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- **Rhian Elston**, Investment Director at the Development Bank of Wales (RE)
- **Ben Cottam**, Head of Wales, Federation of Small Businesses (BC)

**BVA:** Did you know that the manufacturing sector in Wales accounts for a larger share of the economy than elsewhere in the UK, that the Welsh economy is developing also exciting new activities in arts and culture with significant growth opportunity, and that Wales is tackling the difficult balancing act between raising productivity and improving health and wellbeing head on? Why and how, we are going to find out. Welcome to Productivity Puzzles.

Hello and welcome to Productivity Puzzles, your podcast series on productivity, brought to you by The Productivity Institute and sponsored by Capita. I'm Bart van Ark and I'm a Professor of Productivity Studies at The University of Manchester and a Director of The Productivity Institute, a UK-wide research body of all things productivity in the UK and beyond.

Occasionally, Productivity Puzzles dedicates an episode to the productivity performance of one of the devolved nations or English regions. And today, I have the pleasure of hosting a panel on productivity in Wales.

At the end of 2021, the Wales Productivity Forum published a great overview report on the productivity dynamics of the nation and the priorities for the Welsh productivity agenda. You can find a link to download that report in the show notes with this episode.

When I read the piece, I was struck by the variation in performance across the Welsh economy between sectors and between regions but also between large and small and medium sized enterprises. There's also an interesting question on how productivity fits in with the Welsh Wellbeing of Future Generations Act.

So there's a lot to talk about and, therefore, we need another really good panel of experts who know what they're talking about. And I'm happy to say that we managed to do that.

Our first panellist today is Rhian Elston, who is the Investment Director at the Development Bank of Wales, which was created in 2017 to leverage private sector loans and equity finance, as well as invest directly, often aligned with private money. Over the past five years, the Development

The Wales Productivity Challenge

Bank has enjoyed substantial success and Rhian's team works closely with Welsh business to help them secure the funding they require.

Rhian, welcome to the show and maybe you can tell us in one minute how the Development Bank looks at productivity in Wales and how it contributes to Welsh growth and prosperity.

RE: Great. So thank you, Bart, and thank you for inviting us along today.

So yes, Development Bank of Wales' role is to provide investment to Welsh businesses, allowing companies to both start up and scale up. And we do that by providing both loan and equity investment into businesses both directly but also bringing in private sector money alongside us. And I think, importantly, hopefully, what we provide is some certainty to Welsh businesses that there is investment available to support their growth plans.

Our impact measures are, like many other government organisations, mainly linked to job creation, safeguarding and also the investment that we make. But more recently, we've been interrogating the data that we get in from our companies to look at some of the productivity measures.

So we've looked at output per employee and, interestingly, have found that that is generally higher for our companies that have received equity investment from us compared to loans, and also higher for companies that have embarked on digitalisation or are exporters. So we continue to monitor that information and report on it.

And I think the last point is one of our other roles is to support the companies that we back. And I very much hope we do that by encouraging conversations in the boardroom and in the management teams around productivity, what does it mean and how do they measure that going forward?

BVA: Yeah. So well, we'll definitely hear a lot more about that during the podcast, so great to have you on.

Our second panellist is Ben Cottam. And Ben is the Head of Wales at the Federation of Small Businesses. FSB in Wales represents about 10,000 small and medium sized enterprises and is a leading voice on issues that are critical to productivity, including entrepreneurship and self-employment, business support and growth and infrastructure.

Ben, we'll talk again at length during this podcast about the roles of SMEs in Wales but how large is the small business community in Wales and how different is it across sectors?

BC: Well, the Welsh private sector economy is an SME economy, it accounts for a little over 99 per cent of all enterprises. And with that, around 95 per cent of those are microbusinesses. So we're a microbusiness economy

## The Wales Productivity Challenge

and I guess one of the real challenges for the Welsh economy is how we grow more of the medium part of that SME formula and, you know, the role that productivity plays within that.

Obviously, represented in terms of sectors within that, you have significant showing in terms of construction and service sector. We do obviously have businesses within sectors that are generally regarded as low productivity. And so that's one of the great productivity challenges is how we interrogate data, focusing on those sectors and help them to increase their levels of productivity.

**BVA:** So lastly, we're also joined by Andrew Henley, who's a Professor of Entrepreneurship and Economics at Cardiff Business School. Andrew is well-published on all issues just mentioned but also on regional development and labour economics. He is the Productivity Institute Lead of The Wales Productivity Forum and a member of the TPI's nationwide leadership team.

Andy, maybe you can tell us what The Welsh Productivity Forum does and what are its key areas of interest.

**AH:** So the forum has about 20 or so members and it brings together business leaders and senior policymakers. And there's a small group of key academics as well who sit alongside. And across the forum, we have a very broad range of expertise across business sectors and across business functions, so people who are experts in innovation, finance and people who are very interested in people and skills.

What's the purpose of the forum? Well, I think I see the purpose of the forum as trying to raise the volume level on productivity in Wales and to set an agenda. An agenda not just for the institute in terms of the work that we want to do trying to gain a stronger understanding of productivity in Wales but also raise the agenda within the wider community in Wales. Thinking about how we get productivity to have a more prominent focus and to have a greater attention from particularly politicians and those who enact policy.

**BVA:** Sure. And this podcast hopefully is going to contribute to raising the volume of the conversation a little bit more. So let's go straight into talking a little bit more about what makes Wales kind of specific in terms of productivity. The listeners to this podcast, of course, are well aware of the slowdown in productivity growth across the UK and Wales is no exception to that. But there are some specifics that clearly came through in The Productivity Forum's paper that I just mentioned, that was published last year.

So Andy, how does Wales stack up against the rest of the UK in terms of productivity? What are some of the key drivers that are explaining productivity in the Welsh region and how is it different to the rest of the UK?

## The Wales Productivity Challenge

AH: Well, Wales, of course, is a relatively small part of the UK, we have just over three million people within Wales and over quite a geographically diverse area. Wales covers not just the North of Wales, which is very much linked to the economy in England in the North West. Large parts of rural Wales where economic life is very different, heavily dependent on agriculture and tourism. And then across the South of Wales, along the M4 corridor where perhaps the largest concentration of population, where industry has traditionally been dominated in the past by heavy industrial sectors, coalmining, iron and steel but, of course, over the last 20 years or more has been undergoing significant transformation. And we'll be perhaps talking about that a little bit later.

What are the key drivers of productivity? I think the drivers are very similar to in other regions, to those in other regions. I'd focus particularly on skills and education. Wales I think is increasingly concerned about our ability to retain the talent that's homegrown and ensure that we can provide really high quality productive jobs that will keep talented young people staying in Wales and wanting to work and build their careers and futures in Wales.

But also, I'd focus on innovation I think where Wales perhaps underperforms the rest of the UK, lags behind somewhat. And that's perhaps a legacy of the emphasis of industrial policy in Wales in the past, which has been around attracting inward investment, it's been very successful in the past in attracting inward investment. But inward investment doesn't necessarily bring some of those really high productivity business functions, particularly research and development activity which is perhaps somewhat underrepresented in Wales.

So the outcome of all of that is that Wales does look as if it's lagging a bit behind the rest of the UK. There's a gap of around about 15 to 20 per cent with the UK average. But if you take London out of the data, then Wales does look a little bit more like some of the other northern English regions and the gap is around 10 per cent. But it depends on which year you look at but Wales generally is close to, if not at the bottom of the productivity ranking, which is a concern.

BVA: Yeah. So Ben, I'm wondering to what extent this relates to the sector structure of the economy in Wales, right. The nation obviously inherited a lot of industrial activity from former times and has struggled obviously in sort of iron and steel copper manufacturing which all, you know, had a difficult time. But there are also no anchor companies in newer sectors like semiconductors and energy and life sciences but there is a very large service sector. And, you know, Andy already mentioned tourism as a big sector.

So can you talk a little bit about the sector structure and how that differs you think from the rest of the UK?

## The Wales Productivity Challenge

BC: Yeah. The Welsh landscape is still coming to terms, as Andy says, with that legacy of heavy industry. Whereas particularly in manufacturing, there is a lot of conversation about how we replace with that high value added manufacturing, advanced manufacturing, that still isn't the predominant part of the sector.

Although you have mentioned some of the research-led parts of industry which are very, very promising at the moment. But again, they are clustered at the moment, we haven't yet matured them to the point where they are spinning out at scale to the rest of the SME landscape and all the productivity benefits that they bring and that those organisations have learnt.

In terms of some of those other industries, I think, you know, the real aggregation of marginal gains comes with having conversations with some of those, as we call them, foundational businesses here in Wales. Particularly taking tourism, for instance, you know, how do you have a productivity conversation with the tourism industry and particularly microbusinesses?

And I think what politicians particularly, not exclusively, but particularly are guilty of is talking about the problems of productivity without starting really to knuckle down and say, well, how do we break this down into a conversation that's understandable for owner-managed businesses, for instance? How do we help them, how do we create the infrastructure that helps them to understand what productivity means for them and make sure that they have the infrastructure around them that allows for that?

So I think, yes, it's easy to look at the low levels of productivity in Wales and be, I guess, you know, worried about that but realistically, I think it's all to play for. I think there is a thirst to drive up that conversation particularly in rural areas where maybe the lack of productivity bites hardest.

BVA: So I want to pick up on this issue of regional differences that Andy mentioned a little earlier. There is some evidence that investment hasn't kept pace with the commuting and the business needs across Wales, particularly also in South East Wales and that may prevent some of the benefits from productivity that you get from spatial agglomeration, as we sometimes call it.

BC: I think I'm quite optimistic in many respects about this. Wales being a small nation within the UK has struggled in that respect and Cardiff itself, although it's a city of approximately 350,000/400,000 people across the city itself, perhaps has somewhat been disadvantaged by being further down the M4 from many other successful English cities, thinking, in particular, Bristol. But the investment that's now going into the Cardiff Metro scheme which will benefit Cardiff and the wider area, stretching out across South Wales, has the potential to generate significant benefits for Wales.

## The Wales Productivity Challenge

And we've seen particularly focusing on the capital itself significant improvements I think over recent decades. And there are similar growth deals now covering the rest of Wales and they will benefit what's going on Swansea and what's going on in the North and Mid Centre of Wales as well.

So there are good reasons to hope that bringing together a partnership of private sector businesses and public sector service delivery functions that we will see considerable improvement. And the partnership approach, particularly over infrastructure investment, I think is important and it's innovative, so I'm optimistic in that respect.

RE: I think, you know, when we're thinking about infrastructure, for me we're considering transport, we're considering commercial premises and access to suitable premises for businesses and, of course, digital infrastructure. And how that plays out then is on transport, their strategy is very clear in terms of the prioritisation. So they are absolutely prioritising active travel, so whether that's walking or cycling, then followed by public transport, then forms of low carbon transport such as electric vehicles. And it's only towards the end then that it would get to the more traditional cars and other forms of transport.

So I think it's absolutely down now to Welsh Government and businesses to make that strategy a success. Of course, that is very dependent on things like public transport being adequate to allow the infrastructure to be in place.

Moving onto digital infrastructure, I think there has been some good successes there to talk of and, hopefully, more to come. The superfast broadband coverage in Wales now is now converged with the UK average, which is a good result. And that's down to schemes such as something called Superfast Cymru that we have in Wales and various grants that have been on offer.

There's a little bit more to do on the mobile side. So 4G is still lagging behind, it's about 60 per cent coverage in Wales compared to just under 70 in the UK. That isn't actually devolved, but there is hope that some of the recent deals done by the UK Government will make a difference there. But, of course, that is still just 4G, there's a lot more to be done to embrace 5G, which, of course, we must.

And I think on the digital infrastructure, it's worth thinking about what companies then do with that new capability. And there is one step to look at things like rolling out some of the lower-hanging fruit like Zoom, like Teams, which a lot of us have needed to embrace during the pandemic. But the question for me is how we take things a step further in terms of digitalisation, how do businesses embrace things like artificial intelligence, which are, you know, much harder innovations to diffuse across small businesses.



**BVA:** That's great. And we'll come back to policy in a bit more detail towards the end of the podcast.

But Ben, I wanted to start talking with you a little bit more about the small and medium sized sector and the support for small and medium sized businesses. Obviously, SMEs do matter a lot but it also seems to be clear that part of the weak productivity performance can be explained by a relatively small number of indigenous SMEs that show strong growth performance.

So can you address the role of small business a bit more? A key issue seems to be the lack of sizeable and dynamic growing businesses in that sector. And what are the challenges you are facing? What is the role of the digital and transport infrastructure that Rhian talked about just a minute ago?

**BC:** Just to take that last point, there has been really positive progress in terms of the rolling out of the digital infrastructure. I think the other part of this is there's a bit of an element of if you build it, they will come. We now have to have the conversation about exploitation. It has been going on but we have to demonstrate to businesses and help them learn from each other the benefits of having that infrastructure. So for instance, superfast broadband is great but it's the innovate ways in which you can use that and help generate better productivity than the business that will give you the gains.

Similarly, with mobile data, there is a lot of ways in which we can drive up productivity, particularly for those businesses where owner-managers, for instance, have to be away from their place for some time, but nevertheless can be in touch with the business to be able to engage with customers. But we need to demonstrate the innovative ways in which that can take place. So it's one thing to have the infrastructure in place, we now need to do the sharing of best practice.

In terms of transport infrastructure, yes, there are some really good developments in terms of, as Rhian's mentioned, the South Wales Metro. And I think, you know, again, what we want to do now is talk to businesses about how they will use that once that's fully in place.

But there is a challenge for other areas of Wales which can feel a long way from that well-developed transport infrastructure, where there is still a predominance of reliance on roads and actually not even trunk roads but small, local roads. And when we talk to our members, they talk about the unreliability of smaller roads being a bigger problem for them and their business productivity than the availability of motorway or trunk road infrastructure in Wales. So we need to understand that.

We also need to, I guess, understand what we've learnt from the pandemic about the neater way in which businesses have worked. Those businesses

## The Wales Productivity Challenge

that have been able to have their workforces working remotely, what does that represent in terms of again particularly for siting businesses in rural areas or siting jobs in rural areas.

So I think there is an exciting conversation to be had. I guess the challenge is that, as is the case across the rest of the UK, all of these conversations aren't running at the same speed in every region. So the notion of a Wales-wide conversation can be confusing and I think we have to break these down into regional conversations in Wales and make sure those conversations are as close to businesses as they can possibly be.

On that point about growing indigenous businesses in Wales, FSB, some years ago, you know, undertook some work on what we called Wales' Missing Middle. We looked at some of the issues that were getting in the way of growing indigenous microbusinesses into medium sized enterprises. And it's not really that surprising, it's not particularly Welsh and it will be familiar across the rest of the UK.

But Rhian mentioned earlier, for instance, the availability of premises and premises with the right infrastructure to allow growth. And that's a big issue here in Wales. As well as the availability of suitable finance and funding to help grow business. And, you know, Development Bank of Wales and the British Business Bank have responded in terms of the development of patient capital products which allow for that longer term view for businesses about their growth trajectory.

**BVA:** So Rhian, that's really critical for companies to grow and to scale up. And I think a question is, to what extent sort of, you know, Wales suffers from the rather London-centric nature of the UK venture capital industry with somewhat lower probability of finding that kind of venture capital and smaller deal.

So give us some examples of how investment funds can help Welsh businesses to develop new activities that are productive in partnership with commercial investors and lenders.

**RE:** Yes, it's probably worth trying to split patient capital down into two areas. So you've got the loans, you've got the debt side, which can be patient if it's providing on suitable terms, so a long enough term, and perhaps some holidays initially to allow the company to generate suitable cash flow. And then, of course, equity funding, which by its very nature is a form of patient capital.

I think just taking the debt side to begin with, you know, it's clear from the information that's out there that Wales, alongside the rest of the UK, bank lending has been declining since about 2013, there's been about an 18 per cent drop in the amount of bank lending to businesses within Wales. That will be slightly masked by the increase in lending that took place during the COVID crisis but I think the longer term trend is still there.



And on the equity side, Wales gets around two and a half per cent of the equity investment that's made in the UK. So as a comparison, we've got about 2.8 per cent of the business population but around 3.5 per cent of the UK's high growth companies, which is something that was estimated recently by a research company Beauhurst. So that suggests that there's more opportunity in Wales to receive some of this equity investment.

But on the equity side, we insist on a co-investment structure, so every equity investment from the development bank has to be alongside private either venture capital or private equity money. And you're absolutely right that, you know, it is well-known that venture capital tend to invest very close to where they are based, so it is a challenge for us to encourage these investors into Wales. But that is, you know, a big remit of the Development Bank and that's something that we're keen to do.

And there is incredible talent and opportunity within Wales, so once we bring them down, it's not difficult for them to see the opportunity that is in front of them. And we've definitely had some successes in that in the last year. So if I look at the private venture capital investment that has come alongside our investment, that ratio almost doubled last year to the year before. So, you know, we certainly don't want to keep these excellent companies as our best kept secret and it's no longer that way, so there's certainly more money being attracted from London and overseas into the Welsh market.

BVA: That's great. So Ben, I want to come back to you for a second. And that's really about the other side, if you like, of infrastructure and that's the human capital infrastructure. So this is about skills and management competencies and so on. So another thing that we find in the paper that I referred to earlier by the Wales Productivity Forum is that there's sort of lack of locally educated graduates and apprenticeships that are employed in Welsh SMEs, there's a shortage of management and leadership capacities within those SMEs.

So how would you frame that problem? And again, you're right, as you said earlier, a lot of these problems we see across the UK but in the Welsh context, how would you describe these issues and how should we go about tackling them?

BC: I think there has been, through things like the development of apprenticeships, for instance, there's been a big push on engaging SMEs on employing apprenticeships and recognising the benefits of apprenticeships. And I think we're making some pace on that.

I guess the challenge with all of these, well, there's twofold. There's, you know, businesses identifying the needs for upskilling their workforce and then there is putting in place the products, particularly for SMEs, that are easy to navigate and are responsive to their demands. And I think we

## The Wales Productivity Challenge

obviously...rurality again is a challenge in making sure that we not only are employing people locally but, you know, that people are staying local in the first place.

So that retention challenge is something that we identified in some of the work that we did in looking at the future of Welsh towns, for instance. You know, we have our regional towns are getting older by proportion and obviously a lot of that talent is being drawn to centres of agglomeration, you know, cities in Wales and cities elsewhere.

So we need to tackle that challenge. And I think that's where I mentioned earlier the ability of businesses to work smartly and perhaps in some instances remotely allows us to rethink that conversation. So what we need to do is put that skills infrastructure alongside that opportunity of thinking differently about the way in which we employ people.

And I guess the other part you raised is management and leadership competence. And there have been some really good interventions, such as the ION Leadership 2020 programmes in Wales. But I think again you have to...with the smallest businesses, you have to carve out enough time to help them understand the benefit of developing their own leadership skills. And for businesses that, particularly in the current climate, are facing real challenges and obviously a lot of that in the past has been underpinned by support from European funding.

So for the new streams of funding that came out through the Shared Prosperity Fund and other streams, for instance, that needs to be a priority for those firms because we have to make sure that this training is developed as affordable and accessible to the smallest businesses because we know that where businesses access that and they develop that leadership and management capability.

AH: I think one of the contextual points to make about Wales is the extent to which it has relied, over the last 20 years, on three successive rounds of European support funding. And now the future, of course, is a future in which we won't have those monies.

So Wales is partially reliant on the new forms of levelling up funding that are coming, Shared Prosperity and other funds. And also, the resource that it's able to allocate to supporting businesses itself. Wales, along with other regions and devolved nations, has a comprehensive business support service and those things don't come necessarily cheap. And it's important that they continue, that businesses can continue to find easily the support and the guidance and the advice that they need in order to be able to make decisions effectively and sensibly.

We've also had programmes in the past to support business start-up and to support accelerated growth. And although there's an extent to which those programmes try and pick winners and one should be a bit nervous to

## The Wales Productivity Challenge

some extent about doing that, I think it's important that there's still funding available for that. And the future plans that the Welsh Government has seems to envisage that that will continue.

The other area I would comment on is I think that Wales has done quite well over the last few years in trying to build an entrepreneurial culture. Wales has led the way in the UK and has attracted international attention I think in terms of its Big Ideas Wales programme, the energy that it's put in to trying to encourage young people to think about business start-up.

And it would be disappointing if that was to stop and I know that it...I'm confident it won't, I know that the funding will be found to continue to support that activity. But, I mean, you know, that is a relatively low cost exercise in which it's about encouraging people who have already been successful in business to share what they've learnt, to encourage the next generation.

And that brings me onto a more general point about management support that I would make. And that is that Ben referred to some of the leadership programmes that we've had in the past in Wales and are currently still funded and I had some involvement in those in the early days.

For my mind, one of the aspects of those that is really successful is that it's important that businesses are networked together so they can learn from each other. Business owners tend to learn from other business owners, they don't learn from academics lecturing them or experts, they learn from each other. And so it's really important that we continue to find ways of networking them together so that they can unlock what we call tacit knowledge, the things that they don't know but actually somebody else in the room might know and they share that expertise and experience and they help build each other's confidence as a result.

BC: Yeah, I think Andy makes a really good point about businesses learning best from each other. And what we've learnt from the last two and a half years is that, despite the fact that we've tried to make sure that businesses are connected, our networks haven't been working in the normal way where businesses can connect organically.

So I think where we look at management and leadership capability in the future and where we put that alongside the need to embed resilience, because who knows what will come, we need to create structures for businesses to network that are more organic and less dependent on face-to-face interventions, so that, you know, we have that embedded resilience and we can continue whatever the conditions to make sure that businesses are learning leadership and management from each other. And that's not just leadership and management, that's conversations about innovation as well.

So I think, thinking again about what business networks look like and how we mitigate again, you know, the need to be there face-to-face and that

## The Wales Productivity Challenge

benefits those that are more rurally based, I think should be part of that conversation about embedding resilience going forward.

**BVA:** Great. Well, this is a really good introduction into the key issues that we're talking about. And after the break, I'd like to deep dive a little bit into a few areas, particularly already mentioned innovation and transition to net zero. So I want to talk a little bit more about that.

But before that, we take a short break to hear what else is going on at The Productivity Institute.

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To find out more about each organisation's work, visit [Bethebusiness.com](https://www.bethebusiness.com) and [Productivity.ac.uk](https://www.productivity.ac.uk).

**BVA:** Welcome back to my discussion with Rhian Elston, Ben Cottam and Andrew Henley on productivity challenges of Wales.

Now so far, we've spoken a lot about transport infrastructure, about skills and management competencies and so on, we talked about the role of small and medium sized enterprises. But we quite often heard, you know, references to innovation, to net zero transitions after the big challenges that we are facing. And ultimately, indeed, a sort of productive and vibrant economy does depend on its ability to continue to innovate.

Now, Andy, at face value, the situation with innovation capabilities in Wales doesn't look great, so what's your diagnosis? So for example, we have a relatively low proportion of R&D activity in Wales, we have a relatively low proportion of the population achieving higher skills levels. And those are brakes on productivity growth. So what are the opportunities to focus on?

## The Wales Productivity Challenge

AH: I think that's one of the particular challenges that Wales faces at the moment is that we don't have a huge amount of, particularly, private sector and R&D spend going on. And there are a number of dimensions to this. I think the explanation for why that's the case is perhaps those businesses that aren't necessarily headquartered in Wales don't necessarily locate their R&D functions in Wales. So we need more indigenous Welsh-based businesses that are engaging in innovation and R&D activity.

So there's kind of a need for focus and there's a need perhaps for a longer term perspective to understand the importance of innovation to the future success of the economy. And I'm pleased at the moment that Wales is developing a new innovation strategy and there's been a lot of thought being put into that as to how it can be inclusive. Inclusive in terms of supporting the aspirations of the wider population and supporting the aspirations of people in different parts of Wales.

So for example, there's a strong focus I think on mission orientated innovation and we see that in some of the funds that are being allocated to support innovation in the City Deals or the Growth Deals in the different regions within Wales.

The other point I'd make is that innovation's a difficult one for Wales in its devolved context because the UK research spend, a lot of it is not devolved, so Wales has to go out and win a lot of that spend itself. So I'm thinking particularly in some of the science spend, the money that goes into big science but the importance here is in terms of how does Wales improve its ability to translate research and development that might be going on within the universities and translate that into benefits for local people, local businesses within Wales.

And so there is a need to improve our translational facilities. And there are initiatives taking place within the various universities in Wales that are very optimistic and many of these are centrally based. So out in rural Wales, there are universities who are focusing very much on some of the challenges around agricultural sciences, for example, there are life science translational activities going on, there are semiconductor translational activities going on and energy related research as well in different parts of Wales. And that's encouraging.

BVA: So Rhian, let's go a little bit into the big issue of the net zero transition because that transition process isn't at all easy, certainly not from a productivity perspective. Much of the climate change and the measures to deal with them will, at best, work to mitigate productivity losses. But we also have seen, on the positive side just recently, the Resolution Foundation put out a report on clean growth opportunities. And it actually shows that some of the less densely populated areas in the country, such as Wales, have a competitive advantage in applying some of these clean technologies.

## The Wales Productivity Challenge

So what's your thinking about the role of net zero transition? How could it possibly be a potential opportunity to not only deal with the climate crisis but also to actually get back on the productivity growth path?

RE: Yes, I agree, Bart and I'm not sure we've quite got all the answers yet in terms of how the two work together. What I do feel very certain on, and I'm sure most people do, is that climate change more generally, of course, will have a negative impact on productivity. So it is really about the action that needs to be taken to go on that transition to net zero and how does that work alongside a similar journey for improving productivity?

I think when I was considering this, you know, if you take a step back, there a number of things that those two aims have in common. Both are rooted in efficiency. Both are rooted in trying to achieve more with less. Both require investment and sometimes that can be where there is tension as to where that investment is needed. Both require innovation. Both require an investment in skills.

And I'd probably add one last one to that and that is both need some demystifying when you're having the conversations with businesses. So trying to help businesses understand what we mean by the transition to net zero, you know, still needs much more work, just in the same way as we'd like to amplify and help companies understand the conversation around productivity.

So I think, you know, when you think about that transition, there are some areas that spring to mind that perhaps won't work as well with productivity certainly in the near term. I think maybe that's clear in areas such as agriculture or perhaps heavy industry where investment would need to be diverted into things like carbon capture where, you know, if that wasn't there, that investment could have been made in other areas to improve productivity.

But on the positive side, if you look at something like renewable energy, you know, 10 years ago or so, wind and solar technology, the cost of generating electricity from that source was far more expensive than fossil fuels and that's no longer the case. And that really demonstrates the benefit of the commitment that has been made in terms of bringing down the cost of that technology and combining policy support and market drivers there with things like the Contract for Difference that's the government run and feeding tariffs. So I think it does demonstrate that the two can work together.

So where we do go from here and where are the opportunities? I think it is absolutely about maximising the positives, so rolling out that low carbon energy. And, you know, Wales definitely has advantages there in terms of make-up as to where we can employ renewable technology. I think driving energy efficiency measures through businesses and things like the rollout of electric vehicles.



I think investing in the right skills is another area and there's a big opportunity I think for Wales, as there is for other regions. You know, there are certainly new skillsets that are going to be needed to support the transition. You've just got to look at the amount of investment that will be needed to deal with the retrofit of existing homes.

And I think in terms of what we're doing and the conversations we're having with our companies, I think there's a lot of appetite there to embrace the transition. But what I would say is that funding is important, you know, they need to know if they're going to make the investment, is the funding available for them to do it?

But what I'm finding at the moment is what is even more important is making sure that the businesses have the knowledge and have the capacity really to make these kinds of decisions. So they're still at that stage needing to decide how do they transition before they can start thinking about what they do and where they get the funding from to support that. So I think it's making sure there's adequate support out there to help them on that part of the journey to begin with.

**BVA:** Something maybe you can help us a little bit to connect the comments by Andy and Rhian. So Andy talked about the importance of innovation. On the other hand, you've got this sort of very complicated net zero transition I think where probably collaboration is more important than ever.

So how do you see the business innovation system work and work better in order to deal with these large challenges that Rhian has been describing here?

**BC:** I think in terms of the transition conversation, I absolutely recognise what Rhian said. All the work that we do with businesses, they understand the demand and the challenge of the journey to net zero and the urgency of that I think is helping them understand where they start.

Data is a big challenge for small businesses, you know, having the appropriate data to make the decisions about where they invest, the activities they commit to. And I think that's where we can utilise supply chains, public and private sector supply chains where we can utilise that experience that larger organisations have in the gathering and management of data to make those kinds of decisions, I think there's a real opportunity.

And we shouldn't overlook public sector supply chains, the public sector obviously very well represented within the Welsh economy. But we know that supply chain activity, you know, across all sectors is again one of those scale up and one of those competency benefits for smaller businesses. So we need to put businesses and organisations closer together to not only

## The Wales Productivity Challenge

learn from each other but to have that collaborative approach to the transition to net zero.

I think there are some real opportunities. If you look at somewhere like the Milford Haven Waterway, for instance, which has traditionally had a real dependency on oil and gas and notwithstanding some of the challenges of supply caused by the war in the Ukraine at the moment, in the longer term, you know, that transition represents arguably a threat to an economy that is dependent on those industries.

But also, you see the seeds of some really interesting work around wind and wind wave and tidal energy generation. I think if we can embed the principle first that we want to develop SME capabilities from those opportunities and we want to make sure that the transition to net zero is SME-led, and I would say that wouldn't I, then I think, you know, there's an exciting opportunity in a community and in an area of the world that's otherwise quite heavily dependent on tourism and for which there aren't...there isn't a lot of otherwise industrial activity in that area.

So I think there are some exciting opportunities. We just need to make sure that skills supply, as Rhian said, that the funding supply is there and that governments at all levels are talking with a similar intention.

BVA: Rhian?

RE: Yes, thanks, Bart. I just wanted to make a small point there to pick up on Ben's comment about data. Because absolutely, the businesses themselves need to understand the data but I'm also thinking about the requirements of people like myself, so investors in businesses, grant providers in businesses and customers are also looking for data.

And, you know, I really think there needs to be a joined up approach there in terms of the type of data that we're trying to extract from businesses, otherwise we're in the danger of all of us asking for slightly different pieces of information to satisfy our own desire that, you know, I'm measuring the transition of our portfolio to net zero. So is the bank, so is their main customer. And I think, you know, there's definitely a piece of work there to make sure we do that as efficiently as possible so that we don't overburden the SME with data provision.

BVA: Yeah, I know, an integrated data strategy is something that we hear all devolved nations and regions in England talk about, so that's a very common theme. And particularly in sort of complex areas like net zero transition where you really need to make sure that you're on the same page, this kind of data provision is a critical issue. So a point very well taken.

Let's spend the last few minutes a little bit on what I think is a bit of a unique feature in Wales and that is the Wellbeing of Future Generations Act, which many people in Wales are very familiar with, it was enacted in 2015, framing

## The Wales Productivity Challenge

the aspirations for innovation and productivity to be socially inclusive and sustainable in environmental and social terms. Just as we talked about but it really be reflected in a formal act.

Now Andy, that sounds really great but it also sounds a bit grand. So help particularly those listeners outside Wales but maybe even within Wales to understand how does that act work in practice, how do policymakers make us of it and more importantly, of course, in what kind of areas does it pay off?

AH: Well, the act is, in a sense, very aspirational in exactly the right way, as you mentioned. It places a burden on Welsh Government to think about the long term effectively, to think about the future impact of policies on future generations in terms of social justice but also in terms of environmental sustainability. So to what extent is policy sustainable in a broad sense? How does it work in practice? That's perhaps a little bit more of a difficult question to answer and I think it's a work in progress.

What happens in practice is that there is an independent Wellbeing of Future Generations commissioner who has a team of staff who analyse and investigate and look into the issues that they think are important but they will also occasionally step in and say, is that really a good idea?

What is it trying to do? Well, you could say, well, it's trying to look at whether there's a trade off between efficiency and equity, should one accept that the price of having greater equity across society, a greater sense of sharing of rewards comes at the cost of having a somewhat less fast growing economy.

I think that's perhaps a bit misleading actually and I would want to say that productivity gains are the way to achieve aims of the Wellbeing of Future Generations Act, that productivity effectively becomes the solution through which you are then able to deliver these sustainable wider benefits for society. Without productivity, we will not generate the resources that will allow us to invest in supporting the less well off in society, the more disadvantaged, we will not be able to generate the resources that allow us to make the important transition to net zero that we've been talking about.

So I think it's a really interesting policy, it's attracted a lot of attention from different parts of the UK and different parts of the world and it's starting to be picked up in other parts of the world. If I have a criticism, I'd like to see a bit more in terms of the specifics now in terms of how this is going to really function in terms of designing the practicalities of policy.

BV: So Ben, we already earlier referred to the Growth Deals, I think there are three of them in Wales if I'm correct. And these Growth Deals seem to be really very helpful and important in really to give some structure around a growth programme that is well aligned with the Wellbeing Act. So what are other ways to make the act make a success?

BC: I think until now, a lot of the conversation about the act has necessarily been focused on the public sector because public sector organisations and utilities are largely those that come under the auspices of the act. We're now though starting to see I think a bleeding out of where that affects, both positively and perhaps in more challenging terms, you know, the private sector.

It is driving some public sector supply chain conversations. So for instance, now we've got the introduction of the Social Partnership and Procurement Bill, for instance, that will look at embedding elements of fair work within supply chains. And that is driven at a high level obviously by the Wellbeing of Future Generations Act.

You mentioned the City and Growth Deals. And one of the challenges of the City and Growth Deals and not just the way in which the Wellbeing of Future Generations Act engages with that, is these are deals between local Welsh and UK Governments. And at the moment, we are at a little bit of a political impasse where you have quite a fundamental disagreement between Welsh and UK Governments about the future of regional policy.

So there is, I guess, an opaqueness about how that is...how we're going to join that up enough to make sure that the aspirations of something like the Wellbeing of Future Generations Act are realised within that regional context. And dare I say it, the extent to which those deals remain recognisable and engaging for smaller businesses.

So our challenge as FSB to those layers of government, those tiers of government is we need an entirely new infrastructure of engagement and shared purpose to make sure that what we're not doing is duplicating, confusing and, therefore, not meeting the aims of something like the transition agenda or the Wellbeing of Future Generations Act.

But on the act itself, I think there is real opportunity to use it as a framework by which to talk to businesses about new ways of whether it is employing, decarbonised ways of doing business but it needs to be broken down into practical and understandable chunks.

BVA: Yeah. So Rhian, just to wrap this up. When I listen to this whole conversation, I'm very optimistic in terms of the awareness of the issues and what needs to get done and some really good starts at quite a few places on trying to really get productivity growing, also get it back on the policy agenda. Still it sounds to me very ambitious.

So I think the question I have for you is, do we have sufficient effective funding? Do we have the frameworks in place to really effectuate the big challenge that we have, not just on the finance side but also on the side of education and creating new infrastructure and all those kind of things that we talked about in this podcast?

RE: Yeah, absolutely, it is a big challenge. But the main thing I'd say, and it really echoes a lot of what Ben has said there, the critical thing for me at this point in time is about co-ordination. We have various different strands of funding available to Wales. Placement of European funding is being channelled through the local authorities. You have Welsh Government direct support of initiatives, such as the Development Bank but also Business Wales, which is the business support network that we have. We have the City and Growth Deals that are out there.

I think absolutely now is the time to ensure that we are co-ordinating as a nation and we are maximising the use of the capital that's available to us. I think if we do that and we can do that, then absolutely I think it can be a success.

BVA: Well, that's great and that's a great way to close this webcast. So Rhian Elston, Ben Cottam, Andrew Henley, thank you so much for taking us through this and making us a bit more optimistic about the opportunities that we have ahead of us in the great nation of Wales.

Our next episode of Productivity Puzzles will be on productivity and wellbeing. This is an important topic because for many people, productivity does not seem very helpful for people's health, happiness and quality of life. It often feels like more sweat and stress and less joy. However, if we think differently about what societal productivity really means and we measure it better in terms of the resources needed and the outcomes expected, a productive society does create greater wellbeing than a less productive one.

The International Productivity Monitor, which is a journal the Productivity Institute co-produces with the Centre for the Study of Living Standards in Canada has invited eight papers on this topic. And in the next episode, we'll speak with three of the authors on their work which will be published by the end of June.

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Productivity Puzzles was brought to you by The Productivity Institute and sponsored by Capita. And this was me again, Bart van Ark, at The Productivity Institute thanks you for listening and stay productive.

**End of transcript**