

CRESC Report for FSB Wales

WHAT WALES COULD BE

Lucy Brill, Luke Cowie, Peter Folkman,
Julie Froud, Sukhdev Johal, Adam Leaver,
Michael Moran, Karel Williams



Federation of Small Businesses
Ffederasiwn y Busnesau Bach
Wales' Leading Business Organisation
Mudiad Busnes Blaenllaw Cymru



Foreword

For some time many of the Federation of Small Businesses' members in Wales have had concerns about the Welsh economy, and have questioned whether economic policymaking in Wales really meets the needs of their businesses and the communities they serve.

With this in mind, FSB Wales decided to commission a substantial piece of work – one which would look at what is going on within the Welsh economy, and suggest alternative approaches to yield a better future for small businesses and communities within Wales.

We felt that an outside perspective would be essential to that task. With that in mind, the team at CRESC was a natural choice for us, as we felt their previous work on the foundational economy and industry supply chains would bring valuable insights to the work.

The result of the project is this independent report *What Wales Could Be*. It is a report that challenges much of the received wisdom that exists around the Welsh economy.

However, in its recognition of the role of grounded firms it reflects many of the experiences of the FSB's 10,000 members from across Wales.

Not all of the recommendations in this report will find their way into FSB Wales policy, but it has shaped key recommendations in the FSB Wales manifesto for the next Welsh Government.

The conclusions reached by CRESC may be challenging to some in Wales, but I think that the emphasis on grounded firms and its call for government to 'up the ask' from big business strikes a chord with many of our members here in Wales.

I really hope that this significant piece of research will help to spark a fresh debate over the future of the economy in Wales; a debate that causes us to properly consider how we can build a better Welsh economy and think a little more imaginatively about *What Wales Could Be*.

Janet Jones

FSB Wales Policy Unit Chair

Table of Contents

About This Report	3
List of Acronyms	4
Executive Summary	6
Introduction	9
What Wales Could Be.....	9
Chapter 1	12
From the Welsh Gap to the Conditions of Enterprise.....	12
The (unclosable) Welsh gap.....	13
1.2 Welsh specifics: history and trajectory.....	20
1.3 Industrial strategy?.....	22
1.4: Wales as habitat and firm diversity.....	26
Chapter 2	31
From Churning Ownership to Building the Mittelstand.....	31
2.1 Attracting mobile firms vs developing grounded firms.....	32
2.2 The missing Mittelstand and absent brands.....	33
2.3 Churning ownership	36
2.4 The new Development Bank for Wales	39
2.5 Connecting SME finance with ownership	41
Chapter 3	45
From Postcode Localism to Connected Procurement	45
3.1 Stopping leakage and the limits of localism	46
3.2 Political enthusiasm: more of a good thing	48
3.3 Policy confusions.....	50
3.4 Reframing the problem: connected procurement.....	55
Chapter 4	58
From Key Sectors to Responsible Business	58
4.1 What the WG does: key sectors and action plans	59
4.2 Supermarket behaviour: capturing processor profits	63
4.3 What the WG should do: raising the social ask	67
4.4 Residential adult care	71
Conclusion	77
From devolution to making a new Wales	77

About This Report

This is a public interest report based on independent research into the Welsh economy by the Centre for Research on Socio Cultural Change (CRESC) at the University of Manchester. Karel Williams headed an intensive eight month research project from January 2015 to September 2015 when the project's full time researcher was Lucy Brill. The salary costs of the project were funded partly from an ESRC award and partly by FSB Wales.

We are grateful to Iestyn Davies, head of external affairs for FSB Wales and Rachel Bowen, policy manager for FSB Wales. They had the imagination to see the need for an independent review of the Welsh economy; and the realism to accept that this final report would produce challenging policy recommendations. The CRESC researchers are solely responsible for the contents of the final report which benefits from FSB comments but does not reflect the corporate position of the FSB, or of individual officers within it.

The CRESC centre continues to facilitate and support radical, interdisciplinary research in a way that is unique. This research team has, in different combinations, now worked together on a variety of related projects on the on-going financial crisis and on industrial policy choices, partly through collaboratively funded public interest research. Recent CRESC public interest reports include *Bringing Home the Bacon* a report on meat supply for the VION meat processing company and the *Great Train Robbery* on railways for the TUC.

List of Acronyms

AM	Assembly Member
BIS	Department for Business, Innovation & Skills
CBI	Confederation of British Industry
CIH	Chartered Institute for Housing
CRESC	Centre for Research on Socio Cultural Change
CREW	Centre for Regeneration Excellence in Wales
DBW	Development Bank for Wales
ESRC	Economic and Social Research Council
EU	European Union
FDI	Foreign Direct Investment
FSB	Federation of Small Businesses
GCA	Grocery Code Adjudicator
GDP	Gross Domestic Product
GSCOP	Groceries Supply Code of Practice
GVA	Gross Value Added
ICT	Information and Communications Technology
IWA	Institute of Welsh Affairs
LM	Local Multiplier
M&S	Marks & Spencer
NAO	National Audit Office
NEF	New Economics Foundation
NFU	National Farmers' Union
NHS	National Health Service
NUTS	Nomenclature of Units for Territorial Statistics
OECD	Organisation for Economic Co-operation and Development
OFT	Office of Fair Trading
ONS	Office for National Statistics
PE	Private Equity
PISA	Programme for International Student Assessment
PQQ	Pre-qualification Questionnaire

RHM	Rank Hovis MacDougall
SME	Small & Medium sized Enterprises
SNP	Scottish National Party
SQuID	Supplier Qualification Information Database
TUC	Trades Union Congress
VW	Value Wales
WDA	Welsh Development Agency
WG	Welsh Government

Executive Summary

This report proposes new ways of understanding the intractable problems of the Welsh economy, critically reviews existing Welsh Government policies and recommends radical alternatives (pp. 10-11). The aim is to encourage a political debate about new kinds of policy which could make Wales a better place.

In terms of problem definition this report challenges the idea that the output gap against London and the South East is a measure of Welsh failure and that raising GVA per capita is the superordinate objective of policy (pp. 13-15). The output gap is practically unclosable because that would require an implausible acceleration in Welsh growth rates; and it is politically irrelevant after austerity when the challenge is not raising the average but maintaining minimum welfare standards for all Welsh citizens (pp. 15-17).

The policy implication is that the WG needs new metrics and a multi-indicator economic and social “dashboard” approach to welfare (p. 17). This would incidentally shift the focus away from consumption spend which in the UK drives GDP growth. It would ensure a much clearer focus on deficiencies in the provision of foundational goods and services for all the population (housing, transport and utility supply, health, education, care and food).

In terms of policy, the WG has a suite of policies on skills, infrastructure and finance to boost competitiveness (pp. 23-24) and such policies reflect a continuing preoccupation with encouraging inward investment by mobile firms (pp. 32-33). The WG’s policies and objectives are generic and mimetic because every laggard region in Western Europe is doing much the same.

There are many good social reasons for spending more on educating our citizens and improving connectivity but the WG is mistaken when it supposes that such expenditures boost growth (p. 24). In the British form of property-based capitalism, growth is unsustainably driven by housing equity withdrawal boosting consumption (p. 26); and there is no evidence that higher skills attract mobile firms (p.20).

This report takes a different approach which starts from a more ecological understanding of the Welsh economy as a kind of habitat which sustains a diverse population of various kinds of firms and behaviours (pp. 26-29). WG policy needs to be geared to the specifics of that population which has two relevant characteristics:

- The missing Welsh Mittelstand. Wales has a very interesting dumbbell distribution of firm sizes. Most Welsh employment is in micro and larger firms and the corollary is a missing Mittelstand with only 10, 000 firms and 25% of employment in the size range 10-250 (pp. 34-35)
- The continuing importance of grounded firms. Many small and medium firms are tied to a locality by highly specific resources; large private firms or public organisations in the foundational economy (e.g. supermarkets and hospitals) are tied by the branches and networks necessary to delivery (p. 32).

The first policy challenge is to understand why Wales does not have a Mittelstand. Case histories of the stunted development of firms like Rachel’s Dairy, Halo Foods or Avana identify a common problem (pp. 36-9). Owner-managers or founding entrepreneurs exit early and then we have churning of ownership. Four changes in 15 years at Rachel’s (p.37) or six in 25 years at Avana (pp.38-9) undermine brand and strategy.

The WG's policy response should be to build new frameworks for ownership continuity which meet owner manager objectives like wealth release and thereby incentivise owner-managers to hold and build firms (pp. 41-43).

WG policy has in its way tried to engage specifics of firm stock and behaviour through various policies. It has proudly reformed public procurement to give preference to Welsh firms (pp. 45-46) and introduced a key sectors policy (p. 54). None of this has been thought through, so policy is either ineffectual or counterproductive.

Welsh politicians and NGOs have all welcomed increases in the percentage of WG procurement going to Welsh firms without reflecting on the limits of this kind of postcode localism (pp. 50-51). The key WG measures of successful localisation are based primarily on invoice postcodes which are fairly meaningless (pp. 51-52); so are the measures of jobs and training provided (p. 51).

The WG's objective of stopping leakage through local preference makes no sense when Wales is a small open economy of corridors without significant agglomeration (pp. 16-18, pp. 41-3). The WG should instead focus on connected procurement which would use volume expenditure in a few areas (like construction or adult care) to build firm capability (pp. 51-4); and ensure Welsh councils collect relevant information like their spend with SMEs (p. 51).

Key sectors policy is another source of confusion because it is not a way of sensibly focusing effort. The economic focus is too wide because the number of key sectors has grown to nine and they include 65% of firms and 43% of Welsh employment (p. 56). The political focus is too narrow because most sectors are represented by a few businesspeople which creates a risk of cronyism (p.56).

More fundamentally, WG needs a new kind of economic policy which engages with the specific problems of individual sectors. We illustrate this approach by considering food and adult care:

- In food, the supermarkets are top predators who have captured the profits of the processors and left Welsh dairy and sheep farmers exposed to volatile market prices (pp. 59-64). The supermarkets boast of local procurement which in the case of Tesco accounts for no more than 5% of the £2 billion that Welsh consumers spend in Welsh Tesco stores (p. 68); the WG's social ask should be for fair prices for Welsh produce sold right across the UK (pp.68-9)
- In adult care, we focus on residential homes. Here the financialised largely PE owned chains are an invasive species who have normalised an expectation of 12% rate of return on capital (pp.73-4) and are building new homes which will displace older converted houses operated by small mom and pop firms (pp.74-5). Here the opportunity is for WG to borrow more cheaply at 5% or less and construct new homes for operation by small firms who could pay substantially higher wages because the capital charge would be lower (pp. 73-74).

New policies like these require a fundamental shift in political mentality. The WG should break with the idea of creating a generic business friendly environment so as to boost competitiveness (and at the same time recognise that it would be futile to revert to anti-business policies). Instead the WG's role should be to encourage responsible business by promoting continuity of ownership for SMEs and "raising the social ask" of big business and public organisations in the foundational economy (p. 7, 11, 70).

The underlying assumption throughout is that economic and social policy objectives are inseparably intricate in a way that WG has failed to recognise. We want responsible business because that will make

it easier to ensure the supply of foundational goods and services, such as housing, adult care, broadband, for all our citizens (p. 78).

These arguments open up a new political understanding of what Wales could be. What we have is devolution, narrowly understood as the home rule transfer of powers over tax and spend from London to Cardiff. What we need is a broadening of the definition of what is politically negotiated between government and business (pp.77-8).

Introduction

What Wales Could Be

adfyd a ddwy wybodaeth, a gwybodaeth ddoethineb

In the words of the old Welsh proverb above, adversity brings knowledge and from knowledge comes wisdom. In all of Europe, including Wales, learning from adversity is now much more difficult and uncertain despite the supports of democratic process and academic knowledge. Most obviously, the post-2008 great financial crisis has brought great hardship to many across Europe, but few experts or ordinary citizens believe that finance has been re-regulated so that crisis cannot happen again. Most have doubts about the unintended consequences of policy responses like quantitative easing as well as Eurozone bail-outs. This is deeply, paradoxical because, since Manuel Castells¹ in the mid-1990s, intellectuals have argued that we live in a new knowledge-based epoch and our capacity to acquire and manipulate digital information has certainly increased hugely. Yet, still we lack the political and technical capacity to manage our economies for the benefit of all our citizens. As Piketty² demonstrates, inequality increases in an apparently uncontrollable way in all high income societies.

The intractability of UK and Welsh economic problems and pervasive citizen disappointment is thus part of a larger problem about how wanting things to be different does not make them so. As elsewhere in Europe, regional divisions and economic insecurities are undermining the political franchise of established centrist parties who then respond with policies such as city mayors and the Northern Powerhouse initiative in England. We should remember that, in the UK after the 2008 financial crisis, everybody wanted a 'rebalanced economy' and Peter Mandelson and Vince Cable at the Department for Business, Innovation and Skills (BIS) introduced a more active industrial policy. However, the recent record on manufacturing output, investment or the trade deficit shows there has been no renaissance of UK manufacturing. Instead finance-led, credit-based growth delivers Gross Domestic Product (GDP) increases. As with other old industrial regions in Northern Europe, Wales has never recovered from losing its high income position through 1980s deindustrialisation. After 15 years of devolved government, Wales has a suite of industrial and regional policies which demonstrate political concern, but apparently cannot close the gap in Gross Value Added (GVA) between Wales and London and the South East.

Against this background, the Federation of Small Businesses (FSB) Wales approached researchers from the Centre for Research on Socio-Cultural Change (CRESC) research centre at the University of Manchester with a brief to look at the question of how Wales could do better and what Wales could be. The brief was to produce a substantial report which covered three areas. The first was to examine how the underperformance of the Welsh economy was conventionally defined, and whether that problem could usefully be reframed. The second was to provide a critical review of existing Welsh Government (WG) policy objectives and policy instruments which would examine whether, how and why they were not delivering better economic outcomes. Third was to propose and develop some radical alternative policies which would promise to deliver more of what Wales could be. The CRESC researchers obtained funding from the Economic and Social Research Council (ESRC) for this project on the understanding that they were not consultants or advisers but independent researchers, as they had been in previous projects for the UK Trades Union Congress (TUC) on railways or Vion on meat supply. FSB Wales supported the work on the understanding that the project's findings and recommendations might input to FSB policy, but would not in any way be FSB policy.

As the research progressed, the CRESC researchers released some work in progress in the form of a short piece on grounded firms for TUC Wales and another on the missing Mittelstand for the Institute of Welsh Affairs (IWA). The response underscored the need to clarify three points about the approach of this report:

1. This is an outsiders' report. None of this report's authors has played any part in Welsh politics since devolution, and CRESC has never previously been retained to provide research or expert advice for WG or civil society. One senior author is Welsh by background but has never published on Wales. Our only involvement has been a couple of public lectures and short columns on the relevance of our foundational economy ideas to Wales³, as we have also done in Scotland.⁴ We are pleased that these ideas have been taken up in the Deep Place⁵ report which stands out as the only bold and imaginative current attempt to rethink Wales' economic and social problems. But the muted response in Cardiff to that report about Tredegar shows how difficult it is to get radical ideas considered, let alone turned into Welsh policy. Part of the problem is the small size of the Cardiff policy community where many are primarily engaged by non-economic issues. Hence, the problem of group think about economic problem definitions as much as solutions. This starts from unthinking acceptance of the problem of the output gap and leads to conventional thinking about policies on infrastructure and suchlike. If these policies are not working in their own terms, it is time to bring in new ideas from outside.
2. This is not an economics report. The monoculture of mainstream economics is a major part of the Welsh policy problem because it promotes work within one paradigm rather than reflection on the limited field of visibility around key concepts like markets and competition. In response, we would not wish to promote one alternative paradigm, because that would produce a different, but probably not a broader, vision. Hence the importance of combining different kinds of expertise in an authorial team and the choice of an open organising metaphor from ecology, so that Wales becomes the habitat of a population of firms. Our authorial team includes one trained economist; she is complemented by an academic accountant and a private equity (PE) practitioner who have different core competencies in 'follow the money' research; while our political scientist reminds us that the economy and society cannot be disentangled. The project research assistant has a background in social research which allowed her to contribute the company life histories of ownership churning in SMEs which figure prominently in our analysis.
3. This is a radical report, which proposes new and different policies which cannot be categorised as either left or right in orthodox terms. In Wales, as in Westminster or Scotland, administrations change but none so far break with the Blair-Brown orthodoxy about business-friendly government and enterprise. In that orthodoxy, the role of government is to produce a generic environment which is favourable to all business through structural reform, low taxes, infrastructure and training. This has turned into a benefit for irresponsible big business, but it would be foolish to just turn policy upside down and revert to traditional leftist anti-business policies. The role of government would then be to displace private business by nationalisation and to curb the rest with high rates of tax. This would be a futile denial of the irreversible changes of the past 30 years. Policy has now to start from the fact that private business plays a leading role in our economy. Our report then goes on to develop one big, disruptive idea: the role of government should be to encourage responsible business and discourage socially-irresponsible business through innovative policies which engage the specifics of activity, time and place.

The report which does this is organised in a relatively straightforward way into four chapters. The first chapter challenges the standard problem definition about a Welsh per capita output gap, and explains

how an ecological approach can help us better understand the diverse population of firms in Wales. The second chapter identifies the problem of the missing *Mittelstand* in Wales and relates that to the problem of ownership churning, before proposing policies to discourage early exit by owner-managers. The third chapter critiques WG procurement policy and proposes an alternative. The fourth chapter questions WG key sector policy and shows how analysis of industry specifics in food and adult care can open up new possibilities of intervening for more responsible business. A conclusion provides an overview and opens out the debate to connect the issues around rethinking economic policy to the constitutional settlement in Wales.

Much of the report is closely argued and engaged with specifics, so it is useful to begin by highlighting the points of analysis and recommendations which break with orthodoxy.

- *The necessity of challenging existing thinking to reassess what we value and measure in terms of our economy.* The difficulties in narrowing the per capita output GVA gap are underlined. Our report then calls for a 'dashboard' of measures to assess Wales' economic position and progress along with a new emphasis on sustaining minimum standards for all citizens.
- *The absence of a developed German-style Mittelstand of long-established medium-sized firms in Wales.* The stunting of SMEs is related to early exit when owner-managers sell out and ownership is then churned by big corporates and PE. Our report then proposes to slow this kind of churning by introducing policies which give owner-managers a financial incentive to hold.
- *The importance of re-thinking procurement for local Welsh benefit.* The WG has been distracted by postcode measures of routine procurement, and has not sufficiently considered the impact from outsourcing public services. Our report recommends a new connected procurement approach which would use volume public sector demand to build firm capability in a few sectors.
- *The need to redirect policy away from encouraging inward investment by mobile firms towards supporting grounded firms* which are either SMEs or large private and public organisations delivering foundational goods and services. Here, specific policies can develop industrial capability and social responsibility, as our report proposes for food and adult care.
- *The first new priority for the WG should be 'raising the social ask' of all large grounded businesses in relevant ways.* This would mean that, for example, the major supermarket chains do not solve their own problems at the expense of Welsh processors and producers who need fair prices and a UK-wide market for meat and dairy products.
- *The need for research into industry specifics which can identify new levers for change and possibilities of public-private partnership.* In residential adult care, for example, the opportunity is for low-cost public borrowing by the WG to build homes for operation by small operators, with lower capital costs allowing the payment of higher wages.
- *A caution that more and cheaper finance is not a panacea for small and medium-sized businesses in Wales* and current proposals for a Development Bank for Wales may give PE a larger field of action, thus increasing ownership churn. The demand for borrowing will remain low until more businesses have supply chain security that depends on large firms behaving responsibly.

Chapter 1

From the Welsh Gap to the Conditions of Enterprise

More than 15 years after the creation of a devolved Welsh Government (WG) in 1999, Wales is not economically in a good place and is in urgent need of revitalisation. This chapter argues that orthodox economic thinking and mainstream policies are leading Wales nowhere through their primary concern with increasing per capita income. Orthodox diagnosis starts from noting a gross value added (GVA) gap between Wales and other parts of the UK which is practically very difficult to close and certainly impossible to narrow through the WG policies of training, infrastructure and finance. These policies do not engage with the specific characteristics of the Welsh economy, nor with the current context of austerity which makes it more urgent to protect minimum standards.

If orthodox thinking does not specify a relevant problem nor identify intelligent solutions, it is time to think again. This report does so by changing the frame around knowledge so that we can see Welsh problems differently and develop more relevant policy proposals which have some leverage on the problems. This revisionism builds on our earlier work on the foundational economy, in that it emphasises the importance of providing basic goods and services for all citizens.⁶ But this report also needs to take a broader view of what's in the economy because the argument also covers activities like public purchasing or the provision of finance, which have figured as levers in what the WG presents as its industrial and regional policies.

Specifically, as this chapter explains, we now draw on a new, more ecological way, of thinking about the problems and possibilities of specific sectors and everything that lies west of the border with England. This reframing allows our report to develop an alternative analysis which is focused explicitly on the diversity of firm types and their interaction with each other and with the environment. Thus the second chapter highlights the problem of the missing Welsh Mittelstand or the relatively limited number of small and medium firms employing 10 to 250; the third chapter explores the difficulties of using procurement as a tool for local economic development; while chapter four highlights how the behaviour of the supermarkets creates problems for processors as well as farmers and how financialised chains can squeeze out small operators in adult residential care.

On the basis of this reframing, our report proposes a radical redefinition of the objectives and instruments of WG industrial policy. The new aim of WG industrial policy should be to change the stock of firms and their behaviour so as to build both industrial capability and social responsibility. The WG continues the old Welsh Development Agency (WDA) preoccupation with attracting mobile firms and justifies its policies with questionable measures of success. It would be more sensible to work on the grounded firms which cannot easily move. This means building a Mittelstand of firms in key activities through new kinds of policy to discourage churning of ownership; this also requires more social responsibility from the giant firms, like supermarkets and utilities, which are tied to Wales by the networks and branches through which they deliver foundational goods and services.

The chapter which develops these arguments about changing the conditions of enterprise is organised in a relatively straightforward way. The first section explains how and why the Welsh policy community's preoccupation with a GVA gap is misguided when the challenge increasingly is not to raise the per capita average but to protect minima. A second section emphasises some Welsh specifics especially the importance of topographic divisions around the mountains in the middle. The third section explains how these specifics are lost sight of in the generic industrial policies of the WG which have little leverage and

do not recognise that consumption (not production) drives UK growth. The fourth and final section outlines our different way of thinking which starts from an ecological idea of the Welsh economy as a habitat which sustains firms of many different kinds.

The (unclosable) Welsh gap

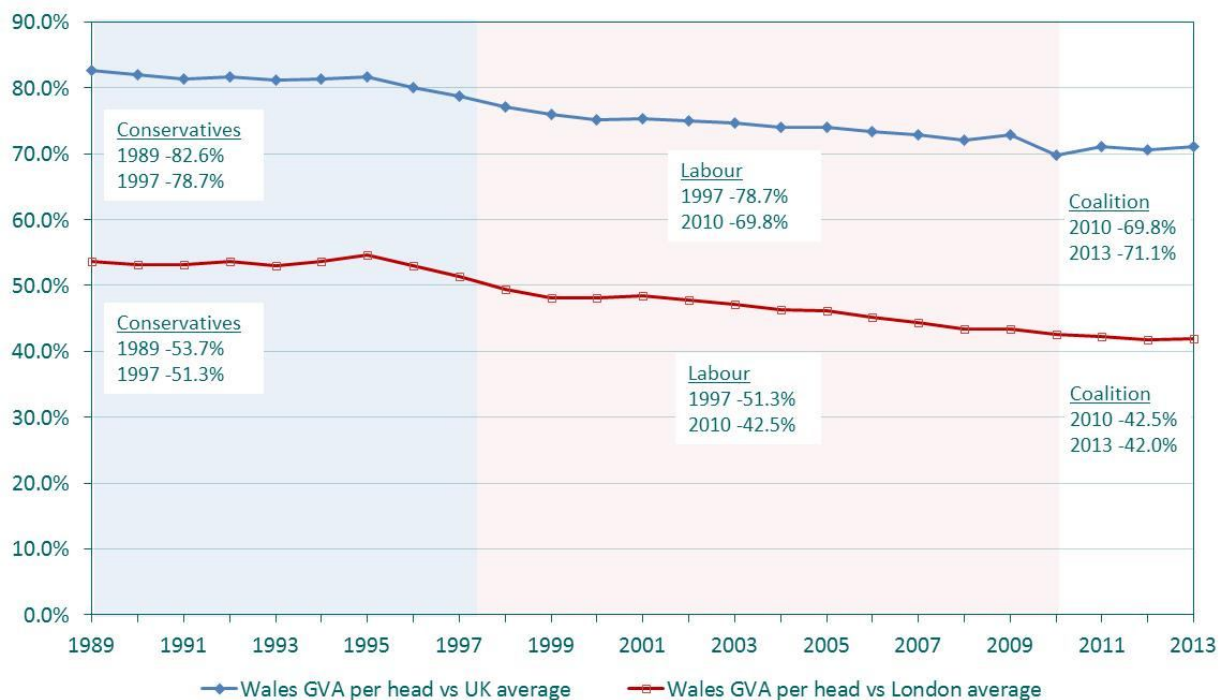
GDP is not the be-all and end- all when we come to measure welfare... Yet it is a reasonable indicator of commercial success with a fair to good correlation with the other good things of life.... Wales was at 72.2% of UK GVA per head in 2013-14, the latest available figure.'

(IWA, 2015, *An Economic Strategy for Wales*).⁷

In recent major reports on the Welsh economy,⁸ the economic problem is defined as the Welsh gap. The one imaginative and innovative recent study of Wales - the 2014 Deep Place report on Tredegar- has been pigeon holed as a local study which is ignored by those writing about "the economy". In their reports, the deficit of Welsh performance against other UK regions continues to be measured using the standard EU measure of GVA per capita and it is assumed or asserted that the aim of policy should be to close this gap. In 2012, the GVA deficit provided the 'Offa's Gap' title for the Plaid Cymru Economic Commission's report which began by insisting that the WG should retain an explicit aim of raising GVA per capita.⁹ In 2015, three years later, GVA deficiency is the benchmark starting point for the mainstream thinking in the IWA report on 'An Economic Strategy for Wales'.

The GVA measure is widely cited but often poorly understood, so it is worth explaining how GVA is defined as a measure of income which closely tracks Gross Domestic Product (GDP). Eurostat (the statistical body of the EU) requires the calculation of regional GVA in member states so that it has become the standard basis for UK and European comparisons of economic performance. GVA is an income measure calculated by adding up the incomes generated by resident individuals and corporations in the production of goods and services (minus depreciation) in a given period.¹⁰ GDP correlates with GVA because GDP is GVA plus taxes (and minus subsidies).

The standard regional comparison is of Welsh GVA per capita with that for London and for the UK as a whole. The data for the past 25 years are summarised in exhibit 1.1. This shows a gentle, sustained relative decline over the whole period up to the financial crisis, so that Welsh GVA has come to rest somewhere around 70% of the UK average. The gap against the high income centre in London is even more alarming as Wales has drifted down from 54 to 42% of London GVA per capita, as London has pulled away from Wales and other regions.

Exhibit 1.1: Welsh GVA per capita as % GVA per capita in the UK and in London¹¹

The problem with these standard GVA per capita measures is that they encourage a preoccupation with closing the income gap, as explained below.

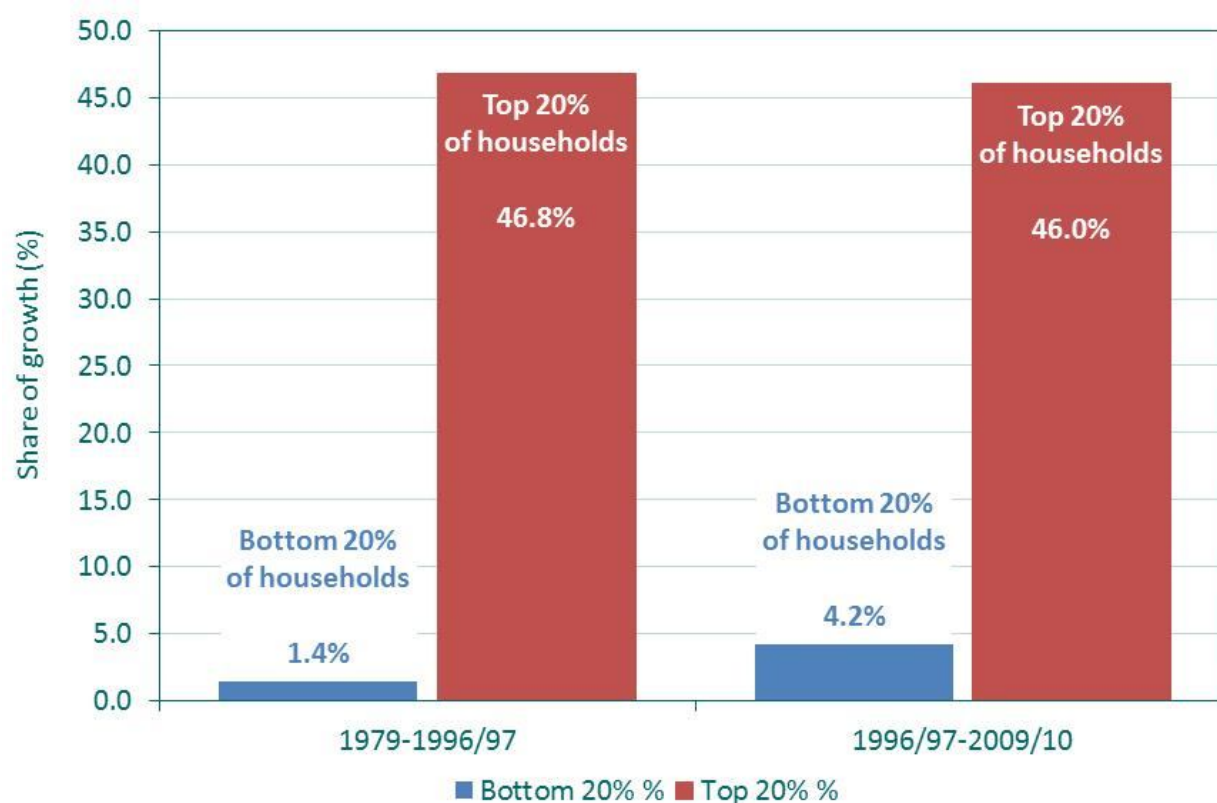
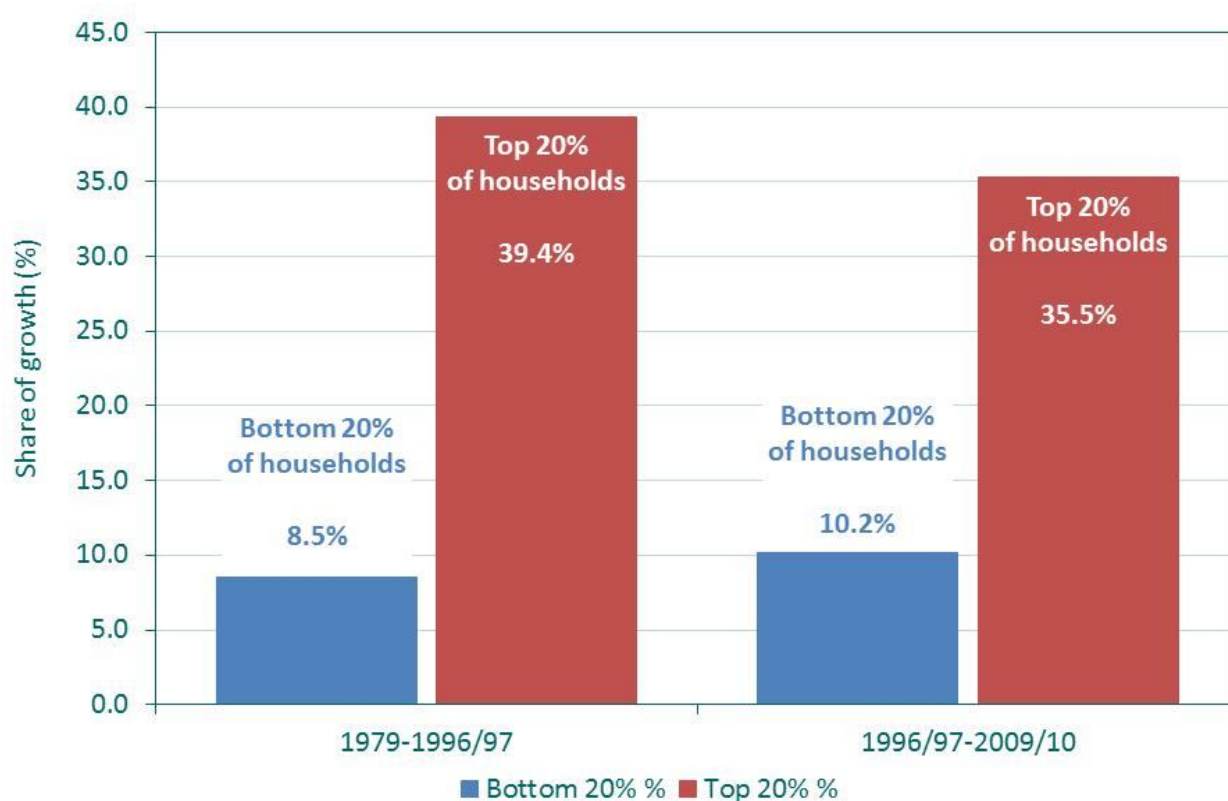
1. First, GVA per capita sets up an unattainable objective because, as a matter of simple arithmetic it is nearly impossible to close the income gap. This appears to have been tacitly admitted by the WG when it quietly dropped its objective of attaining 90% of UK GDP. The difficulty of closing the gap is also recognised in the IWA Strategy report which talks of the need for an ‘economic miracle’,¹² and, more pessimistically is registered by Calvin Jones who notes that UK regional differentials in per capita GVA have been maintained rather than closed over time.¹³

The arithmetical impossibility of closing the gap can be demonstrated by a simple comparison of the income growth rates achieved over the past 25 years and the income growth necessary if the gap is to be closed over the next 25 years (which, on present form, we would expect to be a low growth period with rates of less than 2% per annum). As exhibit 1.2 shows, Welsh growth has to accelerate from 0.6 % to 2.4% per annum to close the gap. Put another way, Wales has grown half as fast as the UK over the past 25 years; but, to close the gap, Wales must now, in a low growth environment, grow twice as fast as the UK over the next 25 years.

Exhibit 1.2: Projections for GVA growth to 'Close the Gap' between Wales & the UK¹⁴

2. Second, closing the GVA per capita income gap is unlikely to benefit the majority of the Welsh population. Giving citizens income through employment does not of course solve a host of complex problems - such as provision of medical services or housing, which also require social planning and public expenditure - so that higher incomes do not automatically correlate with better social outcomes. In Wales, the extra complication is that many citizens are ill-placed to claim extra income through the labour market. Specifically, in the Welsh case, some 20% of the working age population in the South Wales former industrial areas are outside the workforce and dependent on benefits, which are being cut. Within the workforce, deregulation of the labour market has undermined the bargaining position of many workers, so that, if the per capita (average) income gap was closed, it would not benefit the wages of the bottom 20 to 40% of working households because the majority of gains would be captured by those in the upper half of the income distribution.

To demonstrate this last point we present UK data, fairly confident that the Welsh regional figures would be no less unequal, given the extent of low wages in Wales which (along with Northern Ireland) has the lowest average weekly wages in the UK. This also and incidentally highlights the paucity of data available at a Wales level. As exhibits 1.3 and 1.4 show, the top 20% of working (non-retired) households in the UK captured nearly 50% of the increase in nominal income under successive Conservative and Labour governments. The bottom 20% of working households obtained almost nothing from the labour market so that their income gains were dependent on redistribution through tax credits and such like. These benefits are being scaled back by the current UK Government. This is part of a more general story of growing inequality which has been charted by Anthony Atkinson who finds that, historically, benefit cuts and the decline in collective bargaining increase inequality.¹⁵

Exhibit 1.3: UK non-retired household share of (nominal) income growth¹⁶**Exhibit 1.4:** UK non-retired household share of (nominal) final income growth

Given the seemingly impossible problem of closing the gap, the WG should discard GVA growth as a key policy objective – recognising that it is no more than one among many indicators - and define other measures of achievement. Put another way, the WG needs to think more broadly about the range of achievable and relevant indicators of material progress in a middle-income country with ongoing economic problems. A genuine political debate needs to take place about those aspects of the economy that we ought to be measuring. In this debate, the following fundamental rethinking needs to be taken into consideration, first to recognise the limits of old economic indicators and second to develop new, broader, kinds of indicators.

1. Wales needs a dashboard of multiple indicators of progress which provide a kind of balanced score card, in line with the proposals made in 2009 in the report of the Stiglitz, Sen and Fitoussi Commission.¹⁷ This would break with the old concept of national income accounting as a kind of arithmetic which adds up everything within one order of worth and thereby creates endless problems about what is included or excluded and how items are valued in the one account. For instance, existing UK income accounts do not include unpaid care or externalities;¹⁸ while national income accountants will always struggle to value banking and finance, even without worrying about the practice of valuing government output at cost.¹⁹
2. Wales needs an inventory of deficiencies in the provision of the basic or foundational goods and services necessary to welfare (utility supply, housing, food, health and care). In the absence of a more equal distribution of income and wealth, growth of per capita incomes and output is irrelevant (even if the planet can sustain it). Here we need to return to Beveridge's concept of measuring a basket of basic goods and services and recover Richard Titmuss' perception that welfare means 'minimum standards for all citizens' not misleading increases in average per capita income levels.²⁰ At the same time, it should be recognised that these concerns resonate in our own times through the concept of 'sufficiency' which underpins the Bhutan experiment in rethinking GDP.²¹ Meanwhile, the Organisation for Economic Co-operation and Development (OECD)'s Better Life Index based on 11 components provides a starting point for considering a dashboard of diverse welfare indicators.²²

In the next generation, maintaining the minimum provision of basics for all citizens is likely to be a more important challenge than raising the average level of GVA. This is because, in an age of austerity, Wales is vulnerable to public expenditure cuts which will bear disproportionately on the large section of the Welsh population dependent on social security or wage subsidy.

Wales is vulnerable because, on official Westminster calculations, as in exhibit 1.5, it is amongst the most heavily subsidised UK regions. The comparison here is of all households (retired and active) across all the different UK regions, on taxes paid compared with benefits received. This standard ONS calculation of the Welsh tax and spend deficit is indicative, though incomplete because only 55% of benefits in kind can be allocated to households: expenditure on roads, defence and environment is excluded from the comparison. The ONS calculation is of course a partial and economically unfair representation because it does not show how London's fiscal surplus is built on the incomes which come from centralisation of UK decision making – in terms of government and the corporate sector - plus the taxes paid on the flow of financial revenues from the UK provinces and abroad. But in political terms the official calculation shows Wales' continuing dependence on a redistributive UK settlement and hence Wales' vulnerability to Westminster expenditure cuts.

Exhibit 1.5: Total household income, taxes raised, spending and net outcome, for UK regions, in 2011-12²³

	All households ranked by Government Office Region (average per household)					
	Original income	(plus) Cash benefits	(plus) Benefits in kind	(minus) All taxes	Final income	Net gain or (loss): all benefits minus taxes
	£bill.	£bill.	£bill.	£bill.	£bill.	£bill.
North East	28.1	7.7	7.5	11.5	31.7	3.7
North West	82.6	17.9	19.8	34.0	86.3	3.7
Yorks and Humber	59.6	12.9	15.3	23.8	64.0	4.4
East Midlands	57.7	10.3	12.5	22.6	57.9	0.2
West Midlands	60.8	13.5	15.2	24.3	65.1	4.4
East	85.4	12.7	16.1	34.0	80.2	-5.2
London	131.3	17.6	24.3	49.1	124.1	-7.2
South East	129.0	19.5	24.7	51.9	121.3	-7.7
South West	68.5	13.5	15.4	27.7	69.6	1.2
Wales	32.4	7.9	8.8	12.8	36.4	3.9
Scotland	72.9	13.3	15.0	28.6	72.7	-0.2
All Households	808.0	146.9	174.6	320.4	809.2	1.2

The future of the redistributive settlement is very uncertain. But, after the 2015 budget, it is apparent that the Westminster government has firm plans to cut social security expenditure on welfare and tax credits by £46 billion over the five years.²⁴ On a back of envelope basis, that means some £3 billion of cuts in Wales, which would equate to a cut of £2,300 in the income of each of the 1.3 million households in Wales. As exhibit 1.6 suggests, these cuts will not fall evenly on all households but will be concentrated on those drawing social welfare and tax credits to supplement low wages; if the poorer half of the Welsh working-age population bears the brunt, these households could lose £4,000 per annum.²⁵

This is the cost of unwinding the peculiar 30 year UK experiment under Thatcher and Blair administrations, which both unsustainably combined American-style labour markets spreading low pay and European style social protections sub-venting inadequate wages. This has shifted the balance between tax-paying and benefit claiming households so that UK Chancellors now find it hard to raise taxes modestly and much easier to cut benefits and tax credits. As exhibit 1.7 shows, before 1979, 25% of non-retired households received more in benefits than they paid in taxes; after the Labour governments of 1997-2010, the percentage receiving more in benefits had risen to nearly 40%. Current Westminster policies for reducing that ratio will have a significant impact on Wales: according to analysis by Beatty and Fothergill, benefits losses of £550 per person of working age in Wales per annum by 2014-15 are larger than those in the UK as a whole (£470) or in Scotland (£480).²⁶ The overall impact on the Welsh economy is variously estimated to be £1bn per year by 2014-15 by Beatty and Fothergill, or £900m per year by 2015-16 by the WG.²⁷ Unless it is heroically assumed that all benefits lost will be replaced by income from employment, this equates to a significant drop in consumer expenditure which will have a marked impact on local businesses, particularly in those areas with higher levels of reliance on benefits.

Exhibit 1.6: Losses from the benefit reforms by household type and across the income distribution in Wales (excluding universal credit and PIPs), 2014-15 prices²⁸

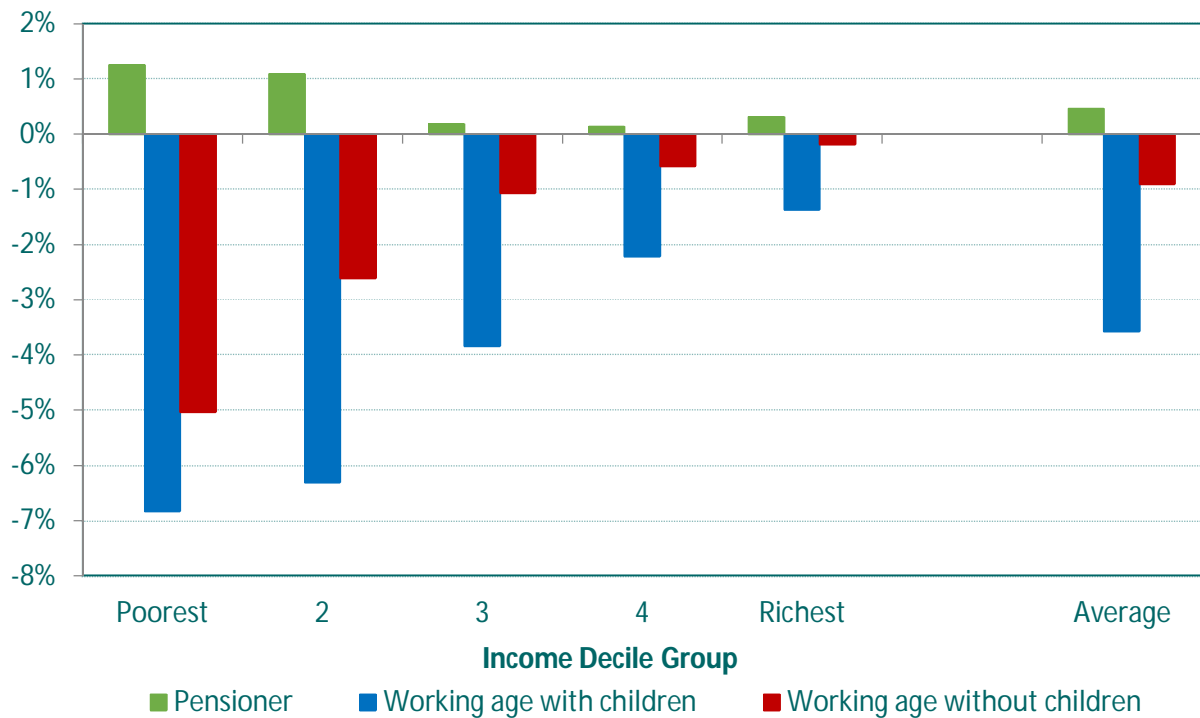
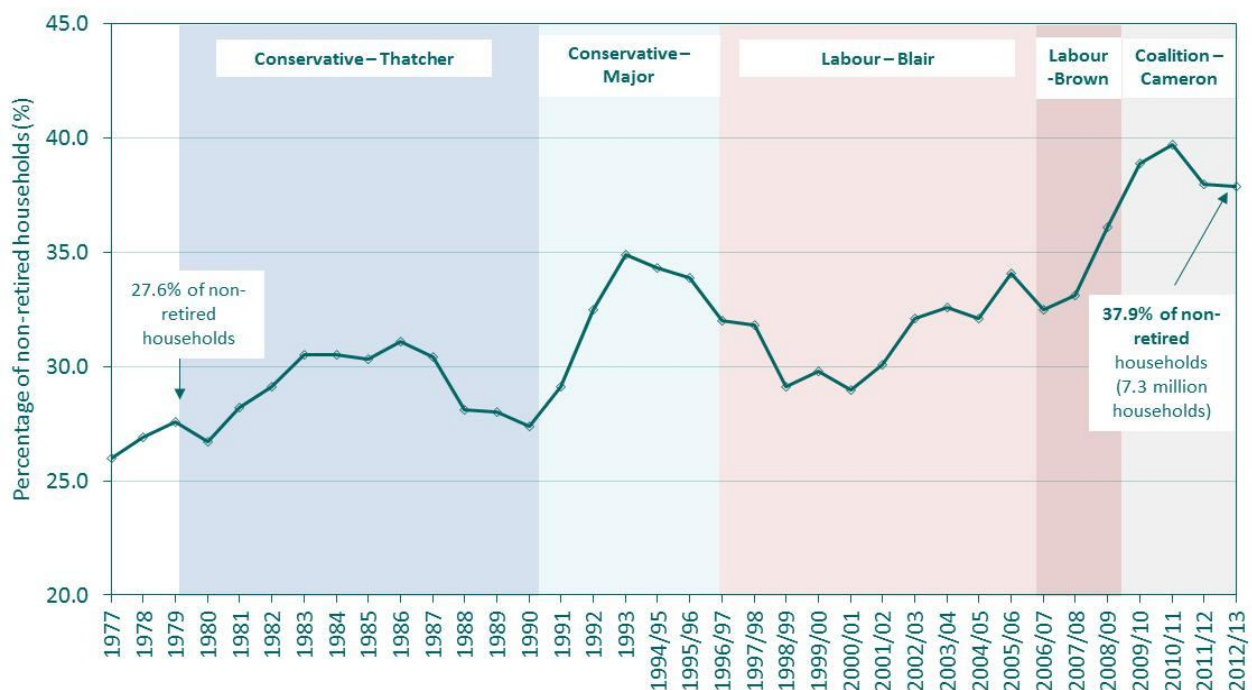


Exhibit 1.7: The percentage of UK non-retired households receiving more in benefits than taxes paid²⁹



1.2 Welsh specifics: history and trajectory

.....just two hours from London and one hour from Manchester

(‘Getting to Wales’, VisitWales website on Wales as a holiday destination for the English)³⁰

In the GVA framing, Wales appears as just another under-performing region, but it is important to understand what distinguishes Wales from all the other laggard regions. In short, Wales is different from other less prosperous regions by virtue of its history and topography, which makes it often easier to travel to or from Wales than to move around within Wales.

The burden of history is well known because, as Calvin Jones puts it, Wales is a ‘poor peripheral region’ of the UK.³¹ South Wales is a long-industrialised, formerly high wage region (like the North East of England, Walloon Belgium and the Pas de Calais). It is doubly undermined, first by the collapse of a heavy extractive and processing base in coal and steel and second, by the flight of mass manufacturing to lower wage sites in Asia and Eastern Europe. The mechanics of decline can be explained in different ways, but everybody accepts that economic activity has moved on to other centres of prosperity and the Welsh population has not.

Out-migration has not solved the problem; on the contrary the absence of out-migration has compounded the problem. The population of Wales has actually increased by some 10% from 2.8 to 3.1 million in the 25 years of difficulty since 1989.³² The contrast between the 1930s and the 2010s is striking because, in the depressed 1930s, some 400,000 left Glamorgan and Monmouthshire, mainly for the Midlands and South East.³³ The difference between the two periods tells us much about how changes to labour and housing markets since the 1980s have made intra-UK migration from Wales to England more difficult. In the earlier period it was possible to rent a family-sized house on wages from relatively well-paid assembly line work in Slough or Oxford. In the 2010s, entry level jobs are typically in services (especially in London) and have proved more suited to young migrant workers from outside the UK.

Just as important, but largely neglected in economic policy discussions, is the issue of topography because Wales is an economy of corridors, without benefit of significant agglomeration. Topography has figured in political analysis of Wales ever since Denis Balsom proposed three Welsh regions in the 1980s, as a way of explaining voting patterns and party allegiances.³⁴ But that perception about the mountains in the middle has never been properly taken on board in economic policy discussion. At the simplest, almost all the discussion is about the industrial corridors and we know of only one recent plan - Adam Price’s Arfor discussion paper³⁵ - which tackles the economic question of what is to be done for the rural hinterland. Significantly, the Arfor paper was not animated by any kind of new economics but by the old politico-cultural objective of creating a Welsh Gaeltecht, a region where Welsh is the primary spoken language.³⁶

Wales is connected but in the wrong kind of way – by a fast road out of Wales. Economically the country consists of two short corridors (M4 and Wrexham-Flint), separated by the upland back country which can be called ‘*cefn gwlad*’. The corridors are very short: Pont Abraham to the Severn Bridge is 76 miles on the M4, while Wrexham to Flint on the A55 and A483 is just 24 miles. The corridors are adjacent to English regions which include many similar activities and larger cities: Wrexham is 55 road miles from Manchester and less than 50 miles from Stoke, Chester, Warrington, Liverpool and Birkenhead. The Visit Wales web site boasts ‘you can travel to Wales quickly and easily’³⁷ and (just as easily travel from Wales) because it takes just two hours by train from London to Cardiff or Manchester to Llandudno Junction. Moving about inside Wales is more difficult because it takes more than three and a half hours to get by train or car from Cardiff to Llandudno Junction.

These problems are compounded by the pattern of development. In manufacturing, for example, Wales has branch plants. Wales does not have surviving firm clusters as in Yorkshire woollens around Huddersfield or still functioning industrial districts as in the five towns of the potteries which are the basis for internal short distance networks. Large branch factories like Ford Bridgend or Airbus Broughton do sustain a supply chain but this is mainly somewhere outside Wales, because they import most of their components by long distance trucking, now a fixed feature of the post EU European single market culture of manufacture and distribution. And when these large Welsh branch plants close, like Sony at Bridgend, they can pay off their workers and leave behind no local network of suppliers which is capable of finding different customers.

If topography divides and constrains the Welsh, they must also manage without benefit of significant agglomeration. We have, in our *Guardian* manifesto,³⁸ challenged the fashionable claim that cities drive growth but would concede that any region or nation is boosted by the presence of large, high income urban areas which provide both a volume of consumer and business spending as well as some component that is high end demand. In this respect, the contrast between Wales and Scotland is striking. Cardiff and Newport are relatively small and poor cities which both have GVA per capita of £22,000 or less, so that Wales does not have one large, affluent urban centre. By way of contrast, Scotland has three such centres in Edinburgh, Glasgow and Aberdeen, which all have GVA per capita in the range of £30-36,000, matching that of affluent southern English cities like Swindon and Milton Keynes. In fact as exhibits 1.8 and 1.9 show, the affluent urban centres ensure that Scotland has a higher percentage of population in high income areas than in England (and Wales has none).

Exhibit 1.8: Distribution of GVA per capita across the devolved nations of the UK³⁹

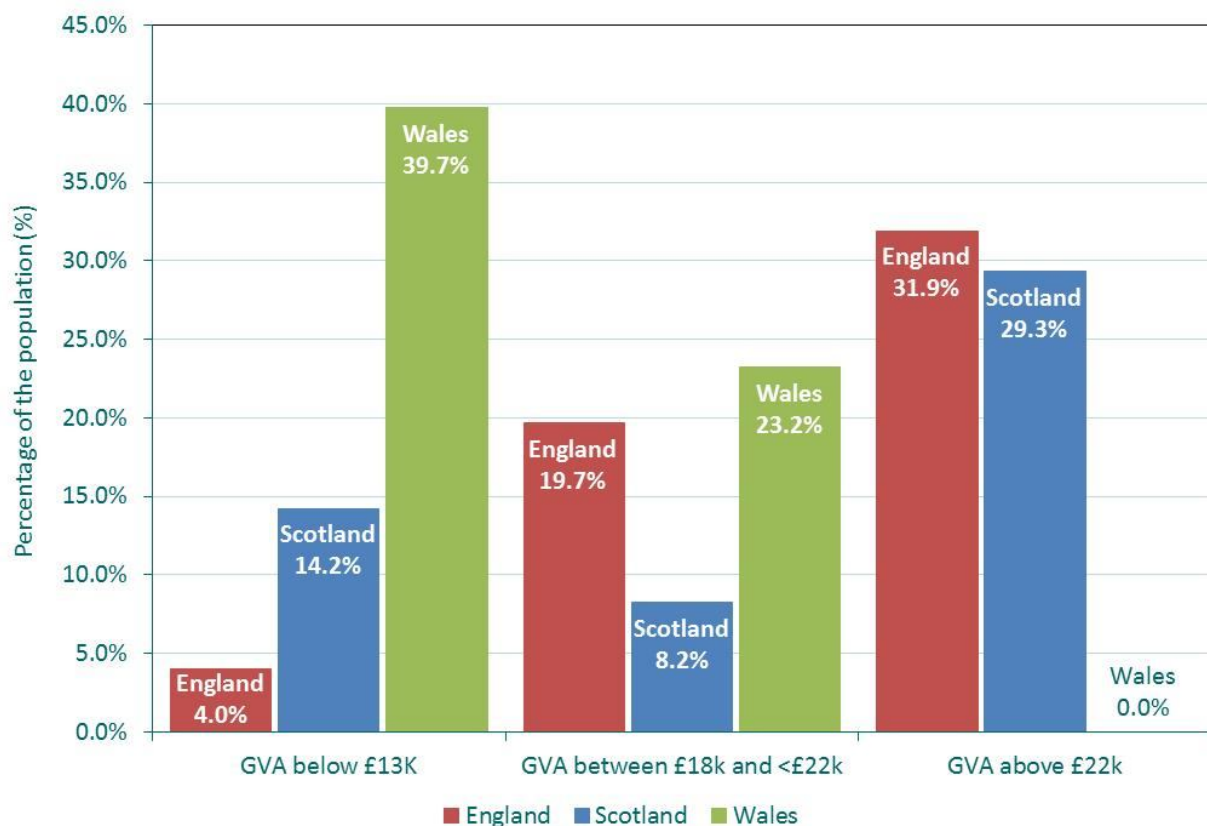


Exhibit 1.9: Proportion of the population with a GVA per capita in the top 10% UK regions

The Welsh economy can be viewed as both a statistical aggregate and a curious artefact produced by adding everything within political boundaries. Under devolved government, Wales has formally become a kind of polity as a territory with its own representative institutions; albeit with a single party dominating Welsh governments to date in the National Assembly. But Wales remains an economy of disconnects. Demand and supply-side characteristics and topography ensure Wales is not an integrated economic system whose internal characteristics and connections would spontaneously generate, retain and distribute prosperity. This is the challenge for economic policy.

1.3 Industrial strategy?

Business as usual is no longer an option. Instead a clear vision of economic direction with a view to changing the Welsh economy over the longer term, will now be needed. This means developing an industrial strategy.

(NEF (2013), *Towards an Industrial Strategy*, Report for Wales Trades Union Congress).⁴⁰

A 2013 report by the New Economics Foundation (NEF) called for a Welsh industrial strategy. The question in this section is whether the WG has an industrial strategy with policies which can change the direction of the Welsh economy over the longer term (or more modestly, deliver its declared objective of GVA growth). The WG does have a full range of what might be called generic industrial policies, to deliver improved economic performance by improving skills, infrastructure and finance provision. The WG's focus here is on supporting production, with the rationale for such assistance thought through the metaphor of the economy as an input/output machine whose social outputs are jobs and growth (of GVA/GDP). The problem is then two fold because the WG relies on policy levers which are not directly connected to achieving these objectives. First, the policies to support production all rest on dubious assumptions about the causal connections between inputs and output, so that for example a better trained workforce will be able to find (better) jobs. Second, and more fundamentally, the WG

misrecognises the character of the existing UK and Welsh growth model, where output growth is not driven by any kind of productive capability but by consumption spend as debt allows households to bring forward income.

The WG's industrial policies are all grounded in a standard economics metaphor. The regional or national economy is an input/output production machine which combines inputs to produce output; within the GVA/GDP frame, the socially valuable results are jobs on the input side and growth of real incomes on the output side. The broader environment, UK-wide and globally, then includes many regions and nations all engaged in competition, which individual regions/nations can win by boosting the quality and quantity of labour and capital inputs or by upgrading processes of development, production and logistics through infrastructural investment. This view point is overwhelmingly single-firm and project-centred: winning is, firstly, a matter of boosting the product market competitiveness of tradable sectors which will export goods and services; and, secondly, capturing capital flows through inward investment which adds to the stock of jobs and capable firms.

Industrial and regional policy is then a matter of assisting the productive processes, leading to generic industrial policies in Wales which are the same as those in other UK regions and, indeed, right across Europe. Within the standard economic frame, there are three key policy interventions which promise to boost the productive performance of firms in competitive markets through training, infrastructure and finance. The WG has developed policies on all three key issues and offers corollary support in a fourth area through an inward investment agency.

1. Education and training aims to improve workforce skills which boost industry based in the region and attract inward investment. The WG's January 2014 Policy Statement on Skills has been followed up with a Skills Implementation Plan which states 'our ambition remains to develop a skills system in Wales that supports our future competitiveness.'⁴¹
2. Infrastructure of road, rail and ICT (e.g. fast broadband) assists production by existing firms and attracts inward investment. So in 2012 the WG published a 'Wales Infrastructure Investment Plan for Growth and Jobs' premised on the claim that infrastructure 'can provide an important and much needed stimulus, creating the conditions for increased and sustained growth in the medium and longer term.'⁴²
3. Access to finance is highlighted because capital is an economic input to production. Hence the original founding of the WG agency *Finance Wales* which may be replaced by the Development Bank. The preliminary feasibility study of 2015 started from the position that 'a number of market gaps need to be addressed in the provision of finance for Welsh SMEs.'⁴³
4. The corollary is an inward investment agency which advertises the benefits of the Welsh business environment in relation to policies for training, infrastructure and firm finance. The current WG Business Support web pages make an offer for firms considering relocation to Wales where the WG promises 'everything required to make it happen. From financial support, skills support, trade support to property advice, through to support for research and development.'⁴⁴

Devolved government has allowed the WG to take new initiatives in all these areas. But the policy template of production assistance was set UK-wide much earlier in the 1980s when the Conservative Government renounced other more interventionist forms of industrial policy, subsequently rubbished as futile attempts to 'pick winners.' After the 2008 financial crisis dramatised the need for 'rebalancing' the economy towards manufacturing, the UK government's Department for Business, Innovation & Skills (BIS) under Peter Mandelson, and subsequently Vince Cable, began to experiment once again with a new

kind of activist industrial policy. This approach drew on a new style of business school discourse and provided BIS with both a new language and new policies for building supply chains around primes or anchor firms in industries like automotives,⁴⁵ as well as creating catapult centres to boost innovation systems on the German Fraunhofer model.⁴⁶

New style industrial policy is very important in Scotland where the Scottish National Party (SNP) seized on it as a key element to differentiate the nationalist offer and to project a distinctive economic purpose. In the run up to the referendum, the key programmatic SNP economic policy document was *Reindustrialising Scotland*, which stated on its first page the new, post-2008 objective of ‘rebalancing and reindustrialising the Scottish economy.’⁴⁷ By way of contrast, in Wales, old style policies based on improving the quality of the factors of production through skills, finance and infrastructure still predominate and BIS-style activism has been much more faintly echoed. The WG did commission a report into manufacturing supply chains,⁴⁸ but the main result so far has not been intervention but official listings using the language and categories of new style industrial policy. Thus Wales now has a list of nine ‘key sectors’ which covers aspirational high tech and volume employers like construction and food processing,⁴⁹ and a much longer list of some 50 ‘anchor companies’ which are international and have a significant presence in Wales.⁵⁰

Mainstream economics is built around mechanical metaphors which presuppose a correct basic understanding of connection, sequence and causality. Skills and infrastructure are obviously correlated with economic development, but WG policy rests on the supplementary, much stronger assumption that they have the capacity to initiate development (or at least boost growth) and that causal linkage is, as we argue below, at the very least highly contestable. Much the same point will be made about adding domestic finance or attracting inward investment. These last two policies are critically considered in later chapters of this report, so here we will briefly review the evidence on the effects of upskilling and infrastructural investment.

The causal suppositions that animate WG policies on skills are disputed by many labour market researchers. Caroline Lloyd of Cardiff University has, in a succinct three pages for Wales TUC, explained how their critique undermines the rationale for WG policy.⁵¹ To begin, Wales is enlisted in an international race to increase qualification levels measured by PISA standards⁵² and there may be some disadvantage to falling behind in that race. But Lloyd notes ‘there is little evidence to indicate that mobile capital shifts to countries based on PISA results or the proportion of the workforce with a degree.’⁵³ There may be local skills shortages in specific sectors or jobs, but there are also issues about over-qualification, poor skill utilisation and outward migration of the highly qualified from a low skill/low pay Welsh economy. Some half a million jobs or 40% of the Welsh total do not require a level 2 qualification (equal to 5 A-C GCSE passes) but only around 200,000 people of working age do not possess a level 2 qualification.⁵⁴

The position on investment in infrastructure is similar. Broadly speaking, very little can be done in a complex economy without targeted physical investment; and the fourth chapter of this report will make an argument for physical investment in our social infrastructure through new kinds of residential homes for our old people. But, in WG policy, the definition of infrastructure has been hi-jacked so that it becomes road and rail (with broadband), on the assumption that this can boost development. As Stuart Cole has pointed out in work for FSB Wales, demands for transport investment are often derived from imaginary restrictions on internal movement.⁵⁵ We would add that transport improvements are usually justified using the middle class standard of time saved not the relevant poorer worker standard of fare affordability. It is all very well to have a South East Wales metro which promises that Maesteg, Treherbert

and Maerdy will be within 40 minutes of Cardiff,⁵⁶ but low wage workers may remain marooned in very local labour markets because they cannot afford long commutes.

There are all kinds of good reasons for spending more on the education of all citizens and for investing in infrastructure but the WG should question the assumption that such investment buys growth. Beyond that, there is the more fundamental problem that there is a misrecognition of the UK and Welsh growth model, that is, the forces that drive GVA/ GDP growth. The WG behaves as though the UK growth model was innocently productive, as though GVA/GDP increases are driven by the activity of extending factories, founding start-ups in high tech and building shopping centres which will all require the finance, workforce skills and infrastructure that government policies supply. However, the UK growth model is consumption-led and financialised, so that GVA and GDP increases are driven by financial engineering, especially the use of debt by households to bring forward consumption via home equity release to boost spending.

If that point sounds rather abstract, it is explained in exhibits 1.10 and 1.11 below. Exhibit 1.10 shows how and why, as a matter of arithmetic, the main driver of GVA/GDP is consumption: some 65% of UK GDP is private consumption expenditure, a percentage that is substantially higher than elsewhere in Northern Europe. Anything that boosts UK private consumption quickly comes through into GDP growth. Exhibit 1.11 shows that the income which sustains consumption expenditure on every cyclical upswing in the UK, comes not from any kind of productive activity, but from housing equity withdrawal and remortgage which draws down the unearned capital gain on an increase in house prices. As exhibit 1.11 shows, UK housing equity withdrawal was larger than nominal GDP growth under the Thatcher and Blair governments; and the implication is that UK growth is likely to continue to be an unsustainable matter of boom and bust because house prices cannot, of course, rise indefinitely.

Exhibit 1.10: Composition of GDP across various OECD countries⁵⁷

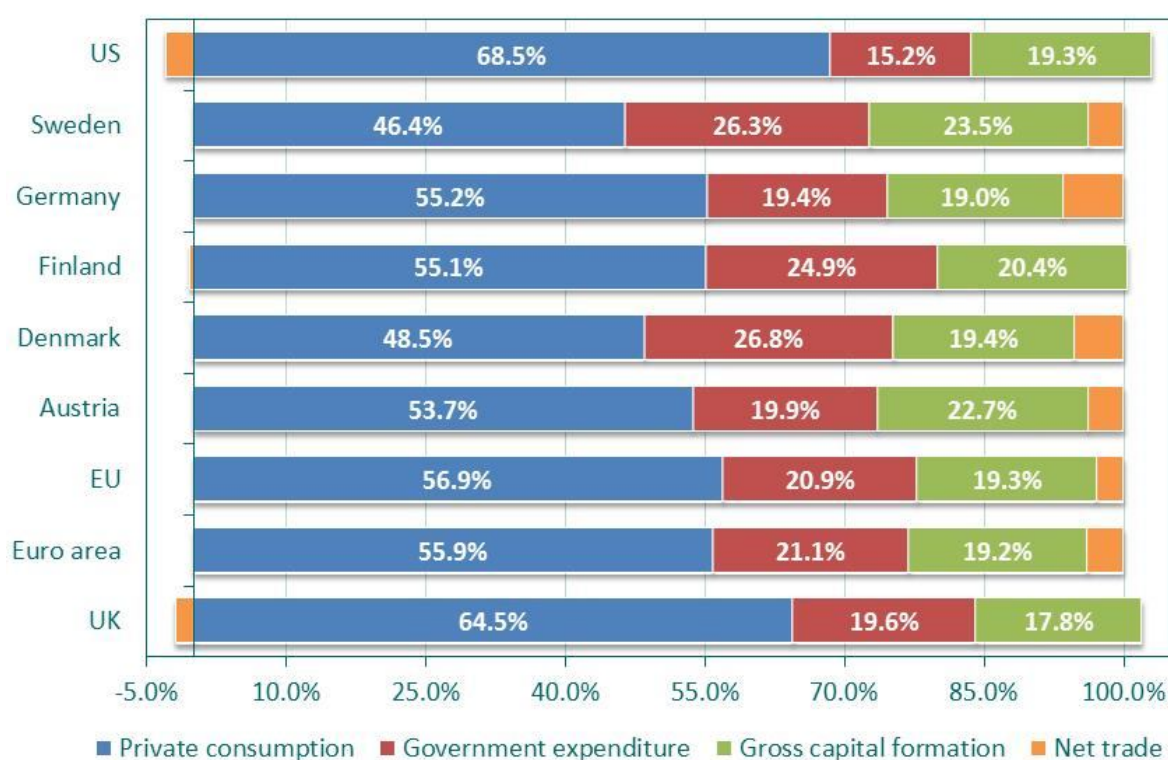
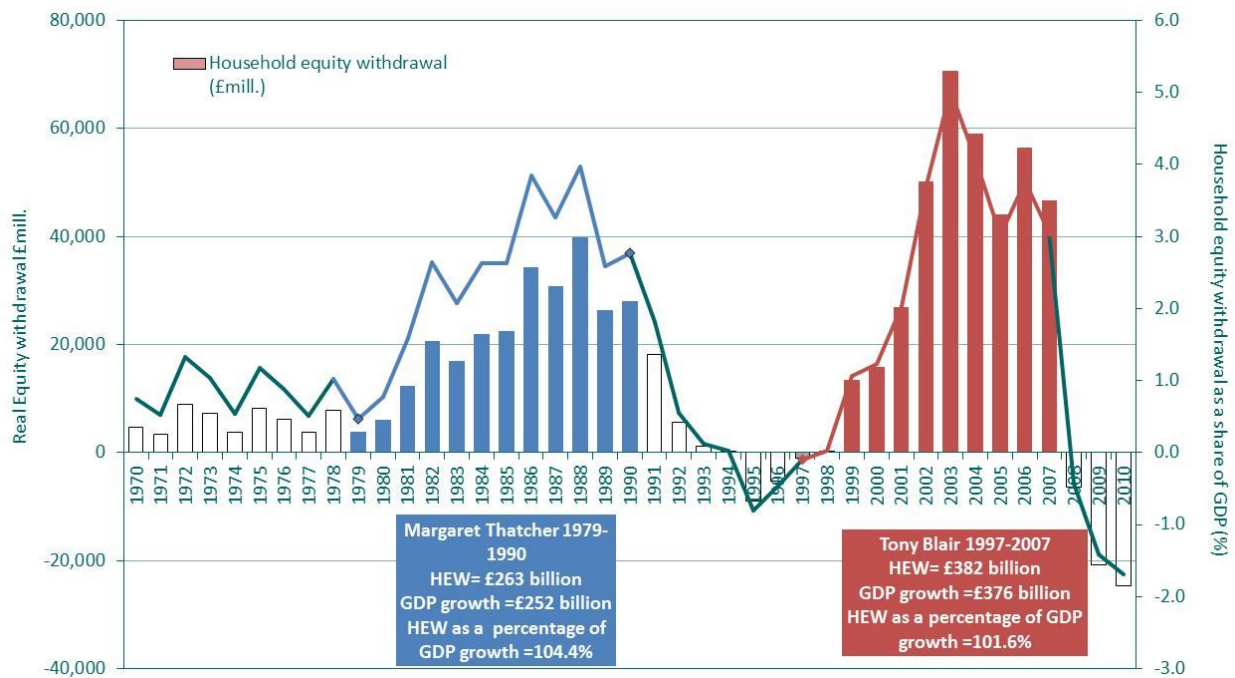


Exhibit 1.11: UK Housing Equity Withdrawal as % GDP Growth, 1970 - 2010⁵⁸

These exhibits show that UK economic growth is (unsustainably) built on taking unearned capital gains as income. In that case, Wales has been, and always will be disadvantaged, not because the WG tolerates a second rate productive economy, but because Wales is geographically peripheral and therefore its householders have much lower house prices and less equity to withdraw for consumption in each upswing. This structural analysis also reinforces the argument that 'closing the gap' is a meaningless and perverse objective. Do we really want to become like London and the South East by inflating house prices? And what would inflated house prices mean socially except exclusion from decent housing for most of the Welsh population who earn low wages; plus the problem of boom-bust unpredictability for all those who get 'onto the housing ladder' and then must cope with house price bubbles and variable interest rates.

However, this argument does not imply that the status quo is a viable option. If Wales is bound to lose a race based on property-based consumption growth, that structural impediment is now reinforced by the depressive effects of the dismantling of the UK's redistributive settlement. And all the key policy decisions, on interest rates to keep the housing market going and on wage subsidy and social security cuts to balance the books, are being taken in London (not Cardiff). The WG needs, but does not have, a directive and distinctive industrial strategy.

1.4: Wales as habitat and firm diversity

...the place where an organism or population lives

(Definition of habitat in the *Princeton Guide to Ecology*⁵⁹)

If the aim is to develop a new Welsh industrial strategy, we must first change the frame within which our economic problems and solutions are thought. And this conceptual shift depends on finding a new language and imagery through which we can engage Welsh specifics. The business school language about supply chains is an essential analytic tool but, as we explain below, has its limits in the Welsh case. Hence

our argument for a more ecological approach to understanding the diversity of firm types and behaviours in the Welsh habitat.

As we have noted, post-2008 UK industrial policy has drawn on business school language to develop new policy possibilities. The concept of supply chain position, and related ideas about connection, are essential in most empirical analysis of sectors. But this concept does not give us an object of policy because the aim of (re) building supply chains is of limited relevance to the Welsh or the broader UK economy. In Wales the problem is the physical one of short corridors, as already noted. Building end-to-end supply chains would not be sensible if it involved favouring suppliers who fed components to the Airbus factory which has a Welsh postcode, against suppliers who fed components to Vauxhall Ellesmere Port or JLR Speke which have English postcodes. If the aim is, more sensibly, to increase supply chain employment and value added in Wales, then Wales is part of a UK-wide production system characterised by the absence of first tier coordination and the foreign ownership of final assembly.

These problems can be illustrated by examining the automotive industry sector. UK component suppliers are concentrated in the lower tiers producing low-tech, bulky items like exhausts for cars: the UK has no first tier supplier like Valeo or Bosch capable of supplying a mechanical and electronic sub-system like engine stop-start. This absence is hard to remedy because most factory sectors, from cars to building materials, are dominated by foreign-owned branch plants which, in engineering, are then integrated into the European and global supply networks of their parent companies. A high propensity to import components is consequently embedded in the ownership structure of British industry: a survey in 2012 for BIS showed that only 36% by value of UK auto parts were UK sourced.⁶⁰

Given these limits we have turned to more ecological and epidemiological analyses. Such analyses have already been used by the Bank of England's Andrew Haldane in a series of innovative articles about how to get beyond mainstream economics in thinking about the causes of the post-2008 great financial crisis and the policies which might prevent such crisis.⁶¹ As we have argued elsewhere, this appropriation of ecology leads to a concern with mapping the financial ecosystem which is ambitious and maybe unrealisable. It is also arguably not relevant to the Welsh case of a corridor economy because an ecosystem depends on internal conditions of homogeneity which define system boundaries and dynamics (as in the case of a grassland ecosystem).⁶² But, more simply, Wales is a habitat or 'place where an organism or population lives', which sustains a population of firms.

This insight prompts a series of questions. If Wales is a habitat that sustains a population of firms, how do we think about the diversity of firm types, their interaction and behaviour? What kinds of firm type and behaviour should the WG be encouraging and how can it do this by changing the conditions around enterprise? Mainstream economics has a thin and standardised general understanding of such issues which is primarily derived from its theory of the firm in product markets, where good (high productivity) firms are encouraged through competition after liberalising product and labour markets. After reviewing the relevant evidence adduced by mainstream economists, in an important book about the euro, Martin Sandbu of the *Financial Times* points out there is no convincing empirical evidence that structural reforms do have significant (growth) benefits.⁶³

The ecological insight also has much unrecognised potential for the analysis of our distinctive form of financialised capitalism. Ecology allows us to separately consider the physical chain of inputs and outputs and the parallel chain of financial movements of cash and profit in relation to the balance sheet. This is important because economics tends to think physical and financial are held together by competitive product markets, whereas the operators of financialised capitalism recognise that private gains can be realised by breaking the connection.

Given the way these industries are currently constituted, we need to ask: what kind of firms and behaviours should the WG be trying to encourage? In terms of policy levers, the issue becomes how do we change the environment so that the WG encourages some kinds of firms and alters the behaviour of others? The starting point is that, in a confused way, the diversity of firm types is recognised in existing WG policy through the pursuit of inward investment by mobile firms. Our aim is to turn this policy on its head by building and changing the grounded firms who cannot easily move.

The policy of encouraging inward investment goes back to the founding of the WDA after 1975 as the Welsh response to de-industrialisation, which came to rely on new arrivals like Sony and Panasonic. This 'seek initiative from outside' response was historically rooted in the nature of Welsh enterprise: in large-scale industries like steel, from Dowlais Iron Works to Steel Company of Wales, senior management expertise and capital came from outside. In a more financialised economy, the same relationship can be seen in current proposals for a Development Bank for Wales, which will explicitly draw on the expertise and capital of outside fund managers. The policy of promoting inward investment and the limits of the Development Bank are analysed in more detail in Chapter 2. Here, all we will say is that inward investment will not work in the same way for Jersey Marine in Swansea as it would for a science park outside Cambridge, because Swansea gets Amazon Warehouse not prestige high tech. In this case, why not focus on developing the firms that are fixed in Wales?

Loose generalisation about globalisation often implies that all firms (or at least the firms that matter) are mobile and competitively producing tradable goods and services. In point of fact, there is considerably more diversity in the stock of firms in Wales or any other medium-income country, where there are large numbers of grounded and relatively immobile firms, often in sheltered sectors.

Grounded firms tend to fall into two categories.

- First, there are micro and Mittelstand firms in a variety of manufacturing, distribution and service activities. They are primarily fixed by capillary dependence on local ownership/ management/ workforce whose informal knowledges and capacities are niche specific and often not easily usable or valuable elsewhere. The grounded Mittelstand firm may well export a product or service but the firm itself is a formula that cannot be replicated at another site or can only be replicated at a few closely related sites: this is the difference between an independent restaurant which can expand into a local handful of gastropubs and the branch of a retail chain like McDonald's or Carluccio's which can be replicated at hundreds of sites. The Mittelstand firm is inherently small-scale and can be well-adapted to its niche; but it is also vulnerable if it loses its footing through competition (including that from large-scale or chain providers).
- Second, there are the larger (often giant) private and public sector organisations delivering or distributing foundational basics in generally sheltered service activities, often with local monopolies. They are primarily fixed by infrastructural dependence because they can only access local demand through a system of networks and branches which is necessary for the distribution of utility services, transport, groceries, retail banking, healthcare and schooling. State domination of this sector persists in health and education, but increasingly state funding now sustains a para-state of private nurseries, care chains and sundry outsourcers. With utility privatisation, outsourcing and the advance of chain supermarkets, this sphere is increasingly the for-profit preserve of stock market quoted companies and PE investments. Both are under pressure to deliver financial returns which raise the question of whether standard business models will generate enough cash and return on capital and, if they do not, whether financial engineering can be applied to boost cash extraction.

If we move from distinguishing two types of grounded firm, we can then move on to consider their numbers, behaviour and their relation to environmental conditions. This immediately becomes more interesting.

- First, although Wales has a growing number of micro-firms, there is a continuing problem about what we call the ‘missing Mittelstand’ because most of the Welsh workforce is employed in micro-firms or large enterprises. As chapter 2 shows, only 25% of the workforce is employed in the 10,000 small and medium Welsh firms employing 10-250 workers. Wales, like the rest of the UK, has been unable to grow the larger, longer-established, niche dominating type of German Mittelstand firm. The novelty of our analysis in this second chapter is provided by the case histories of how ownership churning has damaged the development of firms like Rachel’s dairy or Avana bakeries; on this basis, we argue that the observed Welsh failure to build Mittelstand firms is caused by the early exit of owner-managers, and a financial system which subsequently encourages churning of ownership.
- Second, the problem of the public limited (stock market listed) companies and the PE owned companies is rather different. This is because those companies, under pressure from organised money for financial results, use their knowledge and power to extract cash at the expense of prices paid and margins earned by others, including their own supply chain and/or their internal workforce. If that claim seems exaggerated, readers should turn to our analysis of adult care and supermarkets in chapter 4. The supermarkets have squeezed their UK supply chains and captured the profits of farmers and food processors in ways which have done great harm to Wales and are graphically illustrated by the ongoing crisis in Welsh dairy. In residential adult care, the PE chains are well-placed to advance at the expense of independents because they can access funds for rebuilding and have normalised a 12% return on capital at the expense of higher prices paid by the state and/ or lower wages paid to the workforce. In both sectors, well-meaning WG policy is ineffectual in identifying and enforcing any kind of social interest.

The analysis of firm types, numbers and behaviour can be pressed further in an ecological frame: chapter 4 argues that the supermarkets are destructive top predators and the financialised chains are an invasive species. But intellectualism is not an end in itself, and the importance of this line of argument is that it provides us with a basis for a new kind of industrial and regional policy which would aim to change the stock of firms and their behaviour in ways which are relevant to Welsh specifics. First, we should build Welsh industrial capability by growing the number of Mittelstand firms; and second, promote social responsibility by raising the social ask of all larger private and public firms delivering foundational goods and services. As chapter 3 explains, the proposed policies focused on changing the environment are very different from the kind of postcode localism which the WG has recently been promoting through its procurement policies.

- First, on the Mittelstand, our diagnosis is that the problem is early exit by a (family) owner-manager and subsequent churning of ownership. In that case, as chapter 2 explains, the answer is to redesign finance so that (through provision of equity, different forms of ownership and new financial products) we create incentives to hold for longer and put a brake on pointless churning which makes a turn for the seller but is often damaging to the firm over the longer term. The novelty of this approach is that in a financialised economy, we propose to use financial engineering for social purposes not just private profit. Beyond this, we favour new kinds of public-private partnership whereby the state creates Mittelstand opportunities. In chapter 4, for example, we recommend that the WG should borrow to build new kinds of residential homes to be operated by small firms.

- Second, on the giant firms (and public sector employers), the WG needs to ask what they are going to put back into Welsh economy and society in return for the privilege of drawing down Welsh demand. This requires the formulation of specific and relevant Welsh demands for social responsibility. In the case of supermarkets, chapter 4 argues that WG needs to develop policy levers that encourage big chains to go beyond the token regionalism and do something meaningful for Welsh processors and farmers by, for example, buying their lamb at fair prices and selling it outside Wales, in all their stores across the UK.

Meanwhile, the linkage to new (post GVA) policy objectives should not be forgotten. Welsh foundational firms (public and private) are strategically important because their goods and services are basic to the material security of the population. Changing the stock of grounded firms and curbing the anti-social behaviours exhibited by some is an accessible intelligible industrial policy objective. But this kind of industrial policy needs to be set in the context of a larger social vision of repurposing the Welsh economy which would follow from political debate about post GVA measures of success. The narrow and broad policy domains are of course connected. The focus of the WG should be on nurturing grounded firms – whether capable SMEs or responsible giants – because their activities will help us build and maintain community through welfare for all.

We accept that our argument challenges much existing thinking and accepted policy. The rest of this report therefore is devoted to developing the argument about how we could, and should, build a different and better stock of firms through non-traditional and experimental policies. Through such policies, Wales could become a world leader, not by moving up league tables of per capita consumption but by pioneering new ways of making capitalism work responsibly for all our citizens.

Chapter 2

From Churning Ownership to Building the Mittelstand

I have always said that the staff at Gocompare.com come first and I will always do the right thing by them. As such, esure's commitment to keep our headquarters in Newport was an extremely important part of my decision to sell the business and I am confident that I'll be leaving it in very safe hands.

(Hayley Parsons, founder of Go Compare when announcing the sale of the company she had built, December 2014)⁶⁴

This has been an iconic company in the south Wales area, in Rogerstone, for around 50 years... so this is particularly disappointing news. May I ask you, Minister, first, what support are you intending to provide to workers and families whose jobs are threatened in order to help them find alternative employment or training? May I also ask you what contact have you had with Marks and Spencer to see what support it is offering?

(Nick Ramsay AM, asking an urgent question about the closure of Avana Bakeries, February 2014)⁶⁵

The opening quotes come from recent news stories about two firms based in Newport. The first news story is about Hayley Parsons selling Go Compare, the Newport-based insurance price comparison site she founded in 2006. Nearly ten years later, it was reported that Ms Parsons would sell her shares in the company for £95 million, from which she would personally receive £43.7 million. Go Compare went to Eastbourne-based esure which is 30% owned by Peter Wood. Ms Parsons then insisted that the new owner would respect the company's local roots (as sellers frequently do without lingering on the point that such commitments are not binding). The second news story is about the loss of jobs with the threatened closure of Avana Bakeries by the 2 Sisters Group after Marks and Spencer had switched orders to another firm. AMs of all parties, including the Conservative Nick Ramsay, then asked the WG Minister what she was doing about the job losses (as is frequently the case in such situations, despite little hope that anything meaningful can be done to save the jobs).

This chapter is about establishing the connection between these two stories. It explains how the financial system is a machine for churning ownership which can turn today's local success into tomorrow's downsizing, so that over ten years or more a company like Go Compare could become Avana. The end result is that Wales cannot build a Mittelstand. WG policies can be unhelpful with respect to this, placing too great an emphasis on inward investment. There is also a danger that plans for a Development Bank will not necessarily help build and sustain the medium-sized businesses that Wales currently lacks. Against this we argue for new kinds of policy to build a Mittelstand of grounded firms. Such policies would of course be experimental, but Wales has little to lose when the existing conditions of enterprise have seen SMEs like Rachel's Dairy or Halo Foods fail to realise their potential, and turned a larger firm like Avana into a branch which was increasingly vulnerable to closure in a larger corporate game.

Firms can be classified in many ways. The first section of this chapter introduces the basic division between grounded and mobile firms, while arguing that WG policy is too concerned with attracting mobile firms to Wales at the expense of sustaining and developing grounded firms within Wales. Along a second dimension of classification, firms can be sorted by size in terms of employment and brand presence; and the second section argues that Wales has a problem about a missing Mittelstand and

absent Welsh brands because it has too few solid middle-sized firms. The third section then relates this absence to the conditions of enterprise in Wales where the financial system incentivises owner-managers to sell early, so that Welsh small and medium firms lose their grounding and become adjunct branches of a larger combine. The discussion of policy in the two concluding sections starts from the observation that many existing policies to encourage SMEs have the unintended consequence of incentivising early sale. The proposed Development Bank has the potential to make things worse not better unless it is capable of delivering new forms of ownership and financial products which would strengthen owner-manager incentives to hold and build.

The ecological lens is important in bringing these issues into focus because it highlights the long-run relationship between firm and environment within one generation and over several generations with adaptive modifications. A mainstream economics lens tends to focus on takeover as a single event, which leads to the question of whether that event is good for value creation. The long-standing empirical finding in the UK and elsewhere is that takeovers destroy value because, for example, combined profits of acquiring and acquired firms are lower. From an ecological point of view, we can consider changes of ownership as serial events with implications for firm positioning and capabilities within the supply chain. The analysis in this chapter complements the pioneering study by Smith and Wright of the long run effects of acquisition on the UK aerospace supply chain from 1990 - 2014.⁶⁶ In the high-tech aerospace sector, Smith and Wright find that acquisition has been used by large corporates to acquire know-how and technology and that such 'cherry picking' has produced a supply chain dominated by smaller, less capable SMEs. In the very different and more mundane context of Welsh food processing, we argue that serial acquisition is damaging in different ways because it disrupts firm strategy and positioning.

2.1 Attracting mobile firms vs developing grounded firms

First minister Carwyn Jones welcomed figures suggesting direct inward investment in Wales from abroad is at its highest for nearly 25 years.... The Welsh government said the 79 'direct inward investment projects' was a record result for the last 24 years, creating or safeguarding 10,441 jobs.

(BBC News, 20 July 2014)⁶⁷

Increases in inward investment may be hailed by politicians as good news for employment. However, at a more fundamental level, the figures are symptomatic of a continuing preoccupation with attracting inward investment by mobile firms, rather than having a consistent focus on how to sustain and develop grounded firms.

Some firms (and many public organisations) are tied to a specific place by a variable combination of supply and demand side roots and branches. The list of ties includes stable ownership and a local management cadre on the supply side, along with a regional supply chain or district support services, relevant technical education and the human skills pool. On the demand side, branch distribution or network requirements can dictate location to serve population. Most SME firms are grounded in a local niche by specific and limited resources and connections; those within the foundational economy produce basic goods and services, like pipe and cable utilities and food distribution in the private sector, or health and education in the public sector. On any count, grounded small and medium-sized enterprises (SMEs) and large scale foundational employers account for at least 40% of the Welsh workforce.⁶⁸

We suggest that the WG focuses too heavily on attracting foreign direct investment (FDI) – and inward investment from other parts of the UK – by mobile firms because the policy template of privileging such investment was set in the 1980s under the Welsh Development Agency whose functions were transferred

to the WG in 2006. A recent report by the Enterprise and Business Committee of the Welsh Assembly raised questions about the effectiveness of WG's in-house efforts and recommended 'independent evaluation to assess whether the current in-house approach to supporting trade and inward investment represents good practice and value for money.'⁶⁹ Certainly this is a problematic approach as there is no guarantee that firms that have received financial support from the WG to locate in Wales will stay, as recent examples have illustrated: in August 2015 the WG was attempting to reclaim £700,000 granted to Guardian Wealth Management in 2013, after it closed its Welsh offices.⁷⁰

It is difficult to appraise the effectiveness of policy because the relevant statistics are meaningless. The first set of arithmetical questions concerns what is included and excluded in the official totals. Max Munday of Cardiff Business School argues they are 'almost completely useless'⁷¹ because they include only projects known to UK Trade & Investment and, we would add, the totals of known projects exaggerate because they include both merger and acquisition expenditure and property investment. More fundamentally, there are questions about adding up new entrants without subtracting exiting corporations. Mobile firms generate globally moveable employment and can downsize like Ford at Bridgend,⁷² or pull out more-or-less altogether as Sony has done, also at Bridgend, where it once employed 4,000.⁷³ On inward investment, the WG is pouring water into a leaky bucket.

The investment which Wales does attract usually requires pump-priming subsidy to attract activity which is then too often of low quality in economic and social terms. The pump-priming is generally costly, as at Bridgend where Ford reportedly asked WG for £15 million before it committed to building a new generation of petrol engines (in lower volume);⁷⁴ or at Swansea where it is claimed that Amazon received more than £15 million in incentives, including link roads.⁷⁵ Low-wage service operations, like Amazon's Jersey Marine warehouse, then require ongoing subsidy because their low pay rates increase the social bill for family credit, child care, housing benefit and pensions.

In manufacturing plants, the wages are somewhat higher, but the inward investment activity retained or attracted is very often branch plant assembly. A 2014 report for the WG on manufacturing supply chains concluded that 'Welsh based, FDI based companies lack 'the means and authority to innovate' and 'the majority' of FDI based manufacturing firms were 'not drivers of innovation and creativity in their sectors'.⁷⁶ The academic authors of the 2014 supply chain report concluded that more attention should be paid to SMEs, but Wales faces problems here due to the missing Mittelstand, as analysed in this chapter.

2.2 The missing Mittelstand and absent brands

The German Mittelstand companies have a unique corporate culture driven by family ownership. Long term survival and intergenerational transfer dominate objectives. Profit is expected as a result of attention paid to customers, and a focus on long term mutual sustainability with key stakeholders, leading to an implicit 'life long' contract with the stakeholders.

(Definition of Mittelstand, Financial Times Lexicon)⁷⁷

Another way of classifying the stock of Welsh firms is by size, and any examination of size distribution highlights the very large number of micro-firms, with an underdeveloped Mittelstand. This important point has not been properly registered because so much existing discussion of SMEs is preoccupied with the generic processes of economic renewal and firm growth. This dominant framing has encouraged a focus on start-ups and on the minority of fast growing firms, especially in sectors which embody high-tech and high productivity. In Wales this preoccupation is reflected in the 'Fast Growth 50' list of the fastest growing firms in Wales, published annually in the *Western Mail*;⁷⁸ much the same approach is

reflected in the GE Capital-funded studies which excitedly discovered that in 2013 UK 'mid-market' firms with turnover of up to £800 million are growing almost as fast as their German peers.⁷⁹

It is therefore worth insisting that fast-growing firms are of limited relevance to Wales for several reasons: most of the Welsh economy produces mundane goods and services for mature markets; few firms in any economy sustain high growth rates for long; and small firm experts in the US and UK long ago concluded that exceptional success cannot be easily predicted or replicated.⁸⁰ It is altogether more interesting to discuss enduring peculiarities in the stock of SME firms in a national or regional economy. High rates of churn are inevitable when up to 15% of SMEs typically fail each year; but stock characteristics often change very slowly because (as argued in the next section) the conditions of enterprise change slowly.

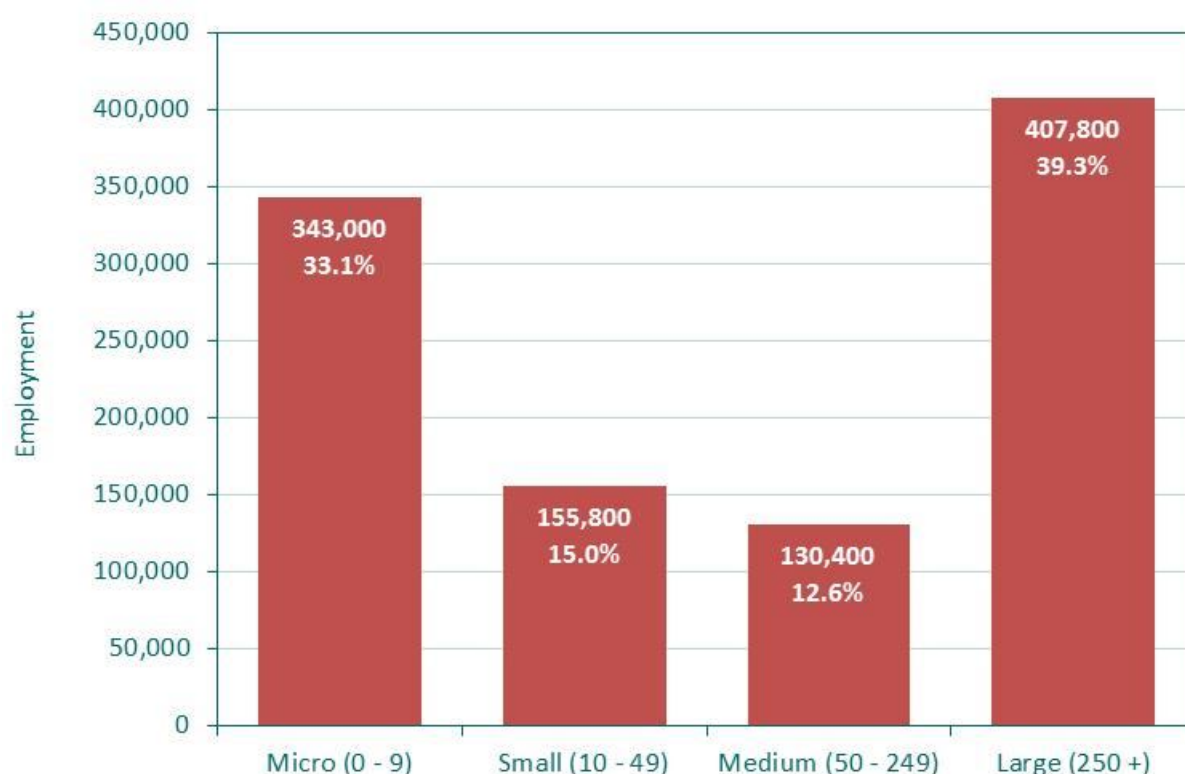
If the focus shifts from growth onto the stock of mid-sized firms, we would emphasise that a *Mittelstand* is defined by two characteristics: firms within a size range and with a culture of long-term company survival. According to the official EU definitions, micro-firms employ less than 10, small firms less than 50 and medium firms less than 250.⁸¹ After long, slow growth, firms in the German *Mittelstand* are typically larger: the median German 'world market leader' is 70 years old and has 600 employees.⁸² Just as important as the numbers employed is the age of firm because, as the opening quotation explains, the German *Mittelstand* firm is defined by a culture of commitment to adaptive survival in a niche on the basis of reputation and brand presence. In this section we will discuss the distribution of Welsh firm sizes and their market presence, before turning to the issue of survival in the next section.

Using the EU definition, Wales has long-standing and specific weaknesses in relation to its stock of firms in in two respects: first, it has a very small number of medium-sized SMEs; and, second and relatedly, a very weak presence in branded, identifiably Welsh consumer goods. Let us consider both specifics in turn.

Exhibit 2.1: Wales's private sector enterprises, employment and turnover in 2013⁸³

	No. of Enterprises	Employment	Turnover	Share of total employment	Share of total turnover	Share of total enterprises
	No.	No.	£m	%	%	%
Micro (0 - 9)	207,500	343,000	16,351	33.1	14.1	94.6
Small (10 - 49)	8,300	155,800	11,879	15.0	10.3	3.8
Medium (50 - 249)	2,015	130,400	13,638	12.6	11.8	0.9
Large (250 +)	1,590	407,800	73,744	39.3	63.8	0.7
TOTAL	219,405	1,037,000	115,611	100.0	100.0	100.0

If we consider firm size in Wales, the most obvious structural economic peculiarity is the 'missing *Mittelstand*'. Exhibits 2.1 and 2.2 show that, in 2013, Wales had more than 200,000 firms but only 8,000 small firms employing 10-50 and only 2,000 medium firms employing 50–250. As exhibit 2.3 shows, this distribution is long-established, and the increase in Welsh firm numbers by 50,000 over the past decade is almost entirely accounted for by micro-firms.⁸⁴ As exhibit 2.2 illustrates, the distribution of employment by firm size is strongly bi-modal so that a histogram shows not a bell curve but twin peaks, with nearly three-quarters of Welsh private sector employment in very small or large firms.

Exhibit 2.2: *Wales private sector employment by enterprise size in 2013***Exhibit 2.3:** *Wales's private sector enterprises, employment and turnover in 2003⁸⁵*

	No. of Enterprises	Employment	Turnover	Share of total employment	Share of total turnover	Share of total enterprises
	No.	No.	£m	%	%	%
Micro (0 - 9)	158,985	285,400	12,694	31.1	18.1	93.8
Small (10 - 49)	7,200	136,700	7,999	14.9	11.4	4.2
Medium (50 - 249)	1,735	114,800	9,195	12.5	13.1	1.0
Large (250 +)	1,615	381,600	40,192	41.5	57.4	1.0
TOTAL	169,535	918,500	70,080	100.0	100.0	100.0

One-third of Welsh employment is in micro-firms employing less than 10. This is typically two people in a van or a small workshop as the average Welsh micro-firm employs just 1.7 and its turnover is less than £80,000 per year. At the other pole, 40% of Welsh employment is in enterprises employing more than 250; here we have branch factories, large call centres and suchlike. With three-quarters of employment concentrated in micro-firms or large enterprises, small and mid-sized firms altogether account for just over 25% of Welsh employment. This Welsh peculiarity is part of a larger UK problem because England or Scotland also have a missing Mittelstand, although average turnover is substantially higher in UK medium firms.

The low turnover in medium-sized Welsh firms relates to a peculiar market weakness arising from the absence of identifiably branded Welsh consumer goods or reputation in producer goods. Of course, matters are confused by the way in which prestige UK brands are wrapped in the union jack as in the case of Land Rover or Brompton bicycles. But Wales has nothing that, in terms of international recognition, corresponds to Scotch whisky or Irish Guinness. This point was made by Rhys David in a 2007 IWA memo to the Welsh Affairs Select Committee lamenting the 'absence of indigenous Welsh companies projecting their own brand'. He then posed a rhetorical question: 'ask people in England, leave alone the rest of Europe, to name a product that instantly says Welsh and excellent and you are likely to get blank stares'.⁸⁶ Across Northern Europe, it may be that Ifor Williams horse boxes and trailers are the only branded products that clearly meet this test of visible Welsh excellence.

The general absence of Welsh brands with major market presence is quite striking. Welsh lamb means something, but, as Rhys David argued, the Welsh 'have failed to establish even a major dairy products industry'. A subsequent survey of Welsh consumers established that point. Only 47% of consumers were able to name a Welsh brand of milk and half that group named a supermarket own brand of Welsh milk.⁸⁷ If we consider more recently-established branded products, like bottled water, the results are equally discouraging: when the 'spontaneous awareness' of branded drinks by Welsh consumers was tested, only two Welsh brands of bottled water (Brecon Carreg and Ty Nant) made the list with more than 5% brand aware. European and emerging market consumers will obviously have much more difficulty in identifying branded Welsh products. This then helps to create a vicious circle effect for new Welsh brands so that a recent survey found that only one in five emerging market consumers said a Welsh flag would attract them to a product, whereas 64% said the union jack would attract them.⁸⁸

2.3 Churning ownership

The acquisition by Vitruvian Partners represents an opportunity for Tinopolis shareholders to realise their entire investment in Tinopolis, in cash at a premium to the current Tinopolis share price within a relatively short period of time.

(Rhys Davies, non-executive director, in 2008 recommending the sale of AIM market listed Tinopolis to a PE firm.)⁸⁹

The statistics on firm size allow us to reframe Welsh economic problems in a more focused and structural way. This section takes the argument one step further by arguing that the missing Mittelstand reflects the conditions of enterprise which encourage a financialised churning of ownership that has undermined many of our most promising SMEs, and reduced larger operations like Avana to the status of vulnerable branches. If the Welsh have added an extra 50,000 micro-firms in the past decade,⁹⁰ they clearly do not lack get-up-and-go; but if the Welsh operate branch plants and cannot build a Mittelstand and brands, they will always lack the solid market presence and export success that sustains investment and technique. Behind the statistics of firm size are the conditions of enterprise, which, in Wales and the rest of the UK, create an environment that does not sustain a Mittelstand.

We have already noted that enterprise conditions are productively unfavourable to the Mittelstand because broken UK supply chains are a consequence of unplanned deindustrialisation under successive governments. These effects are, in the Welsh case, compounded by the specific and permanent impediment of topography and the mountains in the middle which make Wales an economy of short corridors. A second set of conditions arises from the way in which the financial system facilitates change of ownership. Founding owners of Welsh SMEs can realise a capital gain by selling out to a larger combine which then runs the Mittelstand firm as an adjunct branch. Size is no protection because larger firms

which make it to the stock market can be bought out by any corporate or PE firm which is prepared to offer a premium of 25-30% on the share price. The problem is not the initial sale, but the way in which larger combines then play 'pass-the-parcel' with relatively small non-core operations. This problem can be tracked by following up news stories about founders selling out to realise their reward for building a business.

The question then is whether, in the longer term, the next owner(s) represent a safe pair of hands for the brand and the workforce. Here we will present case evidence from the food processing sector, which is important because, as the latest WG food strategy tacitly acknowledges,⁹¹ the failure of Welsh firm positioning and brands is highly damaging. A brand is a necessary defence for suppliers against supermarket buyers who use their power to take margins, especially from the suppliers who make own brand supermarket lines.⁹² Rachel's Dairy in organic yoghurt and Halo Foods in healthy snack bars both started up in mid-Wales in the late 1970s or early 1980s and were built by owner-managers into credible branded Mittelstand operations, before they were sold to larger combines and then passed on. This passing on process led to increasing confusion about brand identity and/or production location, amidst struggles with supermarket buyers over volume and margins. Here are two prescient case studies.

- In 1999, the founding Rowlands family sold Rachel's Dairy for a reported £1.5 million to Horizon, a United States organic dairy company which initially expanded Aberystwyth operations.⁹³ But in 2004, Horizon was bought by Texas based Dean Food, the USA's largest processor of liquid milk whose *Trumoo* line is the leading flavoured milk brand in the USA.⁹⁴ In 2009, facing a UK market in recession, Dean devised a new company logo *Rachel's* so that organic was less prominent on the pack⁹⁵ and then decided to focus on its core business by selling Rachel's.⁹⁶ The purchaser in 2010 was the French Lactalis combine whose major brands include President and Galbani.⁹⁷ In 2012, Lactalis moved Rachel's into a joint venture with Nestle with a brief to integrate Rachel's with other operations (which raised fears of redundancy).⁹⁸ This corporate game of 'pass-the-parcel' had produced four changes of ownership and control in less than 15 years, and incidentally led to redundancy as supermarkets cancelled orders.⁹⁹
- Halo Foods was bought back by its founder Peter Saunders after Nestle took over Rowntree in 1988. He then built the business to the point where it employed 500 workers, mainly in mid-Wales.¹⁰⁰ In 2004, the company was sold to Glisten, an AIM-listed, acquisitive small health food combine from Blackburn which grew rapidly by reporting 'record results'.¹⁰¹ Glisten then hit a profits crisis in 2009-10.¹⁰² This was resolved by delisting the firm and selling out to the much larger Finnish conglomerate Raisio,¹⁰³ best known for its Benecol cholesterol-lowering products; in 2013, Raisio later sold some non-dairy operations to Norwegian wholesaler Kavli Group.¹⁰⁴ Raisio/Glisten then concentrated Halo production in Newport after obtaining a £356k grant from the WG which was concerned lest production be moved to Eastern Europe.¹⁰⁵ The founder, Peter Saunders, complained that the Tywyn factory had closed which 'left many people without jobs, creating a devastating impact on a small community'.¹⁰⁶

In many of these stories, it is difficult to avoid foreign (i.e. non-Welsh and non-British) ownership. This is especially so in food. For example, the two Welsh bottled water brands with significant brand awareness are both foreign owned: Ty Nant is owned by an Italian drinks distributor and Brecon Carreg is owned by the Belgian Spadel group, a Benelux-based competitor of the likes of Nestle. For this reason it is important to insist that the problem is not change of ownership *per se*, nor the nationality of the owner, but multiple pass-the-parcel changes which undermine strategic direction and market positioning because the new owners always have systems and requirements that differ from those of the previous owners.

Of course, the fortunes of individual companies are shaped by many factors, but, from an ecology perspective, the business environment is important. One worrying development is that the business environment created by shareholder value and PE encourages financialised behaviours which break the connection between grounded firm and locality. Such behaviours can include the seemingly endless restructuring of brands and divisions by large food companies; or using the firm as a counter in a game of serial ownership changes through which more money can be taken off the table, rather than simply building then selling a business.

The story of Tinopolis, which illustrates this second kind of restructuring, is about how a Llanelli-based media business was, through ownership changes, parlayed into a mid-Atlantic major which incidentally diluted a Welsh brand and demoted Welsh operations to adjunct status.

- A Llanelli-based TV production company was built from early contracts to make programmes for the Welsh language channel S4C; and in the early days its founder Ron Jones¹⁰⁷ emphasised local connections, as when in 2005 he hoped that ‘we can continue to contribute to the economic success of Carmarthenshire’.¹⁰⁸
- Early in the same year Tinopolis joined the AIM market by reverse takeover¹⁰⁹ ‘with the aim of buying a string of independent producers’;¹¹⁰ and, before the end of 2005, Tinopolis had acquired TV Corp which added the independent producers of BBC Question Time and a portfolio of sports programmes.¹¹¹ In this phase, Ron Jones was clear that ‘there is a tendency in Wales to sell out early, but we don’t envisage doing that’.¹¹²
- Then, in 2008, Tinopolis management bought the company back with support from PE firm Vitruvian partners in a £45 million deal which allowed shareholders to sell out at a premium price so that management received £10.5 million, before reinvesting £4.3 million in the new company. By 2012, the PE-owned company had made further acquisitions in the US and UK of A. Smith and Co,¹¹³ BASE productions,¹¹⁴ and Firecracker Films;¹¹⁵ and the founder Ron Jones spoke about ‘building a global company still rooted in Wales’.¹¹⁶
- By autumn 2014, Tinopolis management were marketing the company to media companies and PE firms, seeking interest in the sale or part sale of Tinopolis with a guide price of £300 million.¹¹⁷ The identity of the purchaser and commitment to local brand and operations are usually irrelevant when PE seeks an exit that will realise gains.

As the example of Avana Bakeries shows, size is no protection from ownership churning because here we have a company undermined by six changes of ownership in 25 years, after the first change had demoted the company into a branch which was afterwards only a pawn in a larger corporate game of restructuring and cashing out. ‘Doc’ John Randall, an energetic entrepreneur, built up the Avana quoted independent company in the 1970s and 1980s.¹¹⁸ Its subsequent history is a kind of slow-motion tragedy of missed opportunity.

- The Rank Hovis McDougall (RHM) food combine made a successful hostile bid for Avana in 1987 but did not proceed with Randall’s plan to build a £28 million ‘Welsh Dragon Park’ to expand Avana’s capacity and product line.¹¹⁹ Randall himself left for Evesham to spend the next 25 years building Kanes Foods as a privately held salad and vegetable packer which now has more than £100 million turnover and capacity for 1.8 million salad bags each week.¹²⁰
- In 1992 the RHM food combine was bought by FH Tomkins, a conglomerate with diverse holdings including the Smith and Wesson handgun business.¹²¹ Then, in 2000, RHM was bought out of

conglomerate ownership by the Doughty Hanson PE firm which made money by holding the assets and later passing them on because it was able to cash out on a rising stock market when it re-floated RHM in 2005.¹²²

- The independent RHM company survived just two years until 2007, when it was acquired by Premier Foods whose strategy was to focus on branded foods. Premier wanted to buy RHM for brands like Hovis but, from the beginning, planned to pass on the parts of RHM (Brookes chilled foods and Avana Bakeries) which were own-brand suppliers.¹²³ Premier did not however succeed in selling Avana for another four years.
- In 2011 Brookes Avana was bought by the privately held firm 2 Sisters.¹²⁴ The purchaser mainly wanted the Brookes frozen and chilled business and had problems with the Office of Fair Trading (OFT) about adding Avana's Christmas pudding business because 2 Sisters already owned a major competitor in puddings.¹²⁵ 2 Sisters solved its problem by selling the puddings business, leaving Avana with 85% of sales dependent on the one Christmas cake contract with M&S,¹²⁶ which then caused a terminal crisis by switching the contract to another supplier.

It is only by looking at examples such as those set out above that we can properly understand the vulnerability of today's company successes which could so easily become tomorrow's failure. Go Compare is already an adjunct which can be passed on, and the much larger success of Admiral insurance is vulnerable to the kind of hostile bid which eventually led to Avana's demise. There are important differences between the two firms because Avana and Admiral operate in very different sectors of food processing and insurance. But in both cases, there is the same story of a company driven by an able entrepreneur with a focus on product market opportunities from which they can build a substantial grounded business that creates value and local employment. John Randall took the Avana shares from 4p to the £8 which RHM paid and, sometime afterwards, observed that RHM overpaid 'because it failed to do anything with the company'.¹²⁷ Henry Engelhardt has succeeded even more spectacularly within 20 years by taking Admiral from Cardiff start-up in 1993 to Cardiff-based public company with £2 billion turnover and 7,000 employees worldwide.¹²⁸

2.4 The new Development Bank for Wales

*The Development Bank for Wales... will enhance the capability of the Welsh Government to support SMEs in Wales... by working more closely with the private sector to address the supply and demand dynamics of the Welsh finance market as well as developing its own innovative approach to provide solutions that directly address the needs of the SME sector.*¹²⁹

(Feasibility Study into ...a Development Bank for Wales, 2015)

On SME finance, politicians and the policy community in Wales are currently preoccupied with the Task and Finish group's March 2015 proposals for a publicly-owned Development Bank for Wales (DBW).¹³⁰ The WG in 2001 set up a regional investment company, Finance Wales, to provide loans and equity for Welsh SMEs, which was subsequently described as 'not fit for purpose' in a report by Dylan Jones-Evans for the Economy Minister in 2013.¹³¹ The 2015 Development Bank proposals respond to some of the shortcomings identified in this report and elsewhere and has been largely welcomed in the policy and business communities. In May 2015, when the National Assembly for Wales called on the WG to establish a Development Bank, the voting was 44 in favour and four against.

The economic framing for the proposed institution is that existing finance provision is restrictive and the funding task of a Development Bank is to support SMEs by making multiple forms of finance more readily

available. This same economic framing about a 'funding gap' has animated much Westminster and Whitehall debate as well as the policies of the Department of Business, Innovation and Skills (BIS). Policy makers have a long-standing preference for the generic indirect policy of adding finance, rather than directly intervening to address the specifics of industrial organisation and supply chain problems in the economy. The Welsh funding gap is talked up by arguments about the volume of bank lending to SMEs which has always been low in the UK and, more recently, has been declining in the aggregate. The review of existing finance provision for SMEs by Dylan Jones-Evans suggested that there was a £500 million shortfall in Welsh loan provision by high street banks as well as poor provision of other forms of finance such as equity.¹³²

There is no doubt that SMEs are poorly treated by the high street banks, whose loans are often subject to onerous conditions about security and sometimes arbitrary demands for repayment. But, on current UK-wide evidence, the banks are already supplying loans and overdrafts to a large proportion of those SMEs which apply for them. A 2013 survey by the University of Surrey concluded that 74% of SMEs who seek finance in any one year obtain it.¹³³ A closer examination of the surveys shows low demand from debt-averse SMEs; the Surrey University survey showed that only 20-25% of SMEs seek finance in any one year and the authoritative BDRC survey classifies 43% of SMEs as 'permanent non borrowers' and reports 71% of SMEs interviewed in 2014 'agreed that their aim was to pay down any existing debt and then remain debt free'.¹³⁴ It is possible that the recent financial crisis has impacted on behaviour and attitudes in this respect.

If we then turn to important sectors of the Welsh economy, like food processing, we find that insecurity and power relations limit the SME appetite for any form of external finance (as well as capacity to invest from retained earnings). CRESC's research on the pig meat supply chain found that investment in process improvement was pointless for processors, who explained that all the gains would be captured by the supermarkets.¹³⁵ The implication is straightforward: freeing up the supply of finance will only produce benefits if it goes hand-in-hand with demand-side measures to increase supply chain security for SMEs and micro-businesses.

Against this background, the next issue is whether new forms of finance proposed as solutions in the March 2015 Development Bank report will address the ownership churn problem. Some of what is proposed is very sensible though underdeveloped: micro-firms are to be explicitly included in the remit of the new DBW, though it is not clear how they can be reached with any kind of mainstream financial product. But the new DBW will have few resources of its own beyond a £50 million loan fund which will be applied to firms and projects which private finance will not fund. Most DBW activity will be undertaken under a hybrid model in partnership with banks and PE funds. Professor Jones-Evans envisages that 'PE funds targeted at specific industry sectors could be outsourced to experienced PE firms'.¹³⁶

Finance Wales is already behaving like a fund investor in the equity funding it provides for Welsh SMEs. On its website Finance Wales explains that it targets four to five exits a year and, in 2014-15, it made its largest and most profitable exits to date when Wholebake returned a 5.5 times multiple and Vista a 4.5 times return.¹³⁷ Now the generalists of public sector Finance Wales are to be replaced by private sector specialists from PE who will put up the money and call the shots on investment and exit. After borrowing a phrase from the venture capitalist Roger Maggs, Professor Jones-Evans describes this process as the 'outsourcing of greed'.¹³⁸ The plan is that PE will get access to the cream of Welsh SMEs, in sectors like ICT and creative industries. This does not bode well for tackling ownership churn because PE has to seek an exit strategy, usually aiming to sell within five to seven years, and making a profit as it goes. Many mundane Welsh businesses in fragile positions will be protected only because their mediocre returns do not attract 'the greedy'.

2.5 Connecting SME finance with ownership

....the exit strategy is a way of 'cashing out' an investment... You can think of the exit strategy as the first opportunity to trade an illiquid asset (shares in a private firm) for a very liquid asset (cash).

(Investopedia)¹³⁹

Within the conventional Welsh and British framing, the problem of ownership churning and early exits which create adjunct branches and hinder Mittelstand development becomes invisible. Moreover, there is no recognition that policies to improve the supply of finance may unintentionally establish perverse incentives for early SME sale to outside owners with limited commitment and larger concerns. Against this we would argue that the missing Mittelstand is an important problem in itself which *inter alia* requires innovative policies to slow exit and sustain continuity of ownership that ballasts and stabilises the development of SMEs and Welsh brands. Let us turn to developing these arguments before proposing some new policies which would change the financial incentives around the entrepreneur's exit decision.

The starting point is that existing UK-wide policies to improve the supply of finance and incentivise entrepreneurs can add perverse incentives for early sale rather than the retention of family and owner-managed businesses over the long term. To understand these unintended consequences, it is necessary to understand existing UK-wide SME support schemes, which fall into three broad categories: first, support for lending to SMEs; second, support for equity investment in SMEs; and, third, incentives to entrepreneurs and SME owners through the tax system. The detail below is technical but it illustrates the complexity of existing provision, and is necessary to the development of the argument about how worthy schemes can have unintended effects.

Lending to SMEs carries a higher level of risk than lending to larger and more stable enterprises. For this reason, the cost of finance is higher and availability is constrained. Several government schemes seek to mitigate the risk by providing guarantees to lenders.¹⁴⁰ The National Loan Guarantee Scheme (NLGS) uses government guarantees on unsecured borrowing by banks, enabling them to borrow at a cheaper rate. Participating banks pass on the entire benefit that they receive from the saving of up to 1%. Community Development Finance is a £30m subsidy scheme operated through the Co-operative Bank and Unity Trust Bank to support small, micro and social enterprises in specific disadvantaged areas. The Enterprise Finance Guarantee (EFG) is a loan guarantee scheme aimed at firms with insufficient security or track record, under which the government guarantees 75% of the facility. Business Finance Partnership is a £1.2bn facility used to match an equal amount from the private sector invested through new funding sources aimed at SMEs. The scheme's aim is to encourage the supply of capital through non-bank channels. The Government will provide up to £100m to match lending through seven new players: Market Invoice, URICA, Beechcroft Capital, Funding Circle, Zopa, Boost & Co, and Credit Asset Management.

Other schemes are aimed at firms wishing to raise equity finance; these fall into two categories.¹⁴¹ The first is tax incentives to investors (venture capitalists, business angels, family or friends) to compensate for the additional risk of investment in SMEs. The second is public provision of low cost capital to specialist fund managers for investment in qualifying SMEs.

- Tax-based schemes include the Seed Enterprise Investment Scheme aimed at early stage companies wishing to raise up to £150,000 equity finance. Investors may offset 50% of the cost against income tax. Under the Enterprise Investment Scheme, for companies employing less than 200 people, investors receive income tax relief of 30% of the investment cost and tax free capital

gains if the shares are held for 3 years. The Venture Capital Trusts Scheme mitigates the risk of investment in SMEs by permitting the investor to channel the funds through an Investment Trust which provides the advantage of a diversified portfolio of companies. Investors may offset 30% of the investment cost against income tax, receive tax free dividends and capital gains. Eligible companies must employ less than 250 people and have net assets of less than £15m.

- A second series of schemes provides public sector investment capital to fund managers. The Business Angel Co-Investment Fund is a £100m fund that aims to support business angel investments in high growth potential early stage SMEs. It does this by investing alongside syndicates of business angels (up to a limit of 49%). The Enterprise Capital Fund Programme scheme is aimed at small, high-potential companies where the size of investment is small and relatively costly to administer. This programme provides funds to private sector fund managers and comes in the form of capital into the fund capped at two thirds of the total fund size or £25m. The UK Innovation Investment Fund is aimed at technology companies in 'strategically important sectors' and is invested through private sector fund managers.

There is a separate structure of incentives through Capital Gains Tax and Inheritance Tax Reliefs, which provide significant incentives to owner-manager entrepreneurs and outside investors. Capital Gains Tax-Entrepreneurs Relief offers rebates on capital gains tax which is currently 28%. Owner-managers are offered a concession so that up to £2m of lifetime gains are taxed at 10%. This concession only applies to qualifying shareholders so in the case of family owned Mittelstand companies there may be different treatments between shareholders. Under Inheritance Tax Business Property Relief, business assets are exempt from inheritance tax. On death the value of the asset for capital gains tax is ordinarily rebased at the market value. This means a tax saving of 40% of the value of the enterprise, making business assets a highly attractive asset class from a taxation point of view.

The UK-wide policies above would usually be judged against their stated objectives, which are to help SMEs start and grow. They do this either by making finance available (which otherwise would not be) or enhancing returns to investors by subsidising the cost of investment, thus enhancing the rate of return on the realisation of the investment. But, from our point of view, their effect is to construct a structure of incentives for owner-managers to sell early and not hold the firm.

The policies do not all work to establish one consistent set of incentives. Thus, Inheritance Tax Business Property Relief is a very significant incentive to retain qualifying assets; while the capital gains tax concession focuses entrepreneurs on life-time gains. But all the other policy measures provide incentives for early sale. Cash flow pressures from short-term borrowing place constraints on entrepreneur managers; other tax concessions focus investors on early realisation of their investment. While venture fund managers' incentives encourage early realisation of investments: the funds they run are limited life closed end funds with personal remuneration, through carried interest, tied to cash to cash performance. These incentives for owners and outside investors are reinforced because many of these schemes have criteria limiting the size and nature of qualifying businesses. Holding on to grow the company beyond, say, 250 employees is unattractive because larger companies are disqualified under many of the schemes, or the size of investment offered is not sufficiently large to be of interest.

If the structure of incentives is generally perverse and encourages early sales, we can devise policies that provide different incentives, but only after considering the motivations of Mittelstand owners and managers. The aim of policy should be not to impede sales of the business but construct incentives for holding, around the structure of legitimate owner-manager motivations, which include the following:

- *Diversification of family assets:* successful entrepreneurs have a disproportionate share of their personal wealth tied up in their business and a sale is motivated by the desire to diversify personal wealth. Schemes to permit a partial ownership disposal while retaining full management control would be helpful.
- *Freedom to take income:* generally owner-managers, when building firms, sacrifice current income for future capital gain, either by reinvesting profit and/or by paying down loans or outside equity. Constraints on owner-managers taking income, limit their capacity to build private savings outside the business and often act as an incentive for a sale earlier than the management would have chosen.
- *Income for family shareholders:* for family-owned businesses, dividend income is often a strong motivation for shareholders to retain ownership. Meeting this requirement should be a feature of scheme design.
- *Estate planning:* business asset relief is an incentive to those wishing to protect the family wealth from generation to generation.
- *Funding for growth:* owners will wish to ensure that any steps to achieve their other objectives will not constrain funding options for future growth.

Any new policy intervention should seek to meet the objectives of continuing managers as described above while providing liquidity to investors in Mittelstand-style SMEs. It should also provide long-term lending facilities to SMEs which mitigate the cash flow constraints of current options. There are a variety of ways in which these objectives could be met. Here are two practical financial engineering suggestions, about using ownership and new financial products, which we put forward as a way of starting debate about reframed SME policies.

The activities of organised money like PE are built on arbitraging the privileges of limited liability and tax relief on debt through the construction of corporate hierarchies which maximise private net gains for one class of investor. Similarly new instruments were used in investment banking before the crisis as a basis for booking profit and maximising private gains for the workforce under the comp ratio system. Our idea is that this kind of imagination and innovation can be applied for constructive social purposes to change owner incentives and help build a Welsh Mittelstand.

First, on ownership, the simplest option is to use legislation regulating Employee Ownership Trusts, which is already on the statute book. An Employee Ownership Trust may be established to hold a minimum of 51% of the equity of a private company. As an incentive to sell to such a trust, the transfer of shares for cash is free of capital gains tax. The merit of the structure is that the corporate structure and management of the company owned by the trust remains in place. The trustees of the trust can be the existing management of the business. Although majority shareholding is owned on behalf of the employees, the employees do not run the business. This structure therefore provides liquidity to those wishing to sell, while leaving management and non-management shareholders with a continuing personal stake should they so choose. Finance Wales or the new Development Bank could be asked to consider assisting with the funding of the trust and if appropriate take a position as trustee to look after the broader public interest. If in due course it became appropriate to sell the business, then the trustees are able to do so in the normal way. The brief to the new Development Bank would be to promote Employee Ownership Trusts to private companies in Wales and to assist in this ownership structure as an alternative to outright sale.

Second, another possibility is a new product which would allow long-term lending with returns tied to a share of exit proceeds. This product would address the investment needs of qualifying SMEs. The concept of loan repayment and rolled up interest is already well developed in the bond market with the use of Payment in Kind (PIK) Notes, frequently used in PE transactions. A long-term loan product which pays a below market cash interest rate supplemented by final payment out of the proceeds of sale of the business may be highly attractive in that it deals with the cash flow constraints on owner-managed businesses. Subject to meeting covenants the managers would be free to draw income to achieve diversification of their personal wealth. Finance Wales or the new Development Bank could hold these assets on its balance sheet subject to appropriate support from the WG.

We have presented evidence and developed an argument about firm size, conditions of enterprise in Wales and the need for new policies to change owner incentives and thereby help build a Mittelstand and Welsh brands. This all represents work in progress intended as a positive contribution to debate in the Welsh policy community. The medium-term aim is, of course, to influence WG thinking on what policy and institutions like the new Development Bank might do. Our approach to economic policy is to engage Welsh specifics and then propose non-standard policies. Such policies would of course be experiments, undertaken without any assurance of success. But, the accumulating problems of Wales require a fresh perspective and a move away from orthodox thinking and generic policies. It is time for some experiment in Wales.

Chapter 3

From Postcode Localism to Connected Procurement

The Wales Procurement Policy Statement, launched in December 2012, aims to ensure that every pound spent delivers efficiencies as well as economic, social and environmental benefits – such as local jobs, training opportunities and supply chain opportunities for local firms...

We can be proud of progressive policies such as Community Benefits, where the approach has now been applied to 80 projects worth over £4.2 billion with measurement indicating that 84% has been re-invested in Wales.... Hopefully other parts of the UK will now catch up with us on this issue.

(WG press release quoting Jane Hutt, Finance Minister, 20 March 2014)¹⁴²

This Ministerial statement represents the new localism which is manifest across Wales in the 2010s since the WG committed to using government procurement for local benefit. According to the Finance Minister, public procurement is a win-win opportunity to cut costs through efficiency savings and gain benefits in the form of local jobs and opportunities for small and medium sized enterprises (SMEs). The Minister's claim is that this opportunity has already been grasped and the WG now has measurable achievements in these areas which put it ahead of other areas of the UK. Others would emphasise that Wales' achievement is mixed because successive official reports demonstrate that it has been difficult to roll out the practice of early experiments and scale-up the gains right across Wales. Against this background, opposition politicians, organised labour and big and small business all agree about the objective of government procurement for local benefit and, as we shall see, want existing WG policies pressed harder to deliver more of this good thing.

This chapter explores the way in which this political consensus hides a more interesting and less agreeable story about the complexities involved in procurement. In short, delivering and measuring the benefits is not a simple process. Our criticism of existing policy and proposals for an alternative reframing of policy will be intellectually challenging and may be politically controversial for those who have bought into existing policy. It is therefore worth spelling out our position on local procurement. Our starting point is positive: procurement for local benefit is a sensible aim and one which the WG should promote and pursue because substantial local benefits can be obtained by redirecting consumption and production flows. But the issue then is, how is this to be done? Our argument is that, to date, WG and Welsh policy-makers more broadly have taken an approach to capturing local benefits through policies of localism which ultimately promise more than they deliver. Such benefits can then become overstated through questionable counts of jobs created and postcode measures of purchases from 'Welsh business'.

Behind the measures, the two fundamental problems in the current Welsh approach are an overly narrow definition of procurement, and a framing of policy objectives in terms of flow and leakage (not chain and capability).

- The WG's current official definition of procurement is very narrow and focuses on part of the current expenditure by WG and other public bodies, while excluding consideration of private procurement as well as capital flows. Current WG policy focuses on everyday purchasing and spot contracting and practically excludes the strategic outsourcing of services like waste management, which is now an uncontrolled benefit for large English firms and multi-nationals. The procurement practice of large foundational firms like utilities and supermarkets is equally outside the domain of

policy; even though, as we shall argue in chapter 4, reform of supermarket purchasing is crucial for Welsh farming and food processing. The neglect of public capital expenditure could be explained on the grounds that the WG has such limited borrowing powers. But that does not excuse the way in which policy-makers are currently overlooking the strategic private capital flows to London through pension contributions and insurance premia which produce modest returns for Welsh savers after deductions of fees and expenses. If the WG and all devolved governments have limited borrowing powers under the current Treasury regime, why are pension fund and insurance contributions leaving Wales without any questions being asked?

- The more fundamental problem is that WG policy is caught up in a mainstream framing of procurement as an economic problem of boosting circular flow by stopping demand leakage (rather than as an ecological problem of building supply chain linkage and firm capability). But this orthodox framing transposes Keynesian circular flow analysis from the larger scale national to the smaller-scale regional or local economy, which would ordinarily be more open, so that stopping leakage would mean shifting many contracts across local boundaries. There are (or should be) sensible limits on local preference and autarchy if that means robbing Peter to pay Paul on the other side of Offa's Dyke. Against this we argue for a reframing of policy in different terms: around ideas of supply chain and firm capability. The aim of policy should be to identify a few strategic supply chains where public (or private) procurement could be used to build more robust and capable supplier firms in the lower tiers.

The chapter is organised in a relatively straightforward way into five sections. The two opening sections are about the orthodox framing of public procurement as an economic and political opportunity. They explain how large and measurable benefits of localism appeared in an economic framing about flow and leakage and then demonstrate that, since about 2008, the Welsh policy community have embraced public sector procurement as an opportunity so that they now are competitively bidding up the targets for local procurement. The third section argues that this is counterproductive because WG procurement policy is ambiguous: it does not meet the general conditions of effective public policy because WG policy lacks focus and adequate resourcing. Our solution for Wales is not to do more of the same but to shift policy from the current approach, epitomised by jobs targets and invoice counts, to a more strategic approach of *connected procurement* focused on a few sectors, and to do so in ways which engage with Welsh specifics and the need to build a Mittelstand.

3.1 Stopping leakage and the limits of localism

Every £1 spent with a local supplier is worth £1.76 to the local economy, and only 36 pence if it is spent out of the area. That makes £1 spent locally worth almost 400 per cent more. A ten per cent increase in the proportion of the council's annual procurement spent locally would mean £34 million extra circulating in the local economy each year.

(New Economics Foundation (2005) 'Buying local worth 400 per cent more')¹⁴³

Metrics and metaphors matter and they are especially powerful when they come together intelligibly as they do in this argument for more local spend taken from a New Economics Foundation (NEF) study of 2004-5 for Northumberland County Council. It presents a local multiplier – the LM3 – calculation of tiered benefits. The underpinning is Keynesian macroeconomics about circular flow, so that £1.76 represents the multiplied effects of any £1 injection of purchasing power into a local firm as it circulates in successive rounds with diminishing effects dependent on the rate of leakage in the second and third round. The argument is powerful because the basic ideas of circular flow and multiplied effects are accessible, as

taught in introductory economics classes. Nationally, structural reform and supply-side economics long ago displaced Keynesian demand management in the Treasury, but Keynesianism lived on through these measures.

Metrics and metaphors also travel as they are borrowed and reused. The LM3 was developed and promoted by NEF in the early 2000s as an analytical tool to enable regional development agencies and local authorities to track and to measure their local economic impact.¹⁴⁴ It was technically possible to make a local LM3 calculation because the relevant official statistics were available at sub-national level and the standard Keynesian macro frame was simply transposed from the national to local scale. So, in the mid-2000s, NEF was able to carry out a series of studies for local authorities in the North East of England, and later under their Local Alchemy programme funded by the East Midlands Regional Development Agency.¹⁴⁵ The empirical results were striking because (as in the opening quote from NEF's study for Northumberland County Council in 2004-5) the findings showed that more local procurement could generate large benefits.

The message was all the more powerful because local and regional public expenditure totals were large and because the calculation contained an implicit assumption and message about what policy-makers should then do for the public good. In the Welsh case, all the calculations of public sector spending produce impressively big numbers. Total public spending in Wales in 2013-14 was £30.6 billion, although much of this is tied up in transfer payments like pensions and objects like defence.¹⁴⁶ The controllable public spend which can be directed or redirected for regional and local benefits is much smaller, but the Welsh public sector currently spends £5.5 billion per year on external goods and services.¹⁴⁷ The Keynesian measures used by NEF come with an implicit assumption that stopping leakage is a good thing because arithmetically, if leakage is reduced and local spend is increased, this will deliver larger multiplied effects.

This Keynesian back story explains how in Wales, a country of economic problems, public procurement has been increasingly framed in the 2010s as a major opportunity and a lever that should be pulled. However, as we shall see, the measurement of objectives and results was simplified by postcode calculations which considered only first round effects. In the mid-2000s, the WG began to engage with the issue and by the 2010s the Welsh political establishment were all lined up to support public procurement for regional economic benefit. Who could be against local benefits, or for leakage?

The problem is that the transposition from national to sub-national creates new problems because there are limits on the extent to which it is possible or desirable to press local preferences in a small, open region or locality. The Keynesian multiplier was originally designed for macro-analysis of the effects of central expenditure injections and tax withdrawals within a large, relatively closed national economy. Subsequently, it was opportunistically used to calculate broader social returns when justifying investment projects, like marinas or other infrastructure, mostly when direct private returns were below some hurdle rate. But the principle of local preference has its problems in smaller (and typically more open) economies as in Wales where leakage is the norm and autarchy has micro-costs. This is a matter of specifics and generalities. On specifics, do we really want a monopoly Welsh NHS bed pan supplier? Can we agree that the Welsh NHS should continue to buy the macerators for single use bed pans from Haigh Engineering in Ross on Wye (which is a world leader in this technology)? More generally, if Wales is an economy of sub-regional corridors, within the larger scheme of things, it is surely pointless for WG policy to award jobs and contracts for Welsh firms if that means diverting orders from more competitive SMEs in, for example, adjacent Cheshire, Hereford and Gloucester?

3.2 Political enthusiasm: more of a good thing

Recent figures show that contracts won by business in Wales have increased by 18% in the last eight years from 34% in 2003-4 to 52% now. Working on the basis that a 1% move equates to 2000 jobs, think of what this number could look like if we shifted by 10%. That's 20,000 jobs at a time when we have acute unemployment in parts of Wales.

(CBI Wales Director, Emma Watkins, 2012)¹⁴⁸

Plaid Cymru wants to see more contracts go to local Welsh firms in order to generate jobs and make sure that wealth generated in Wales stays in Wales. If we could add 25% to our current procurement level of 52% we would be able to create nearly 50,000 jobs.

(Plaid Cymru economic spokesman, Rhun ap Iorweth, 2014)¹⁴⁹

Welsh voters have not been offered a choice because their political parties and civil society organisations have bought into stopping leakage and cite the figures for local spend produced by Value Wales (VW). The WG has raised local spend in the decade since the mid-2000s but those outside government believe the WG can and should do more. The Confederation of British Industry (CBI) Wales Director and Plaid's economic spokesman both state their ambitions for the future in target terms, arguing that more local procurement will automatically translate into more Welsh jobs, as the quotes above show. All this sounds positive and offends nobody because it constructs a world where the political and policy community are divided mainly by how much more of this good thing we can have, and how quickly.

Here are some recent quotes from the 2012-14 period showing how public procurement for local economic benefit is one way or another now supported by all political parties and public interests in Welsh life:

- Procurement for Welsh benefit figures as an objective and 'strategic tool' for Labour ministers in the current WG who, by 2012, were making promises of strategic intent: 'The Welsh public sector spends approximately £4.3bn (which could) provide a vital springboard to support economic growth... wherever possible, we will utilise public procurement creatively as a strategic tool to deliver economic benefit to the people and communities of Wales.'¹⁵⁰
- In a 2013 Welsh Assembly debate, representatives of Plaid Cymru, the Conservatives and the Liberal Democrats all praised procurement for local benefit and asked for more of this good thing.¹⁵¹ Plaid's economic spokesman in late 2014 reiterated the aim of raising Welsh procurement to the level of 75%,¹⁵² which was set out by his leader in 2012: 'By achieving Scottish levels of self-procurement, ...we could create another 48,000 jobs, potentially reducing Welsh unemployment by 40%, increasing GVA growth by an additional 0.5% a year and beginning the task of closing Offa's Gap. Isn't that a goal we can all unite behind.'¹⁵³
- Organised business and labour is enlisted in the project because both stand to benefit from localising procurement. In 2012, the CBI Wales director in a *Western Mail* column on procurement argued that a 10% increase in Welsh procurement would generate 20,000 jobs.¹⁵⁴ The FSB at UK level has commissioned two reports on SME friendly public procurement which 'must be used to support local growth and local jobs by using local businesses to keep more of local council's money in local economies. In this way we can all benefit from the economic multiplier effects of this investment.'¹⁵⁵ Martin Mansfield, General Secretary of the Wales TUC, served as chair of a Task

and Finish Group, which produced updated guidance for Welsh Community Benefits policy on construction contracts.¹⁵⁶

More generally, localising Welsh procurement has over the past decade been turned into the endless, busy political activity of launching initiatives, commissioning inquiries, designing and redesigning institutions, devising systems and measuring outcomes. All this is explained partly by the way in which the issue of procurement started from a very low level of political consciousness in Wales in the mid-2000s. When NEF was doing its early LM3 studies, many of those responsible for Welsh public procurement believed that EU regulations blocked public contract preference for local firms and labour; while public procurement procedures and contracts were – and a recent FSB study suggests often still are – routinely unfriendly to small business.¹⁵⁷

The first experiments on procurement for community benefits were unofficial and undertaken by the Chartered Institute for Housing (CIH) working on social housing in the South Wales Valleys.¹⁵⁸ Good practice was then codified for broader adoption in social housing through the WG funded i2i Toolkits.¹⁵⁹ The WG had quite separately in 2004 set up VW to lead procurement strategy, with the initial focus on cost saving and value for money; but from 2006 onwards community benefits objectives were added in a supplementary way.¹⁶⁰ VW produced their own *Community Benefits Handbook*, with detailed guidance on how to integrate community benefits as either a core part of a procurement process or as an additional contract requirement. This takes a more cautious line than the i2i Toolkits: ‘the key points to remember, when looking to include community benefits are that their incorporation must be relevant to the subject of the contract, they must be proportionate, deliver value for money and not unfairly discriminate against any potential suppliers.’¹⁶¹

In 2008, the WG published a statement of intent in the ‘Opening Doors Charter for SME Friendly Procurement.’¹⁶² However, major obstacles remained and, when VW in 2009 commissioned university research on the barriers facing SMEs, the researchers found that many SMEs were deterred from bidding for contracts because each public purchaser had its own complex, unfriendly pre-qualification requirements: ‘PQQs that we fill in tend to be extremely time consuming and this is a big problem for a small business like ourselves. They can take 5 days to complete which will cost us around £1,000. These PQQs are geared for larger companies that have 3 or 4 people who just fill out PQQs and tender documentation all day!’¹⁶³ The researchers recommended standardisation of PQQ requirements and wider advertising of contracts and VW responded by developing the SQuID process (Supplier Qualification Information Database), which was eventually introduced as a 21 page form in late 2012, although subsequently revised to take account of recent changes in EU procurement law.¹⁶⁴

A pervasive sense of frustration led to the appointment of John McClelland to head a review to ‘measure the impact of Welsh procurement policy’¹⁶⁵ and his 2012 report was followed up by Martin Mansfield’s Task and Finish Group in 2013. After a career in corporate supply chain management, McClelland, who had previously produced similar reviews for Scottish Government, delivered a ‘could do better’ verdict on Wales. His report cites examples of excellent practice: ‘my view is that there has been some extraordinary pioneering, outstanding work in many areas and good in others.’¹⁶⁶ But, what is missing is the focus and drive to roll out best practice across the whole country and his report explores how best this could be achieved. He flagged up the need for procurement to make connections with enterprise development services, to identify unmet needs – and to encourage new or existing providers in Wales to fill them – and to develop the skills to demonstrate this effectively, so that they could win the contracts.

3.3 Policy confusions

Numerous Welsh initiatives and reports on local procurement convey an impression of purpose and limited achievement. However, the claims about that achievement and the targets for more local procurement cover serious problems about ambiguous measures, confused objectives and limits on the field of the visible. There are several often-cited general preconditions of effective public policy: hard measures, adequate resources for implementation, hierarchy of objectives, boundary definitions and intermediate aims. None of these four conditions of effective policy are met in the case of Welsh policy on procurement for local benefits. The result is not just underachievement but significant areas of confusion and ambiguity.

- 1. *Effective public policy requires hard technical measures as the basis for judging problems, taking decisions and calibrating achievements: the generally cited VW statistics on procurement are not fit for this purpose.***

The first ambiguity is about what exactly is the 'business in Wales' that benefits from local procurement? The McClelland report speaks of 'firms based in Wales' but provides no formal definition of what this means. When an Assembly Committee report raised the issue of better measures, the Welsh Finance Minister's reply in 2012 explained the key figures have been calculated for various years by VW using invoice postcodes:

my officials in VW have carried out a comprehensive analysis of annual procurement expenditure on three occasions since 2003. The analysis has shown that the proportion of expenditure going to suppliers with a Welsh invoice postcode has increased from 35%-52% in 2010-11.¹⁶⁷

When we inquired of VW officials in 2015 we were told¹⁶⁸ headquarters postcode was now the main basis for classification so that 'firms based in Wales' are defined by a registered Welsh address at Companies House. However, this principle is sometimes modified to recognise benefit to the Welsh economy because local procurement officials can re-code their own data so that an English headquartered company (like a fast-fit tyre firm) can be re-classified as Welsh if all the purchasing goes through a local branch.

This is thoroughly confusing and unlikely to produce reliable and consistent data. An invoice postcode measure would not tell us very much except how firms deal with accounts payable. Welsh headquarters postcode data is presumably used because it is more informative, but it is not an infallible indicator of substantial activity based in Wales. The process of adjustment for branch sales appears to be *ad hoc* and does not tell us whether Welsh value added accounts for a substantial proportion of branch sales. This is immediately a serious issue if policy aims to move out from the early experimental successes in using local labour and firms in construction and refurbishment. In general business services, the major players (like Danwood in copier leasing or Otis in lift service) operate UK-wide service organisations which include Cardiff depots and offices with much value added outside Wales. The issue of leakage (which originally motivated NEF) is simply lost in the postcode measures through which procurement is currently framed in Wales.

This ambiguity cannot be resolved by turning to other measures of community benefits and suchlike. Other measures too often produce policy-based evidence which (like the statistics on inward investment in the last chapter) list achievements and benefits delivered in ways which support government policy rather than allow its evaluation. Here, for example, is the Finance Minister in 2014 on the WG's Community Benefits policy for construction contracts:

Results from the first 35 projects worth £465m show that 85% has been reinvested in Wales-£124m directly on salaries to Welsh citizens, and £277m with Wales-based businesses. 80% of which were Welsh SMEs. Some 562 disadvantaged people have been helped into employment, receiving over 15,000 weeks of training. This illustrates how applying the Community Benefits policy is making a significant contribution to the WG's ambitions for jobs, growth and tackling poverty in Wales.¹⁶⁹

Beyond the definition of 'Welsh-based business', there are two problems here. First, the Minister provides blurred measures of gross benefit, rather than net benefit, after considering off-setting costs. We do not know whether disadvantaged people were employed at the expense of ordinary local tradespeople; or whether the training was adequate to compensate for disadvantage and secure further employment. Second, in this case, the benefits are self-certified by contractors who complete the Community Benefits Measurement Tool themselves, reporting their progress in reaching agreed targets either annually or at the end of their contract. These forms are then signed off by the public authority paying for the project, which is responsible for checking their reported figures if the authority decides this is necessary.¹⁷⁰ Practically, all this means that any official totals are likely to contain unchecked overstatements of benefit.

When statistical measures provide no basis for formulating or judging policy, the result is targets without substance because businesses could meet current targets by renting Welsh post office boxes or churning disadvantaged people through temporary employment. Furthermore, politicians do not always think through targets in specific detail. Any adoption of Scotland's 75% procurement target for Wales, for instance, is more difficult than it would appear on initial consideration. First of all, there is a primary difference in population size with 5.3 million in Scotland as compared with 3.1 million in Wales.¹⁷¹ As we noted in Chapter 1, this is compounded by significant differences in income and wealth between Scotland and Wales along with very different topographies. *Prima facie*, if Wales is a smaller, poorer and territorially divided country, the question is whether Scottish targets are relevant and how they should be tailored according to Welsh specifics.

The standard WG measures do tell us something, especially in cross section. On achievement so far, the invoice postcode measures are strongly suggestive about how 'some organisations are at the extreme low end of adoption and implementation of policy, compared to the more advanced.'¹⁷² According to McClelland, in 2010-11 55% of WG spend and 54% of Welsh local authority spend went to companies based in Wales, as compared to only 36% of NHS spend and 35% of higher education spend; and although on average 54% of local authority spend is with Welsh companies, there is a considerable range, from 69% to only 38%.¹⁷³ The large gap between Welsh local authority and NHS procurement indicates limited localisation of supply in the Welsh health service, as well as a very different input requirement; and the large differences between local authorities indicate variability of practice as well as circumstance. It is also concerning that the most recent *Survey of Public Sector Food Purchasing in Wales* found that in some sectors, initial progress has not been sustained – for example, the proportion of Welsh meat has fallen from 60% to 40%.¹⁷⁴ Therefore the much-vaunted boost in Welsh local authority procurement from 35 to 55% (between 2004 and 2010) is an unreliable measure of progress and no sound basis for a policy of targeting further increases.

- 2. *Effective public policy requires a government machine which has a clear hierarchy of objectives with priority and adequate resources for implementation. Welsh procurement policy works with conflicted objectives and inadequate resourcing.***

McClelland and other reviews show conclusively that the necessary priority and resource conditions were not met in 2011 – nor in earlier years – and, while there has been some progress since that date, it is unlikely to have solved the problems. Official policy involves strategising procurement which has historically been an unglamorous, administrative task. Much procurement was traditionally dispersed across subsidiary organisations, like individual local authorities or health trusts, where one (often junior) official was charged with formal oversight of a large volume of contracts. Based on his earlier Scottish review, McClelland proposes that one officer per £10 million annual spend is a useful benchmark to assess staffing levels. He uses this to highlight some serious gaps in capacity. Within particular WG central procurement teams and especially at local authority level: ‘15 of the 22 Local Authorities have weak, or very weak, procurement capability as measured in resources,’ with the worst having £65 million pounds spend per officer.¹⁷⁵ McClelland also flags up the need to invest in training of procurement officials and the importance of management support for staff.

Strategising procurement for local benefit is then complicated because management objectives on procurement include the lowest price/value for money as well as procurement for local benefits. Rhetorically, the enthusiasts and politicians can represent the relation as win-win but the objectives are often in a conflict that is practically resolved by taking ‘a view that there are financial targets that override all other considerations.’¹⁷⁶ According to McClelland, in 2011:

*whilst staff were often sympathetic towards small and local businesses, they were also expected to achieve ‘cashable savings, value for money, reducing transaction costs, developing suppliers and meeting front-line service expectations within existing procedures and regulatory frameworks,’ giving rise to ‘a perceived incompatibility between a need to maximise cost effectiveness and manage risk’ whilst also contributing ‘to local economic development’.*¹⁷⁷

Conflicted objectives and inadequate resourcing explains why exceptional champions can achieve so much and the routine level is so low and variable. Effective and consistent policy implementation in the medium-term probably requires local government and NHS reorganisations which put more resources into purchasing and promote the status of the function; as well as an immediate firm lead and sustained direction from the centre of WG, which has only made slow progress in resolving the problems highlighted by McClelland. Although the WG has strengthened the capability of existing procurement teams through the ‘Home Grown Talent’ project,¹⁷⁸ the continuing austerity cuts on Welsh local authority budgets mean that the serious capacity gaps flagged up by McClelland are still of concern. The Procurement Board (which takes overall responsibility for strategic leadership of procurement policy) recognises the importance of consistent measurement tools and clear KPIs. But its most recent communiqué, almost two and a half years on from McClelland, acknowledges that these targets and indicators have still not been agreed while KPMG checks on Procurement Fitness had not been followed up by one-third of local authorities:

*Work was still ongoing on the reporting dashboard and VW were currently undertaking a piece of work looking at its reporting regimes and how these could be improved. Targets and indicators would be looked to be added to the dashboard with hard and soft measures. Following the Procurement Fitness checks only 14 Local authorities had responded with an action plan or update.*¹⁷⁹

McClelland also argues strongly for the creation of a National Procurement Service (NPS) to take the lead on collaborative procurement of ‘continuous and repetitive spend’ across the Welsh public sector, and is adamant that although cost savings are one important driver of this centralisation process, it can also be a way of ensuring the consistent application of the community benefits policy. The NPS was duly

established in late 2013, with the aim of eventually managing collaborative spend in the region of £1 billion pounds through generic contracts, and this should help practically by taking work from overloaded procurement teams in local authorities. To date, framework agreements totalling £140m have been agreed, and the NPS newsletter highlights the involvement of Welsh SMEs in some sectors and does not reflect on the worrying absence of SMEs in other sectors. For example, eight of the 13 chosen suppliers awarded a place on the £11.8m per annum framework for General Building Materials, are based in Wales and seven of these are SMEs;¹⁸⁰ but on the much larger £67.5m per annum framework for agency workers, only 14% of suppliers are Welsh-based or SMEs.¹⁸¹

3. *Effective public policy requires boundary definitions which include all or most of the activity to be influenced or controlled; Welsh policy defines procurement so that it effectively excludes strategic outsourcing of public services and support functions.*

Although procurement for local benefit is a comparatively recent development, it has to some extent been overtaken by events. This because so much Welsh policy works with a practical definition of procurement as spot purchasing or framework agreements by a public body acting as a consumer of private goods and services. This excludes the large scale and strategic outsourcing of public services and support functions which redefines the public body as a commissioner and signer of long term contracts for services which will be delivered by large private sector companies (based outside Wales).

From the Senedd building, members can see the new Splott incinerator where five Welsh councils have given Viridor a 25-year contract; but that is not part of the policy domain of procurement which is controllable for local benefit. Almost invariably, waste contracts go to the same few giant waste specialists (Viridor, Veolia or Biffa) who, after the construction phase, will directly employ just 35 in an operation like Splott with management from an English headquarters and profits remitted elsewhere.¹⁸² VW tells us that strategic outsourcing contracts are in the domain of Community Benefits policy but we can find no example where the form and nature of the outsourcing contract has been changed by WG procurement policy.

The progress of outsourcing has been slower in Wales than England. Wales currently has nothing like Northampton where 3,850 of 4,000 employees are being outsourced,¹⁸³ and no huge contracts for bundles of outsourced services like Service Birmingham, which at its peak cost the Council £120 million a year.¹⁸⁴ Instead, there has been controversy over smaller moves like the outsourcing of leisure centres in Bridgend in 2012.¹⁸⁵ But outsourcing is coming to Wales for the usual reasons: changing technologies on everything from waste disposal to IT create new opportunities for specialist private operators, and local authorities are attracted by the promise of saving cost and shifting responsibility for service delivery.

- Welsh police forces are spending large amounts with private contractors, especially for IT and other support services. They have provided almost £2m of revenue for outsourcing giant Capita over the last three years – and a further £750,000 to accountants Deloitte.¹⁸⁶ North Wales Police in 2015 signed a five-year deal with the Canadian multi-national CGI to provide ICT services and support.¹⁸⁷
- Powys, Flintshire and Denbighshire local authorities have all signed outsourcing deals with Civica, to provide specialist IT systems to improve service delivery and run a payment processing centre providing services for other public sector departments in Wales which ‘could produce a potential £200,000 in annual savings’.¹⁸⁸
- Collaboration for better information is creating opportunities for the outsourcers even in South East Wales. With Blaenau Gwent taking a lead role, five collaborating organisations (Blaenau Gwent CBC, Torfaen CBC, Caerphilly CBC, Gwent Police, and Aneurin Bevan University Health

Board) are working with Atos on a vulnerability intelligence project to tackle the barriers to information sharing.¹⁸⁹

Outsourcing raises larger questions about the capacity of local authorities to negotiate and monitor such contracts; about the levering of cost savings on wage cuts; and about how the contracts are generally with large English or multi-national firms like Capita, CGI, Civica or Atos. The underlying issues here are whether the public bodies are losing control of value for money and losing sight of the interests of SMEs.

The *ex-ante* promises of savings through outsourcing are well-advertised but the terms of contracts and their outcomes are too often concealed by the cloak of commercial confidentiality. It is clear that large outsourcing conglomerates have the advantage over councils negotiating contracts for large bundles of services which have not turned out well for councils like Birmingham and Barnet.¹⁹⁰ It is also clear, from Labour Force Survey evidence, that in many outsourced activities like prisons, the private contractor's advantage comes from paying lower wages which must reduce local benefits.¹⁹¹ As for the rest, many large outsourcing firms use networks of SME subcontractors. These are usually sector specific companies with specialist expertise, rather than local companies that could strengthen their skills base through a partnership with a larger company. Thus, for example, ATOS offers an 'SME Harbour' that supports SME participation in their contracts, but also refers to an 'SME Eco-system' which offers ATOS diverse specialist skills.¹⁹²

The fundamental point is that outsourcing is a new kind of public procurement with consequences for jobs and firms which need to be publicly debated (and are not being discussed within the frame of existing Welsh debate about procurement). This new debate needs to start from recognition that not-for-profits are likely to play a limited role since the earlier transfer of local authority housing stock to housing associations is not a replicable model. Housing stock involved the transfer of assets against which the *not-for-profit* could borrow, whereas the transfer is now of services where the advantage is with *for-profit* firms because they can cover operating losses from equity. If the networks involve profit-seeking primes, there is a real question regarding what kinds of conditions about local sub-contractors should be inserted into outsourcing contracts. Is it possible to go beyond requiring prompt payment and protecting sub-contractors from prime contractor power over their margins?¹⁹³

One strategic question then is whether it is sensible to build Welsh capacity and firms in outsourcing which could use a domestic base to penetrate the English market. If so, can this be done (as the outsourcing conglomerates do it) by recruiting managers with sectoral experience or will success come from piggy-backing on a large English prime contractor? In either case, how could this be publicly sponsored? Some years ago, Adam Price had a vision of how Offa's gap on GVA could be closed by a post-industrial Wales which could succeed by exporting health and education services.¹⁹⁴ Can outsourcing be a way of realising that vision or will outsourcing continue on its present path as a benefit for non-Welsh giant firms and become a way of locking in a permanent Welsh deficit based on technical incapacity?

4. *Effective public policy requires clarity about intermediate aims. The intermediate aim of encouraging SMEs (to deliver Welsh benefits) has not been connected with the necessary information gathering.*

The ultimate policy aim is Welsh benefit; but the intermediate aims in Welsh political discourse are always jobs for local workers and contracts for local business. Depending on how these aims are mixed and matched, local procurement is not one policy but a bundle of policies. The question is whether Wales has the wrong bundle with too much emphasis on job creation and not enough on SME building where basic, necessary information is not being collected by many local authorities.

The priority of work for the jobless comes out of the arguments of Richard Macfarlane, who has long advocated using construction contracts to generate jobs and training for the disadvantaged.¹⁹⁵ Macfarlane has recently restated his objective after mainly reviewing construction contracts:¹⁹⁶ ‘a very significant impact on poverty and social mobility would be achieved’ if every public sector contract created one year’s employment for a disadvantaged person for every £1million spent. Because jobs and training can be provided by large firms, an explicit and separate emphasis on sustaining small firms – that may find training requirements more difficult – is necessary. That was present in many of the early Welsh experiments in community benefit, as in the subsequent CIH toolkits, and the VW policies rightly promote SME-friendly procurement alongside targeted jobs and training. This approach is demonstrated in construction by the United Welsh refurbishment project in 2009, when an in-house management team bought in the materials and divided the job into small labour-only contracts which attracted local SMEs.¹⁹⁷

The Mittelstand rationale for breaking up contracts in this way is clear if it displaces larger firms with smaller firms that are more grounded and consistently employ and spend more locally. An FSB-CLES study found that, amongst those that responded to a survey, small local firms re-spend 63p locally out of every £1 they receive, as opposed to 40p in every £1 for large firms.¹⁹⁸ It is therefore alarming to find that many local authorities lack the basic information to act on and evaluate policy for sustaining SMEs. Their capacity to act is questioned by McClelland and others. A recent freedom of information request by FSB Wales established that many councils do not gather the basic information which would allow them to act. Of 19 Welsh councils that responded to the freedom of information request, only two (Powys and Gwynedd) were able to provide a figure for SMEs’ percentage share of total spending. Other councils, like Cardiff, did not capture this spend in IT systems or could not retrieve it from paper records.¹⁹⁹ If Welsh councils are generally not measuring their spend with SMEs, they cannot claim to be controlling it and any policy objective of encouraging local firms does not stand scrutiny.

3.4 Reframing the problem: connected procurement

The general conditions of effective public policy making should be addressed: Wales does need serious metrics, adequate resourcing and clearer goals applied to traditional procurement (and to outsourcing). But it is also clear that, beyond this, it is also necessary to reframe public procurement policy so as to engage with Welsh specifics. This requires some intellectual effort to reframe the questions, as well as political debate, which would involve the airing of differences.

The reframing could start by replacing the metaphors about flow and leakage with other guiding metaphors about chain and connection for local benefit. This would be in the spirit of CLES’ work in Preston²⁰⁰ on public sector ‘anchor institutions’ (like councils, police forces and universities), or the original Welsh experiments and the CIH tool kits which were all about establishing connections with local firms. Procurement policy inevitably becomes quasi-sectoral in the implementation stage because central policy-makers have to recognise sectoral differences and cannot manage procurement in general: thus, the VW Procurement Route Planner separates both food and social care from ‘general goods and services’;²⁰¹ and the WG has a ‘key sectors’ policy. The limits of the WG’s nine sector policy are analysed in the next chapter where we argue that policy needs to focus on dysfunctional behaviours and structural change in a smaller number of industries. This would fit with a refocusing of WG procurement policy after asking and answering a series of questions about public spend and chain relationships. Here are three questions.

1. **Where could we mobilise a long term, volume public spend for local benefit through an existing local supply chain?** The purpose of this is to identify and focus effort in two or three industries, where the local supply chain can have a chance of meeting large-scale public demand in a way that

builds social capacity and firm capability. These industries would usually include care services and construction, which are generally the largest items of local authority expenditure, and where there is generally existing capacity within the Welsh local economy, or at least the potential to create it in these areas. The resource base of enterprises would usually consist of SMEs dealing directly with Welsh public authorities; but could also consist of local SMEs embedded in networks led by a large prime contractor which was a multinational giant.

The principle is that procurement effort should not be dissipated, but immediately concentrated on a short list of a few industries where volume public demand can easily be connected with a local supply chain, as it was in the original Welsh experiments of the mid 2000s in construction. The corollary is recognition that, in many other areas, more local preference would bring small rewards or perverse consequences of jobs transfer between localities, which is not in the interests of business or labour. A parallel exercise in broader mapping could identify a longer list of development sectors. There are areas where volume public demand and local supply could with difficulty be connected if constraints and limits were shifted, for example, by upgrading the capability of micro-firms or requiring local subcontracting in IT services and suchlike. Equally, too much effort should not be dissipated on low return efforts to change public procurement when, as we shall explain in chapter 4, WG sponsored reform of private purchasing offers much larger, quicker returns in sectors like food processing where the primary linkage is from local supply to private demand by supermarkets.

2. **What does the public sector need to do proactively to shore up or develop a responsive local supply chain?** The existing and prospective local supplier base will include some firms which lack capacity, or are not prepared to play ball, and many other firms which need upgrading or public support to deal with constraints and fit them for opportunity. This point emerges very clearly from our work with Enfield Council in bringing local contractors into retro-fit housing insulation contracts where the first requirement of local firms was certification and workforce training.²⁰² Public initiatives to overcome such obstacles are appropriate for SMEs because they do not retain and cannot afford the helper army of internal specialists and external consultants which big business retains to deal with issues like meeting local certification requirements.

The principle is that policy is not just about issuing SME-friendly contracts, but more importantly about identifying and fixing the usually industry-specific obstacles to building more capable SMEs. Many of these obstacles are not always about the issues of pre-qualification, contract size and working capital, which are important in construction. In adult care, as we will argue in the next chapter, small family firms in converted old houses cannot access capital unlike large chains which can rebuild to modern standards. In this case, if we do not want large financialised chains to dominate the business, the public sector should borrow and construct homes for private operation by small firms. Public authorities may also wish to encourage new not-for-profit providers in adult care or bring provision in-house. In this case, they must think about how to manage operating losses in organisations without the equity and balance sheet reserves which cushion large PLCs. Constructive policy is about establishing the conditions for sustainable relations based on realism and ambition for the stock of SMEs.

3. **What are the reciprocal obligations on public purchaser and private provider if their relation is to be sustained and benefit all parties?** The government contract should not be a public gift or a private benefit, but a matter of ongoing reciprocal obligation. The obligation on the public purchaser is to provide continuing spend and to plan fluctuations in ways which do not dump costs of disruption onto suppliers. Equally, when dealing with networks of primes and subcontractors,

the public obligation is to redress the power and knowledge disparities which routinely disadvantage private sub-contractors in their relation with the corporate prime. The obligation on the provider is to engage in a conversation about joint service planning which will require staff training, investment and firm certification. Milestones and deadlines need to be set either at the end of a number of existing contracts or framework agreements or by a wrap-up future date say, perhaps three to five years hence.

Policy should recognise that the social value from public procurement comes from continuity, not *ad hoc* benefits reported periodically in a newsletter. WG policy is currently caught up in a cycle of annual reporting of *ad hoc* benefits with so many jobs created and contracts issued each year, and no account of the connection or disconnect between successive years. We welcome the NPS' publication of their 'Future pipelines' which show planned tenders for the next 12-18 months.²⁰³ We need more of this approach and policy needs to look beyond contracts to firm-level policy outputs with firm creation and sustenance measures as KPIs.

The 'local' scale at which these questions are asked and answered needs to be pragmatically debated and decided but should not always be Wales by default (and will often be multiple, nested scales). The default onto *Wales* makes little sense in an economy of sub-regional corridors whose political boundaries are subject to internal and external re-drawing. Within Wales, much now depends on local government reorganisation which will redraw boundaries to create larger units of the local. Beyond Wales, the issue is whether and how the city region agenda for devolution is pressed on the Severn estuary. In the questions above, the local is not one economic scale but a political space which expands insofar as a relation of reciprocity can be negotiated.

If we want serious change, as our three questions imply, we need more than the current proceduralism which characterises procurement in Wales. Policy needs to recapture the can-do orientation of the early experiments at United Welsh and the CIH. This means action pressed by disruptive protagonists empowered to develop action plans and 'how to do it' templates for local authorities whose past record is of low level compliance. The KPIs should be about what is sustained and built by way of capability, relationships and structure in firms and labour force through investment, training and service quality (not jobs that have been diverted). Would this be difficult? Yes, of course; but then the ultimate objective is building a *Mittelstand* and using public procurement to help build that *Mittelstand* is not going to be easy. It requires 'connected procurement' – investment in a long-term relationship between the anchor institution and the supplier to establish a mutually-reinforcing triad of sustainability, efficiency and quality.

Chapter 4

From Key Sectors to Responsible Business

We need to concentrate our resources where we can add the most value, acting as an enabler for the economy as a whole rather than a significant direct deliverer of services to individual businesses. We will develop a sector-based, strategic approach to business support, developing our role as an expert facilitator and enabler

(WG on 'Targeting the business support we offer' in *Economic Renewal: a New Direction* 2010.)²⁰⁴

The Economic Renewal report of 2010 is the most important programmatic statement of intent about the direction of WG policy on private business. The web page introduction to that report explained that the WG aims to be a business-friendly enabler by 'creating the right environment for businesses to succeed'.²⁰⁵ Those who read through the report will find that this is to be done in a now familiar way by combining the general support of (public) investment in infrastructure and skills with a more targeted 'sector-based, strategic approach to business support'. This chapter is concerned with the limits of the WG's current key sectors approach and outlines the potential of an alternative policy approach based on raising the social ask to change firm behaviours and steer structural change.

Our starting point is the key sectors policy and the Action Plan for food which show how WG tries to think through activity-specific problem. The result is anodyne analysis which rests on an assumption of common interests within the sector where all businesses behave responsibly. There are usually some shared interests in, for example, growing sector output. However, in many sectors there are also sharp internal differences which take different forms in various sectors but often, one way or another, set big business against small business. We illustrate this empirically by considering two sector cases through the ecology lens: food and farming, and residential adult care. In food and farming the issue is about the predatory behaviour of the big supermarkets. In adult residential care the problem is uncontrolled structural change because the financialised (mainly PE backed) chains are an invasive species which can now expand rapidly.

This analysis highlights important policy issues for economy and society. In Welsh farming and food, the supermarkets have captured the profits of food processors and producers thereby undermining long-term ownership and investment in processing infrastructure. In adult care, the financialised chains can currently avoid taxes and extract high returns on capital from local authorities. In the longer term, our Welsh analysis shows how they can access the capital market to build new, cheap-to-operate, en suite residential homes which will replace the converted old houses operated by small local businesses and thereby close down small family businesses. Against this background, we argue that we need a change in the mentality of WG to reflect a broader social interest and distinguish between responsible and irresponsible behaviours and outcomes.

The need is for innovative and discriminating policies because nothing would be gained by replacing the WG's pro-business policy with anti-business policy. The WG needs to 'raise the social ask' of supermarkets: what is Wales getting in return for a huge consumer spend at the checkout; and how can the supermarkets pay fair prices to the processors and producers engaged in an industry that is important for national food security and cultural identity? In adult care, the WG needs to secure the future by borrowing at lower rates of interest to build care homes for operation by small and medium businesses (for-profit and mutual) with a living wage for the workforce financed by the lower cost of capital. It is important to emphasise that this kind of intervention has nothing to do with old-style command and

control socialism, which sought to displace and subordinate private enterprise. Our approach accepts that private firms have a leading role and asks how, in each sector, structure, behaviour and performance can be socially steered so that we benefit from grounded firms which recognise their social responsibilities.

This chapter develops these arguments in four sections. The first section analyses the general limits of WG key sector policy and explains how the 2014 Action Plan for food evades the issues. The second and third sections are about food and farming. The third section analyses how the supermarkets have captured processor and producer profits and argues the WG should respond by 'raising the social ask'. The fourth and final section briefly examines residential care so as to make the point that every industry presents different problems which require a specific response.

4.1 What the WG does: key sectors and action plans

The (action) plan (for the food and drinks industry)... is predicated on partnership between government and industry. We are a pro-business government, working closely with companies to create growth and jobs in every part of Wales and we established an overarching and challenging target of 30% growth in sales by 2020 and we are on course to achieve this target. The vision detailed in the plan is one of green growth where businesses are the custodians of our natural resources, developing productive and profitable businesses that are both environmentally and socially responsible, and producing quality safe food to secure improvements in the health and vitality of the people of Wales.

(Rebecca Evans, WG Deputy Minister for Farming and Food, 30 June 2015)²⁰⁶

In summer 2015, the media were carrying stories about sectoral crises in food and farming with low prices in dairy and lamb triggering farmer protests across many UK regions²⁰⁷ and Welsh sheep farmers withholding lambs from market in a 'no lamb week'.²⁰⁸ At the same time, the WG minister had a hugely positive vision of the future of food where output, jobs and profit would grow to benefit all, helped by ambitious, 'pro-business government' policies. The WG message is that sectoral problems have been engaged since 2010 within a general policy frame of designating key sectors and creating sector panels which have been backed up by sector-specific initiatives like the 2014 Action Plan for the food and drink industry. This section has two aims. First, it considers the general problems of the key sector approach as a way of focusing policy effort and securing business representation in the policy process. It then considers the case of WG policy on food and drink, which illustrates how WG policy is much better at evading than solving sectoral problems.

The first problem is that, as the WG has implemented its key sector approach, its policy has ceased to be targeted without becoming comprehensive.²⁰⁹ A growing number of sectors with lobbying clout have claimed key status and a sector panel amidst increasing confusion about the selection criteria. A background note on the sector approach in 2011²¹⁰ explained that there were six priority sectors: information and communication technologies; energy and environment; advanced materials and manufacturing; creative industries; life sciences; and financial and professional services. The selection principles were implicit but fairly clear: these sectors were strategic because they offered Wales the prospect of rapid growth and/ or represented high-tech and knowledge-based industries of the future. But the 2013 Sectors Delivery Plan listed nine key sectors, with the list expanded to include three others: construction, food & farming and tourism. These new key sectors represent not the possibility of glamorous transformation, but the mundane realities of value added through volume employment in the slow-growing, low-wage Welsh economy.

There is much to be said for focusing on these realities, but the combination of the two selection principles (the glamorous and the mundane) produces an incoherent list which undermines the aim of targeting support because it includes around two thirds of Welsh businesses. A WG report on the progress of the sectors explained that the nine key sectors in 2011 accounted for 65% of enterprises and 43% of employment in Wales.²¹¹ This does not mean that the key sectors provide comprehensive coverage which puts every sector on an equal footing with the WG. There are conspicuous absences like the care sector whose (largely private) employment accounts for 6% of the Welsh workforce, with adult care alone accounting for more than 3%. However, the adult care sector has found other ways of pursuing its objective of getting local authorities to pay ‘fair prices’ because the court judgement against Sefton Council (upholding the Laing and Buisson fair price calculation²¹²) applies in Wales as well as in England.²¹³

Sector panels to provide expert advice may also be risky and difficult in terms of interest representation, because this approach is likely to produce panels which are too close to some local Welsh interests and do not engage with major UK-wide players. Wales is half the size of Switzerland and has a very small local business class in many activities like the creative industries. In such cases, the risk is that the sector panel then becomes a conduit through which a few well-placed local players gain favours and benediction from the political system. In 2013, the WG decided that sector panels should be smaller and proposed that (except in Tourism) henceforth sector panels ‘will consist of a Chair and three to four members’.²¹⁴ This was done with the declared aim of improving ‘delivery’ and without any discussion of the obvious risks.

The reverse of this problem is the difficulty of engaging major UK-wide business players in what they see as regional talking shops. This point is illustrated by the composition of the original food and farming sector panel, which was appointed in 2011.²¹⁵ This original panel had ten members but no representatives from the Big Four supermarket chains which call the shots in the sector, nor any representative from the specialist frozen food retailer, Iceland, which is headquartered on Deeside. Instead, the only supermarket representative came from the Waitrose chain which was of limited direct relevance to Welsh food and farming. Waitrose is a minor player with a 3.5% share of the UK food market and a small presence in Wales. The chain’s upmarket position with premium pricing allows Waitrose to use responsible sourcing as a way of differentiating its offer.

This food and farming sector panel was reinvented under the 2014 Action Plan as the ‘Food and Drink Wales Industry Board’ where a group of food and drink business representatives would make up a group ‘designed to lead on future policy development’, with the WG joining as an ordinary member.²¹⁶ By July 2015, the Board had gained a chair and a list of members dominated by mainly small-scale processors because the Board does not, for example, include processing firms like Brains or 2 Sisters, nor any large scale dairy firm. The membership does not include any representatives of farmers, supermarkets or other types of retailer, or any kind of independent expert like an academic with a non-industry source of income.²¹⁷ The WG has not acted on the coalition period proposals from 2009 for ‘supply chain forums’ which would bring together producers, processors and major retailers.²¹⁸ These were repeated in the original food and farming sector panel recommendation that WG should establish a Welsh supermarket forum.²¹⁹

It is hard to avoid the conclusion that key sectors have, through implementation, become not an economic device for focusing policy effort but a political device for over-representing some businesses and under-representing many others. Misgivings on this point are reinforced if we look at the detail of sector definitions, the nature of policy objectives and the paucity of WG policy instruments in a major sector like food and farming.

- ‘Food and farming’ has been identified as a key sector since 2011,²²⁰ but closer examination reveals that this key sector is now defined to include hospitality in restaurants and bars plus all food retailing jobs (as well as farms and processing factories). This decision to include everything that moves food and drink towards the human mouth makes the sector much larger so that, on the skills council calculation, it employs 18% or more of the Welsh workforce.²²¹ Practically, if the aim of policy is to change things, this is a problem because it blurs policy focus. For example, hospitality firms operate under different conditions from food processing firms and their distinct problems require different remedies.
- ‘Food and farming’ has one big sectoral target because the WG’s 2014 ‘Action Plan for the food and drink industry’ sets the target of growing sector output by 30% to £7 billion by 2020.²²² This fits with the macro policies of the WG and a broader preoccupation with growth. The WG lists of ‘anchor companies’ and ‘regionally important companies’ are now to be supplemented by lists of the top 50 growth businesses and the top 50 potential growth companies.²²³ It should also be pointed out that, in political terms, the broad sector definition including hospitality is an advantage because it makes it much easier to hit the growth target. The growth of hospitality is (like rail or air travel) correlated with GDP; if GDP increases by 2% per annum compound over seven years and hospitality increases in line, this would give an automatic 21% increase in the sub sector’s output.

How should this be addressed? In 2014, the WG laid out its preliminary agenda. This set out some parochial specifics, such as what should replace the recently-scrapped True Taste Awards and how branded products could acquire a Welsh identity. There were also the familiar generics about skills which would be expected in any sector report. But the Action Plan and earlier WG documents are extraordinarily reticent about the central problem of supermarket behaviour. The problem is not denied but, as explained below, it is somewhat diminished: first, by representing supermarket behaviour as a challenge not a ‘wicked problem’; and, second, by insistence on working together regardless of existential conflicts over profit; before, in a third step, passing the problem to UK Government via the Grocery Code and Adjudicator.

1. The tropes of challenge and opportunity are often invoked by present day policy-makers seeking to represent intractable problems in a positive way. This is the WG’s tactic in its ‘sector delivery plan’ presentation of food and farming which faces ‘the challenge of working within a highly controlled supply chain (dominated by large retailers) to stimulate new business opportunities, new product innovation and increasing the share and volume of Welsh sourced grocery sales within the leading supermarkets’.²²⁴ It might practically be more useful to analyse the supermarket capture of profit as a ‘wicked problem’ which is hard to fix.
2. WG policy on food and farming has, at least since 2010,²²⁵ emphasised working together to own supply chain problems, even though conflicts of interest make communication, agreement and joint action very difficult. So the 2014 Action Plan emphasises the need for collaboration in a ‘difficult’ situation, the realities of which are elliptically discussed. For example, according to the WG: ‘Meaningful collaboration requires trust and openness which is difficult for producers; open book negotiations often cause concern that once production costs are known, costs and prices will be squeezed, limiting opportunities to increase margins. Ways must be found to effectively share information to benefit all food chain businesses.’²²⁶ But the question of how this is to be done is completely evaded.
3. If a problem cannot be further diminished, it can be passed on by suggesting it is the responsibility of UK Government. Thus, the WG has noted that relations between supermarkets and suppliers

are covered by the UK-wide Groceries Supplies Code and an Adjudicator. The 2014 Action Plan manages to suggest that supply chain problems are being addressed by the adjudicator under the watchful eye of the WG: 'The establishment of a Grocery Code Adjudicator to oversee operation of the Grocery Supply Chain Code of Practice should improve fairness in the operation of the supply chain. The performance of this office will be monitored by Welsh Government.'²²⁷ Through late 2014 and into 2015, the media carried a stream of stories about grossly abusive behaviour by supermarkets and their major suppliers which was not in any way checked by the Adjudicator. 2 Sisters was imposing 3% discounts on suppliers who wanted timely payment;²²⁸ 30% of Tesco suppliers said they believed it rarely complies with the Code;²²⁹ and Morrisons reportedly met its half-yearly profit targets by demanding one-off cash payments from suppliers.²³⁰ We can find no evidence that the WG has engaged with any of this misconduct which implies that the Code and Adjudicator are completely ineffectual.

The Groceries Supply Code of Practice (GSCOP) dates from 2009²³¹ and is enforced by an independent adjudicator, the Groceries Code Adjudicator (GCA) appointed in 2013 under new legislation.²³² It now has powers to impose fines on retailers equivalent to 1% of revenue, following the submission of complaints from suppliers, and its sanctions apply to the ten largest retailers with an annual turnover exceeding £1bn.²³³ The Code emphasises the need for written contracts with suppliers, and seeks to check the worst abuses of buyer power such as charges on suppliers for favourable shelf space, customer complaints, promotions and shrinkage.²³⁴ The Westminster Government points to the GCA as the solution to abuses of supply chain power but there are good reasons for scepticism.

- First, the GCA is small and poorly-resourced, with funding of only £800,000 per year derived from a levy on supermarkets. Unsurprisingly, the three-day-a-week adjudicator, Christine Tacon, said she would 'be adopting a softly, softly approach in the first instance'²³⁵ and her starting point is 'to work collaboratively with supermarkets'.²³⁶ Its investigations are in response to complaints which, while submitted anonymously, would lead to the identification of the supplier in any full investigation and therefore create the risk of jeopardising future contracts.
- Second, the GCA's remit is limited. Farmers complain that the GCA is limited to investigating only the relations between supermarkets and their immediate suppliers, where it is not permitted to consider contract price, only egregious abuses of supply agreements. Abuse is defined in ways which allow supermarkets to take legal advice so that they breach the spirit but not the letter of the Code. Hence, the Morrison buyers' tactic of making a 'request' not requirement for cash payment; and also the use of joint business plans which create written agreements which are outside the adjudicator's remit.²³⁷

4.2 Supermarket behaviour: capturing processor profits

We have ideal conditions for growing grass in Wales. We have, compared to most European countries, a good industry structure, with a viable farm and herd size. We have cows of high genetic merit and skilled farmers able to get the best from them. I know there is a secure and profitable future in this industry and am committed to doing all I can to help support it.

(Rebecca Evans, WG Deputy Minister for Agriculture and Fisheries, October 2014)²³⁸

Here is the Deputy Minister, announcing a Dairy Review in the middle of yet another dairy farming crisis, explaining how dairy farming should be an opportunity for Wales because it builds on Welsh natural resources and social capital. But Welsh potential has not been realised over the past twenty years because of the behaviour of the supermarkets in a complex chain where non-Welsh processors and UK-wide retailers are as important as Welsh producers. What the pro-business Minister cannot admit is that in food and farming (as in many other sectors) the problems arise because the interests of the different business players in the chain do not coincide. Each sectoral case of divergent interests is different. In food and farming the specific problem is that the supermarkets use their power as apex predators to capture individual processor profits in ways which make the processing niche increasingly untenable for long-term owners and consequentially hurt producers.

The pattern of specialisation in Welsh farming and food starts from a simpler physical logic, because Welsh food production is inevitably pastoral when the climate is wet and Western, and the topography is mainly upland. Lowland dairy and upland sheep farming are the dominant production activities. With 9% of UK land, Wales has 29% of the sheep flock, 11% of the herd of beef cattle, and 13% of the dairy cows.²³⁹ Three quarters of the value of Welsh farm output is red meat production plus milk and milk products.²⁴⁰

Meat is reliant on exports to the rest of the UK, typically from volume processing facilities located close to farm in Wales but owned by large non-Welsh firms. As the 2014 Action Plan admitted, only 5% of Welsh red meat production is consumed in Wales. Figures show that 85% of dairy farms sell to milk processing companies,²⁴¹ and milk is then complicated by tanker export of liquid milk to English processing plants before reimport for Welsh retail sale. Half the milk produced in Wales is processed in England and Welsh dairy processing is dominated by cheese production.²⁴² Overall, the Welsh food processing sector is proportionately larger than elsewhere but much of it is aligned with the demands of the urban population on both sides of the border, not with the supply of Welsh rural producers. The large size of the Welsh bakery and confectionary sector is especially paradoxical because its cereal is all imported.^{243 244}

In economic character the Welsh farming and food processing sectors are completely different, though each employs around half of the near 50,000 who work in farming and food. Welsh farming does not fit any template of a sustainable activity, while food processing looks more like the rest of low investment, mundane UK manufacturing. Output levels on the 35,000 farm holdings²⁴⁵ are very low and incomes are made up by EU subsidy, which amounts to an average of £7,282 per holding. The latest farming statistics show a substantial drop in average farm business income from £30k in 2013-14 to £22k in 2014-15 - and long-term real decline because income was £28k in 2004.²⁴⁶ But the 475 food manufacturing enterprises employing a total of 20,000 workers, had a GVA per capita of £54,600 per worker, which should sustain a full-time wage (including on cost) of £30,000 without any form of subsidy.²⁴⁷

The future of Welsh farming will be directly determined by EU-related politics not economics. Rather differently, the position of the food processors has been directly determined by the conduct of the

supermarkets (which of course has indirect cascade implications for producers who need subsidy because processors under pressure from supermarkets pay such low prices).

We will illustrate this point by considering the dynamics at play in the long-run division of the price of a litre of milk since the mid-1990s. This provides an illustrative example, but not a representative case. The complexities of each farming and food subsector are such that it is generally not possible to find representative cases, especially so in dairy where liquid milk and cheese are processed and retailed under very different conditions. Those interested in such complexities should read our recent case analysis of the whole dairy sector,²⁴⁸ or our earlier study of pig meat supply which highlights the financial profit that Morrisons makes from vertically-integrated meat processing. This strongly suggests that the vertically-disintegrated chain organisation that dominates UK food is a cultural choice of buyer-led retailers, with limited organisational competences, not the one best way of managing low-cost supply.²⁴⁹

The story of liquid milk since the mid-1990s is about what happened after the Milk Marketing Board was abolished. The historical back-story is that UK farming failed to develop strong producer co-ops of the Dutch and Scandinavian type, which moved downstream to take control of processing and thereby acquired the power to stand up to retailers. Instead, the UK Government imposed order through the Milk Marketing Board which operated from 1933 until deregulation in 1994, with a statutory monopsony and monopoly over the collection of milk from farmers and its sale to dairy processors, on whose behalf the Dairy Trade Federation negotiated. This, ideally, provided guaranteed demand to farmers, protection from the giant PLCs which dominated dairy processing, guaranteed supply for retailers, and offered stability and assurance that would allow the industry as a whole to plan ahead and invest.

By the 1980s, this kind of organisation appeared anachronistic and a lightning rod for the grievances of farmers, dairies and retailers, with many (including the NFU) thinking they could do better without it. Milk processors exploited legal loopholes to withhold supply and lobbied successfully for change, in the expectation that markets would deliver fairer prices and force farmers to become more efficient. The unintended consequence was the collapse of processor margins as they were directly exposed to supermarket power.

Roughly half of UK dairy output is sold as liquid milk, which is naturally protected from the international competition that affects cheese. But the price pressures have actually been more intense in liquid milk because it has been a weapon in the big four supermarkets' marketing struggle. Milk (like bread and meat) is a retail 'footfall driver' where aggressive special offers are used to help expand and preserve market share. An Asda executive explains that milk 'is a key value item for customers: 50% of our customers tell us they look at the milk price every time they go in store, and that rises considerably for those who are on low and fixed incomes'.²⁵⁰ Before Aldi and Lidl added pressure, milk was already a leader in aggressive special offers. For example, in July 2010, Asda cut the cost of four pints of milk overnight by 28p, with Tesco and others swiftly following the move.²⁵¹ In 2012, a second round of retail price cutting led to processor attempts to impose price cuts on farmers (see exhibit 4.1).

At the same time, the supermarkets have quite remarkably increased and maintained their share of the price of each litre of milk. Whereas in the 1990s, retailers took a few pence per litre, this margin rose steadily to above 20p per litre in the mid-2000s as exhibit 4.1 shows, and has remained there since. While cutting the retail unit price per litre, supermarkets were able to maintain their margin on each litre. The main losers were not farmers but processors.

Dairy farmers have never had an easy time because their farm-gate milk price has been volatile in ways that bore no relation to their input prices and, in the longer term, the real farm-gate price was falling

steadily. However, they continued to obtain 25-30p per litre for much of the period. The crisis in dairy through spring and summer 2015 was caused by prices falling sharply to an average farm-gate price of just below 25p a litre. Farmers then protested volubly. Farmers have considerable political and cultural capital as emblems of rural life, and some freedom to speak because they are one stage removed from supermarkets in the supply chain.

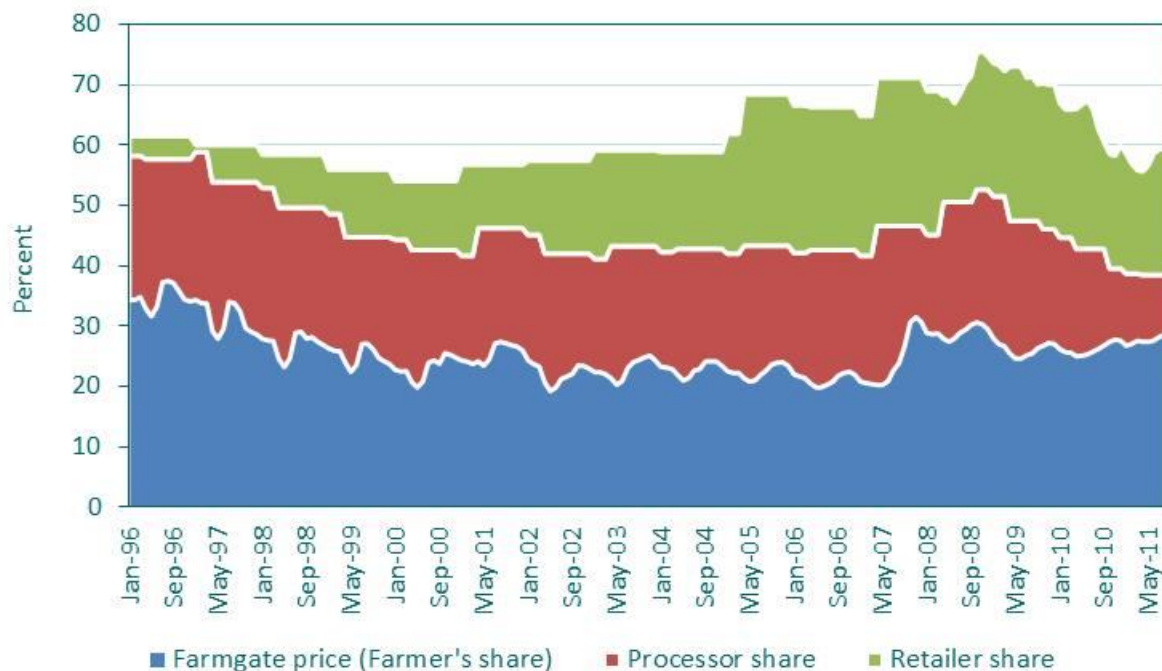
Exhibit 4.1 Retail and farm-gate milk price trends: pence per litre, 2000-13 (2013 prices)²⁵²



Processors have been squeezed in the middle as supermarkets take a rising share of the milk price and farmers claim their 25p, as exhibit 4.2 shows. Dairy processors' revenue share of a litre of milk dropped from 35% in 2001 to 19% in 2011, from something like 25p to near 10p per litre. The milk processors – in an industry now consolidated around a few major operators – must fight amongst one another to gain supermarket contracts, and are under the continuous threat of losing the contract or seeing the terms deteriorate. The silence of the processors in the face of this situation is revealing of an adverse power relationship, the long-term consequence of which is an undermining of the profitability which sustains individual processors and their intermediary niche.

In the dairy sector, as elsewhere, the supermarkets are not engaged in what an ecologist would recognise as top-down regulation by weeding out unfit processors; they are disorganising the chain by capturing profit in ways which make the processing niche increasingly untenable. The most damaging direct effects are on the physical infrastructure of plants which process Welsh meat, mainly inside Wales, and Welsh milk, partly outside Wales. This infrastructure needs localised extension and modernisation to sustain the chain; but instead the infrastructure seldom gets investment and is often threatened with downsizing or plant closure after the churning of ownership leaves a branch plant in the hands of a cost-cutting firm. The damage is aggravated by the supermarket buyer practice of switching processing contracts between firms so as to make all suppliers amenable (and incidentally leaving some plants with no orders).

Exhibit 4.2 Supply chain shares of the retail price of milk (in pence per litre) between the main players, 1996-2011 (2013 prices)²⁵³



The processors' reluctance to invest is entirely rational given the predatory behaviour of the supermarkets. In researching our 2012 study of UK pig meat, we were repeatedly told by processors that process investment was pointless because, under the regime of open book accounting and unannounced plant visits, any gains would be taken by the supermarkets. The firms which do invest are generally the exceptions which are on a trajectory of expansion through acquisition. Here the corporate vehicle is changing shape so that like-for-like accounting comparisons are impossible and, as long as the lump of profit is increasing, the rate of profit is much less of a constraint (until the acquisitions stop). The Irish Dunby firm (which has invested substantially in the Llanybydder abattoir) has significantly made nine major acquisitions in the period 1998-2014 to grow from Dungannon butcher into an UK-wide player in red meat.²⁵⁴

The more usual pattern is one of minimal investment and pass-the-parcel changes in ownership before a Welsh branch plant is threatened with closure. After the mid-1990s, Grampian Country Foods acquired a substantial part of Welsh red meat processing, including the flagship St Merryn Merthyr Plant which has, since 1999, had capacity of more than one million animals per year. In the mid-2000s, Grampian reached the end of its trajectory of debt-fuelled expansion, financed by RBS under the Grampian founder's motto of 'you make one pound so that you can borrow another four'.²⁵⁵ In 2008 Grampian adeptly sold out to the Dutch farmers' co-op group, Vion, which thereby became the UK's largest meat processor. Four years later in 2012, Vion sold all its British operations after making heavy operating losses. Most of Vion's red meat and poultry businesses were sold on to Ranjit Boparan's 2 Sisters group which was, an insider noted, 'very good at taking cost out'.²⁵⁶ Before the main sale went through, Asda had switched its lamb supply contract from the Anglesey Welsh Country Foods processing plant, so Vion closed the Anglesey plant with a loss of more than 300 jobs. The collateral damage was the closure of the last major slaughter facility in North Wales, with a drop of more than 600,000 lambs per annum in Welsh slaughter capacity.²⁵⁷

In many ways, the key figure in the disorganised chain is not the angry farmer protesting over low prices, but the disappointed processor announcing redundancies and closure, as in the case of the Saputo

creamery at Newcastle Emlyn which, at its peak, employed 130 workers and was a large scale producer of mozzarella for the food service market. The retreating Canadian owner announced closure in 2013 and then complained of a 'no-win situation' in a highly competitive market where 85% of production costs went on milk and cost volatility could not be passed on.²⁵⁸

4.3 What the WG should do: raising the social ask

Local sourcing plays a very important role in Wales. In Tesco we are proud to work with Welsh agriculture and manufacturing and sell more than 400 Welsh products from over 65 suppliers culminating in a £100million worth of sales. We have stores in many towns where suppliers are based and we are proud to contribute to the success of these communities.

(Tesco, 'Local sourcing. Great food, locally produced')²⁵⁹

Before we can turn to proposing and justifying a new WG policy of 'raising the social ask' we have to analyse in greater depth the relationship between the supermarket chains and producers and consumers in Wales and across the UK. Here we take the largest of the big four chains, Tesco, as an example to illustrate magnitudes, and develop an argument about relationships and leverage on market access, prices and volumes for Welsh producers and processors. The starting point for this argument is how Tesco and the other supermarkets represent themselves as socially-responsible businesses which are already contributing to the localities and regions where they have stores. Thus, Tesco's website has an interactive search engine that lists 'local suppliers' within 30, 50 and 100 miles of any UK postcode, and the opening quote about £100 million of purchases from Welsh suppliers is the message that every searcher gets if a Welsh postcode is entered.

Tesco has a UK-wide local sourcing programme which dates back to 2008 when it appointed four regional sourcing officers, two in England and one each in Scotland and Wales, with the aim of getting more local produce into the stores of each region. The senior regional buyer in Wales was subsequently made redundant but a more junior buyer continues to work with those regional suppliers.²⁶⁰ Like other supermarket chains all across Europe, Tesco had found that local consumers wanted a nationwide offer supplemented by fresh food and drink which had regional provenance. As the ex-Tesco buyer told us, 'the key driver was consumer demand, particularly in Wales, people want to see Welsh products on our shelves'.²⁶¹ The initiative was a valuable one for smaller Welsh producers who could never meet the huge volume demand from all of Tesco's UK stores but could now tap the manageable demand for specialist lines in Tesco's Welsh stores. The success stories here included Blackwood's Just Love Food Company with specialist lines in nut-free cakes. The company started in a small way and initially sold into just 42 Tesco Stores across Wales but was by 2013 scaling up and hoping to get more lines into 350 Tesco stores including many beyond Wales.²⁶²

£100 million of local produce is a big number, but this needs to be relativised and we can set it in context in three ways. First, by considering which processor firms are included and excluded from the category of 'Welsh local supplier'; second, by calculating how the value of Tesco's purchases from these Welsh local suppliers relates to the value of Tesco purchases from all suppliers for Welsh stores; third, by relating Welsh demand for dairy and meat to larger UK-wide demand for these products.

- In early 2015, a Tesco spokesman claimed that 70 'Welsh local suppliers' provided the chain with 450 product lines and then added the clarification that 'this does not include national suppliers based in Wales for example 2 Sisters'.²⁶³ The local suppliers programme was usefully helping several score of small firms who actively benefited from Tesco buyer preference for Welsh provenance. In a country like Wales (with a missing Mittelstand) this is a valuable contribution and

all the supermarket chains should be encouraged into appointing regional buyers. But Tesco's local supplier programmes do nothing for the mainstream volume processors of Welsh meat and dairy who continue to be dealt with in the old way through different buying channels where there is no local preference. Meanwhile, Welsh meat producers suspect that Tesco, which is the UK's largest buyer of British lamb, is undermining the market position of their product. In August 2015, angry North and South Wales farmers believed that domestic prices had crashed partly because Tesco had continued to source lamb from New Zealand long after the traditional import season had finished.²⁶⁴

- If the local suppliers programme accounts for £100 million of local purchases for Welsh stores, our value-added analysis of the Tesco Stores accounts then shows that this amounts to some £85 million of purchases from Welsh local suppliers because on average, 85 pence of every £1 spent by customers goes to suppliers. We have then estimated the total value of all Tesco's purchases for its Welsh stores. This was done by counting the number of Welsh Tesco branches in various different categories (Metro, Express, Extra and Superstore) and crediting each branch with Tesco's average sales and purchases for that type of outlet.²⁶⁵ The resulting total purchase figure of £2.2 billion is, of course, a Welsh estimate from UK averages with an uncertain margin of error because Wales is a relatively poor part of the UK where Tesco has a very strong regional position. But the inescapable fact is that, if Tesco's total purchases for all its Welsh stores are around £2 billion, then purchases from 'Welsh local suppliers' amount to less than 5% of the total (exhibit 4.3); and 95% of Tesco purchases for Welsh stores operate on quite a different logic.

Exhibit 4.3: Comparison of Tesco PLC and its subsidiaries value added and purchases, 2014²⁶⁶

	EBIT £m	Depreciation £m	Labour costs £m	Value added £m	Purchases £m
Tesco PLC	2,631	1,321	7,271	11,223	52,334
Tesco Stores	1,765	624	4,377	6,766	35,781
Wales	113	40	281	435	2,298

- The final issue is whether getting Welsh produce onto Welsh supermarket shelves can solve the problems of the Welsh meat and dairy industries. The fundamental constraint here is that Wales has a population of just over 3 million which is no more than 5% of UK population. That fact (plus distribution by UK-wide chains) explains why, as we noted in the last section, the Welsh consume no more than 5% of the red meat produced in Wales. The point is reinforced if we make more detailed calculations about Tesco's Welsh floor space as a proportion of Tesco's total UK floor space.²⁶⁷ On the assumption that Tesco's Welsh stores in each category are of UK average size, then Wales has no more than a 6.4% share of Tesco's floor space (see exhibit 4.4). The logic of the numbers is that the future of Welsh dairy and meat depends on the terms of processor and producer access to the UK sales made from the other 93.6% of Tesco's floor space. In our view, export sales beyond the UK are an intermittent bonus but should not be relied upon because, whenever the pound is high (as in 2015) export sales become unprofitable and volumes decline.

Exhibit 4.4: Tesco stores and floor space in Wales and UK²⁶⁸

	Total floor space			No. of stores		
	Wales Sq. ft.	UK Sq. ft.	Tesco Wales share %	Wales No.	UK No.	Tesco Wales share %
Express	113,796	3,883,000	2.9%	49	1,672	2.9%
Extra	1,354,624	17,610,000	7.7%	19	247	7.7%
Metro	56,180	2,191,000	2.6%	5	195	2.6%
Homeplus	0	523,000	0.0%	0	12	0.0%
Superstore	936,768	14,110,000	6.6%	32	482	6.6%
Total	2,461,368	38,317,000	6.4%	105	2,608	4.0%

The small scale of Tesco's local supplier programme is symptomatic of a larger problem in the voluntary response of all the supermarket chains to pressure from producers and generally adverse media publicity: typically, a minority of producers are offered better terms for their output (at the discretion of the supermarket) but mainstream buying practice does not change significantly and the protests flare up when prices next turn down. Since 2007, Tesco has operated a Sustainable Dairy Group which includes 600 farmers who obtain prices calculated on a formula related to costs of production with open book accounting.²⁶⁹ In February 2014, Tesco (in conjunction with processor St Merryn) signed two year direct contracts offering premium prices to the 200 lamb farmers supplying its premium Tesco finest line.²⁷⁰ But by August 2015, after a North Wales distribution depot was blockaded by angry farmers, Tesco management was placating protesters with 11pm emails offering face-to-face meetings;²⁷¹ and, a week later, Welsh and UK farming leaders were to hold an 'urgent summit' to discuss the deepening crisis in the livestock and dairy sectors'.²⁷²

Westminster Government has so far responded to industry-wide crises with government-endorsed voluntary initiatives. Following the milk crisis in the summer of 2012, the Environment, Food and Rural Affairs Select Committee recommended a voluntary code to ease conflict between processors and farmers by increasing transparency around price-setting and limiting the ability of processors to ditch farmers at short notice or keep them tied into contracts for long periods of time. This was agreed in September 2012 by Dairy UK, representing the dairy processing industry, and the farming unions. It has subsequently been adopted by most major dairy processors.²⁷³ However, the code has not prevented ongoing aggravation, recurrent crises and the continued exit of small dairy farmers.

Against this background, the future of Welsh meat and dairy can be secured if the WG fundamentally rethinks its stance towards private business, adjusts its priorities on procurement and identifies the scope for joint action with other regional governments.

- At present the WG is uncritically pro-business: its policies could be epitomised as 'find out what businesses want to do and ask how government can help'. Instead, it should recognise that WG's primary role should be to represent the social interest, and that involves distinguishing between responsible and irresponsible business and asking a different question about 'what are the business behaviours, structures and outcomes that government wishes to encourage and discourage?' With supermarkets, their established behaviour *vis a vis* processors is such that WG needs to play the role of social referee and blow the whistle loudly so as to safeguard processors

and producers. This is particularly relevant for small and medium businesses which may lack the internal skills and resources to effectively manage relations with large partners, which exacerbates the asymmetry of power and scale in the supply chain.

- This is not a matter of ideology but practicalities given the procurement magnitudes involved and the backward linkages. As we have seen, the WG is much concerned with public sector procurement which totals £4-5 billion. But Tesco, with less than 30% of the grocery market, makes £2 billion of purchases for its Welsh stores (exhibit 4.3); and the supermarket chains altogether must have purchases of around £6 billion for their Welsh stores and around £120 billion for all their UK stores. Of course, Welsh public procurement policy matters if it can be used to help build firms around stable, volume demand. But the WG's preoccupation with reforming public procurement should not crowd out a concern with refereeing private sector procurement by large firms.
- There is here an opportunity for collective action with regional governments coming together (and inviting Westminster to join) in pressuring the supermarkets. The opportunity for collective action is here because it is only UK-wide demand which can sustain Welsh dairy and meat; and much the same point applies to Humberside pigs or Cornish new potatoes. This is a chance to demonstrate that devolution means more than out-competing your regional peers. In the next phase of devolution, for example, a Severnside alliance of Wales and West Country on supermarkets would make a lot of sense.

The new policy for supermarkets could be colloquially described as 'raising the social ask'. Like other large firms, such as those in utility provision, the supermarkets are grounded by the networks and branches through which they access Welsh demand. They cannot exit without losing profitable turnover. Their privilege is to draw down local demand, under planning systems which give large edge-of-town supermarkets what are, in effect, local monopolies; and we should remember that (although they are now defensively opening in-town convenience stores), well-sited edge-of-town superstores remain the most profitable grocery outlets and are a low investment base for serving internet orders and home delivery. This opens the question of how, in return for access to local demand, supermarkets can deliver on social responsibility. This gives the WG a negotiating position and leverage to press an argument about the Welsh social interest. The existing supermarket business model has three elements: trucking the groceries in from regional distribution centres; transferring the sales revenue across the Severn Bridge so profit can be taken in headquarters outside of Wales; and capturing processor and producer profits so as to maintain margins. The WG represents a social interest which reflects the multiple identities of its citizens as producer, tax payers and consumers. While WG welcomes low prices for consumers, these should not be obtained by the exercise of power to capture processor and producer margins.

There needs to be a conversation about the social ask and potentially a more formal system of social licensing which we have described elsewhere and would involve an explicit negotiation of formal commitments on sourcing, training and living wages with all the major supermarket chains.²⁷⁴ The problems of farming and food processing are such that action cannot wait. However, we can immediately seek voluntary actions which could be implemented quickly (after taking legal advice on compliance with EU and national regulatory obligations).

We expect that Tesco and the other supermarket chains would argue as Nassau Senior did in defence of nineteenth century cotton mill owners: when faced with demands for a ten hour day, Senior argued that all the mills' profit was made in the last working hour.²⁷⁵ Supermarkets may argue that their margins depend on the latest special offer (paid for by the processors) and on their ability to source cheap imports at will. This is especially so because the expansion of Aldi and Lidl has disrupted the business model of

the big chains accustomed to a world where confusion marketing around special offers allowed Tesco, Morrisons and Sainsbury to make 4% or more on sales. Now they must adjust to price competition, enforcing something more like the 2% margins which have been the norm for Asda and many European chains.

If supermarkets protest, it is important to respond that on the available evidence the sky will not fall in if the supermarkets stock more Welsh meat and dairy at fair prices. It is important to challenge the assumption that everything the supermarkets do represents the best way and a finely-honed economic rationality. Supermarket chains are a logistics miracle of distribution from regional centres which replenish the shelves, but much of their sourcing is discretionary. It may suit Tesco to stock New Zealand lamb in July and August this year, but by June mid-market Morrisons and hard discounter Aldi (as well as Waitrose and Budgens) had already shifted to 100% British lamb.²⁷⁶ If change has a cost for the supermarkets, we should remember the first principle of responsible business is that large, powerful firms should not solve their problems at the expense of others.

4.4 Residential adult care

It is the people (and their carers) who use services and receive care and support who know best what their individual needs, preferences and circumstances are. Planners and service providers need to build on this potential to 'co-produce' to ensure the best services and best outcomes for individuals. The same principle of co-production can apply in developing healthier communities and reducing dependency, loneliness and isolation.

(WG, 2012)²⁷⁷

Adult care is another example, like food and farming, where the WG has worthy ambitions for a sector which is experiencing severe problems.²⁷⁸ Meanwhile, the opening quote comes from the WG's 'Framework for Delivering Integrated Health and Social Care For Older People with Complex Needs' which in the usual way envisages everybody in the two sectors of health and care working together for consensual outcomes, while passing over sharp conflicts of interest in care.

In residential care the problem is not that big business is oppressing other players, but that it can, through rebuilding residential capacity, displace small business in a socially undesirable way. The financialised chains are a kind of invasive species which can now expand rapidly by building new capacity in a sector where a large tranche of older and small, soon-to-be retired homes is operated by small, local firms. This is socially undesirable because financialised chains require higher rates of return on capital, which may come at the expense of other stakeholders in the form of lower wages for the workforce and/or higher prices for local authorities paying for beds from state revenues.

The back story here is that adult care has been outsourced to private providers who provide domiciliary care and now operate more than 90% of residential homes in the UK;²⁷⁹ though Wales has a rump of local authority owned homes, including some 20 in the Greater Cardiff area. The sector remains heavily dependent on public funding via local authorities: the National Audit Office estimates the English ratio of public to private spend on adult care is 2:1.²⁸⁰ In 2013-14 the Welsh local authority expenditure on public services for older adults was around £550 million.²⁸¹ The cost of adult care is a major issue because of rising demand from an ageing population. UK-wide, the number of over-80s will increase from 3 to 6.1 million 2012-37. A similar doubling is projected in Wales where, according to recent WG calculations, one in five of the over-80s has dementia and the total number with dementia will increase by a third to 55,000.²⁸²

When residential care for one old person now costs more than £450 per week, this creates an immediate political issue within the UK form of house property capitalism. The average Welsh house is worth £170,000 and children may hope to benefit from the capital gains made by their elderly parents (rather than see them applied to paying for a care home bed). In England, the Westminster Government has retreated from the Dilnot proposals of 2011 and, most recently, postponed until 2020 introduction of a £72,000 cap on private payment of care costs and £120,000 on hotel costs.²⁸³ The WG has introduced a cap on private payment for domiciliary care of £60 per week but hesitates on capping residential costs in a way which inevitably opens the WG to criticism from opposition parties.²⁸⁴

The social problem is that in both domiciliary and residential care, an underpaid workforce is delivering care which is inconsistent and often of poor quality. The adult care workforce is preponderantly female, low paid and ill-trained. A leaked document about MiHomeCare agency's practices in Penarth showed how many domiciliary care workers get well below the legal minimum wage because of unpaid travelling time and 'call cramming'.²⁸⁵ Inspections show care quality is also often inadequate. The Welsh regulator, the Care and Social Services Inspectorate Wales (CSSIW), is very understated in its criticisms, but its most recent report on inspections in the 2013 year disclosed that 24% of adult care homes did not meet 'required standards',²⁸⁶ most commonly because of poor unit management.²⁸⁷

The adult care system was in crisis by 2015, even before the Chancellor announced the target of a £9 'national living wage' which would raise wage costs. Problems were more acute in England where five years of austerity from 2009-10 has led to real cuts of 17% in local authority spending on adult social care, in line with overall budget cut backs.²⁸⁸ The position is more favourable in Wales, partly because the WG has buffered the cuts and because residential occupancy rates are higher. Although demographic pressures are very similar in Wales and England, in the first round of cuts from 2009-10 to 2012-13, public expenditure on adult social care was cut by 5.5 % in England but only by 2% in Wales.²⁸⁹

Leaving aside the need for imaginative forms of care provision, what the adult care system needs (especially in residential care) is the capacity to pay higher wages and charge local authorities lower fees. The rise of financialised UK-wide residential chains has made this more difficult by institutionalising the demand for high rates of return on the productive capital tied up in the activity, i.e. the financial value of land and buildings, the physical capital necessary to the delivery of the service.

For-profit providers are long-established in adult care, but the financialised adult care chain is a post-2000 development. The chains added three new elements: first, aggressive operating targets in terms of free cash, extracted by special dividends and suchlike; second, financial engineering of the balance sheet through use of debt and arbitrage of limited liability so as to minimise tax liability and maximise net equity returns; third, willingness to expand by acquisition and an eye to profitable exit through sale or flotation which allows the realisation of capital gains. All three practices are part of the classic *modus operandi* of PE which moved into residential care in the early 2000s.

After PE entered the residential care market, there was a spate of debt-financed deals, using property sale and leaseback structures which hastened significant consolidation in what had been a fragmented industry. The spectacular result was the emergence of one giant chain, Southern Cross, which grew astonishingly so that it more than doubled in size in one year from 8,200 beds in September 2004 to 28,000 beds by November 2005. By its collapse in 2011, Southern Cross was operating 750 care homes with 37,000 beds and 41,000 staff, and HC-One was then established initially to take over 249 of these homes.²⁹⁰ The longer term consequence was consolidation – around 5-10 large chains with 100-plus homes. The Care Quality Commission (CQC) calculates that the top ten providers now control 11% of

English care homes and 21% of the beds.²⁹¹ Three of the top five chains, each with 125-250 UK homes, are backed by PE (Four Seasons, Barchester, Care UK) and RBS owns HC-One Ltd.

The chains are financially engineered in a variety of ways which are socially undesirable. Chains routinely use tax havens and debt finance to avoid the taxes that smaller operators have routinely paid and thereby diminish the tax revenues available to government. The institutionalisation of tax avoidance should be a major issue because it involves large sums of money. The Care UK chain for example has shifted from equity to debt finance in the past decade; in 2005 debt accounted for 33% of its capital but by 2014 this had risen to 85%. The motive is simple when debt interest payments are not taxed like profits. On our calculations, this shift in financing has saved the chain's owners, and therefore cost the Treasury, tax payments of some £25 million a year in each of the past three years (2012-14).²⁹²

The indirect result is that chains like Care UK are much more financially fragile. This is because dividend payments on equity can be postponed but PE backed chains are generally burdened with unavoidable interest payments and debt covenants (and in some cases with rent payments under sale and leaseback where they do not own the homes). Hence the big operators panicked response to the 2015 proposal for a £9 'national living wage' amidst growing fears that one of the major chains would collapse: the Four Seasons chain, for example, with £500 million of debt has an annual interest bill of £50 million which is roughly equal to current gross earnings.²⁹³

The underlying social problem is that the chains have institutionalised a high 12% cost of capital (in land and buildings) through the Laing and Buisson calculations of a 'fair price' which were upheld by court judgement in the case brought against Sefton council, which had offered less²⁹⁴. These calculations date back to 2008,²⁹⁵ when Laing factored a 12% return on capital into the fees for a spot purchased bed so that in their model a nursing care bed was £776 per week and of that £277 is allocated to capital for land and building (36% of the total cost). Recent land and buildings costs were taken as the capital base, with recognition that these costs are higher in London. The 12% return norm reflected past operating experience of integrated firms (building and operating) and was a currently blended return which combined the lower cost of issued debt and the higher returns expected by PE capital providers.

This expectation has since been normalised. 'How to do it' guides on buying a care home, advise private buyers that (without financial engineering) they can earn 12% return on capital employed (ROCE) subject to 85-90% occupancy. But, interest rates have fallen since 2008 and, if the whole sector were to be refinanced, the required return would be lower. PE sources tell us that US pension funds are currently financing the building of care homes (for others to operate) in expectation of lower rates of return of around 8% on new build. And of course the public sector can borrow much more cheaply. UK local authorities, for example, can borrow at 4% for 50 years from the Public Works Loans Board.

These observations allow us to construct a counterfactual. If the chains did not require a 12% return, less of the cost of a spot purchase would be returned to capital and more can be returned to labour in the form of higher wages and/or the local authority in the form of lower fees. As exhibits 4.5 and 4.6 show, the effects on wages, and to a lesser extent on prices, are quite dramatic. The counterfactuals are based on Laing's provincial costs of land and buildings which are relevant to Wales. In this case, reducing the claimed return on capital from 12 to 5% allows either an 18% reduction in price or a 40% increase in wages or some combination of the two benefits. If the starting point is an 8% cost of capital, the benefits are smaller but something like a 15-20% increase in wages is possible by low-cost public borrowing. The calculations are basic but the possibility is that, even on the second scenario (from 8 to 5%), it would be possible to pay proper living wages to the Welsh residential care workforce (without any increase in the weekly cost).

Exhibit 4.5: Calculating the savings from a reduction in the 12% return on capital employed (2012 prices)²⁹⁶

	Per resident per week (PRPW) @ 12% ROCE		Per resident per week (PRPW) @ 8% ROCE		Per resident per week (PRPW) @ 8% ROCE	
	£	%	£	%	£	%
Staff costs	£251	45.6%	£251	50.9%	£251	55.7%
Repairs and Maintenance	£34	6.2%	£34	6.9%	£34	7.5%
Other (home) non-staff costs	£95	17.3%	£95	19.3%	£95	21.1%
Capital costs (12% return)	£170	30.9%	£113	23.0%	£71	15.7%
Ceiling fair market price	£550	100.0%	£493	100.0%	£451	100.0%
No of beds	50		50		50	
REDUCTION IN PRICE PER BED PER WEEK	£0	0%	-£57	-10.3%	-£99	-18.0%

Exhibit 4.6: Counterfactual ROCE reduction applied to increasing pay (2012 prices)²⁹⁷

	12% ROCE £	% increase %	8% ROCE £	% increase %	5% ROCE £	% increase %
Increase in total staff compensation per week per bed (staffing approx. 1.1 FTE per bed)	0.00	0.0%	56.67	22.6%	99.17	39.5%
Increase in annual total staff compensation per bed (staffing approx. 1.1 FTE per bed) -52 weeks	0.00	0.0%	2,947	22.6%	5,157	39.5%

There may be some limited consolation for the WG that this is not an immediate problem because financialised chains have most of their branches in England and their current share of Welsh residential homes and beds is low. According to the latest CSSIW report, there are 675 older adult care homes in Wales with 22,816 places. The Welsh residential sector is less concentrated than the English sector. If we look at the five largest chains, Care UK has no Welsh homes and Four Seasons just seven homes while the other three have 38 homes between them. At first sight, therefore, it seems that the big chains are a small part of a mixed ecology of different types of provider in Wales. But we should note that an invasive species is defined not by a dominant position in the habitat but by its capacity for rapid, unopposed expansion from a position of marginality and this condition is met. We can demonstrate this by examining the ecology of existing provision, new construction and retiring capacity in the 'Greater Cardiff Area'

(comprising five Local Authorities: Caerphilly, Cardiff, Newport, Rhondda Cynon Taff and Vale of Glamorgan).

The sector is complicated by a multiplicity of different owners (including not-for-profits and, in the Cardiff case, local authorities) who typically hold different kinds of stock. Post-1980 residential homes with en suite rooms are more desirable than converted Victorian houses or older (typically local authority built) homes. Modern en suite accommodation is more attractive to the customers, especially middle class customers who pay higher prices. Modern purpose built homes with 50-plus beds are also cheaper to staff and the only investable proposition for PE. The widely-used Knight Frank and Rutley calculations of operator returns show that overall profitability of residential homes is demonstrably higher in the 60-79 and 80-99 bed size categories.²⁹⁸ For these reasons, over the next 20 years, we expect the older accommodation will be retired and replaced. The question of who holds what kinds of accommodation, and who is re-building, is crucial to the future of different kinds of operators.

We used online directories and Google maps to research who runs what in Cardiff, and found that two tranches of older accommodation were held by small 'mom and pop' firms and local authorities. To begin, we have local small operators with a single home or up to four homes in one locality who operate a total of 53 homes with 1,578 beds in Greater Cardiff. Two-thirds of their homes, and more than half their beds, are in converted houses which make small homes of around 30 beds where only 27% of beds were en suite. The other vulnerable operators in Greater Cardiff are local authorities which have older purpose-built homes from the 1960s and 1970s which are typically all single rooms but with no en suite. They will, like 1960s university halls of residence, all need retiring because standards and expectations are rising; and Welsh local authorities cannot at present rebuild as they do not have spare income or clear borrowing powers.

The future of residential care then belongs to operators who can replace retiring capacity with larger new homes which meet modern standards and are cheaper to operate. There is no available series on new build, but we can proxy new build over the past five years in Greater Cardiff by considering who operates newly-registered homes. We find that rebuilding is dominated by larger operators, which increasingly will be financialised chains with access to finance from the capital market and a plan to build in units of 60 or more beds. If we consider new home registrations in Greater Cardiff since 2009, chain operators with five or more homes have added 21 purpose-built homes and 1,210 beds; local 'mom and pop' operators with four or fewer homes have added just five purpose-built homes with 171 beds.

Rather alarmingly, the WG and its sector regulator CSSIW has not focused on these specifics and the changing ecology of care home provision. CSSIW collects no statistics on who operates what, and WG policy on adult care cannot focus on the issues because WG is, as in other outsourced sectors, distracted by separating policy from execution. In the UK, this dates back to the Next Steps report of 1988 which first licensed the large-scale creation of executive agencies and subsequently provided an alibi for outsourcing.²⁹⁹ As we have argued elsewhere, this form is deeply flawed, not least because problems arising are always attributed to imperfect execution of the design so the division of responsibility itself is never in question, despite repeated failure.³⁰⁰

- The WG will lead by setting the framework and measuring outcomes, working within its newly developed 'national well-being outcomes framework'. Here, for example, is the role of government in the current three year plan for improvement of social services: 'The role of Government is to set the framework for policy and legislation. We are doing this by developing a national well-being outcomes framework for social services, setting standards and developing measures. We will collect and analyse data and evidence on the delivery of the outcomes and specify a programme

of system and service transformation/improvement to support our aim of better outcomes for people who need care and support.³⁰¹

- Delivery is subcontracted. A service commissioner contracts with a private sector or voluntary provider so that the same three-year plan explains: 'Organisational performance and delivery is the responsibility of the organisation itself, whether statutory, voluntary or private. The sector will be required to report its performance against the national well-being outcomes framework for social services. The government will then have a clear view of where social services are doing well and where improvement is needed'.³⁰²
- Inspection is the basis for visibility and legibility. Thus the Regulation and Inspection of Social Care (Wales) Bill builds on the Social Services and Well-Being (Wales) Act, 2014, and aims to ensure that regulation moves beyond compliance with minimum standards and addresses the quality of services and the impact which they have on those who receive them. If passed, the Bill will place greater accountability on social care providers by introducing an outcomes-based approach to the regulation of care and support services.³⁰³

There is no end to this cycle of inspecting quality which will, in our view, do nothing to end the ongoing crisis in adult care. On present evidence, this crisis is likely to be managed by giving the financialised chains the returns they want (and quite unintentionally presiding over changes which put the 'mom and pop' providers out of business). If WG wants to tackle the crisis in adult care, the policy opportunity is for WG to borrow cheaply and build new care homes all across Wales for operation by small firms ('mom and pops' as much as not-for-profits). If the WG wants to do this imaginatively, as we argue in our forthcoming adult care report, it should think creatively about building different kinds of residential homes.

This would require WG to acquire greater borrowing power because devolution without a measure of control over the public balance sheet offers the WG little real power. It would also be necessary to adopt a less economistic concept of infrastructure and see that the first priority is dispersed investment in social infrastructure that increases welfare across Wales. Infrastructure is (or should be) about much more than backing a few economic grand projects like taking the M4 across the Newport levels. All this opens an agenda for research and raises more questions than we have space or time to address. But, even in this outline form, our argument and proposal shows how the WG could and should think divergently about industry-specific ways of supporting responsible business.

Conclusion

From devolution to making a new Wales

Wales has always been now. The Welsh as a people have lived by making and remaking themselves in generation after generation, usually against the odds, usually within a British context, Wales is an artefact which the Welsh produce. If they want to. It requires an act of choice. Today it looks as though that choice will be more difficult than ever before. There are roads out towards survival as a people, but they are long and hard and demand sacrifice and are at present unthinkable to most of the Welsh.

(Gwyn Alf Williams (1985) *When was Wales*)³⁰⁴

We have recommended that the Welsh Government should share responsibility for income tax at all rates with the UK government.... The National Assembly for Wales would then vote to decide the level of Welsh income tax for each rate (currently basic, higher and additional) individually.... If the tax rates were raised the Welsh budget would be higher; and if they were reduced the Welsh budget would be lower.

(Silk Commission (2012), Part 1 Report)³⁰⁵

The first staccato, histrionic quotation comes from the historian Gwyn Alf Williams posing the question of ‘when was Wales?’ against the background of Thatcherite deindustrialisation and the miners’ strike in the mid-1980s. His answer was that Wales was not a separate polity because it defined itself in relation to England; and Wales is ‘always now’ because it is recurrently an invention of recent date. By the 1980s Wales was urgently in need of another reinvention through a renewal that was then simply unthinkable.

In this report, we have posed the question of where is Wales after nearly 20 years of devolution. Our answer is that devolution has not so far delivered the necessary reinvention. Wales is not in a good place partly because it is mired in confusion about the objectives and instruments of economic policy. Our message of hope is that Wales has real possibilities of doing policy differently and getting to a better place through reinvention. Our analysis is separated by 30 years from Gwyn Alf’s history, but is connected because both emphasise the importance of choice and shifting the limits on what is thinkable.

The second quotation, in measured administrator’s prose, gives us what is currently thinkable. It is drawn from the executive summary in the first part of the Silk Commission’s report on the fiscal powers of WG. The background, of course, is that in 1997 the UK Government transferred important spending powers to the WG, whose revenue still came in the form of a block grant from Westminster.

In 2012, the Silk Commission proposed, as a kind of next step, that the WG gain some power to raise revenue by setting taxes, most notably by varying the rate of income tax. On borrowing powers, there was a recommendation that the WG should have ‘the capacity to borrow for capital investment on a prudent basis subject to limits agreed by HM Treasury’.³⁰⁶ The immediate question was whether Silk had gone far enough. Our answer would be: certainly, not far enough on the issue of borrowing powers. But there is a more fundamental issue about how Silk reinforces a very narrow understanding of devolution as transfer of power from London to Cardiff rather than as an opportunity to create a new kind of constitution.

As our analysis has progressed we have argued for the unthinkable by challenging standard problem definitions and proposing new policies which engage with Welsh specifics rather than rehash generic

recipes. Our argument moves from dashboard measures and welfare minima through building the *Mittelstand* to connected procurement and responsible business. In this last chapter we want to argue that, when considered altogether, these arguments make the case for a kind of constitutional renewal and reinvention which is much more radical than what is currently thinkable as devolution.

Our analysis at every point recognises the interpenetration of economy and society and is an argument about how that interpenetration could, and should, be managed. In terms of objectives, minimum welfare for all is a social objective which is derived from ideas of democratic citizenship, not any concept of 'economic man'. In terms of policy, after big business has been given a leading role through privatisation and outsourcing, the need is now for socially-directed responsible business which requires government policies very different from the generic pro-business policies of structural reform and competitive markets (plus training and infrastructure).

Hence the need to question prevailing narrow definitions of devolution where the Silk Commission is only being orthodox. The Oxford dictionary defines devolution as 'the transfer or delegation of power to a lower level, effectively by central government to local or regional administration'.³⁰⁷ This relates closely to conventional earlier understandings of 'home rule'. In the UK the idea of home rule is associated with pre-1914 Irish political demands; but in the United States home rule means self-government by municipalities and counties below federal state level. So Webster's dictionary defines home rule as 'self-government or limited autonomy in internal affairs by a dependent political unit (as a territory or municipality)'.³⁰⁸

In all these cases, the concept of relations between centre and periphery is one of zero-sum with power as a known quantity: the centre starts by holding power which is (under political pressure) transferred in a discretionary way to the periphery and so the centre loses what the periphery gains. This concept is popular right across the UK because local political elites can generally agree on asking for more powers. Their justification is local benefit, which is often then to be achieved through competition between regimes. The Scottish nationalists fought their 2014 referendum with one firm promise of cutting corporation tax; which was then neatly trumped by UK-wide tax cuts announced in the 2015 Westminster budget. Against this background, more powers for Celtic nations and English regions need to go hand in hand with much more imagination and experimentation in how those powers are used.

If we want a more radical re-invention, our report's arguments have a double logic. First, on what economists call the supply side, government needs to shift from creating a generic business-friendly environment to promoting social responsibility by encouraging grounded firms and raising the ask of big business. Second, and relatedly, our policy objectives need to be recast so that the question is whether and how we are meeting demand in the welfare-critical foundational activities which provide basic goods and services for all citizens. By connecting these arguments, we can see the case for government action. The role of government is to ensure that the rights of businesses are balanced against responsibilities because the social purpose of the economy is to secure the conditions of civilised life for all citizens. Government is the only agency which can do this because it has legitimacy derived from an electoral mandate.

In making these arguments, we are only taking up issues which were discussed in a very focused way in 1930s America by those who wished to make capitalism work better (not replace capitalism with socialism or build a bigger state). The basic point was made by one of the greatest of all twentieth century American observers of the market economy - Adolf Berle - whose views exerted a profound influence on Roosevelt's New Deal. Berle insisted that big business, 'exists and derives its right to exist under, and only under, a tacit social contract. This social contract requires management of big business to assume certain responsibilities. Assumption and fulfilment of them entitles big business to the privileges it receives from

the State, and to acquiescence in their existence by the economic community they affect and serve.³⁰⁹ This basic point is simply lost by both sides when left and right debate the merits of state hierarchy versus market as coordinating principles; the question is not one about coordination but about directing and building a responsible and constructive kind of business power.

The post-1979 changes in the UK make Berle's point more apposite than ever because these changes have given business a leading role in our society; and, for better or worse, curbed the countervailing power of organised labour right across the private sector. After privatisation and outsourcing, large parts of the foundational economy producing basic goods and services have been transferred into private ownership and operation. Private firms – big and little – thereby gain the right to draw revenue and profits from activities which are usually sheltered from international competition and often have a degree of local monopoly in providing mundane goods and services. Activities such as food retailing and care are also powerfully intertwined with welfare through the multiple identities of people as consumers, workers and local residents and through a network of reciprocal chain relations within local, regional and national spaces.

In this context we favour radical new policies which would extend what government does, but not return us all to the old world of command and control. Of course, activity specifics need to be considered and in some infrastructural activities, like power generation or railways, there is a good case for large state-owned corporations. As we have argued elsewhere, there is a strong case for ending train franchising where we have a charade of profit-taking without market risk or investment; while billions of investment in rail infrastructure each year are, effectively, already being financed by state borrowing. But we make no assumption that large, state-owned, hierarchically-controlled corporations would generally deliver superior results; and there are many reasons to suppose that many state and public organisations, like NHS trusts and universities, will need to be reminded of their social responsibilities just as much as Tesco or BT. The removal of private profit does not guarantee social virtue. Furthermore, the either public or private choice sets up a false opposition when, as in adult care, we need to mobilise cheap state borrowing in support of small operators.

We start, like Berle, by accepting that private corporate actors have (and will continue to have) a leading role in the economy. Indeed, we have elsewhere argued that, through the outsourcing of foundational economy activities, the large conglomerates like Serco or G4S are now governing institutions joined in relations of co-dependence with the state and operating under the protection of government. As Berle would see, these firms all have rights that are created, or at least tolerated, by government, whose limited competences mean that government would be hard-pressed to do without them. State protection may be explicit and contractual, as with rail franchising or social care; or regulatory, as in the relation between supermarkets and planning permissions. Alternatively, the social license may involve not disturbing *de facto* territorial monopolies as with bank branches; or may even include state inducements to invest as with rural broadband rollout.

Hence the need to go beyond transfer of power, devo max and home rule with democratic engagement narrowly thought in terms of electoral participation and political parties. Wales needs renewal through what we would call a new constitutional settlement which redirects power by changing the definition of who negotiates what with whom and, specifically, opens a new conversation between government and business. If private business is a governing institution in Wales, then it needs to be recognised as part of the constitution - and in turn business then needs to recognise social obligations, as would any other important constitutional actor. This mutual recognition would create a new constitutional settlement. Like any constitutional settlement in a democratic state it needs to be freely negotiated; all important actors, corporate and non-corporate, need to have their voices heard and their interests defended. That

will not be easy, but then democratic constitutional settlements are not meant to be easy: they are meant to be the way we learn to govern through ambition and compromise. The task of political leadership in Wales (and the rest of the UK) is to stop using the empty language about business-friendly government and to set about finding mechanisms and institutions through which socially responsible business can be promoted. The task of political organisation through parties and other means is to set this agenda.

The problem is not that we have not transferred enough powers over tax revenues (or even borrowing powers) from Westminster to Cardiff. The problem is that in Wales (as in the rest of the UK) we have, since 1979, ceded state power and created privileges for corporate interests and organised money. However, we have so far neglected to hammer out the constitutional terms of state involvement in how that power is used, especially in welfare-critical foundational activities. Naturally, the particular terms of the settlement will vary in different activities; but we favour making all larger private firms (and public organisations) responsible for the terms of their procurement, employment and service provision through measures which specify a manageable contribution to social objectives. With SMEs, we favour a different and more indirect approach of reinforcing the financial incentives to hold and build the firm because ownership churning undermines responsibility. This is what democratic control of economic life is all about in the Welsh economy now.

Devolution is so far about the transfer of legal and economic power, but it could and should be the opportunity to create a new kind of constitutional settlement. This would open up a different concept of power as something that has to be re-negotiated between government and business as partners in a new social contract. In this political revolution, Wales could lead; if we are now serious about reinvention, Wales must lead.

NOTES:

Chapter 1:

¹ Castells, M. (1996) *The Rise of the Network Society*. New York: Wiley.

² Piketty, T. (2014) *Capital in the twenty-first century*. Cambridge Massachusetts: Harvard University Press.

³ Williams, K. (2012) 'How Wales can Win'. *Public lecture at Cardiff University*, 23 October 2012. Available at: <http://www.cresc.ac.uk/sites/default/files/How%20Wales%20Can%20Win.pdf> (accessed August 2015); see also Johal, S., Law, J. and Williams, K. (2014) 'Thinking the Unthinkable on the Economy', *The Welsh Agenda*, Spring 2014, Cardiff: IWA.

⁴ Johal, S., Leaver, A. and Williams, K. (2014) 'A New Development Model for Scotland'. Presentation at *Decent Work, Dignified Lives*, Scottish TUC conference. October 2014. Available at: <http://www.slideshare.net/stephenboydstuc/a-new-development-model-for-scotland?related=1> (accessed August 2015).

⁵ Adamson, D. and Lang, M. (2014) *Toward a new settlement: a deep place approach to equitable and sustainable places*. Merthyr Tydfil: Centre for Regeneration Excellence in Wales (CREW). Available at: <http://www.regenwales.org/upload/pdf/042814110151CREW%20Deep%20Place%20Study%20April%202014.pdf> (accessed August 2015).

⁶ See, for example, Bowman, A. Ertürk, I. Froud, J. Johal, S. Law, J. Leaver, A. Moran, M. and Williams, K. (2014) *The End of the Experiment*, Manchester: Manchester University Press. Williams, K. (2013) *How Wales Can Win: New Possibilities*. Public lecture at Cardiff University, 23 October 2012. Available at: <https://www.youtube.com/watch?v=IFb8Tbh9aUk> (accessed August 2015).

⁷ IWA (2015) *An Economic Strategy for Wales*. Cardiff: IWA. Available at: http://www.clickonwales.org/wp-content/uploads/IWA_EconomicStrategyforWales.pdf (accessed July 2015), p. 5.

⁸ For example, Adamson and Lang, *op. cit.*, and Meadway, J. (2013) *Towards a Welsh Industrial Strategy*. NEF study for Wales TUC. Available at: http://b.3cdn.net/nefoundation/76fbd0aabdb290c755_qim6bkj2q.pdf (accessed March 2015).

⁹ Price, A. (2012) *Offa's Gap: Roots and Remedies of the Welsh Growth Collapse*. Cardiff: Plaid Cymru Economic Commission. Available at: www.english.plaidcymru.org/uploads/downloads/Offas_gap.pdf (accessed July 2015), p. 5.

¹⁰ Office for National Statistics (ONS) (2015) 'Regional Gross Value Added (Income Approach)'. *ONS Information Paper*, Quality and Methodology Information, 26 March 2015. London: ONS. Available at: <http://www.ons.gov.uk/ons/guide-method/method-quality/quality/quality-information/economic-statistics/quality-and-methodology-information-for-regional-gross-value-added-gva-.pdf> (accessed July 2015).

¹¹ Source: ONS (2010) 'Regional GVA NUTS1 Tables, 1989 – 2007'. *ONS Website*, Excel Spreadsheet, 8 December 2010 & ONS (2014a) 'Regional GVA NUTS1 Tables, 1997-2013'. *ONS Website*, Excel Spreadsheet, 10 December 2014. London: ONS. Available at: www.ons.gov.uk/ons/taxonomy/index.html?nscl=Regional+GVA#tab-data-tables (accessed July 2015). The data is based on workplace GVA and allocates incomes to the region in which the economic activity takes place. The Nomenclature of Units for Territorial Statistics (NUTS) provides a single uniform breakdown for the production of regional statistics for the EU, with NUTS1 corresponding to the devolved nations and English regions. For a broader explanation, discussion and analysis of UK GVA, see: ONS (2010) 'Regional Gross Value Added'. *Economic & Labour Market Review*. 4(6), June 2010. London: ONS. Available at: www.ons.gov.uk/ons/rel/elmr/economic-and-labour-market-review/no--6--june-2010/index.html (accessed August 2015).

¹² IWA (2015), *op. cit.*, p 6.

¹³ Jones, C. (2015, forthcoming) *Prosperity and Place*. Cardiff Business School for FSB (Wales).

¹⁴ The data up to 2013 is actual GVA and the average real growth rate is derived from 1989 to 2013, a period that starts and ends with a trough in the economic cycle (Source ONS (2014) 'Regional Gross Value Added (Income Approach), December 2014'. *ONS Statistical Bulletin*, 10 December 2014. Available at: <http://www.ons.gov.uk/ons/rel/regional-accounts/regional-gross-value-added-income-approach-december-2014/index.html>). The projection from 2014 onwards assumes that UK GVA will grow at 1.2%, and Wales will grow at a rate of 2.4%, double the level of the rest of the UK.

¹⁵ See, for example, Atkinson, A. (2015) *Inequality: What can be done?* Cambridge, Massachusetts: Harvard University Press.

¹⁶ Source (for Exhibits 1.3 and 1.4): ONS (2011) 'Reference Tables.' *The effects of taxes and benefits on household income, 2009/10*. London: ONS. Available at: www.ons.gov.uk/ons/publications/re-referencetables.html?edition=tcm%3A77-231970 (accessed August 2015). For a detailed explanation of the methodology and analysis, see ONS (2011) *The effects of taxes and benefits on household income, 2009/10. Further Analysis and Methodology*.

London: ONS. Available at: <http://www.ons.gov.uk/ons/rel/household-income/the-effects-of-taxes-and-benefits-on-household-income/2009-2010/index.html> (accessed August 2015).

¹⁷ Stiglitz, J. E., Sen, A. and Fitoussi, J-P. (2009) *Report by the Commission on the Measurement of Economic Performance and Social Progress*. Paris: Institut National de la Statistique et des Etudes Economiques. Available from: http://www.insee.fr/fr/publications-et-services/dossiers_web/stiglitz/doc-commission/RAPPORT_anglais.pdf (accessed September 2015).

¹⁸ Coyle, D. (2014) *GDP: A Brief But Affectionate History*. Princeton New Jersey: Princeton University Press.

¹⁹ Fioramonti, L. (2013) *Gross Domestic Problem*. London: Zed Books.

²⁰ Christophers, B. (2011) 'Making Finance Productive'. *Economy and Society*, vol. 40, pp. 112-40.

²¹ Titmuss, R. (1965) 'The role of redistribution in social policy'. *Social Security Bulletin*, June 1965. Available at: www.ssa.gov/policy/docs/ssb/v28n6/v28n6p14.pdf (accessed July 2015).

²² Fioramonti, L., *op. cit.*, p. 94.

²³ 'OECD Better Life Index' (undated). *OECD website*. Available at: <http://www.oecdbetterlifeindex.org/> (accessed August 2015).

²⁴ ONS (2013) 'The Effects of Taxes and Benefits on Household Income, 2011/12' (table 30). Statistical Bulletin, 10th July 2013. Available at: <http://www.ons.gov.uk/ons/rel/household-income/the-effects-of-taxes-and-benefits-on-household-income/2011-2012/etb-stats-bulletin-2011-12.html> (accessed September 2015). The Office for National Statistics has developed a sophisticated method for allocating incomes, taxes and benefits to households within regions. The data refers to all households based on their residence and starts with the annualised gross income of all members of the household including income from employment, self-employment, investments and occupational pensions. Cash benefits include contributory and non-contributory benefits and tax credits, to which is added benefits in kind provided to households such as education and health. There are some items of Government expenditure (e.g. defence) for which there is no clear conceptual basis for allocation so these are excluded. For a more detailed explanation of the methodology see 'The effects of taxes and benefits on household income, 2009/10' published by ONS.

²⁵ Butler, P. (2015) 'George Osborne to slash social security payments by £46bn in next five years'. *The Guardian*, 8 July 2015. Available at: <http://www.theguardian.com/politics/2015/jul/08/george-osborne-social-security-cuts-tax-credits-housing-benefit> (accessed July 2015).

²⁶ This analysis of the impact on the Valleys estimates that when implemented, the welfare reforms will take more than £1billion/year out of the Welsh economy, which works out at £550/working age adult in Wales. Their estimates suggest that in the poorest communities in the Valleys, this rises to over £1000/year. See Beatty, C. & Fothergill, S. (2014) *The impact of welfare reform on the Valleys*. Centre for Regional Economic and Social Research, Sheffield Hallam University, for Industrial Communities Alliance (Wales). Available at: <http://www.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/welsh-valleys-report-2014.pdf> (accessed August 2015), p. 3.

²⁷ *Ibid.*, p. 4.

²⁸ WG (2014) *Analysing the impact of the UK Government's welfare reforms in Wales – Stage 3 analysis Part 2: Impacts in local authority areas*. Available at: <http://gov.wales/docs/dsjlg/report/140217-wr-stage3-part2-full-report-en.pdf> (accessed August 2015).

²⁹ See Philips, D. (2015) 'The distributional effects of the UK government's tax and welfare reforms in Wales: an update'. *IFS Briefing Note*, BN150. London: Institute for Fiscal Studies. Available at: <http://www.ifs.org.uk/publications/7258> (accessed August 2015), p. 10. Commissioned by WG, whose own analysis is at: <http://gov.wales/topics/people-and-communities/welfare-reform-in-wales/analysing-reforms/?lang=en>.

³⁰ ONS (2014) 'Households receiving more in benefits than paid in taxes, 1977-2012/13'. Part of *The Effects of Taxes and Benefits on Household Income, 2012/13 Release*, 26 June 2014. Available at: <http://www.ons.gov.uk/ons/rel/household-income/the-effects-of-taxes-and-benefits-on-household-income/2012-13/data-households-receiving-more-in-benefits-than-paid-in-taxes1--1977---2012-13.xls> (accessed September 2015).

³¹ 'Getting to Wales'. *VisitWales website*. Available at: www.visitwales.com/explore/travel-maps (accessed August 2015).

³² Jones (2015), *op. cit.*, p. 2.

³³ 2014 figures from ONS (2015) *Statistical bulletin: Annual Mid-year Population Estimates, 2014*. London: ONS. Available at: www.ons.gov.uk/ons/dcp171778_406922.pdf (accessed August 2015); 1989 figures taken from Excel spreadsheets entitled from 'UK Population Estimates 1851 – 2014' and 'Wales Population Estimates 1971 – 2012', all accessed via ONS website, www.ons.gov.uk/ons/search/index.html (accessed August 2015).

³⁴ Hopkin, D. (1988) 'Social Reactions to Economic Change', in Jones, G. E. and Herbert, T. (eds.) (1988), *Wales between the Wars*, Cardiff: University of Wales.

³⁵ Balsom, D. (1985) 'The three Wales model' in J. Osmond (ed.) (1985) *The National Question Again: Welsh Political Identity in the 1980s*. Gomer: Llandysul.

- ³⁵ Price, A. (2013) *Arfor: a region for the Welsh speaking West*. Available at: www.renew.plaidcymru.org/uploads/Arfor_English_Final.pdf (accessed July 2015).
- ³⁶ The Gaeltecht refers to the regions in the Republic of Ireland where Irish has been officially recognised as the primary language.
- ³⁷ 'Getting to Wales', *op. cit.*
- ³⁸ Engelen, E. Johal, S., Salento A. and Williams, K. (2014) 'How to build a fairer city'. *The Guardian*, 24 September 2014. Available at: <http://www.theguardian.com/cities/2014/sep/24/manifesto-fairer-grounded-city-sustainable-transport-broadband-housing> (accessed July 2015).
- ³⁹ Source: ONS (2013) 'Reference Tables'. *Regional Gross Value Added (Income Approach)*, 11 December 2013. London: ONS. Available at: www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcmm%3A77-317145 (accessed August 2015). For a detailed explanation of the methodology see the ONS (2014) 'Regional Gross Value Added (Income Approach), December 2013'. *ONS Statistical Bulletin*, 7 July 2014. Available at: www.ons.gov.uk/ons/dcp171778_345191.pdf (accessed August 2015).
- ⁴⁰ Meadway, *op. cit.*
- ⁴¹ WG (2014) *Skills Implementation Plan: delivering the policy statement on skills*. Cardiff: WG. Available at: gov.wales/docs/dcells/publications/140714-skills-implementation-plan-en.pdf (accessed August 2015), p. 4.
- ⁴² WG (2012) *Wales Infrastructure Investment Plan for Growth and Jobs*. Cardiff: WG. Available at: gov.wales/docs/caecd/publications/120522fullwiiipeng.pdf (accessed August 2015), p. 5.
- ⁴³ Development Bank for Wales Task and Finish Group (2015) *A Feasibility Study into the Creation of a Development Bank for Wales*. Cardiff: WG. Available at: gov.wales/docs/det/publications/150311-development-bank-wales-en.pdf (accessed August 2015), p. 5.
- ⁴⁴ WG (2015) 'Business Support: your partner for growth'. *WG website*. Available at: http://www.wales.com/en/content/cms/English/Business/Business_Support/Business_Support.aspx (accessed August 2015).
- ⁴⁵ UK Government & the Automotive Council (2013) *Driving success – a strategy for growth and sustainability in the UK automotive sector*. London: BIS. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/211901/13-975-driving-success-uk-automotive-strategy-for-growth-and-sustainability.pdf (accessed August 2015).
- ⁴⁶ Hauser, H. (2014) *Review of the Catapult network Recommendations on the future shape, scope and ambition of the programme*. London: BIS. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/368416/bis-14-1085-review-of-the-catapult-network.pdf (accessed August 2015).
- ⁴⁷ Scottish Government (2014) *Reindustrialising Scotland for the Twenty First Century: A Sustainable Industrial Strategy for a Modern, Independent Nation*. Edinburgh: Scottish Government. Available at: www.gov.scot/Resource/0045/00454447.pdf (accessed August 2015).
- ⁴⁸ Thomas, A. & Rowlands, H. (2014) *Manufacturing Supply Chain Demand Study*. Cardiff: University of South Wales. Available at: <http://gov.wales/docs/det/report/140724-amm-mscds-final-report.pdf> (accessed August 2015).
- ⁴⁹ WG (2015) 'Business Sectors'. *WG website*. Available at: <http://www.wales.com/business/business-sectors> (accessed September 2015).
- ⁵⁰ WG (2015) 'Anchor companies'. *WG website*. 13 August 2015. Available at: gov.wales/topics/businessand-economy/sector/anchor/?lang=en (accessed September 2015).
- ⁵¹ Lloyd, C. (2014) 'Skills Policy: Developing a New Approach in Wales' in Wales TUC (ed.) (2014), *Debating Industrial Policy*. Cardiff: Wales TUC. Available at: <https://www.tuc.org.uk/sites/default/files/Debating%20Industrial%20Policy%20Wales%20TUC.pdf> (accessed August 2015).
- ⁵² The Programme for International Student Assessment (PISA) standards are an OECD method of comparing school students' performance in different countries. See OECD (2015) 'PISA FAQ'. *OECD webpage*. Available at: <http://www.oecd.org/pisa/aboutpisa/pisafaq.htm> (accessed August 2015).
- ⁵³ Lloyd, *op. cit.* p. 7.
- ⁵⁴ Felstead, A., Davies, R. and Jones, S. (2013) *Skills and the Quality of Work in Wales, 2006-2012*. Cardiff: Wales Institute of Social & Economic Research, Data & Methods. Available from: www.cardiff.ac.uk/__data/assets/pdf_file/0007/118753/Skills-and-the-Quality-of-Work-in-Wales,-2006-2012-Main-Report.pdf (accessed September 2015); Owen, D. (2012) *Working Futures 2010-20: Summary Report for Wales*, London: UK Commission for Employment & Skills. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/303065/working-futures-2010-2020-wales-final-report.pdf (accessed August 2015).
- ⁵⁵ Cole, S. (2015, forthcoming) 'Transport Challenges facing small businesses'. Unpublished report for FSB Wales.
- ⁵⁶ Barry, M. (2011) *A Metro for Wales Cardiff City Region: connecting Cardiff, Newport and the Valleys*. Cardiff Business Partnership & Institute for Welsh Affairs. Available from: http://www.mgbarryconsulting.com/iwa_metroreport.pdf (accessed August 2015).

⁵⁷ Source: OECD (2015) 'Gross Domestic Product', *OECD.Stat website*. Available at: http://stats.oecd.org/Index.aspx?DatasetCode=SNA_TABLE1 (accessed August 2015). The data, which forms part of a general overview of each country, refers to 2014 except for the US which is 2013 data.

⁵⁸ Sources: Bank of England & Office for National Statistics (2015). Household equity withdrawal data is from Bank of England (2015) *Bankstats (Monetary and Financial Statistics)*. London: Bank of England. Available at: <http://www.bankofengland.co.uk/statistics/Pages/bankstats/2015/jun.aspx>. GDP data is from ONS (2015) *Economic Time Series Data*. London: ONS. Available at: www.ons.gov.uk/ons/site-information/using-the-website/time-series/index.html#2. For a more detailed explanation of the source from which the data is derived and an explanation of terminology see Bank of England (2015) 'Explanatory Notes - The Bank's estimate of housing equity withdrawal'. *Bank of England website*. Available at: www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/hew_notes.aspx (accessed August 2015). A more detailed discussion of Housing Equity Withdrawal is available here: Bank of England (2011) 'Housing equity withdrawal since the financial crisis'. *Bank of England website*. Available at: www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb110205.pdf (accessed August 2015).

⁵⁹ Levin, S. A. (ed.) (2009) *The Princeton Guide to Ecology*, Princeton, New Jersey: Princeton University Press.

⁶⁰ BIS (2012) *Growing the UK automotive supply chain: the road forward, 2012 update*. London: BIS. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/34572/12-1010-growing-uk-automotive-supply-chain-2012-update.pdf (accessed August 2015).

⁶¹ Haldane, A. & May, R. M. (2011) 'Systemic risk in banking ecosystems.' *Nature*, vol. 469, pp. 351-355; Haldane, A. (2009) 'Rethinking the Financial Network'. *Speech given at the Financial Student Association*. Amsterdam, 28 April 2009. Available at: <http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2009/speech386.pdf> (accessed August 2015).

⁶² Levin, *op. cit.*

⁶³ Sandbu, M. (2015) *Europe's Orphan*, Princeton, New Jersey: Princeton University Press.

Chapter 2:

⁶⁴ Goodley, S. & Topham, G. (2014) 'Go Compare founder to bank £44m after selling remaining stake to esure'. *The Guardian*, 8 December 2014. Available at: www.theguardian.com/business/2014/dec/08/go-compare-founder-bank-44m-selling-remaining-stake-esure (accessed July 2014).

⁶⁵ Your Senedd (2014) 'Urgent question: Avana Bakeries'. *Senedd Debates*, 11 February 2014. Available at: www.yoursenedd.com/debates/2014-02-11-urgent-question-avana-bakeries (accessed July 2014).

⁶⁶ N. Smith and J. Wright (2014) *Losing Control: a study of mergers and acquisitions in the British aerospace supply chain*. Civitas: London.

⁶⁷ BBC News (2014) 'Inward investment in Wales 'highest for nearly 25 years''. *BBC News*, 20 July 2014. Available at: <http://www.bbc.co.uk/news/uk-wales-28392774> (accessed July 2015).

⁶⁸ FSB (2013) *Local Procurement: making the most of small businesses, one year on*. FSB & CLES. Available at: <http://www.cles.org.uk/wp-content/uploads/2013/07/FSB-procurement-2013.pdf> (accessed August 2015), p. 8.

⁶⁹ Enterprise and Business Committee, National Assembly for Wales (2014) *The Welsh Government's approach to the promotion of trade and inward investment*. Cardiff: National Assembly for Wales. October 2014. Available at: <http://www.assembly.wales/laid%20documents/cr-ld9942-r%20%20enterprise%20and%20business%20committe%20report%20%20the%20welsh%20government%E2%80%99s%20approach%20to%20the%20promotion%20of%20trade%20and%20inwa/cr-ld9942-r-e.pdf> (accessed September 2015), p. 5.

⁷⁰ BBC News (2015) 'Financial firm asked to repay £700,000 Welsh Government aid'. *BBC News*, 5 August 2015. Available at: <http://www.bbc.co.uk/news/uk-wales-politics-33773794> (accessed August 2015).

⁷¹ Enterprise and Business Committee, *op. cit.*, p. 23.

⁷² Barry, S. & Boulter, A., (2015) 'Ford to cut its workforce at its giant Bridgend engine plant by 200'. *Wales Online*, 30 January 2015. Available at: <http://www.walesonline.co.uk/business/business-news/ford-cut-workforce-giant-bridgend-8548485> (accessed July 2015).

⁷³ BBC News (2005) 'Sony sheds 650 jobs with closure'. *BBC News*, 29 June 2005. Available at: news.bbc.co.uk/1/hi/wales/4632931.stm (accessed July 2015).

⁷⁴ Denholm-Hall, R., (2015) 'Motor giant Ford asks Welsh Government for £15m to make fuel efficient engines at Bridgend'. *Wales Online*, 22 January 2015. Available at: <http://www.walesonline.co.uk/business/business-news/motor-giant-ford-asks-welsh-8512441> (accessed July 2015).

⁷⁵ James, O. (2014) 'Amazon, Swansea and the Draining of the Local Economy.' 16 February 2014. Available at: <http://oliverjamesopinion.com/2014/02/16/amazon-swanea-and-the-draining-of-the-local-economy/> (accessed July 2015), quoting WG (2012) 'Ffordd Amazon £3m link road completed ahead of schedule'. *WG website*, 28

November 2012. Available at: <http://gov.wales/newsroom/businessandeconomy/2012/121128amazon/?lang=en> (accessed July 2015).

⁷⁶ Thomas, A. & Rowlands, H. (2014) *Manufacturing Supply Chain Demand Study*. The Centre for Supply Chain Operations and Procurement Excellence, University of South Wales, for the WG. Available at: <http://gov.wales/docs/det/report/140724-amm-mscds-final-report.pdf> (accessed July 2015), p. 117.

⁷⁷ Financial Times 'Definition of Mittelstand'. *Financial Times Lexicon*. Available at: lexicon.ft.com/Term?term=Mittelstand (accessed July 2015).

⁷⁸ Jones-Evans, D. 'Fast growth 50: Promoting the development of business growth in Wales'. Available at: <http://www.fastgrowth50.com/enter> (accessed July 2015).

⁷⁹ Roper, S. and Malshe, A. (2013) *The Mighty Middle: Growth and opportunity in the UK's mid-market*. London: GE Capital/ Warwick Business School. Available at: http://www.gecapital.co.uk/en/docs/LFTM_The_mighty_middle_UK_mid-market.pdf (accessed July 2015).

⁸⁰ Storey, D. J. (1994), *Understanding the Small Business Sector*. London: Routledge, pp. 158-9.

⁸¹ European Commission (2015) 'What is an SME?' *European Commission Webpage*. Available at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm (accessed July 2015).

⁸² Venohr, B. (2011) 'The Success model: German mid-sized world market leaders: lessons for large and small companies'. *Presentation given at the MBA General Management Dual Award*, Berlin, 9 July 2011. Available at: http://www.slideshare.net/Venohr?utm_campaign=profiletracking&utm_medium=sssite&utm_source=ssslideview (accessed July 2015).

⁸³ Source: StatWales, *ibid*.

⁸⁴ Source: Enterprises by industry (SIC2007), size-band and area. *StatWales*. Available at: <https://statswales.wales.gov.uk/Catalogue/Business-Economy-and-Labour-Market/Businesses> (accessed July 2015). This data is categorised as 'private sector'. However the ONS classification of the 'private sector' is broad as businesses are either in the private or public sector. There is no intermediate classification so there is some blurring as hybrid businesses like charities are classified as public sector and universities and GPs are classified as private sector. The data will inevitably include activities overwhelmingly dependent on public sector funding through either reclassification or the activity has been outsourced. Broadly the Public Sector is excluded from this dataset.

⁸⁵ The underlying data is from Econ0047: Size analysis of business by industry (SIC2007), Wales and UK series. It is based on the Inter-Departmental Business Register (IDBR) from the Office for National Statistics (ONS) for enterprises above the VAT threshold and for those enterprises below the VAT threshold, IDBR data is supplemented with collections from the Survey of Personal Incomes and the Labour Force Survey. The data on the structure of enterprises active in Wales by industry and size-band, includes estimates for the very smallest businesses that typically operate below the VAT threshold. The data collection includes all private sector enterprises plus public and nationalised corporations. It excludes local and central government organisations. The method applied to the data collection is based on enterprises with some activity in Wales regardless of the region of registration; the figures for employment and turnover relate only to the sites of the enterprises located in those areas.

⁸⁶ David, R. (2007) *What Visibility for Wales? Connecting with the Consumer*. IWA Memorandum submitted to the Welsh Affairs Select Committee Inquiry 'Globalisation and its Impact on Wales', (GLOB 12). Available at: <http://www.publications.parliament.uk/pa/cm200607/cmselect/cmwelaf/ucglobal/m8.htm> (accessed July 2015).

⁸⁷ Enterprise Planning and Research Ltd (2012) *Welsh Dairy Products: Consumer Study Report*. Available at: http://dairy.ahdb.org.uk/media/698622/welsh_dairy_products_consumer_study_report.pdf (accessed July 2015).

⁸⁸ BBC News (2014) 'Britain best brand for Welsh exports, survey suggests'. *BBC News*, 3 October 2014. Available at: <http://www.bbc.co.uk/news/uk-wales-29461272> (accessed July 2015).

⁸⁹ Sweney, M. (2008) 'Consortium eyes Tinopolis for £44.7m'. *The Guardian*, 9 May 2008. Available at: <http://www.theguardian.com/media/2008/may/09/mediabusiness.television> (accessed July 2015).

⁹⁰ Source: StatWales, *op. cit*. In 2003 there were 158,985 micro enterprises and by 2013 this had risen to 207,500 enterprises.

⁹¹ The Action Plan recommends the creation of the new 'Food and Drink Wales' identity. See WG (2014a) *Towards Sustainable Growth: An Action Plan for the Food and Drink Industry, 2014-2020*. Cardiff: WG. Available at: <http://gov.wales/docs/drah/publications/140611actionplanforfoodanddrinken.pdf>, pp. 11-12.

⁹² Bowman et. al. (2014), *op. cit.*, and Bowman, A., Froud, J., Johal, S., Law, J., Leaver, A. & Williams, K. (2012) *Bringing Home the Bacon. From trader mentalities to industrial policy*. Available at: <http://www.cresc.ac.uk/sites/default/files/Bringing%20home%20the%20bacon.pdf> (accessed July 2015).

- ⁹³ Morgan, S. (2015) 'Blow to Welsh success story Rachel's Organic yoghurt as it is dropped by Tesco amid supermarket's cull of suppliers'. *Wales Online*, 22 April 2015. Available at: <http://www.walesonline.co.uk/business/business-news/blow-welsh-success-story-rachels-9094940> (accessed July 2015).
- ⁹⁴ Dean Foods (2013) *Annual report*. Texas: Dean Foods. Available at: http://www.deanfoods.com/medi/93440/annual_report_-_pdf_for_web_posting.pdf (accessed July 2015).
- ⁹⁵ Adams, S. (2009) 'Rachel's drops 'organic' from name as sector suffers in downturn'. *The Telegraph*, 20 April 2009. Available at: www.telegraph.co.uk/foodanddrink/foodanddrinknews/5188377/Rachels-drops-organic-from-name-as-sector-suffers-in-downturn.html (accessed March 2015).
- ⁹⁶ Food Processing-Technology (2010) 'Groupe Lactalis Acquires Rachel's Dairy.' *Food Processing-Technology website*, 30 July 2010. Available at: <http://www.foodprocessing-technology.com/news/news91987.html> (accessed February 2015).
- ⁹⁷ Food Processing-Technology (2015) 'Rachel's Organic Dairy, Aberystwyth, United Kingdom'. *Food Processing-Technology*. Available at: <http://www.foodprocessing-technology.com/projects/rachel/> (accessed February 2015).
- ⁹⁸ BBC (2012) 'Jobs under threat at Aberystwyth dairy firm Rachel's'. *BBC News*, 16 May 2012. Available at: <http://www.bbc.co.uk/news/uk-wales-mid-wales-18088696> (accessed February 2015).
- ⁹⁹ Morgan (2015), *op. cit.*
- ¹⁰⁰ Peter Saunders Trust (undated) 'Profile'. Available at: www.petersaunderstrust.co.uk/saundersprofile.php (accessed February 2015).
- ¹⁰¹ The Grocer (2007) 'Glisten reports record results'. *The Grocer*, 12 March 2007. Available at: <http://www.the-grocer.co.uk/home/topics/glisten-reports-record-results/117974.article> (accessed March 2015).
- ¹⁰² Wales Online (2010) 'Halo back on track as Glisten's profit rises'. *Wales Online*, 23 March 2010. Available at: <http://www.walesonline.co.uk/business/business-news/halo-back-track-glistens-profit-1930826> (accessed February 2015).
- ¹⁰³ Glisten (undated) 'About Us'. *Glisten website*. Available at: www.glistenltd.com/Glisten_Ltd/About_Us/Default.aspx?id=9 (accessed January 2015).
- ¹⁰⁴ News Nordic (2013) 'Raisio Completes Sale of Non-Dairy Business to Kavli'. *News Nordic*, May 10 2013. Available at: www.highbeam.com/doc/1G1-329295178.html (accessed February 2015).
- ¹⁰⁵ Insider Media Ltd (2013) 'Halo unveils Welsh Government support'. *Insider Media*, 23 August 2013. Available at: <http://www.insidermedia.com/insider/wales/97102-halo-unveils-welsh-government-support/index.html> (accessed February 2015).
- ¹⁰⁶ Saunders, P. (2014) 'Entrepreneurship can be a boost for our hardest hit areas'. *Click on Wales*, 25 February 2014. Cardiff: IWA. Available at: <http://www.clickonwales.org/2014/02/entrepreneurship-can-be-a-boost-for-our-hardest-hit-areas/> (accessed February 2015).
- ¹⁰⁷ Denhom-Hall, R. (2015) 'Dragons' Den: The 8 Welsh entrepreneurs who'd be an improvement on Piers Linney, Duncan Bannatyne and Kelly Hoppen'. *Wales Online*, 26 January 2015. Available at: <http://www.walesonline.co.uk/business/business-news/dragons-den-8-welsh-entrepreneurs-8516338> (accessed January 2015).
- ¹⁰⁸ Barry, S. (2005) 'Tinopolis tops Carmarthenshire awards'. *Wales Online*, 29 March 2005. Available at: <http://www.walesonline.co.uk/business/business-news/tinopolis-tops-carmarthenshire-awards-2404407> (accessed February 2015).
- ¹⁰⁹ Deans, J. (2005) 'TV Corp board agrees to takeover'. *The Guardian*, 20 December 2005. Available at: <http://www.theguardian.com/media/2005/dec/20/independentproductioncompanies.broadcasting> (accessed February 2015).
- ¹¹⁰ Garside, J. (2008) 'Tinopolis to quit AIM after private equity offer'. *The Telegraph*, 10 May 2008. Available at: <http://www.telegraph.co.uk/finance/newsbysector/mediatechnologyandtelecoms/2789749/Tinopolis-to-quit-AIM-after-private-equity-offer.html> (accessed February 2015).
- ¹¹¹ Deans (2005), *op. cit.*
- ¹¹² Barry, S. (2005) 'Tinopolis beats a fast path to the City'. *Wales Online*, 14 January 2005. Available at: <http://www.walesonline.co.uk/business/business-news/tinopolis-beats-fast-path-city-2408854> (accessed February 2015).
- ¹¹³ Sweney, M. (2011) 'Tinopolis acquires US producer of Hell's Kitchen in £60m deal'. *The Guardian*, 28 June 2011. Available at: <http://www.theguardian.com/media/2011/jun/28/tinopolis-us-question-time> (accessed February 2015).
- ¹¹⁴ Wales Online (2011a) 'Tinopolis buys US television firm BASE Productions for £25m'. *Wales Online*, 9 August 2011. Available at: <http://www.walesonline.co.uk/business/business-news/tinopolis-buys-television-firm-base-1814934> (accessed February 2015).
- ¹¹⁵ Barry, S. (2012) 'Tinopolis acquires Firecracker Films'. *Wales Online*, 6 December 2012. Available at: <http://www.walesonline.co.uk/business/business-news/tinopolis-acquires-firecracker-films-2408854> (accessed February 2015).

www.walesonline.co.uk/business/business-news/tinopolis-acquires-firecracker-films-2013027 (accessed February 2015).

¹¹⁶ Wales Online (2011a), *op. cit.*

¹¹⁷ Sweney, M. (2014) 'Question Time producer Tinopolis up for sale'. *The Guardian*, 8 October 2014. Available at: <http://www.theguardian.com/media/2014/oct/08/question-time-tinopolis-sale> (accessed February 2015).

¹¹⁸ Daily Telegraph (2011), 'John Randall – Obituary'. *The Telegraph*, 24 Aug 2011. Available at: <http://www.telegraph.co.uk/news/obituaries/finance-obituaries/8720912/John-Randall.html> (accessed June 2015).

¹¹⁹ Management Today (1992) 'UK: Just desserts for RHM'. *Management Today*, 1 December 1992. Available at: <http://www.managementtoday.co.uk/news/409074/UK-Just-desserts-RHM> (accessed June 2015).

¹²⁰ Kanes Foods (undated), 'Kanes Foods is a respected chilled food manufacturer with a turnover in excess of £100 million'. *Kanes Food website*. Available at: <http://kanesfoods.co.uk/about/> (accessed July 2015).

¹²¹ Management Today, *op. cit.*

¹²² Cope, N. (2000), 'Tomkins loses buns-to-guns tag with sale of RHM to Doughty Hanson'. *The Independent*, 22 July 2000. Available at: <http://www.independent.co.uk/news/business/news/tomkins-loses-bunstoguns-tag-with-sale-of-rhm-to-doughty-hanson-708307.html> (accessed July 2015).

¹²³ Kleinman, M. & Litterick, D. (2008) 'Premier Foods chews over sale of Marks & Spencer suppliers'. *The Telegraph*, 20 April 2008. Available at: <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/2788578/Premier-Foods-chews-over-sale-of-Marks-and-Spencer-suppliers.html>.

¹²⁴ Wales Online (2011) 'Premier Foods streamlines and sells Brookes Avana for £30m'. *Wales Online*, 14 December 2011. Available at: <http://www.walesonline.co.uk/business/business-news/premier-foods-streamlines-sells-brookes-1800725> (accessed July 2015).

¹²⁵ Armitstead, L. (2012) 'OFT intervenes over plum deal'. *The Telegraph*, 25 October 2012. Available at: <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/9634079/OFT-intervenes-over-plum-deal.html> (accessed July 2015).

¹²⁶ BBC News (2014c) 'Around 650 Avana Bakeries jobs at risk after M&S contract loss'. *BBC News*, 7 February 2014. Available at: <http://www.bbc.co.uk/news/uk-wales-south-east-wales-26080954> (accessed July 2015).

¹²⁷ Management Today, *op. cit.*

¹²⁸ Admiral Group plc (undated) 'Our Story'. *Admiral Group plc website*. Available at: <http://www.admiralgroup.co.uk/story/index.php> (accessed July 2015).

¹²⁹ DBW Task and Finish Group (2015). *A Feasibility Study into the Creation of a Development Bank for Wales*. *WG Website*. Available at: <http://www.senedd.assembly.wales/documents/s38941/EBC4-10-15.pdf> (accessed July 2015), p. 4.

¹³⁰ Ibid.

¹³¹ Jones-Evans, D. (2013) *Access to Finance Review. Stage 2 Review*. Report for the Minister of Economy, Science and Transport. *WG website*. Available at: <http://gov.wales/topics/businessandconomy/policy/access-to-finance/?lang=en> (accessed August 2015), p. 43.

¹³² DBW Task and Finish Group, *op. cit.*, pp. 9-10.

¹³³ Gray D, Saunders M, Goregaokar, H. (2013) *SME Success in Challenging Times : Bank Finance – Lost in Translation*. London: University of Surrey, University of Greenwich & Kingston Smith LLP. Available at: http://epubs.surrey.ac.uk/804540/7/_homes.surrey.ac.uk_home_.System_Desktop_SME.pdf (accessed July 2015).

¹³⁴ Ibid, pp. 11-12.

¹³⁵ Bowman et. al. (2012), *op. cit.*

¹³⁶ Barry, S. (2015) 'Business Minister Edwina Hart is 'hugely in favour' of creating a Development Bank for Wales'. *Wales Online*, 23 April 2015. Available at: <http://www.walesonline.co.uk/business/business-news/business-minister-edwina-hart-hugely-9106477> (accessed July 2015).

¹³⁷ Finance Wales (2015) 'Investment Performance.' *Finance Wales website*. Available at: <http://www.finance.wales.co.uk/performance--impact/investment-performance.aspx> (accessed July 2015).

¹³⁸ Barry (2015), *op. cit.*

¹³⁹ Investopedia (undated) 'Exit strategy.' *Investopedia website*. Available at: <http://www.investopedia.com/terms/e/exitstrategy.asp> (accessed July 2015).

¹⁴⁰ BIS (2013) 'SME Access to Finance Schemes: Measures to Support SME growth'. *UK Government website*. Available at: <https://www.gov.uk/government/publications/sme-access-to-finance-schemes-measures-to-support-small-and-medium-sized-enterprise-growth> (accessed July 2015), p. 4 et seq.).

¹⁴¹ Ibid, p. 11 et seq.

Chapter 3:

¹⁴² WG (2014) 'Getting the most out of the Welsh pound - Wales leading the way on procurement'. *VW website*. Available at <http://gov.wales/newsroom/finance1/2014/8635400/?lang=en> (accessed May 2015).

¹⁴³ NEF (2005) 'Buying local worth 400 per cent more.' *NEF press release*. Available at: www.neweconomics.org/press/entry/buying-local-worth-400-per-cent-more (accessed April 2015).

¹⁴⁴ Sacks, J. (2002) *The Money Trail*. London: Countryside Agency/NEF. Available at: http://b.3cdn.net/nefoundation/7c0985cd522f66fb75_o0m6boezu.pdf (accessed April 2015); Ward, B. & Lewis, J. (2002) *Plugging the Leaks: Making the most of every pound that enters your local economy*. London: NEF, Esme Fairburn Foundation & Neighbourhood Renewal Unit. Available at: http://b.3cdn.net/nefoundation/9215d0d00f79789377_cxm6bu0ue.pdf (accessed April 2015).

¹⁴⁵ NEF (2008) 'Local Alchemy: reinventing local economies.' *Plugging the Leaks website*. Available at: http://www.pluggingtheleaks.org/communities_taking_action/in_the_uk.htm (accessed April 2015).

¹⁴⁶ HM Treasury (2014) 'Table 9.1, Total identifiable expenditure on services by country and region, 2008-09 to 2012-13'. *Public Expenditure Statistical Analyses 2015*. Chapter 9: Public expenditure by country, region and function tables. London: HM Treasury. Available at: <https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2015> (accessed September 2015).

¹⁴⁷ WG (2015) 'Wales Procurement Policy Statement'. *WG website*, 12 June 2015. Available at: <http://gov.wales/topics/improvements/better/vm/publications/procurement-policy-statement/?lang=en> (accessed September, 2015).

¹⁴⁸ Watkins, E. (2012) 'Delivering Services can drive the economy and provide a lot of jobs'. *Western Mail*, 20 June 2012. Available at: <http://www.cbi.org.uk/media-centre/news-articles/2012/06/emma-watkins-column-for-western-mail-on-20062012/> (accessed July 2015).

¹⁴⁹ Shipton, M. (2014) 'Plaid Cymru announces aim to create 50,000 new jobs and end business rates for 70,000 small firms'. *Wales Online*, 8 December 2014. Available at: www.walesonline.co.uk/news/wales-news/plaid-cymru-announces-aim-create-8253807 (accessed May 2015).

¹⁵⁰ WG (2012a) 'Written Statement - Maximising the Impact of Welsh Procurement Policy. Wales Procurement Policy Statement'. *WG website*, 6 December 2012. Available at: <http://gov.wales/about/cabinet/cabinetstatements/2012/welshprocurement/?lang=en> (accessed March 2015), p. 2.

¹⁵¹ See contributions from Leanne Wood, Byron Davies, and Eluned Parrot, in Welsh Assembly (2013) *The Record of Proceedings*, 17 April 2013. Cardiff: Welsh Assembly. Available at: <http://www.assembly.wales/en/bus-home/pages/rop.aspx?meetingid=45#76327> (accessed June 2015).

¹⁵² Shipton (2014), *op. cit.*

¹⁵³ Plaid Cymru (2012) 'Plaid Cymru Public Procurement Policy Could Create Nearly 50,000 Jobs in Wales'. *Plaid Cymru Press Release*, 26 September 2012. Available at: <https://www.partyof.wales/news/2012/09/26/plaid-cymru-public-procurement-policy-could-create-nearly-50-000-jobs-in-wales/>, (accessed May 2015).

¹⁵⁴ Watkins, *op. cit.*

¹⁵⁵ FSB (2013), *op. cit.*, p. 2.

¹⁵⁶ WG (2014b) 'New guidance will ensure more community benefits from construction contracts, says Jane Hutt.' *WG website*, 23 July 2014. Available at: <http://gov.wales/newsroom/finance1/2014/9034949/?lang=en> (accessed May 2015).

¹⁵⁷ Telles, P. (2014) 'Simplifying procurement for low value contracts'. Cardiff: FSB Wales Round Table Seminar Series No. 4. Available at: [http://www.fsb.org.uk/policy/rpu/wales/images/\(final%20version\)%20fsb%20seminar%20series%20no.4%20dr%20pedro%20telles.pdf](http://www.fsb.org.uk/policy/rpu/wales/images/(final%20version)%20fsb%20seminar%20series%20no.4%20dr%20pedro%20telles.pdf) (accessed August 2015).

¹⁵⁸ Interview with Keith Edwards from Chartered Institute for Housing, 24 March 2015.

¹⁵⁹ Inform to Involve (undated) *Targeted Recruitment and Training for Social Landlords Can Do Toolkit Pts 1 & 2*. Cardiff: Chartered Institute for Housing. Available from: <http://www.cih.org/i2i/publications> (accessed June 2014).

¹⁶⁰ McClelland J. (2012) *Maximising the Impact of Welsh Procurement Policy*. Cardiff: WG. Available at: <http://gov.wales/docs/dpsp/publications/valuewales/120917mcclellandreviewfullfinal.pdf> (accessed July 2015), pp. 11-12.

¹⁶¹ VW (2011) *Community Benefits: Delivering Maximum Value for the Welsh Pound*. Cardiff: WG. Available at: <http://gov.wales/docs/dpsp/publications/valuewales/140904-community-benefit-report-en.pdf> (accessed July 2015), p. S1:2.

¹⁶² McClelland, *op. cit.*, p. 40.

¹⁶³ Ringwald K., Lee C., Williams H., Cahill T.D., Clifford G. (2009) Barriers to Procurement Opportunity Research. University of Glamorgan & Tenderwise, for the WG. Available at: <http://prp.gov.wales/docs/prp/generalgoods/services/130617barrierstoprocurement.pdf> (accessed July 2015), p. 42.

¹⁶⁴ WG (2015) '5. Supplier Selection. Selection/Pre-Qualification Process - Supplier Qualification Information Database (SQUID)'. *WG website*. Available at: <http://prp.gov.wales/planners/general/phase2/supplierselection/prequalificationquestionnaire/> (accessed July 2015).

- ¹⁶⁵ McClelland, *op. cit.*
- ¹⁶⁶ *Ibid.*, p. 110.
- ¹⁶⁷ WG (2012b) 'Response to the Report of the Enterprise and Business Committee: Influencing the Modernisation of EU Procurement Policy.' *WG website*. Available at: http://www.senedd.assembly.wales/documents/s9214/WG_response_to_Influencing_the_Modernisation_of_EU_Procurement_Policy_report_-_Ju.pdf (accessed July 2015).
- ¹⁶⁸ Telephone interview with VW official, 8 June 2015, and subsequent e mail dated 24 June 2014.
- ¹⁶⁹ WG (2014b), *op. cit.*
- ¹⁷⁰ Telephone interview with VW official, 13 May 2015.
- ¹⁷¹ ONS (2015) *Annual Midyear Population Estimates, 2014*. London: ONS. Available at: http://www.ons.gov.uk/ons/dcp171778_406922.pdf (accessed July 2015), p. 3.
- ¹⁷² McClelland, *op. cit.*, p. 20.
- ¹⁷³ *Ibid.*, pp. 40-42.
- ¹⁷⁴ Strategic Marketing (2013) *Public Sector Food Purchasing in Wales*. Report produced for WG, May 2013. Available from: <http://gov.wales/docs/drah/publications/140815-food-public-sector-purchasing-survey-2013-en.pdf> (accessed July 2015), p. 4.
- ¹⁷⁵ McClelland, *op. cit.*, p. 30.
- ¹⁷⁶ *Ibid.*, p. 20.
- ¹⁷⁷ *Ibid.*, p. 54.
- ¹⁷⁸ See Jane Hutt's Statement in the Senedd, 'Delivering Change for Wales through Procurement Policy'. *Your Senedd Debates website*, 9th June 2015. Available at: <http://www.yoursenedd.com/debates/2015-06-09-4-statement-delivering-change-for-wales-through-procurement-policy> (accessed September 2015).
- ¹⁷⁹ WG (2015) 'Procurement Board Communiqué'. Board meeting, 18 February 2015. *WG website*. Available at: <http://gov.wales/docs/dpsp/publications/valuewales/150227-communique-en.pdf> (accessed July 2015).
- ¹⁸⁰ WG (2015) 'National Procurement Service Board Communiqué'. *WG website*. Board meeting, 4 March 2015. Available at: <http://gov.wales/docs/nps/150319-board-en.pdf?lang=cy> (accessed July 2015).
- ¹⁸¹ WG (2015) *nps News*, April 2015. *WG website*. Available at: <http://nps.gov.wales/news/newsletter-april-2015?lang=en> (accessed July 2015).
- ¹⁸² Shipton, M. (2015) 'A look inside Viridor - Wales' massive and controversial waste incinerator'. *Wales Online*, 11 February 2015. Available at: <http://www.walesonline.co.uk/news/wales-news/inside-wales-new-waste-incinerator-6693194> (accessed July 2015).
- ¹⁸³ Brown, J.M. (2015) 'Northamptonshire Council takes outsourcing to a different level.' *Financial Times*, 12 April 2015. Available at: <http://www.ft.com/cms/s/0/c642439c-dfa1-11e4-a6c4-00144feab7de.html> (accessed July 2015).
- ¹⁸⁴ Barnfield, S. (2014) 'City Council makes Service Birmingham contract available for public to read'. *Birmingham Mail*, 28 February 2014. Available at: <http://www.birminghammail.co.uk/news/midlands-news/city-council-makes-service-birmingham-6759541> (accessed July 2015).
- ¹⁸⁵ North Wales Daily Post (2012) 'Bridgend council claims it will save £500,000 by outsourcing leisure services.' *North Wales Daily Post*, 8 March 2012. Available at: <http://www.dailypost.co.uk/news/local-news/bridgend-council-claims-save-500000-2666372> (accessed July 2015).
- ¹⁸⁶ McCarthy, J. (2014) 'Revealed: The millions spent by Welsh police forces on private contractors'. *Wales Online*, 30 November 2014. Available at: <http://www.walesonline.co.uk/news/wales-news/revealed-millions-spent-welsh-police-8197291> (accessed July 2015).
- ¹⁸⁷ Sourcing Focus (2015a) 'North Wales Police sign 5 year contract with CGI'. *Sourcing Focus Website*, 27 April 2015. Available at: http://www.sourcingfocus.com/site/newsitem/north_wales_police_sign_5_year_contract_with_cgi/ (accessed July 2015).
- ¹⁸⁸ Sourcing Focus (2015b) 'Denbighshire County Council Confirm 7 Year Deal with Civica'. *Sourcing Focus Website*, 31st March, 2015. Available at: http://www.Sourcingfocus.com/site/newsitem/denbighshire_county_council_confirm_7_year_deal_with_civica/ (accessed July 2015).
- ¹⁸⁹ ATOS (2015) 'Blaenau Gwent County Borough Council: Identifying vulnerable citizens by sharing intelligence between five public service organisations in South Wales'. *ATOS Website*. Available at: <http://uk.atos.net/en-uk/home/your-business/government/local-government/supporting-vulnerable-citizens-case-study.html> (accessed July 2015).
- ¹⁹⁰ Ballard, M. (2012) 'Capita to cut 70 of staff in Barnet council outsourcing deal'. *ComputerWeekly.com*, 6 December 2012. Available at: <http://www.computerweekly.com/news/2240173932/Capita-to-cut-70-of-staff-in-Barnet-council-outsourcing-deal> (accessed July 2015).
- ¹⁹¹ TUC & NEF (2015) *Outsourcing Public Services*. London: TUC. Available at: <https://www.tuc.org.uk/sites/default/files/TUC%20and%20NEF%20Outsourcing%20Public%20Services.pdf> (accessed August 2015), p. 92.

¹⁹² ATOS (2015) 'SME Harbour provides a simple, safe and transparent way for Atos to partner with small and medium sized businesses.' *ATOS Website*. Available at: <http://uk.atos.net/en-uk/home/your-business/government/sme-harbour.html> (accessed July 2015).

¹⁹³ VW are running a pilot in North Wales using a project bank account, to ensure that subcontractors are paid on time; the more important issue of power and margins is not, as far as we know, being addressed. (Telephone interview with VW official, 13.5.2014.)

¹⁹⁴ Price, A. (2012) *Offa's Gap: Roots and Remedies of the Welsh Growth Collapse*. Cardiff: Plaid Cymru Economic Commission. Available at: http://www.english.plaidcymru.org/uploads/downloads/Offas_gap.pdf (accessed July 2015).

¹⁹⁵ Macfarlane, R. & Cook M. (2002) *Achieving Community Benefits through Contracts: Law, policy and practice*. Bristol: The Policy Press. Available at: <http://www.jrf.org.uk/sites/files/jrf/jr129-community-benefits-contracts.pdf> (accessed April 2015).

¹⁹⁶ Macfarlane R. & Collins S. A. (2014) *Tackling Poverty through Public Procurement*. York: Joseph Rowntree Foundation. Available at: <http://www.jrf.org.uk/publications/tackling-poverty-procurement> (accessed April 2015).

¹⁹⁷ Ibid., p. 63.

¹⁹⁸ FSB (2013), *op. cit.*, p. 8.

¹⁹⁹ Denholm-Hall, R. (2015) 'Councils in Wales are failing to keep track of spending with small firms'. *Wales Online*, 10 April 2015. Available at: <http://www.walesonline.co.uk/business/business-news/councils-wales-failing-keep-track-9016140> (accessed July 2015).

²⁰⁰ For more information about the work of the Centre for Local Economic Strategies (CLES) with Preston City Council, see Jackson, M. & McInroy, N. (2015). *Creating a Good local Economy: the Role of Anchor institutions*. Manchester: CLES. Available at: <http://www.cles.org.uk/wp-content/uploads/2015/04/Anchor-institutions.pdf> (accessed August 2015), inspired by the work of the Democracy Collaborative in the US (<http://democracycollaborative.org>).

²⁰¹ WG (2015) 'Procurement Route Planner: Driving best practice procurement in Wales'. *WG website*. Available at: <http://prp.gov.wales/> (accessed May 2015).

²⁰² Johal, S. & Williams, K. (2013) *The Enfield experiment*. Research report. Manchester: Centre for Socio Cultural Change. Available at: http://www.cresc.ac.uk/sites/default/files/EnfieldExperiment_0.pdf (accessed July 2015).

²⁰³ WG (2015) 'National Procurement Service – Pipeline'. *WG website*. Available at: <http://nps.gov.wales/pipeline/future-pipeline?lang=en> (accessed July 2015).

²⁰⁴ WG (2010) *Economic Renewal : A New Direction*. Cardiff: Welsh Assembly Government. Available at: <http://gov.wales/docs/det/report/100705anewdirectionen.pdf> (accessed September 2015), p. 4.

²⁰⁵ WG (2014) 'Economic renewal: a new direction'. *WG website*. Available at:

<http://gov.wales/topics/businessandeconomy/policy/economic-renewal/?lang=en> (accessed September 2015).

²⁰⁶ WG (2015) 'Food and drink plan action announced'. *WG website*, 30 June 2015. Available at:

<http://business.wales.gov.uk/foodanddrink/news-and-events/news/food-and-drink-plan-action-announced> (accessed September 2015)

²⁰⁷ Harvey, F. & Smithers, R. (2015) 'No whey forward – future of Britain's dairy industry hangs in the balance'. *The Guardian*, 12 January 2015. Available at: <http://www.theguardian.com/science/2015/jan/12/dairy-industry-crisis-falling-milk-prices-national-farmers-union> (accessed September 2015). BBC News (2015) 'West farmers 'crisis' meeting amid row over NFU'. *BBC News*, 23 July 2015. Available at: <http://www.bbc.co.uk/news/uk-england-somerset-33622741> (accessed September 2015); BBC News (2015) 'Northern Ireland dairy crisis: Farmers protest as Stormont committee meets'. *BBC News*, 30 July 2015. Available at: <http://www.bbc.co.uk/news/uk-northern-ireland-33713110> (accessed September 2015).

²⁰⁸ BBC Farming Today (2015) 'Dairy Song, No Lamb Week, Salmon Netting Ban'. *BBC Farming Today*, 29 July 2015. Available at: <http://www.bbc.co.uk/programmes/b0639wcx>, (accessed September 2015).

²⁰⁹ A recent survey of SMEs in Wales, carried out for the FSB, concluded that 'the vast majority of SMEs are unaware of which sector best fits their businesses'. Crawley, A., Delbridge, R. & Munday, M. (undated) *Small Businesses in Priority Sectors*. Cardiff: Cardiff Business School & FSB Wales. Available at: http://www.fsb.org.uk/policy/rpu/wales/images/cu_fsbw_small_businesses_in_priority_sectors.pdf, (accessed July 2015), p. 19.

²¹⁰ WG (2011) *The Sectoral Approach: Explanatory Note*. Cardiff: Welsh Assembly Government. Available at: <http://gov.wales/docs/det/report/110117sectoralapproachen.pdf>, (accessed August 2015), p. 2.

²¹¹ WG (2013a) *A report on the progress and future remit of Sectors and their Panels*. Cardiff: Welsh Assembly Government. Available at: <http://gov.wales/docs/det/publications/131119sectorremiten.pdf>, (accessed August 2015), p. 30.

²¹² Laing, W. (2008) *Calculating a fair price for care. A toolkit for nursing and residential care costs. 3rd edition* London & York: Laing and Buisson & Joseph Rowntree.

- ²¹³ Dunning, J. (2011) 'Judge orders council to rethink care provider fee freeze'. *Community Care*, 10 November 2011. Available at: <http://www.communitycare.co.uk/2011/11/10/judge-orders-council-to-rethink-care-provider-fee-freeze/>, (accessed September 2015). Pitt, V. (2011) 'Care homes set to raise fees after landmark judgement'. *Community Care*, 1 February 2011. Available at: <http://www.communitycare.co.uk/2011/02/01/care-homes-set-to-raise-fees-after-landmark-judgement/>, (accessed September 2015).
- ²¹⁴ WG (2013a), *op. cit.*, p. 6.
- ²¹⁵ WG (2013), 'Food and Farming Sector Panel'. *WG website*, 23 December 2013. Available at: <http://gov.wales/topics/businessandeconomy/sector/food-and-farming-sector/food-farm-sector-panel/?lang=en>, (accessed August 2015).
- ²¹⁶ WG (2014a), *op. cit.*, p. 7.
- ²¹⁷ WG (2015) 'Rebecca Evans welcomes new Food and Drink Industry Board for Wales'. *WG Press release*, 20 July 2015. Available at: <https://business.wales.gov.uk/foodanddrink/news-and-events/news/rebecca-evans-welcomes-new-food-and-drink-industry-board-wales> (accessed August 2015).
- ²¹⁸ WG (2009) Farming, Food & Countryside: Building a Secure Future. Cardiff: Welsh Assembly Government. Available at: <http://gov.wales/topics/environmentcountryside/farmingandcountryside/farmcountrypublicationindex/ffcstrategy/?lang=en> (accessed August 2015).
- ²¹⁹ WG (2012) 'Food and Farming Sector Panel Recommendations to the Minister for Business, Enterprise, Technology and Science'. *WG website*, 6 December 2012. Available at: <http://gov.wales/docs/det/publications/130507recommendationsen.pdf> (accessed July 2015), p. 4.
- ²²⁰ WG (2011b) 'Edwina Hart announces three new priority sectors'. *WG website*, 22 September 2011. Available at: <http://gov.wales/newsroom/businessandeconomy/2011/110922sectors/?lang=en> (accessed July 2015).
- ²²¹ White, S. & Miller, N. (2011) *The Welsh Food & Drink Skills Project: delivering skills for future growth*. Cardiff: Food and Drink Skills Centre. Available at: <http://foodanddrinkskills.co.uk/wp-content/uploads/2011/ProjectReportOctober2011.pdf> (accessed August 2015), p. 12. This study uses data from the Interdepartmental Business Register and the Business Register and Employment Survey, and then estimates what proportion of people in each related sector (retail, hospitality etc.) are employed within food related jobs, see Appendix 6, Table 22, p. 40.
- ²²² WG (2014a), *op. cit.*, p. 4.
- ²²³ *Ibid.*, p. 19.
- ²²⁴ WG (2013) *Sectors Delivery Plan*. Cardiff: Dept. for Business, Enterprise, Technology & Science. Available at: <http://wales.gov.uk/docs/det/publications/130125deliveryplanen.pdf> (accessed August 2015), p. 14.
- ²²⁵ WG (2010) *Food for Wales, Food from Wales*. Cardiff: Welsh Assembly Government. Available at: <http://gov.wales/docs/drah/publications/101207foodforwalesfoodfromwalesen.pdf> (accessed August 2015), p. 60.
- ²²⁶ WG (2014a), *op. cit.*, p. 22.
- ²²⁷ *Ibid.*, p. 22.
- ²²⁸ Weldon, D. & Brammar, J. (2014) 'Food giant 2 Sisters contract proposals 'unreasonable''. *BBC Newsnight*, 17 December 2014. Available at: <http://www.bbc.co.uk/news/business-30509906> (accessed August 2015).
- ²²⁹ Butler, S. (2015a) 'Tesco suppliers say retailer worst at following grocery code of practice'. *The Guardian*, 22 June 2015. Available at: <http://www.theguardian.com/business/2015/jun/22/tesco-suppliers-say-retailer-worst-at-following-grocery-code-of-practice> (accessed August 2015).
- ²³⁰ Butler, S. (2015b) 'Morrisons buyers demanded one-off payments from suppliers'. *The Guardian*, 26 July 2015. Available at: <http://www.theguardian.com/business/2015/jul/26/morrisons-buyers-demanded-one-off-payments-from-suppliers> (accessed August 2015).
- ²³¹ GCA (2009) 'Guidance: Groceries Supply Code of Practice'. *GCA website*, 4 August 2009. Available at: <https://www.gov.uk/government/publications/groceries-supply-code-of-practice/groceries-supply-code-of-practice#variation-of-supply-agreements-and-terms-of-supply> (accessed August 2015). Section 3.
- ²³² GCA (2013a) 'Statutory guidance on how the Groceries Code Adjudicator will carry out investigation and enforcement functions'. *GCA website*, 18 December 2013. Available at: <https://www.gov.uk/government/publications/statutory-guidance> (accessed August 2015).
- ²³³ GCA (2013) 'Groceries Code Adjudicator: Supporting Facts with Questions and Answers'. *GCA website*. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/226119/GCA_Supporting_facts_and_QAs_July_2013.pdf (accessed August 2015).
- ²³⁴ GCA (2013a), *op. cit.*, p. 4.
- ²³⁵ Gillandes, E (2013) 'Groceries Code Adjudicator opts to tread carefully'. *Farmers Weekly*, 11 November 2013. Available at: <http://www.fwi.co.uk/business/groceries-code-adjudicator-opts-to-tread-carefully.htm> (accessed August 2015).

- ²³⁶ GCA (2015) *Groceries Code Adjudicator - Annual Report and Accounts 2014-15*. GCA website, 20 July 2015. Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/446470/Final_-_10364-TSO-GCA-Annual_Report_2015-ACCESSIBLE-01.pdf (accessed August 2015), p. 14.
- ²³⁷ GCA (2015), *ibid.*, p. 30.
- ²³⁸ Williams, S. (2014) 'Independent review launched to boost dairy sector in Wales'. *Wales Online*, 14 October 2014. Available at: <http://www.walesonline.co.uk/news/wales-news/independent-review-launched-boost-dairy-7931384> (accessed August 2015).
- ²³⁹ From the latest June Agricultural survey, in WG (2015a) *Farming Facts and Figures, Wales 2015*. Cardiff: WG. Available at: <http://gov.wales/docs/statistics/2015/150623-farming-facts-figures-2015-en.pdf> (accessed August 2015), p. 5.
- ²⁴⁰ WG (2014a), *op. cit.*, p. 20.
- ²⁴¹ Wales Rural Observatory (2013) *An Analysis of the Socio-Economic Impact of CAP Reforms on Rural Wales. Phase 1 & 2 Report: Income Analysis and Farming Household Survey Analysis*. Cardiff: Wales Rural Observatory. Available at: [www.walesruralobservatory.org.uk/sites/default/files/An Analysis of the Socio-Economic Impact of CAP Reforms on Rural Wales Phase 1 and 2 Report 2013_0.pdf](http://www.walesruralobservatory.org.uk/sites/default/files/An%20Analysis%20of%20the%20Socio-Economic%20Impact%20of%20CAP%20Reforms%20on%20Rural%20Wales%20Phase%201%20and%20Phase%202%20Report%202013_0.pdf) (accessed July 2015), p.100.
- ²⁴² WG Research Service (2014) *Research Note: The Dairy Sector*. Cardiff: WG. Available at: www.assembly.wales/research_documents/rn14-025_the_dairy_sector/rn14-025.pdf (accessed July 2015).
- ²⁴³ Future Skills Wales Research Forum. Food Processing Sector - Future Skills Issues Affecting Industry Sectors in Wales, p. 7.
- ²⁴⁴ In 2013, the bakery sector constituted approximately 13% of total food manufacturing GVA in Wales, as compared to only 5% of the UK totals. (Welsh data taken from WG (2015) *Value of Welsh Food & Drink – Infographics*. Cardiff: WG. Available at: business.wales.gov.uk/foodanddrink/sites/foodanddrink/files/The%20Value%20of%20Welsh%20Food%20and%20Drinks%20-%20Infographics_en.pdf (accessed July 2015), p. 4; UK figures estimated from bar chart (p. 15) and total GVA (p. 10), in Dept. for Environment, Food and Rural Affairs (2014) *Food Statistics Pocketbook 2014*. London: Dept. for Environment, Food and Rural Affairs. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/423616/foodpocketbook-2014report-23apr15.pdf (accessed August 2015).
- ²⁴⁵ These figures, from the 2015 June Agricultural survey, are higher than the data in the economic priority sector statistics. See WG (2015a), *op. cit.*
- ²⁴⁶ *Ibid.*, p. 4.
- ²⁴⁷ WG (2015) 'Tables: Priority Sub-Sector Statistics'. *Priority Sub Sector Statistics*. WG Webpage. Available at: gov.wales/docs/statistics/2015/150611-priority-sector-statistics-sub-sector-2015-en.xlsx (accessed August 2015). Tables SS1.5, SS3.5 and SS4.5, authors' calculations.
- ²⁴⁸ 'Supermarkets and dairy: success at the cost of suppliers', in Bowman et. al. (2014), *op. cit.*, pp. 57-85.
- ²⁴⁹ Bowman et. al. (2012), *op. cit.*
- ²⁵⁰ House of Commons Environment, Food and Rural Affairs Committee (2012) *Milk Pricing*. Oral and Written Evidence, 17 July 2012, HC 538. London: The Stationery Office. Available at: www.publications.parliament.uk/pa/cm201213/cmselect/cmenvfru/538/538.pdf (accessed August 2015).
- ²⁵¹ Ford, R. (2011) 'Asda's milk premium to farmers cut by 20%'. *The Grocer*, 24 October 2011. Available at: www.thegrocer.co.uk/asdas-milk-premium-to-farmers-cut-by-20/221923.article (accessed August 2015).
- ²⁵² Source: Kantar/ DEFRA/ DairyCo
- ²⁵³ Source: DairyCo.
- ²⁵⁴ Dunbia (2014) 'Our history'. *Dunbia website*. Available at: www.dunbia.com/Discover-Dunbia/Our-History www.dunbia.com/Default.aspx?ResourcePath=History (accessed August 2015).
- ²⁵⁵ Scottish Herald (2008) 'Who led Grampian to the slaughter?' *Scottish Herald*, 12 April 2008. Available at: www.heraldscotland.com/news/12758975.Who_led_Grampian_to_the_slaughter/ (accessed August 2015).
- ²⁵⁶ Mullaney, L. 'Vion business can expect 'major cost savings' from Boparan'. *Foodmanufacture.co.uk*, 6 March 2013. Available at: www.foodmanufacture.co.uk/Business-News/Vion-business-can-expect-major-cost-savings-from-Boparan (accessed August 2015).
- ²⁵⁷ Williams, S. (2013) 'Meat processing plant in Anglesey to close with loss of more than 300 jobs', *Wales Online*, 11 April 2013. Available at: www.walesonline.co.uk/business/business-news/welsh-country-foods-close-meat-2585144 (accessed August 2015); Morgan, S. (2013) 'How the Welsh meat industry is getting back on its feet after its toughest 12 months ever', *Wales Online*, 26 December 2013. Available at: <http://www.walesonline.co.uk/news/wales-news/how-welsh-meat-industry-getting-6431914> (accessed August 2015).
- ²⁵⁸ BBC News (2013) 'Saputo: Newcastle Emlyn cheese plant to close, 70 jobs affected'. *BBC News*, 25 February 2013. Available at: www.bbc.co.uk/news/uk-wales-south-west-wales-21579871 (accessed August 2015).

- ²⁵⁹ Tesco (2015) 'Local sourcing. Great food, locally produced'. *Tesco webpage*. Available at: <http://realfood.tesco.com/our-food/local-sourcing.html> (accessed August 2015).
- ²⁶⁰ Telephone interview with Mark Grant, ex-senior Tesco buyer for Wales, June 17 2015.
- ²⁶¹ Ibid.
- ²⁶² Evans, R. (2013) 'UK-wide Tesco deal for Blackwood's Just Love Food Company'. *Wales Online*, 22 February 2013. Available at: <http://www.walesonline.co.uk/business/business-news/uk-wide-tesco-deal-blackoods-just-2495347> (accessed August 2015).
- ²⁶³ Denholm-Hall, R. (2015) 'Tesco in Wales: The facts and figures you need to know about the supermarket giant'. *Wales Online*, 29 January 2015. Available at: <http://www.walesonline.co.uk/business/tesco-wales-facts-figures-you-8539011> (accessed August 2015).
- ²⁶⁴ Trewyn, H. 'Angry farmers descend on Tesco distribution centre as lamb price protests escalate'. *Wales Online*, 2 August 2015. Available at: <http://www.dailypost.co.uk/news/north-wales-news/north-wales-farmers-tesco-lamb-9777651> (accessed August 2015).
- ²⁶⁵ Tesco store location and type was obtained from Yell.com cross checked against Google Maps and the Tesco store finder web site. In May 2015, this gave us 49 Tesco Express stores and 19 Tesco Extras in the convenience categories and 32 Superstores or full size supermarkets. Totals change slightly from year to year with store closures and openings.
- ²⁶⁶ Sources: Tesco annual report and accounts and Yell.com
- ²⁶⁷ Size of average store in each category calculated from 2014 Tesco Annual Report which gives data on UK stores by category and total floor space.
- ²⁶⁸ Sources: Tesco annual report and accounts and Yell.com. The data excludes the 57 Tesco owned but branded 'One Stop' stores.
- ²⁶⁹ Tesco (2015) 'Sustainable farming'. *Tesco webpage*. Available at: <http://realfood.tesco.com/our-food/milk/our-farmers.html> (accessed August 2015).
- ²⁷⁰ Tesco (2014) 'Over 200 lamb farmers sign two year contracts with Tesco'. *Tesco press release*, 5 February 2014. Available at: <http://www.tescopl.com/mobile/index.asp?pageid=2&newsid=927> (accessed August 2015).
- ²⁷¹ Forgrave, A. (2015) 'Sheep and dairy farmers unite for showdown meeting with supermarket bosses'. *Daily Post*, 6 August 2015. Available at: <http://www.dailypost.co.uk/news/north-wales-news/tesco-farmers-protest-lamb-supermarkets--9797219> (accessed August 2015).
- ²⁷² Williams, S. (2015) 'Welsh farming leaders to attend 'urgent summit' to discuss dairy and livestock crisis'. *Wales Online*, 10 August 2015. Available at: <http://www.walesonline.co.uk/news/wales-news/welsh-farming-leaders-attend-urgent-9824027> (accessed August 2015).
- ²⁷³ Dairy UK, NFU and NFU Scotland (2012) *Dairy Industry. Code of Best Practice on Contractual Relations*. Available at: <https://www.nfuonline.com/assets/6570> (accessed August 2015).
- ²⁷⁴ Bowman et. al. (2014), *op. cit.*, pp. 134-9.
- ²⁷⁵ Bowley, M. (1937) *Nassau Senior and Classical Economics*, London: Routledge, pp.155-7.
- ²⁷⁶ NFU (2015) 'Retailer Sourcing Policies'. *NFU briefing*, 4 July 2015. Available at: <http://www.nfuonline.com/supermarket-sourcing-briefing-august-2015-v2/> (accessed August 2015).
- ²⁷⁷ WG (2014) *A Framework for Delivering Integrated Health and Social Care for Older People with Complex Needs*. Cardiff: WG. Available at: <http://gov.wales/docs/dhss/publications/140319integrationen.pdf> (accessed August 2015).
- ²⁷⁸ These problems will be explored in depth in a forthcoming CRESC/ WISERD public interest report on adult care in England and Wales.
- ²⁷⁹ LaingBuisson (2014) *Health Care Market Review*, (26th ed). London: LaingBuisson, p. 40.
- ²⁸⁰ NAO (2014) *Adult social care in England: overview*. NAO report for Department of Health & Department of Communities and Local Government. Ref: HC 1102, 13 March 2014. Available at: <http://www.nao.org.uk/wp-content/uploads/2015/03/Adult-social-care-in-England-overview.pdf> (accessed August 2015), Fig. 2, p. 13.
- ²⁸¹ Care and Social Services Inspectorate Wales (2015) *Chief inspector's Annual Report, 2013-14: improving care, childcare and social services in Wales*. Available at: <http://cssiw.org.uk/docs/cssiw/report/150304annualreport3en.pdf> (accessed August 2015), p. 45.
- ²⁸² Public Health Wales (2015) 'New dementia targets and staff unveiled by the Welsh Government'. *Public Health Wales Website*, 2 April 2015. Available at: <http://www.wales.nhs.uk/sitesplus/888/news/37020> (accessed August 2015).
- ²⁸³ Age UK (2015) 'Social care funding changes'. *Age UK website*, 22 July 2015. Available at: <http://www.ageuk.org.uk/home-and-care/care-homes/social-care-funding-changes/care-cap-and-means-test-changes/> (accessed August 2015).

- ²⁸⁴ Deans, D. (2015) 'Delay on introduction of a cap on lifetime care costs for the elderly 'will have dire consequences for elderly people in Wales', say Lib Dems'. *Wales Online*, 24 July 2015. Available at: <http://www.walesonline.co.uk/news/wales-news/delay-introduction-cap-lifetime-care-9724824> (accessed August 2015).
- ²⁸⁵ Conway, Z. (2015) 'MiHomeCare staff paid less than minimum wage'. *BBC News*, 13 March 2015. Available at: <http://www.bbc.co.uk/news/business-31869447> (accessed August 2015).
- ²⁸⁶ Care and Social Services Inspectorate Wales, *op. cit.*, p. 45.
- ²⁸⁷ *Ibid.*, p. 23.
- ²⁸⁸ Gainsbury, S. & Neville, S. (2015) 'Austerity's £18 billion impact on local services'. *Financial Times Online*, 19 July 2015. Available at: <https://next.ft.com/5fcbd0c4-2948-11e5-8db8-c033edba8a6e#ixzz3hCO6qBqu> (accessed August 2015).
- ²⁸⁹ Burchardt, T. Obolenskaya, P. and Vizard, P. (2015) *The Coalition's Record on Adult Social Care: Policy, Spending and Outcomes 2010-2015*. CASE Working Paper #17, London School of Economics. Available at: <http://sticerd.lse.ac.uk/dps/case/spcc/WP17.pdf> (accessed August 2015), p. 24.
- ²⁹⁰ Daily Telegraph (2011) 'Dr Chai Patel moves from Kate Moss to take over Southern Cross Homes'. *The Telegraph*, 30 July 2011. Available at: <http://www.telegraph.co.uk/finance/newsbysector/pharmaceuticalsandchemicals/8672893/Dr-Chai-Patel-moves-from-Kate-Moss-to-Southern-Cross-care-homes.html> (accessed August 2015).
- ²⁹¹ Care Quality Commission (2014) *The stability of the care market and market oversight in England*. Oxford: Institute of Public Care, Oxford Brookes University. Available at: <http://www.cqc.org.uk/sites/default/files/201402-market-stability-report.pdf> (accessed August 2015).
- ²⁹² Calculations from Care UK annual report and accounts 2005-2014 for company number 01668247 and company number 07158140. Care UK was acquired by Bridgepoint Capital on 11th May 2010.
- ²⁹³ Garside, J. 'Four Seasons Health Care reviews finances amid debt fears'. *The Guardian*, 30 August 2015. <http://www.theguardian.com/society/2015/aug/30/four-seasons-health-care-reviews-finances-amid-debt-fears> (accessed August 2015).
- ²⁹⁴ Sefton Care Association et. al. vs Sefton Council (2011) Transcript of the Judgement, EHC 2676 (admin) Case no. CO/3312/ 20H; Available at: http://localgovernmentlawyer.co.uk/index.php?option=com_content&view=article&id=8534%3Ahigh-court-judge-quashes-care-home-fee-freeze&catid=56%3Aallegation-articles&q=&Itemid=20 (accessed September 2015).
- ²⁹⁵ Laing, W. (2008), *op. cit.*
- ²⁹⁶ Source: BUPA (2012) *Bridging the gap: ensuring local authority fee levels reflect the real costs of caring for older people*. Available at: http://www.bupa.com/media/479673/bridging_the_gap_final.pdf (accessed September 2015). Note: Data refers to provincial local authorities not London and the methodology is from Laing & Buisson with the data is adjusted for inflation.
- ²⁹⁷ Source: *Ibid.* Note: Data refers to provincial local authorities not London and the methodology is from Laing & Buisson with the data is adjusted for inflation.
- ²⁹⁸ Knight, Frank and Rutley (2014) *Care Homes Trading Performance Review*. London: Knight Frank LLP. Available at: <http://www.knightfrank.co.uk/research/reports/care-homes-trading-performance-review-2014-2365.aspx> (accessed August 2015), p. 10.
- ²⁹⁹ The Next Steps report (Jenkins, K., Caines, K., and Jackson, A. (1988) *Improving Management in Government: The Next Steps: Report to the Prime Minister*, London: UK Government, February 1988.) was commissioned by Margaret Thatcher. For more information, see Panchamia, N. & Thomas, P. (2014) *The Next Steps Initiative*. London: Institute for Government. Available at: <http://www.instituteforgovernment.org.uk/sites/default/files/case%20study%20next%20steps.pdf> (accessed August 2015).
- ³⁰⁰ Bowman, A. Ertürk, I. Froud, J. Haslam, C. Johal, S. Leaver, A. Moran, M. Williams, K. (2015, forthcoming) *What a Waste*. Manchester: Manchester University Press, pp. 29-32.
- ³⁰¹ WG (2013) *Sustainable Social Services for Wales An approach to social services improvement and an outline three year plan for improvement: 2013-14 – 2015-16*. Cardiff: WG. Available at: <http://gov.wales/docs/dhss/publications/130416plan1en.pdf> (accessed August 2015), p. 2.
- ³⁰² *Ibid.*, pp. 2-3.
- ³⁰³ WG (2015) 'Regulation and Inspection of Social Care (Wales) Bill'. *WG webpage*, 23 February 2015. Available at: <http://gov.wales/topics/health/socialcare/regulation/?skip=1&lang=en> (accessed August 2015).
- ³⁰⁴ Williams, G. A. (1985) *When was Wales? a History of the Welsh*. Harmondsworth: Penguin, p. 304.
- ³⁰⁵ Commission on Devolution in Wales (2012) *Empowerment and Responsibility: Financial Powers to Strengthen Wales*. Cardiff: Commission on Devolution in Wales. Part 1, November 2012. Available at: <http://www.assembly.wales/en/bus-home/research/Pages/research-silk-commission.aspx> (accessed September 2015), p. 6.
- ³⁰⁶ *Ibid.*, p. 7.

³⁰⁷ Oxford University Press (2015) 'Oxford Dictionaries: definition of devolution'. *Oxford dictionaries website*. Available at: <http://www.oxford.com/definition/english/devolution> (accessed Sept. 2015).

³⁰⁸ Merriam-Webster, Inc. (2015) 'Full definition of home rule'. *Merriam-Webster website*. Available at: <http://www.merriam-webster.com/dictionary/home%20rule> (accessed Sept. 2015).

³⁰⁹ Berle, A. (1962) 'A new look at management responsibility'. *Lecture to the Bureau of Industrial Relations*, University of Michigan, 9 April 1962. Available at: http://3197d6d14b5f19f2f440-5e13d29c4c016cf96cbbfd197c579b45.r81.cf1.rackcdn.com/collection/papers/1960/1962_0409_ManagementBerleT.pdf (accessed September 2015).