



Foundational Economy

14 November 2024

The Foundational Economy is a Programme for Government commitment and is a key part of the Welsh Government's overall Economic mission.

This paper provides further evidence for the Economy, Trade & Rural Affairs Committee's consultation into the Foundational Economy.

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1. Introduction

- 1.** The services and products within the Foundational Economy (FE) provide the basic goods and services on which we all rely and which keep us safe, sound and enable us to live a good life. Care and health services, construction, energy, food, housing, retailers on the high street, tourism and transport are all examples of the FE.
- 2.** The FE is a significant part of the overall economy in Wales. As of 2023, it encompasses 65,000 VAT registered businesses (60% of the total number of businesses operating in Wales), employing over 637,000 (51% of the workforce), and accounting for £80.8bn (47%) of overall Welsh turnover.
- 3.** FE sectors account for the majority of businesses in all bar one local authority area (Cardiff). Many of these enterprises are small or micro businesses. Focus will be applied to better understand these businesses and to identify where there is scope for smaller enterprises to grow and to become medium sized enterprises, providing access to good employment in the communities in which they are located.
- 4.** Growing and strengthening the FE is a Programme for Government commitment. A range of initiatives have been progressed aimed at maximising the impact of procurement; growing capacity and capability of local businesses; and connecting local people with routes into good employment.
- 5.** We have created a number of resources to help raise the profile of the FE approach, to increase understanding and uptake across government and amongst stakeholders. We have developed an online learning module, new web and intranet pages, a central repository of FE-related training and web content and are creating an animation to explain the methods, goals and metrics of the FE approach and its links to the Wellbeing goals.
- 6.** From 2019 to 2023, the total number of VAT registered FE businesses has increased by 4%, the number of employees has grown by 1%, and turnover has gone up by 5%.

2. Embedding Foundational Economy in Economic Development

- 7.** The objective of our Economic Mission is an economy that delivers a just transition to a sustainable future, with fair work at its heart. Nurturing the FE is integral to this mission.
- 8.** Decarbonising our society and moving towards the goal of a just transition and sustainable economy presents a great challenge but also a massive opportunity.
- 9.** Work is in hand to identify how to maximise the FE impact in delivery of planned green growth investment covering Floating Offshore Wind (FLOW), decarbonisation of transport and delivering net zero and low carbon housing across Wales.
- 10.** An initial exercise to identify supply chain capacity to engage in delivery of the FLOW programme has been undertaken. A commission is being developed to establish interventions required which can help optimise local supply chain engagement in FLOW in the short, medium and longer term.
- 11.** Welsh Government is supporting Transport for Wales to assess the opportunities for FE businesses in the work to decarbonise the bus fleet across Wales. There will be potential for local contractor opportunities in developing the charging infrastructure and getting the power to the stations. The economic opportunities associated with procurement of new buses and re-powering of existing fleet are being explored. A report and next steps are due by the end of this financial year.
- 12.** A collaboration of 23 Social Landlords has commissioned production of 15 standardised house designs to deliver net zero operational carbon. The homes will be built using timber, increasingly Welsh timber and by a short, strong and sustainable supply chain. Pathfinder work is underway to support 20 contractors to secure PAS2030:2023 accreditation, a requirement to engage in programmes such as the Optimised Retrofit Programme (ORP). There is a dearth of PAS2030:2023 accredited contractors and the pathfinder will help plug that gap and inform future approaches to grow capability across Wales.
- 13.** Supporting the FE is mainstreamed in the core Business Wales service. In September and October, two FE Expos were held in Swansea and

Llandudno respectively. Over 1,100 delegates registered to attend the events which offered opportunity to meet directly with exhibiting organisations (public and private sector) with upcoming contracts and who want to further grow their local FE supply chain. Several billions of contract opportunities were shared ahead of the Expos. This information is being reviewed to establish the true potential value for the FE. Feedback and lessons learned are being captured to inform decision making about running any future, similar events.

3. Mainstreaming Foundational Economy across government

- 14.** There is a small, dedicated FE team within the Industrial Transformation and Foundational Economy division. The FE team acts as a bridging unit to help embed FE principles across government, as well as delivering a range of projects.
- 15.** This cross-government work is helping nurture the FE.
- 16.** The Health and Social Services FE programme has seen procurement with Welsh businesses increase to 44%, up from 26% in 2019 and health boards are targeting disadvantaged workers and offering routes into employment.
- 17.** The Housing and Regeneration ORP is influencing development of local supply chains and skills. Through FE funding, five registered social landlords have been assisted to identify over 500 new contractors to help deliver this work. Landlords are collaborating to understand how to engage local supply chains in delivery of Net Zero homes. A National Regeneration Investment Panel involves the FE team in assessing grant funding applications.
- 18.** Transport decarbonisation supply chain opportunities are being explored.
- 19.** Constructing Excellence in Wales is providing advice and working across the construction sector to forge closer ties with contractors and clients. A work plan is supporting key FE priorities, including a pipeline of upcoming contracts.
- 20.** FE approaches are mainstreamed in the Business Wales service. The £20m Future Proofing Fund, launched in April for micro and SMEs in the retail, hospitality and leisure sectors provides funding to help reduce running costs and future proof their operations.
- 21.** Food Division's capital and revenue programmes support sustainable growth, mainly for SME and micro businesses. These businesses offer a variety of jobs, more than 80% of which are paid at or above Living Wage.
- 22.** Tourism is supported in many ways, through capital investment and engaging closely with the sector to deliver its priorities.

- 23.** A fresh baseline of data on Foundational Economy was completed in August. This is being assessed to inform ongoing priorities for mainstreaming FE across government.

4. Foundational Economy approaches which have been most successful

- 24.** Embedding FE within procurement has delivered tangible benefits for local supply chains and employees.
- 25.** Welsh Government's Office Supplies and Cleaning Materials collaborative contracts have seen the prime contractor develop a number of programmes under the banner Well Being Wales. This includes over 500 disadvantaged Welsh workers finding a pathway to employment through a confidential waste recycling scheme delivered through the office supplies agreement. This has further developed into a scheme that sees cardboard taken from organisations, shredded and sold as animal bedding.
- 26.** Some 220 electric vehicles with a total value of £3.9 million have been ordered through a collaborative procurement led by Welsh Government. The contract was awarded to a Welsh SME and will deliver £2.8 million of wider social value using local dealers and promote life skills and entrepreneurship awareness to primary school children.
- 27.** The recently awarded Welsh Government Warm Homes Wales contract is expected to deliver £245 million of additional social value over seven years from piloting a new approach. This is based upon supply chain opportunities for a range of Welsh construction suppliers who provide services related to housing retrofit.
- 28.** NHS Wales Shared Service Procurement Service was supported with FE funding to integrate social value considerations into its procurement decision making process. This has seen Welsh businesses win £40m of additional NHS Wales contracts.
- 29.** Castell Howell has seen a large increase in Welsh food bought through them for school meals, increasing by 173% (£854k in 2021 compared to £2.3m currently). This is due in large part to new Food procurement guidance, outlining how to apply FE approaches to food contracts, 'Harnessing the Power of the Public Plate'. This was successfully used by Caerphilly Council to award their South Wales food framework, which saw a 70/30 quality/price split, a new Welsh lot and Castell Howell winning 100 out of 150 lots, ensuring security of supply and money remaining within Wales.

- 30.** Attempts to bolster the care sector through targeted recruitment programmes did not deliver anticipated outputs. Despite having robust project management arrangements in place, expected gains in terms of new recruits to the care sector did not materialise. A very competitive recruitment market hampered delivery of the project objectives.
- 31.** Engagement with the FE Community of Practice (CoP) has fallen off as available project funding has reduced. The Food CoP remains very active involving several ongoing funded projects. Consideration will be given to re-engaging other sectors.

5. Best practice Foundational Economy sectors

- 32.** The Food sector is especially engaged with the FE programme, largely due to direct funding provided for 15 innovative projects aimed at boosting horticulture and improving food security. Some are detailed below with further information at Annex 1.
- 33.** Food Sense Wales' 'Welsh Veg into Schools' project is addressing the current situation of 94% of horticulture products in Welsh schools coming from outside Wales. Eight new growers have been developed, supplying around 40 tonnes of organic vegetables into schools in six local authorities. If this work continues over the next five years, Food Sense Wales anticipate expanding to 100 growers, generating £1.5m worth of sales per year, equivalent to £12.4m worth of social, economic and environmental gain, saving 60+ tonnes of CO2 annually. Supplying Welsh horticulture products into all Welsh primary schools could generate nearly £15m of sales and sustain many jobs.
- 34.** Castell Howell is working with local growers to supply Welsh produce into schools, rather than frozen imported produce and explore how to extend life of seasonal produce. They are also developing a new range of multi-portion meals with increased Welsh meat and vegetables and high nutritional content, such as Welsh meatballs, tomato sauce, pizza and chips.
- 35.** The Cookalong Clwb has empowered over 700 children, families and teachers with cooking skills in Monmouthshire and Caerphilly and recently won best Local Community Business in the Wales Food and Drink Awards 2024. They have also worked with Size of Wales on deforestation free menus with Monmouthshire council.
- 36.** Larder Cymru is working with 6 local authorities across Wales and associated wholesalers / producers to review existing food supply frameworks and menu provision to develop a new menu that incorporates more Welsh produce and Welsh suppliers.
- 37.** Malmo's approach to increasing supply of locally produced organic food into school meals is being closely followed. A study of this work will take place later this year to capture learning to help inform ongoing delivery of the Universal Provision of Free School Meals.
- 38.** The Housing sector collaboration on the delivering net zero programme is a great example of aggregating demand and providing a clear signal of intent
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which will give confidence to business to invest in skills and capability.
Scaling and spreading this approach could be aligned to the work to secure
better visibility and understanding of future construction pipelines.

6. Using Procurement to strengthen the Foundational Economy

- 39.** Welsh Government is undertaking its own regulations under the Procurement Act 2023. FE suppliers will benefit through improved transparency, a duty to identify and resolve barriers to participation for SMEs, and a 30-day supply chain prompt payment requirement. Work is progressing to develop secondary legislation and guidance needed to bring the Procurement duties in the Social Partnership and Public Procurement (Wales) Act 2023 into force. In sectors such as construction and food, procurement can benefit our local economies, and contribute to achieving well-being goals, for example by requiring fair work and environmental standards to be met.
- 40.** Welsh Government's Commercial and Procurement function has provided leadership to the wider public sector, delivering positive FE outcomes as detailed in Chapter 4.
- 41.** With support from Welsh Government FE funding, NHS Wales has embedded FE and social value considerations into its procurement process, enabling local businesses to win £40m of contracts which previously leaked out of Wales.
- 42.** Food procurement guidance, 'Harnessing the Power of the Public Plate', produced in 2022 has successfully contributed to an increase in the Welsh food bought for school meals through Castell Howell by 173% (£854k in 2021 compared to £2.3m currently). This increase is largely due to Caerphilly Council having followed the guidance for the South Wales Food Framework, awarded in April and used by 15 councils. The food tender saw a progressive focus on quality and value over price, with a 70/30 quality/price split, with social value built in; there is a new Welsh lot for the first time, providing local food choices for councils. Out of 150 lots, Castell Howell, a Welsh wholesaler, won 100, ensuring security of supply and money remaining within Wales.
- 43.** The three regional local authority construction frameworks all contain social value clauses, including FE commitments, supporting engagement of local contactors onto the arrangements.

7. Fair Work and the Foundational Economy

- 44.** Fair work is essential to the FE because it directly impacts the quality and sustainability of the essential goods and services that communities rely on.
- 45.** Fair levels of pay, secure contracts, safe and inclusive working conditions and access to trade unions also directly impact upon the lives and livelihoods of workers in the FE.
- 46.** The FE has significant fair work challenges. There is too much low pay, not enough security and predictability of working hours, and a lack of collective voice and representation through trade unions.
- 47.** We are committed to strengthen focus on improving FE working conditions. This requires concerted effort from Government, employers and trade unions. At a time when many parts of the FE are experiencing persistent recruitment and retention challenges, there should be a common interest in improving working conditions.
- 48.** Progress has been made in some FE sectors. The [Retail Forum](#) and [Social Care Fair Work Forum](#) are good examples of working in social partnership with FE sectors.
- 49.** Businesses in receipt of Food Division capital grants adopt the Economic Contract and make workforce commitments. Tourism division uses its e-bulletin to raise awareness of Fair Work, most recently referencing the new tipping legislation. The Real Living Wage is paid across the Care sector, increasing residual income for workers.
- 50.** Employment rights and industrial relations is a reserved matter. We are working closely with UK Government on the agenda set out in the 'Plan to Make Work Pay' and on the Employment Rights Bill, which was unveiled on 10 October. The Bill's scope includes:
- a. a right to guaranteed hours;
 - b. guaranteeing basic rights at work from day one, including protection against unfair dismissal and rights to parental, maternity and bereavement leave;
 - c. reforms to Statutory Sick Pay to remove the Lower Earnings Limit and the waiting period;

- d. restrictions on employers' ability to use fire and rehire; and
- e. strengthening of the effective enforcement of workers' rights, through the creation of a new Fair Work Agency.

51. These measures could have a transformative impact on work in the FE and, if implemented, will make work fairer, safer and more secure for all.

Annex 1 – Foundational Economy funded Food-related projects

	Name of Food Business	Project Description
1	Castell Howell	Evolving the vegetable supply chain in Wales to increase Welsh veg and potato products in school meals through switching from imported produce. Develop a Welsh chip working with Puffin Produce. Explore how to extend life of seasonal produce
2	Castell Howell / Celtica Foods	New product development at Celtica of a range of value-added Welsh meat-based food products for public sector supply (either primary plate recipes e.g Welsh meatballs and kofkas or as ingredients for multiportion meals e.g. pizza toppings, meatballs in sauce), run taste panels and work with public sector caterers.
3	Food Sense Wales	'Welsh Veg in Schools' project to grow/supply organic, sustainable veg for schools rather than rely on frozen imports (continuation of phase 1 of 'the Courgette Pilot' but this phase 2 to include more veg and more LAs). Testing the Sustainable Supply chain investment scheme. Stakeholder engagement and research for a pilot in North Wales for Food and Fun/growing season 2024.
4	Development Trust Association Wales	Developing a new collaborative 'toolbox' of practical solutions for growers to address current barriers for growers and also support three businesses to increase production of locally grown horticulture for public sector supply, through wholesalers and food procurement hubs; provide various packages of business support and upskilling.
5	Menter Mon	Tech Tyfu vertical farming project to provide support to five small & medium growing businesses, seeking to supply microgreens and veg directly into wholesalers for large scale public procurement contracts.
6	Menter Mon / Larder Cymru	Increasing Welsh food on school menus. Larder Cymru will work with 6 local authorities across Wales and associated wholesalers / producers to review existing food supply frameworks and menu provision to develop a new menu that incorporates more Welsh produce and Welsh suppliers.
7	Social Farms and Gardens	To develop supplementary planning policy and guidance to facilitate smoother transfer of public land into community stewardship for local food production in Powys.
8	Cookalong Clwb	Empowering school children, families and teachers with life-long cookery skills, shopping on a budget and improving mental health and wellbeing.

9	Development Trust Association Wales	Bringing new growing enterprises to the market by overcoming barriers and developing a new collaborative 'toolbox' of practical solutions, maximising opportunities through local food procurement hubs.
10	PLANED	Establishing community-led local food distribution in rural Carmarthenshire, establishing and promoting local suppliers, producer and growers. Fresh food vending machines to be located in areas without close access to a shop or other food & drink retail provision.
11	Menter a Busnes	Food hygiene accreditation grant scheme - covering costs of Micron2 and Salsa for Welsh food SMEs (which can often be a barrier for small food firms in entering the public sector food market) and helping drive up the Welsh supply base.

Foundational Economy food projects funded through Innovation Team

12	Cardiff Council	Setting up a Food Hour so that every child has the opportunity to spend (a minimum) of one hour a day in school "with food"; to share nutritious meals, learn about food and learn through food. One of the main aims is to increase the uptake of UPFSM in the pilot schools.
13	Carmarthenshire Council	A holistic approach to developing a collaborative 'Future Generations' school menu redesign as part of the UPFSM roll-out, utilising local and regional assets through a place and partnership-based approach.
14	Monmouthshire Council	Development Kitchen for meals on wheels for elderly/vulnerable in the region- re-developing service to include Welsh food, reduce CO2 and offer more customer choice.
15	Well Fed/Can Cook	Innovative Amazon-style 'meal lockers' to tackle food poverty/food insecurity in communities & public sector. Production upgrades to increase meal production; enhance vehicles; boost development teams.
16	Cardiff Met	Setting up new Innovation Networks in Cardiff & Swansea to develop local SMEs and create an FE ecosystem in South Wales. Enhancing their capabilities to tender for public sector contracts and enhance strategic collaborative relationships between SMEs and regional public sector stakeholders.