prosperity** and **inclusion** – they create wealth, provide work and incomes, and offer goods and services. New businesses also provide choice and competition and act as the seedbed for growth. The number of businesses is therefore a key element in local economic prosperity and, hardly surprisingly, business growth has been a mainstay of economic development for many years, whether through supporting new business starts or attracting inward investors.

While the number of businesses clearly matters, inclusion means looking beyond a simple count of the number, birth rate and survival rate of businesses. Inclusion means considering, in addition, the benefits that businesses bring to the wider community. We have identified **three different features** of local businesses that contribute to inclusion. They concern the extent to which different people participate in business formation, the extent to which businesses are integrated into the local economy and their corporate responsibility.



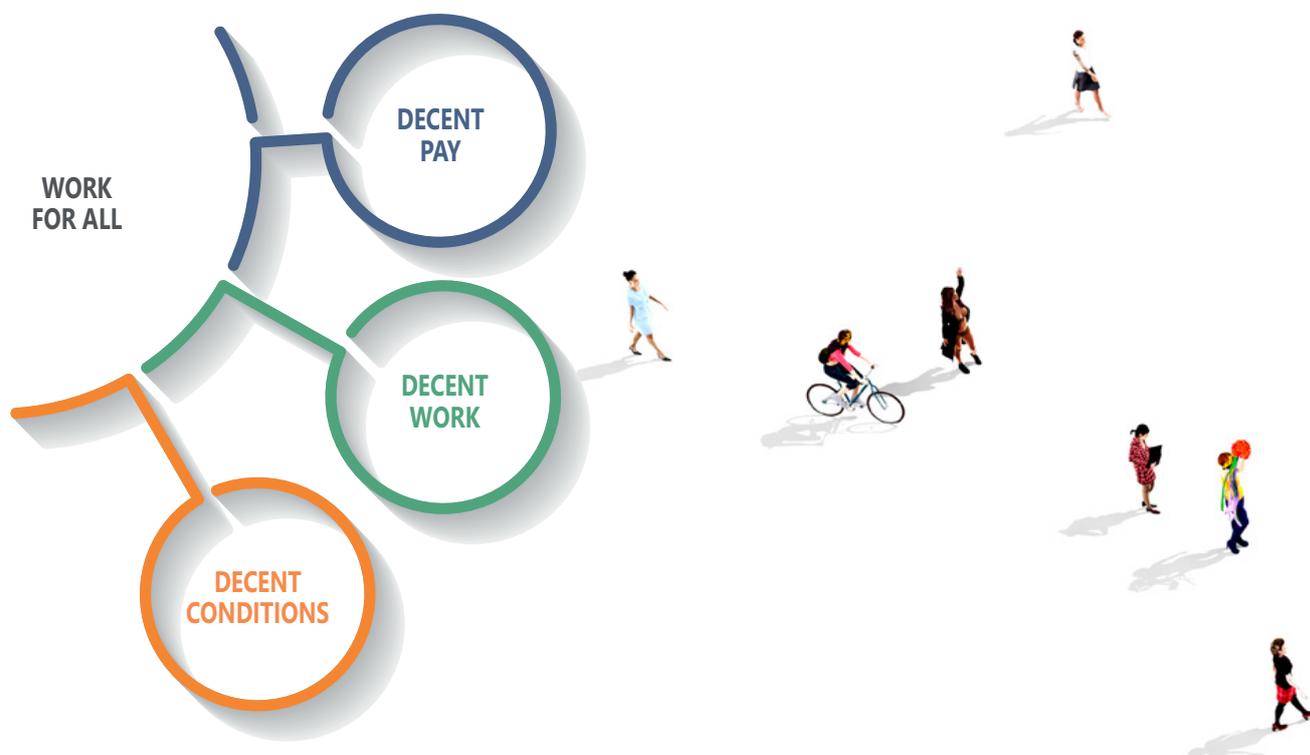
- **Diverse entrepreneurs:** An inclusive economy is one in which successful entrepreneurs come from a wide range of backgrounds, including women, ethnic minorities, disabled people and young and older workers. Diverse entrepreneurs also come from grassroots business initiatives as well as via business schools. Diverse entrepreneurs create new businesses and drive growth in all sectors, including the foundational economy.
- **Embedded in the economy:** An inclusive economy has many businesses that are an integral part of and rooted in the local economy. Very often such embedded businesses are locally-owned, such as social businesses, employee-owned businesses and family firms. By being strongly integrated into the local economy they source a significant proportion of their supplies and labour locally. In so doing, embedded businesses help to retain and recirculate wealth in an area, reducing leakage of surpluses and profits out of the area.
- **Responsible:** An inclusive economy has businesses, of all sizes, that are committed to improving their area through their actions. A responsible business 'gives back' to the community through traditional means such as philanthropy, sponsorship and volunteering. It also acts as a business citizen by addressing local needs in its everyday decisions, such offering opportunities to people experiencing severe disadvantage or building partnerships with community organisations. All types of business can be responsible, but social businesses, whose reason for existing is community benefit, may be able to make the largest contribution.



3.2 Decent work for everyone

Employment is fundamental to **prosperity**. Paid work is how the vast majority of people generate an income and for many work is also a source of identity and social contact. Having any sort of paid work more than halves the risk of living in relative income poverty, and it is also associated with **better health, educational attainment** and a **longer life**. In many surveys about what people want in their area, jobs come at the top of the list.

Most thinking about prosperity emphasises the number of jobs, but in an **inclusive economy** in addition to the number of jobs is a concern with the distribution of work between people and places and the quality of work.



The key elements of this pillar of inclusion are:

- **Work for all:** An inclusive economy is one in which there is work for everyone who wants it. Yet despite employment being at a record high, for every eight people in work there is one person who wants to work but does not.

An inclusive economy shares work equitably between places, with no differences between the employment rates of the south Wales valleys and major cities, and much smaller gaps in the employment rates of disabled people, women and ethnic minorities compared with the rest of the population.

- **Decent pay:** An inclusive economy means everyone earns enough for an acceptable minimum standard of living, with the vast majority of employees being paid the voluntary Living Wage (currently **£8.45** an hour).¹⁵ At present nearly **1 in 4** of employees in Wales – more than a quarter of a million people – earns less than the voluntary Living Wage rate.

An inclusive economy means that all groups of workers benefit from decent pay, no matter where they live. This requires the burden of low pay borne by women and young workers to disappear and the gap in median earnings between the lowest-paid places narrowing significantly.

- **Decent conditions:** An inclusive economy provides secure and safe work, with adequate provision when someone sick. In Wales around one in fifteen workers is in a temporary role (**83,000** employees) and some **46,000** workers are on a zero hours contract. Many workers are only entitled to the statutory minimum provision if they are unable to work because of illness or maternity.



3.3 Knowledge and skills

‘Human capital’ is widely identified as a driver of **economic growth**; places with larger proportions of resident populations with higher-level skills tend to have higher levels of GVA per adult than places whose populations have lower-level skills. As a result, economic development policies typically emphasise investment in higher-level skills.

There are significant skills gaps in the population, with around **181,000** working age adults without any qualification at all and a further **207,000** having qualifications at level 1. There is a close association between the level of qualifications held and having paid work.

An **inclusive economy** addresses the skills needs of workers across the spectrum and invests in boosting lower-level skills as well as those at a higher level. To do so it makes opportunities available to refresh and renew skills throughout working life.

These **two** aspects of skills – having **essential skills** and having **opportunities to learn** – are key to an inclusive economy.



- **Everyone has essential skills:** An inclusive economy is one in which everyone has the essential skills of literacy, numeracy and digital competence, along with soft skills such those of problem-solving, team-working, time-management and self-management skills.

With the right mix of skills, more workers will be able to access and retain work, and will be able to take up new opportunities as they arise.

- **Opportunities for learning throughout life:** An inclusive economy offers opportunities to learn useful skills at any stage of someone's working life, not just at the beginning. It will offer opportunities for people to learn whichever is their sector of work and at all levels of employment. The skills that people acquire can help to sustain a current role or support a change of direction, as well as enabling people, whether employees or entrepreneurs, to innovate and adapt to rapid changes in technology.



3.4 People's voice

There is growing evidence that the most resilient places have strong networks between public, private and social sectors. Yet most economic development decisions are taken by **public sector leaders** and **big businesses** that are far removed from civil society.

Instead communities and civil society should be seen as active parts of the system that help to create success in the first place, rather than the mere recipients.¹⁶ An inclusive economy is therefore one in which people have a say in economic decisions that affect them and their community.

We have identified **three** key arenas where people's voice needs to be heard: in the **workplace**, in the **locality** and in **Wales' economic regions**.



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- **Worker representation:** An inclusive economy is one in which workers have a strong collective voice. This can be through owning the business, for example in worker co-operatives or other forms of employee ownership, or through union or similar representation. Worker ownership or representation is strongly associated with better pay and conditions of work. Yet although Wales has a higher proportion of people belonging to trades unions than any other part of the UK, nearly two-thirds of private sector workplaces do not have a union presence. Workplace representation in its various forms will help to drive up terms and conditions at work and reduce the risk of discrimination and victimisation.
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- **Active local decision-making:** An inclusive economy is one where people contribute actively to decisions about their economic future. Public Service Boards assess the state of economic, social, environmental and cultural well-being and set objectives to achieve well-being goals, and so they ought to play a pivotal role in creating inclusion. Yet the community voice in PSBs is limited, with only one of the nine recommended members representing the wider community (as representatives of the voluntary sector). An inclusive economy is one where the community is actively engaged in decisions, not just consulted.
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- **City region dialogue:** Inclusive economic regions explicitly include people's voice in their structures and operation. Yet Wales' new regional institutions, such as city region boards and regional learning and skills partnerships, are dominated by business and public sector interests with trades unions and civil society typically being lone voices – if any. An inclusive city region economy has a strong voice for civil society in its structures and actively involves civil society in decisions.
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4.0 Six steps to an inclusive economy

Identifying the key features of an **inclusive economic** is just a start – there needs to be effective action on the ground to make **economic inclusion** and **prosperity** a reality. This section brings together proposals for action, drawn from the recommendations of a wide range of think-tanks and research organisations as well as the experiences of economic development bodies elsewhere in the UK.

Step one: Grow the Foundational Economy

The **Foundational Economy** is a relatively new idea that describes the economic activity that meets people's every day needs. It includes services such as health, education, housing and social care; the manufacture and supply of goods such as food and energy; and occasional extras such as hairdressing and holidays.

The Foundational Economy is the building block of almost all communities in Wales. It provides goods and services essential to local needs and it also provides a substantial number of jobs – up to **45%** of employment in parts of Wales. The Foundational Economy is typically very diverse, including different sizes of firm from sole traders to supermarket branches; different types of business including public, private and third sector; and multiple different economic sectors.

The importance of the Foundational Economy to inclusion is that businesses, both large and small, are typically embedded or 'grounded' in the local economy. Foundational businesses usually have ties which include local ownership and / or management, a regional supply chain and support services, local labour, and a local customer base. They are the opposite of foot-loose production plants pursued by economic development bodies for decades.

The commitment in the **Welsh Government's Economic Action Plan** to work with selected, essentially private sector, parts of the foundational economy - tourism, food, retail and care sectors – is very welcome. The Plan says it aims to 'understand the challenges they face and the opportunities for growth and innovation'. **The Wales Centre for Public Policy** expands on this by recommending that within the Foundational Economy the Welsh Government should seek to increase employment and improve productivity and job quality.

Important though issues such as productivity and innovation are, one of the originators of the foundational economy concept, Karel Williams, warns that 'the foundational economy is not a new set of sectors for the old policy approach.'¹⁷ Instead there needs to be a new approach based on locality, assets and collaboration, and which emphasises the business ecosystem.

Most of the new ideas about developing the **Foundational Economy** centre round:

- 1. Refocusing business support** to build on the strengths and enhance the capabilities of firms rather than emphasising growth and to support new businesses, including community and social businesses, to come forward
- 2. Supporting collaboration and consortia development** so that small businesses have the scale to take on bigger work packages and share resources and are able to resist being taken over by large businesses with no stake in the local area
- 3. Providing physical and soft infrastructure** such as co-working space for makers and place-based branding and marketing.

Williams also urges experimentation to see 'what works'. Precisely this experimentation is now underway in two pilot projects in Swansea and Blaenau Gwent, led by Coastal Housing and United Welsh respectively with support from Cardiff University.

One note of caution is that although the Foundational Economy is important in all parts of Wales, the dependence of some sectors on consumer spending means that it may well make a more limited contribution in areas with below average household incomes as people simply have less to spend. The reliance of city deals on 'connectivity' could exacerbate this risk, with workers' work-related expenditure e.g. on lunches, occurring close to their place of work rather than where they live. In these areas, the use of procurement as a tool to stimulate local development, for example as argued by Wales TUC's '**Better Jobs Closer to Home**' campaign, is all the more important.

Recommendations

The Welsh Government, City Deals and local authorities should embrace an asset-based, collaborative and capacity-building approach to developing the foundational economy. They should support and evaluate innovation and encourage the adoption of good practice.

Economic anchor institutions, such as hospitals and universities, should review their spending to ensure more of it is spent in the local foundational economy.

For its part the Wales Co-operative Centre will continue to work with partners as part of the Foundational Economy Network in Wales to develop a practical new approach to local development which would support the creation of a flourishing foundational economy and addresses the overlooked economy.

Step two: Grow the social business sector

The social business sector in Wales comprises nearly **1,700 enterprises** and contributes **£2.37 billion** a year to the Welsh economy.¹⁸ Some of these are relatively large businesses, for example some of the agricultural co-operatives and housing associations. Many are small or medium sized. In total the sector employs more than **40,000 people** - the same number of people as those employed in agriculture, forestry and fishing or arts, entertainment and recreation. Yet the social sector's visibility is relatively modest and it arguably has a much lower priority in public policies than other sectors.

This is unfortunate as social business has a key role to play in building an inclusive economy. A major review of evidence on how social enterprise organisations can boost inclusion found that they did so in three broad ways.¹⁹

First, social businesses help to diversify and build the resilience of local economies, and crucially they help to retain money and wealth. In that way they are like many smaller businesses in the foundational economy, but with the added benefit that they are at very little risk of changes in ownership when owner-managers seek to exit the business, followed by a period of ownership churn and eventual downsizing or closure.

Second, social businesses help to create jobs within communities, typically strengthening the skills of their workers and often creating opportunities for people who would otherwise find it difficult to secure work. For some, equality and diversity are explicit values that are reflected in their employment practices. The evidence suggests that social businesses typically have higher levels of employee commitment and job satisfaction but do not necessarily offer better pay rates than other types of business. As such, social businesses are more likely to be able to comply with the requirements of the Welsh Government's new 'economic contract' than some other types of business.

And third, social businesses have been found to contribute to wider economic and institutional change, for example demonstrating responsible business practice particularly in respect of employee pay and conditions. In being value-driven, they can also encourage other businesses to articulate what they stand for. And successful social enterprises act as models of alternative forms of business – important where the sector's profile is low.

With these multiple benefits, supporting and growing social businesses should be at the centre of efforts to create an inclusive economy.

There is considerable scope for the sector in Wales to grow substantially. The best estimates are that the social economy accounts for about **6.5%** of employment in the EU, rising to **9-11%** of employment in Belgium, Italy, France and the Netherlands. In the UK as a whole, the social economy contributes around the same level of employment as the EU (**5.6%**). In Wales, the proportion is less than **3%** of all employment. In other words, Wales needs an extra **50,000** social business jobs to match the UK and EU average and an extra **100,000** social enterprise jobs to match the strongest EU countries.

Evidence and experience show that the most effective way of supporting the sector is to ensure there is a thriving social enterprise '**eco-system**', which shares many of the features of effective business support for the foundational economy, namely:

- 1. Appropriate business support:** specialist business advice, access to finance and a range of suitable business premises are all important, but crucially these need to be tailored to the needs of social businesses. The Commission on Co-operatives and Mutuels set out the requirements and these should be actioned.²⁰
- 2. Networks and collaboration:** fostering working together, both between social businesses and with other economic actors.
- 3. Innovation and information sharing:** exchanging ideas and disseminating good practice.

Two other key elements identified – **local leadership** and **procurement** – are covered later in this section.

Recommendations

The Welsh Government, City Deals and other actors should ensure that growing the social business sector is central to their economic plans, and that there continues to be adequate, specialist business support, support for networks and help with social innovation. There is currently a gap in support for new start social businesses which needs to be addressed.

There is scope to identify and develop places with clusters of social businesses and facilitate networking and collaboration in these areas to support growth and innovation. These could be at city region or more local level.

To support this work the Wales Co-operative Centre will work with partners such as the WCVA, DTA Wales, Social Firms Wales and Unlimited to put together an ambitious ten-year development strategy for the social business sector. It will be drawn up by the sector for the sector, working closely with Welsh Government.

Step three: Boost pay and conditions

The relationship between **economic growth** and **wages** is complex, and there is no direct relationship between economic growth per se and wage increases for low-earners.²¹ However, increases in aggregate demand for labour – in other words increases in total employment – are associated with increases in wage levels, so one of the most obvious actions that the Welsh Government and other economic agencies can take is to boost the number of jobs especially in areas with relatively low numbers of jobs.

Other specific measures that are widely proposed include:

- **Increasing take up of the voluntary Living Wage:** the Bevan Foundation's analysis shows that the most effective way to increase adoption of the voluntary Living Wage is through a mix of top-down direction by government to public bodies combined with creation of a Living Wage movement of employers, employees and activists to promote the benefits.²² The voluntary Living Wage has the added benefit of narrowing gender and disability pay gaps as well.
- **Introducing employer charters:** 'fair work' charters - which include a wide range of good employment practices – are being promoted in a number of areas in England and Scotland and have the potential to both improve employer practices as well as raise awareness of the business benefits of being a good employer.
- **Supporting progression:** through creation of progression pathways within and between sectors and providing accessible training, support and rewards for progression at work. Specific measures to support the progression of people under-represented in higher occupational roles can also help to reduce inequality.

Other possible actions include supporting employers to substitute business models based on low wages and minimum standards with high-wage / good conditions models and encouraging employers to recognise trades unions.

The Welsh Government's creation of a Fair Work Board and the inclusion of its work in its economic action plan is very welcome, not least as it puts the quality of work on the agenda and creates space for the further development of policy. Its **Code of Practice** on Ethical Employment in the Supply Chain is also important,



not only because it reminds employers of their statutory obligations but because it specifically encourages the adoption of the voluntary Living Wage, although as yet it does not appear to be enforced.

It is therefore vitally important to:

- Increase the sheer number of jobs in areas of low labour demand, such as the south Wales valleys.
- Include 'fair work' in the activity of all economic actors, with co-ordinated and concerted action to increase take up of the voluntary Living Wage, enforcement of the Code of Practice on Ethical Employment in the Supply Chain, promotion of employer good practice via the Economic Contract, and support for workplace progression.

As part of its commitment to boosting pay and conditions the Wales Co-operative Centre will continue to be an Accredited Living Wage Employer and will seek to promote accreditation amongst social businesses across Wales.



Step four: Make the most of procurement

There is a **consensus** that procurement, especially public procurement, can play a key role in increasing economic inclusion.

Anchor institutions have a major contribution to make. These are organisations that have a significant and recognised role in a locality by making a strategic contribution to the local economy, alongside their main function.²³ Crucially, they are local and geographically immobile, they are typically large with significant purchasing power and they tend to operate not-for-profit.

The Welsh Government has encouraged the public sector, including anchor institutions, to secure maximum value from expenditure by securing both voluntary and contractual 'community benefits'. 'Community benefits' are social outcomes that a public body wishes to achieve as part of procuring a service, and might include creation of apprenticeships, development of links with local suppliers, or support for local environmental schemes. However, the approach has been criticised for excluding capital expenditure and outsourced services.²⁴ There are also concerns about the quality of commissioning and the enforcement of community benefits, especially those which are voluntary agreements and in sub-contracts.²⁵ A more contested criticism is that the Welsh Government emphasises local procurement, which it is argued is not appropriate in a small economy with significant cross-border flows of goods and services and which also conflicts with the imperative to secure good value for money.²⁶ The counter argument is that a great deal of public procurement is of non-specialist items that should be purchased locally to retain and build community wealth and capacity. And finally, there are concerns that too many benefits are ad hoc, resulting in duplication of effort in some activities and gaps in others.²⁷

The new emphasis on inclusive growth in the economic action plan provides an opportunity to refresh and enhance a Welsh approach to public procurement.

Drawing on recommendations elsewhere this should:

- **Include capital expenditure and outsourced services:** With considerable expenditure anticipated on everything from the south Wales Metro to the second M4, there are major opportunities to secure lasting benefits by extending the principle of social value to these types of contracts.

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- **Build firm capacity:** the benefits of buying locally can be enhanced if procurement is used to increase the capacity of firms in the supply chain, for example through upskilling, investment and innovation, as well as simply increasing the volume of businesses. Public bodies should be required to report, on a consistent basis, not only the proportion of the value of their contracts let to local businesses but also the proportion let to social enterprises.
 - **Agree local community benefit priorities:** to introduce a more strategic approach to adding value, Public Service Boards should agree annual priorities to be sought through their commissioning and procurement and establish mechanisms to ensure full compliance.
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We recommend that the Welsh Government and other public bodies develop a fresh and more strategic approach to maximising the benefits of all forms of procurement, involving building firm capacity as well as generating benefits for the wider community, and which is contractually enforced.

Public bodies should make greater use of reserved contracts to provide business opportunities to 'supported businesses.' Supported businesses have the primary aim of helping the social and professional integration of disabled or disadvantaged persons. At least 30 per cent of the employees of those businesses should be disabled or disadvantaged.

In order to encourage greater take up of reserved contracts the Wales Co-operative Centre will advise those social businesses that are deemed to be 'supported businesses' about how to prepare the necessary evidence to show they qualify for reserved contracts and make that information available to public bodies.

Step five: Connect people to jobs

Increasing employment does not necessarily benefit people who are out of work or with lower-level skills unless there are **active steps** to connect people to jobs. There is a real possibility that new jobs created in Wales will not be taken by people who are excluded from the labour market but by those with stronger skills and greater social capital.

Wales' relatively high levels of economic inactivity have resulted in action for many years to 'help people into work' or, to use more recent terminology, improve their 'employability'. There are numerous employability programmes across Wales, and some concerns about lack of impact, duplication and competition for service users. The Welsh Government's forthcoming **Employability Delivery Plan** is expected to set out a new approach to employability support for people who are ready to enter employment as well as those who are some distance away from the labour market. It will be underpinned by a new employability programme, Working Wales, which will replace the current programmes.

There is valuable evidence about effective ways of preparing people for employment, involving the availability of good quality information, advice and guidance, support with job-search and a combination of work experience and workplace-based training. Crucially, the evidence points to a mix of different approaches being required, with community-based interventions working best for people who are furthest from the labour market while sub-regional and national programmes can work better for people who are ready to enter work.

The skills and behaviours of job-seekers are only part of the action needed. There also needs to be action to ensure that employers' recruitment practices are not discriminatory, for example to tackle gendered wording of job advertisements, unconscious bias in interviews and the discrimination in the decision to appoint, and to remove practical barriers to people entering paid work, if people who are excluded from the labour market are to have access to a range of work opportunities.

There therefore needs to be a comprehensive approach towards making the labour market inclusive rather than simply supporting people into work, important though this is. We suggest the following should be integral to creating an inclusive economy alongside employability support:

- **Action to improve recruitment practices:** Encouraging employers to follow best practice in recruitment to remove bias on the grounds of gender, race, disability, faith, age, sexual orientation or post-code will help to ensure that employment opportunities are available to all.
- **Good and affordable public transport:** Improving the availability and affordability of public transport, especially of peripheral areas and outside peak times, is as important as journey times to people on low incomes. Action to integrate ticketing and to cap daily fares at an affordable level (e.g. an hour's pay at the National Minimum Wage) is also important.

We recommend that the Welsh Government works with business to improve recruitment practices and includes adherence to good practice in its proposed business contract.

The implementation of 'metro' public transport systems should ensure that the needs of people on low incomes are addressed, with caps on daily fares and extended hours of operation for those working non-standard hours.

The Wales Co-operative Centre will continue to support work placements at its offices to help people into employment, especially those from disadvantaged groups.



Step six: Listen to people

In many areas of Wales and the rest of the UK, decisions about the local economy are made by the **public sector** and **big business**, often working together in arms-length or partnership bodies that are not directly accountable to the public. The social sector and local communities are often not given a seat around the table when future developments are discussed, or else are a lone voice.

Table 1 shows the governance arrangements emerging in Cardiff City Region. As well as a Cabinet comprising local authority leaders and a programme board, and the **Joint Working Agreement** (the legal document that establishes the joint cabinet), there are to be four sub-committees or groups.²⁸ These are:

- **A Regional Transport Authority**
- **A Regional Business Organisation**
- **A Regional Skills and Employment Board; and**
- **A Regional Economic Growth Partnership**

There is therefore no structure included in Cardiff City Region's governance to directly represent citizens' views or those of the social sector.

Nor do the various boards include citizen or social sector representation. **Table 1** shows the membership, as far as it is possible to ascertain, of the Cabinet and of two of the new **City Region Boards** (the Economic Growth Partnership and the Regional Transport Authority) as well as the current Regional Learning, Skills and Innovation Partnership. Out of a total of **46** places on the various committees, just two places are earmarked for third sector organisations and two places for worker representatives. This contrasts with **28** for public sector bodies and **13** for businesses or business representatives.

We recognise that local authority leaders represent the interests of their local authority, but the structures and membership arrangements mean that there is no mechanism for individual citizens to make their views heard at city region level. The city region's governance also means there is unlikely to be a significant change in approach to that which has dominated local government thinking for the last decade, other than the spatial scale of decisions and delivery.

There are of course many other ways of involving citizens in decisions that affect them. We accept that Cardiff City Region is at an early stage in its development,

but so far there are few signs of it seeking wider engagement. For example, the Regional Transport Authority considered at its meeting on 25th January 2018 a proposal to consult on its outline regional transport strategy (the minutes of the meeting were not available at the time of writing).²⁹ The outline strategy includes major investment in many new rail stations and bus corridors to increase access to services and reduce journey times. The consultation will be with undefined 'stakeholders', based on a questionnaire consisting of three yes / no questions to a complex, technical document, with less than six weeks for people to respond.

There is simply no mechanism for ordinary people to question the assumption in the plan that they should travel often considerable distances to work, to ask about affordability, and to query whether the location of proposed new stations meets their needs. As such the approach does not seem to follow the five ways of working required by the **Well-being of Future Generations Act** in this – and indeed other – ways.

The new regional economic structures should include the direct input of citizens' views to their decision-making. They also need to adhere to best practice in citizen engagement and consultation, and of openness and transparency. There are many different ways that they could do so, including:

- **Increasing citizen representation on each of the regional boards**
- **Establishing social and community sector reference groups**
- **Drawing up and implementing a code of practice on community consultation**
- **Publishing membership of all groups along with meeting agendas, minutes and papers, in accessible places on their websites**
- **Pro-actively engaging citizens through newsletters, social media and print and broadcast media.**

The Wales Co-operative Centre will lobby for the participation of social business and community representatives in the new and existing regional structures to ensure the voice of the social economy, not just the traditional economy, is heard.

Table 1 Representation on Cardiff City Deal decision-making groups

	Number of places	Social Sector places	Public Sector places	Business places	Others (e.g. experts)	Agendâu, cofnodion a phapurau ar y wefan? (e.g. experts)
Cardiff City Deal Cabinet ³⁰	10	0	10	0	0	Agendas, brief minutes and some papers available. ³¹ Matters deemed confidential excluded. Access to information not obvious and not easy to navigate.
Cardiff Regional Economic Growth Board ³²	13	2 (1 Wales TUC, 1 Chwarae Teg)	4 (2 LA leaders, 2 education institutions)	7	0	Formally constituted January 2018 so no meetings held.
Capital Region Transport Authority ³³	10-12	0 ^a	2 LA leaders; 10 LA members responsible for transport	0 ^b	0 ^c	Formally constituted January 2018 so no meetings held.
Regional Learning, Skills and Innovation Partnership ^{de}	13	2 (1 Wales TUC, 1 third sector)	4 education providers	6 business CEOs	1 expert	No information available.

^a May be invited to observe meetings. No voting rights and excluded from confidential business

^b May be invited to observe meetings. No voting rights and excluded from confidential business

^c May be invited to observe meetings. No voting rights and excluded from confidential business

^d Due to be replaced by a Regional Employment and Skills Board

^e No information about membership on LSKIP website <http://www.lskip.wales/governance.aspx>. Information about the Employment and Skills Board has been pieced together from three separate newsletters dating from 2015, and may not be complete or up-to-date

5.0 Conclusions and next steps

Inclusive growth, or an **inclusive economy**, has much to offer both the people and the places in Wales that have not benefitted fully from recent economic development. The placing of inclusion at the heart of the Welsh Government's new **Economic Action Plan** is therefore very welcome. However, there is a great deal more to do to ensure that commitment is translated into action.

First, there needs to be a greater understanding of what an 'inclusive economy' means and why it can offer particular benefits to people and communities in Wales. It is more than a new word for old methods, and it is also more than old methods with a few 'add-ons'. The risk is that without a clear definition of what the Welsh Government means by its commitment to 'inclusive growth' that the term will become all things to all people – and therefore meaningless.

Second, the principle of economic growth needs to extend beyond the Welsh Government's Economic Action Plan to reach the City Deals, local authorities, trades unions, third sector organisations and business organisations. The City Deals as agreed are overwhelmingly focused on growing GVA and have little, if anything, to say about extending the benefits of that growth to different places in the city region and still less about extending the benefits to different groups of people. The Welsh Government by no means holds all the levers of economic development and so the message needs to be sent loud and clear to all economic actors that inclusion matters.

Third, the recommended methods to improve economic inclusion need to be implemented. The Economic Action Plan outlines some potentially valuable initiatives such as the new Economic Contract, a concern with foundation sectors and the promotion of fair work. However, what these mean in everyday practice is not spelled out, and these are only some of the areas where intervention is needed. Combining prosperity with equity requires a new approach to developing the economy, not a few new initiatives. To illustrate, the good outcomes that could be achieved by increasing the amount of 'fair work' will be undermined if there are simply not enough resilient businesses to offer work in parts of Wales.

Fourth, there need to be mechanisms to hold the Welsh Government and other economic development bodies to account for their achievements. The Economic Action Plan includes neither targets nor indicators, while the Well-being of Future Generations Act indicators are much broader than needed to monitor this issue. With very limited opportunities for citizens to express their views in the City Deals this is all the more important.

The vote to leave the EU was a strong signal that the current economic system is not working for everyone. The idea of an inclusive economy offers both alternative priorities and alternative methods to the economic orthodoxy of the last thirty years. The Welsh Government's recognition of the potential of an inclusive economy is a welcome step. We hope that our proposals will increase understanding of what inclusion entails, provide a vision for what an inclusive economy might look like, and set an agenda for action that economic actors of all kinds can adopt.

Both Wales Co-operative Centre and the Bevan Foundation will be playing an active part in turning the vision of 'prosperity for all' into reality. We hope that the Welsh Government and its agencies, local authorities, City Deals, trades unions and many other economic actors will play their part too.



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