



The Foundational Economy

Response to the ETRA Committee Report (April 2025)

28/05/2025

In April 2025, the Economy, Trade and Rural Affairs Committee submitted a report to Welsh Government following its Foundational Economy inquiry.

The report includes 10 recommendations. This is the Welsh Government's response to those recommendations.

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1. Introduction

The services and products within the Foundational Economy (FoEc) provide those basic goods and services on which every citizen relies, and which keep us safe, sound and civilized.

FoEc is a Programme for Government commitment and is central to the Welsh Government's Economic Mission.

The FoEc sectors the Welsh Government has a strategic focus on are:

- care and health services (including social care and childcare)
- management of social housing
- construction of residential and commercial buildings, energy and utilities
- food
- high street retail and services
- tourism
- public transport.

Welsh Government's objectives for nurturing the FoEc are to:

- Identify and support opportunities for more jobs, better jobs, greener jobs and promote fair work.
- Increase 'household liveability' by facilitating rising wages through promoting schemes such as Real Living Wage, helping increase the affordability of foundational essentials.
- Build local supply chains to keep people, skills and wealth in Wales.
- Contribute towards addressing the climate and nature emergencies.
- Encourage collaborative innovation and experimentation to improve basic goods and services, especially where these build resilient social infrastructure, such as through cooperative and community-owned projects.

The ETRA Committee's report has highlighted helpful conclusions and recommendations which will shape Welsh Government's future FoEc activities. This report provides responses to each of the Committee's recommendations.

2. Responses to the ETRA Recommendations

Recommendation 1

The Welsh Government should use the dual definition developed by Professor Karel Williams and the Foundational Alliance Wales as the basis for its work on the foundational economy. It should also work with practitioners to create simple, one-line definitions to increase awareness of the foundational economy, and communicate these more widely to organisations.

Response: Accept

In June 2024, work commenced engaging stakeholders to clarify understanding and adoption of FoEc approaches. The stakeholders included FoEc ‘practitioners’, academics working on the FoEc topic, think-tanks, campaigning organisations, those working closely with anchor organisations and public bodies on related topics, procurement professionals, and other similar individuals. From this consultation, a refreshed policy definition and mission statement was published on 28 April 2025:

[Foundational economy: mission statement \[HTML\] | GOV.WALES](#)

The Mission Statement clarifies the Welsh Government definition and approach towards the FoEc. The definition includes both sectoral and qualitative elements.

The Statement also includes the objectives of the Welsh Government’s approach to the FoEc, as well as a description of the tools we use to leverage these. The aim of the mission statement is to encourage a shared understanding of the FoEc concept across a wider range of stakeholders.

Financial implications: None

Recommendation 2

The Welsh Government should develop a number of key performance indicators to boost understanding of what it wants to achieve through foundational economy interventions. It should also collaborate with partners to produce a foundational economy delivery plan setting out the actions the Welsh Government and others will take to meet its objectives.

Response: Accept in principle

As part of the work to develop the mission statement, a long list of metrics has been compiled to monitor progress in delivering our FoEc objectives. Work will be progressed to shorten these into a set of key performance indicators, linked to the Wellbeing of Future Generations Act, to provide clarity of ambition. A future FoEc prospectus will be prepared in consultation with stakeholders which can be

presented in the first quarter of 2026 as a plan to be considered by the new administration following the May 2026 Senedd elections.

Financial implications: No immediate financial implications, but the future FoEc prospectus may have associated budget impacts.

Recommendation 3

The Welsh Government should place greater focus on supporting a bottom-up approach to the foundational economy. As part of this approach, it should:

- Work with partners to trial and evaluate ‘alliances of the willing’ to deliver change in a few key foundational economy areas, including identifying opportunities to pilot a skunkworks-type approach.
- Develop less prescriptive approaches to grant funding that support innovation and empower organisations to deliver community priorities.

Response: Accept

Through our FoEc community of practice, which has been scaled up to generate greater reach across foundational sectors, we will work with stakeholders to identify opportunities which could benefit from trialling a skunkworks-type approach. The community of practice has been driven by a bottom-up approach, the activities of which have been member driven by stakeholders who want to drive change. We will use the lessons learned from the food community of practice in shaping further ‘alliances of the willing’.

Financial implications: To be determined subject to identifying potential opportunities for deploying skunkworks-type approaches.

Recommendation 4

The Welsh Government should learn lessons from other cross-cutting policy areas to mainstream a foundational economy approach across government, and set out by September 2025 how it intends to apply these lessons.

Response: Accept

The FoEc team will collaborate with other policy areas, such as Fair Work, to identify how these approaches could support further growing cross-government working.

Financial implications: None

Recommendation 5

To support learning, spreading and scaling of good practice, the Welsh Government should publish key findings from evaluations of foundational economy initiatives in one place. These should then be embedded into its scrutiny of how effectively public service organisations are delivering foundational economy priorities. The Welsh Government should also work with partners to identify successful foundational economy projects that it wishes to scale up, and set out its plans to do so.

Response: Accept

A dedicated FoEc page has been created on Welsh Government's internet site where case studies publishing outputs and experiences of projects are available, along with other resources. In addition, Cynnal Cymru, the FoEc community of practice delivery partner, has dedicated website material for the FoEc, making available a range of learning resources and research content. The FoEc team will ensure that both websites are maintained and updated at regular intervals to ensure access to current information and learning. The FoEc team will also work with partners through the community of practice to invite suggestions for scale up activity and any agreed plans will be added to the Welsh Government and Cynnal Cymru websites.

Financial implications: None

Recommendation 6

The Welsh Government should outline how it will improve the longer-term financial support available to successful foundational economy initiatives that require ongoing support. This should include analysing how the successor local growth arrangements to the Shared Prosperity Fund can be used to support foundational economy organisations.

Response: Accept

The current FoEc budget provision allows for funding of FoEc specific Business Wales activity, delivery of the community of practice, construction sector programmes of work through Constructing Excellence in Wales and a relatively small amount of budget of £250,000 to support project activity. The FoEc team will assist project partners through the community of practice to identify projects which have ambition and potential so scale and explore other available sources of funding which could support such activity.

Financial implications: None

Recommendation 7

In relation to improving procurement opportunities for SMEs in the foundational economy, the Welsh Government should:

- Outline how it will work with partners to spread and scale-up best practice to support foundational economy SMEs across the whole of Wales to tender for public sector procurement opportunities.
- Set out how it proposes to use its powers under the *Procurement Act 2023* and the *Social Partnership and Public Procurement (Wales) Act 2023* to support greater spend with small and medium-sized Welsh businesses and third sector organisations.

Response: Accept

Through mainstreaming FoEc objectives into Business Wales delivery, specific support is targeted at businesses operating within the foundational sectors. For example, a series of Business Wales Supplier Roadshows across Wales are scheduled for May and June of this year, aimed at helping foundational suppliers find, bid for, and win public sector contracts, while navigating major changes to procurement regulations. Last year saw the first FoEc Expo events take place in north and south Wales, attracting over 1,100 registered delegates enabling suppliers to meet major public sector buyers and access support services to bid for future contracts. The Expos will be delivered again this coming autumn.

The Procurement Act 2023 aims to create a more accessible and transparent public procurement process for small and medium-sized enterprises (SMEs) and third sector organisations. Greater transparency for suppliers means they will be able to see all tender opportunities in one place, as well as increasing transparency of procurement pipelines, allowing businesses more time to prepare for relevant tender opportunities and to access support available through the Business Wales service. The Act requires contracting authorities to take due regard to the barriers faced by SMEs and to consider measures to remove or reduce these barriers. Both the Procurement Act 2023 and the Welsh Government's Social Partnership and Public Procurement (Wales) Act include 2023 improved prompt payment rules which will help to ensure that public sector supply chains operate more effectively.

The Social Partnership and Public Procurement (Wales) Act 2023 requires public bodies to report on how their procurement, generally, is contributing to wellbeing in Wales by recording and reporting wellbeing metrics. These will be the subject of public consultation over the summer but are expected to include how much procurement spend is with Welsh businesses, SMEs and third sector organisations.

The Social Partnership and Public Procurement (Wales) Act 2023 also includes contract and supply chain management duties for major construction and outsourcing services. For construction, model clauses will be published in six categories where improvements are needed. This includes providing opportunities for SMEs and third sector organisations to win contracts in construction supply chains. These clauses will be consulted upon during the summer and are due to come into force before the end of this Senedd term in 2026.

Financial implications: None

Recommendation 8

The Welsh Government should outline how it will use recent procurement legislation to maximise the social value of procurement across devolved public sector organisations. It should provide tailored training to procurement staff to enable them to implement this.

Response: Accept

The Procurement Act allows for more flexible procedures and encourages consideration of factors beyond just the lowest price, such as social value, innovation, and sustainability. Tenders are no longer assessed on the basis of the Most Economically Advantageous Tender but on the Most Advantageous Tender, thereby removing the 'economic' criteria and allowing greater prioritisation of social value. Welsh Government has published Welsh Procurement Policy Note (WPPN) 003: Social value clauses/'community benefits' through public procurement to support contracting authorities in implementing social value objectives through their procurement activity.

A comprehensive learning and development programme was developed by UK Government so that stakeholders have sufficient training on the Procurement Act 2023. This suite of dedicated learning helps to ensure that Welsh contracting authorities understand how they can compliantly apply the flexibilities of the new regime.

With a focus on Welsh public sector priorities and the Well-being of Future Generations (Wales) Act, Welsh Government also developed bilingual learning products for devolved Welsh contracting authorities. This training supplements the core learning offered by the UK Government and incorporates requirements under the Procurement Act, the Socially Responsible Procurement duties in the Social Partnership and Public Procurement (Wales) Act and the Health Service Procurement (Wales) Act.

The Social Partnership and Public Procurement (Wales) Act 2023 requires public bodies to set objectives on how they will achieve wellbeing goals and then to

report each year on the extent to which they have met those objectives. The Socially Responsible Procurement duties within the Act, once brought fully into force, will require all public bodies covered by the duties to maximise their contribution to achieving wellbeing outcomes from all their procurement.

There is a commitment to support procurement staff as part of implementing the socially responsible procurement duties in the Social Partnership and Public Procurement (Wales) Act 2023. This commitment includes developing guidance, providing information, and maintaining ongoing dialogue with the procurement community to support them to perform their roles effectively.

Financial implications: None

Recommendation 9

The Welsh Government should work with anchor institutions in devolved public services to ensure that 'grow your own workforce' approaches are developed and scaled-up across Wales, taking a flexible approach that meets the local needs of employers and communities.

Response: Accept

Large public sector organisations are major employers and offer great scope to provide fair work opportunities for local communities.

Some health boards have adopted models to recruit from their local communities and support recruits to complete apprenticeships and other forms of work-based learning in order to develop their skills and qualifications and progress their careers within the organisation. We have an opportunity to learn and further expand the 'grow your own' local community recruitment models to attract candidates from the wider community through work-based learning and apprenticeships to earn, learn and develop their careers within the health and care system. We will work with HEIW to publish guidance to scale and spread 'grow your own' local community recruitment models.

Additionally, in response to their action within the National Workforce Implementation Plan, HEIW produced an Evaluation Report – Healthcare Degree Apprenticeships submitted to the Strategic Workforce Implementation Board. Within their remit letter for 25/26 HEIW are asked to develop a plan to undertake further detailed research and consultation into the impact that degree apprenticeships could have in different occupational areas. This should take into consideration the work currently being undertaken by MEDR to refresh their apprenticeship framework.

The 'grow your own' programme progressed by Hywel Dda University Health Board is promoted as a case study through the FoEc community of practice

website: [Grow your Own – The Hywel Dda approach to building local skills and well-being – Cynnal Cymru – Sustain Wales](#). We will engage across the health sector to encourage adoption of similar approaches which reflect local workforce priorities.

Local authorities are also already significant employers locally, some of whom have geographically large, but sparse local employment markets, whereas others share a regional pool of people within easy commuting distance of several public sector employers. There are activities in place to support recruitment into some hard to recruit and retain jobs, such as planning and environmental health. We will explore scope for further action in the sector by raising it through the Partnership Council to bring it to the attention of Leaders, encouraging shared learning and identifying what Welsh Government could to provide support.

Financial implications: None

Recommendation 10

The Welsh Government should take the following steps within its devolved powers to improve pay and conditions in the public and private sectors:

- Using remit letters to set requirements for public bodies covered by these to improve pay and working conditions, and working with social partners to develop and agree common minimum standards for pay and working conditions in the devolved public sector.
- Working at pace with social partners to develop proportionate proposals to support fair work through Welsh Government financial support, and starting to roll these out by the end of 2025. As part of this work, the government should also consider how the Scottish Government's Fair Work First approach can inform developments in Wales.

Response: Accept in principle

In December 2024, the First Minister wrote to all public bodies in Wales, encouraging them to consider the benefits of adopting the Real Living Wage and becoming a Real Living Wage accredited employer. This follows similar correspondence issued in previous years. We also collaborate with Cynnal Cymru, the Real Living Wage accreditation partner in Wales, providing them with annual funding. This support enhances their capacity to engage with employers, including public bodies. We expect organisations in Wales that receive public funding, including public bodies, to sign up to the Code of Practice on Ethical Employment in Supply Chains. The Code includes 12 commitments, one of which is for signatory organisations to consider paying the Real Living Wage and becoming a Real Living Wage accredited organisation.

NHS Wales has strong and well-established formal structures for social partnership working. Welsh Government, NHS employers and health unions work together in open, trusted relationships with the shared aim of improving the working life of NHS staff and identifying how NHS services can be improved. The formal social partnership structures include employer/union Local Partnership Forums in each health board, trust and special health authority which ensure national terms and conditions and national partnership priorities are delivered within the remit of every NHS Wales employer. At national level the tripartite Wales Partnership Forum has a significant role in identifying priorities for pay and conditions issues – for example in ensuring the consistent delivery of the pay and non-pay elements of our collective agreements.

In terms of arm's length bodies, framework documents outline expected staff management arrangements and the Welsh Government's principles around having fair pay systems (which includes paying the Real Living Wage, and having pay parity for those on the lowest rates of pay). Aligned to the Welsh Government's Programme for Government commitment to address pay disparities, and working in social partnership, action has been taken to consider harmonising rates of pay and employee terms and conditions across arm's length bodies. This work is ongoing.

A sub-group of the Social Partnership Council (SPC) has been convened and will consider fair work in Welsh Government grant funding to business. The group includes employer representative organisations and trade union representatives. A work plan has been agreed by the sub-group which includes consideration of the Fair Work First approach taken by the Scottish Government. It is anticipated that the group will conclude its work at the end of 2025. Its advice will be considered by the SPC and subsequently by Welsh Ministers.

Financial implications: None