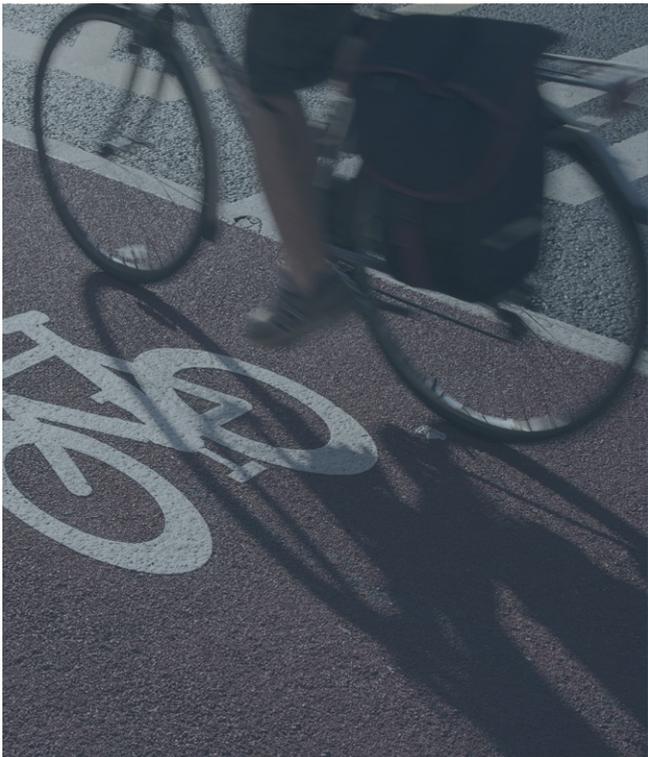




# “ARE WE THERE YET?” A ROADMAP TO BETTER INFRASTRUCTURE FOR WALES



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# FOREWORD

## Picture yourself in 1985

The blockbuster *Back to the Future* films pictured a future 2015 in terms of flying cars, hoverboards, self-driving cars and endless Jaws sequels.

Emmett ‘Doc’ Brown states of the future 2015 that ‘where we’re going we don’t need roads’ – a joke that works because it is precisely that – science *fiction*. Back in the real 1985, the car is king.

The Cold War is at its height. The European Community has yet to travel further down the ‘Ever Closer Union’ of the Maastricht treaty – the Franc, Deutschmark, the Lira and the others remain the exchange currencies for a burgeoning European foreign travel market.

In Wales, the Miners’ strike has polarised the political scene, and heralds the end of a century of industrial decline. The calls for a ‘Parliament for Wales’ remains a forlorn one for its proponents, having seen the calls for limited devolution seemingly decisively rejected in 1979 by 4 to 1.

So, looking to the next 30 years what would you have done? What are the assumptions on politics, culture and global trends that are taken as given, and yet turned out to be mistaken? What would be the ways to manage uncertainty? Would you have done a better job than Back to the Future?

Planning the infrastructure from now to 2050, where would *you* start?

Bringing that question down to an infrastructure approach that works for SMEs is a challenge indeed. Yet that is the aim of this report – if not to provide all the answers to, at least, map out the terrain, to ask the right questions, to look at how an economy that works for SMEs would address infrastructure strategy in the short, medium and long terms. Small and medium-sized businesses make up 99.4 per cent of all businesses in Wales, and make a huge contribution to the Welsh economy. They account for £46bn of private sector turnover and employ 62 per cent of the private sector workforce.<sup>1</sup> As such, for infrastructure to develop the Welsh economy, it must work for SMEs.

Infrastructure is vital to SMEs having a level playing field. SMEs are embedded in their communities and so are less likely to want to move. This presents the opportunity of an infrastructure policy that gets the most out of SMEs precisely because of that attachment to place. This can drive local economies and communities, and provide for greater community wealth and employment.

Quite rightly, Welsh Government has linked its general infrastructure approach to its wider Well-being of Future Generations agenda. However, this needs further work. The national indicators that provide for this framework lack measures for economic and business development, which are a vital underpinning. Welsh Government have recently acknowledged that there is a need too to bring into focus the growth of SMEs, to grow the ‘Missing Middle’ (the stock of medium-sized enterprises) of the Welsh economy. Harnessing the embedded capacity of SMEs will be vital to provide for the success of this agenda, and infrastructure will be an important lever to do so.

However, responsibility for infrastructure has complex ownership across local, Welsh and UK Governments. Ensuring a strategic approach that promotes efficiency, connectivity and minimises duplication of effort or at worst, inaction will require better, more demonstrable collaboration to get us to where we need to be.

We hope that this report provides a contribution on how reach that destination.

<sup>1</sup> Welsh Government. 2018. *Size Analysis of Welsh Business* [Online]. Available at: <https://gov.wales/size-analysis-businesses-2018> (accessed 19th August 2019).

# 1: BACKGROUND AND POLICY DRIVERS

*‘High quality public infrastructure supports growth, improves well-being and generates jobs. Yet, infrastructure investment is complex, and getting from conception to construction and operation is a long road fraught with obstacles and pitfalls. Poor governance is a major reason why infrastructure projects often fail to meet their timeframe, budget, and service delivery objectives.’<sup>2</sup> (OECD, Getting Infrastructure Right)*

A short report such as this cannot deal with the minutiae of infrastructure across every sector. Rather, this report aims at providing an approach to arrive at better decision making, of a means toward better institutions, systems and processes to support those decisions, and particular actions to make infrastructure better.

Infrastructure here refers to all the systems and sectors that can make a difference to SMEs’ development and growth, and the report aims to analyse what SMEs want, and what approach can provide for best economic development from an SME perspective. In order to provide an analysis that accounts for the wider needs and duties of UK and Welsh governments, the report will highlight the main policy drivers in outlining its approach to infrastructure strategy.

## POLICY DRIVERS

### Decarbonisation

The Earth is getting warmer – climate change and global warming will have a substantial impact. The UN Intergovernmental Panel on Climate Change (IPCC) states, gathering global evidence of peer reviewed scientists, that if it arrives at above 1.5°C the results could be catastrophic.<sup>3</sup> The Paris Agreements toward global action to reduce carbon emissions and reduce global warming seeks to address this, and places a duty on governments to reduce carbon emissions according to set targets. This will have an impact on infrastructure spending and options. Welsh Government has a role as a government in helping to deliver the intentions of the Paris Agreement. Infrastructure will play a large part in this, indeed it is a key factor underpinning the Welsh Government’s Decarbonisation *Strategy A Low Carbon Wales*.<sup>4</sup>

### Technology

Technology can help shape, or disrupt, plans, often in unpredictable and unexpected ways. The onset of 5G, automation and Artificial Intelligence (AI) have the potential to revolutionise whole sectors of the economy from agriculture to advanced manufacturing, presenting numerous opportunities as well as asking profound questions on the future of work and employment in Wales (as elsewhere). In Wales, the Welsh Government’s ‘Review of Digital Innovation for the Economy and the Future of Work’ led by Professor Phil Brown provides the context for this.<sup>5</sup> The knock on cultural and regulatory effects of technological disruptions will be difficult to fathom and will require agility.

<sup>2</sup> OECD, *Getting Infrastructure Right* (OECD: 2017).

<sup>3</sup> *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* (UN IPCC: 2018).

<sup>4</sup> Welsh Government, *A Low Carbon Wales* (2019).

<sup>5</sup> P Brown, ‘Review of Digital Innovation for the Economy and the Future of Work’ at <https://gov.wales/review-digital-innovation-economy-and-future-work-wales>

## **Governance and Public Finance Uncertainties**

The future governance of Wales is uncertain on many issues, with Brexit raising questions around the relationship between decisions made in Cardiff Bay, Westminster and Brussels. This has substantial knock-on effects on where decisions are likely to be made on infrastructure and the level of funding available. Regional investment has largely been the purview of the European Union for the entire period of devolution, particularly through the European Regional Development Fund (ERDF) programme.

The shape of devolution in Wales is dramatically different from its beginning in 1999 – we now have a tax-raising legislature dealing with formidable primary powers. Despite this, responsibility for infrastructure is not clear cut with powers often split or shared between several levels of governance.

While devolution in Wales has been in flux from its inception, there is also instability at the central level, with a lack of clarity who will take control of newly repatriated EU powers.

There are new Welsh institutions that make up a new infrastructure ecosystem, such as the National Infrastructure Commission, Development Bank of Wales and Transport for Wales. These will need to ensure a good relationship with Welsh-level and UK-level governance. It is vital both Governments share responsibility over developing infrastructure in Wales.

## **Past Infrastructure Failures**

Failure to develop consensus for viable, cost effective and long-term infrastructure, is not a problem particular to Wales. As well as high profile controversies across the UK on the funding and impact of HS2, globally there are countless examples of failed projects, projects coming in over budget, projects stalled due to withdrawal of funding (public or private), changed priorities or fiscal instability over the life term of the project.

Infrastructure is difficult. However, we can gain insight into how to respond to our own difficulties, by looking at how other countries have resolved long-standing issues.

So while the difficulties encountered in decision processes such as the M4, Wylfa Nuclear Station, the Swansea Tidal Lagoon, and the extension of electrification west of Swansea are serious, they mirror problems elsewhere. Other countries have taken moments of controversy around infrastructure as drivers to change tack and do things differently. There is absolutely no reason why this cannot be the case in Wales.

This paper will look to provide tools to ensure an infrastructure strategy that provides for the 99.4% of business in Wales that are small businesses. First, we will look at what SMEs themselves want.

## 2: WHAT DO SMEs IN WALES WANT FROM INFRASTRUCTURE?

In order to ensure that governance and effective decision-making around infrastructure reflects SMEs’ concerns, we commissioned a survey on what SMEs want from infrastructure in Wales. This looks at what their concerns are, what they would prioritise, and their knowledge of and perceptions of issues around long-term issues such as decarbonisation, multi-modal transport and active travel.

The survey included SMEs from across Wales both within and outside FSB Wales membership. 348 Respondents were surveyed through a mix of an online survey and telephone interview.

### How does infrastructure affect small business?

HAS YOUR BUSINESS BEEN AFFECTED IN ANY OF THE FOLLOWING WAYS BY PROBLEMS IN WALES’ INFRASTRUCTURE?		
Closure of business premises	12	3%
Reduction in the number of business vehicles available	12	3%
Other, please specify	14	4%
Reduction in range of products / services available	33	9%
Reduced staff numbers	37	11%
Change in mode of travel used	48	14%
Reduced turnover	75	22%
Fewer customers	88	25%
Reduced profits	99	28%
Increased costs	145	42%
None of these	130	37%

63% say their business has been affected by Wales’ infrastructure, with the 3 main areas being increased costs, reduced profits and fewer customers. SMEs view the quality of infrastructure as having a material effect on their business, and this mirrors previous FSB Wales surveys on transport. This pattern remains across different sectors.



**63%** say business is affected by Wales’ infrastructure – the **3 main reasons** being increased costs, reduced profit and fewer customers

“Our business would grow if we could serve South Wales. Transport links from North Wales to South require prioritisation.”  
*Business based in Wrexham*

“Our road infrastructure is the thing that lets us down”  
*Business based in the Vale of Glamorgan*

It is of interest (as in a similar question asked in Wales in an FSB survey in 2014 which placed the number as 3.9%) that it is only cited as a reason for ‘closure of business premises’ by 3.5% of respondents.

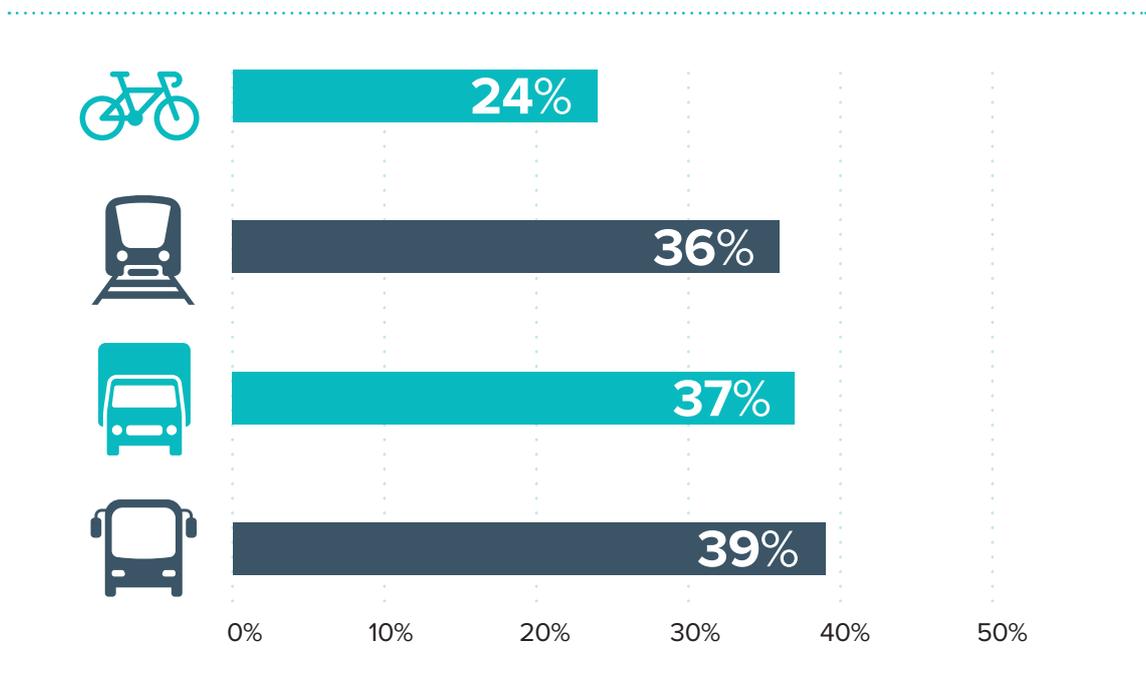
This indicates how small businesses are embedded in their communities, and so do not wish to leave, or that it is difficult to move due to a lack of capacity to fund such changes. As a result, the quality of infrastructure is disproportionately important to support those businesses embedded in their community as compared to larger companies, who have more capacity to leave if infrastructure is detracting from profitability.

### Importance of Different Means of Transport

Overwhelmingly, respondents viewed a car or van as ‘quite important’, or ‘very important’ for their business. This was the case across all regions of Wales, across urban and rural areas.

This echoes previous surveys that found private vehicles to be important for 89% of businesses.<sup>6</sup> A 2016 report demonstrates how congestion, poorly maintained local roads, and a lack of regional strategic planning are all combining to pose a significant economic barrier to economic growth – particularly in rural areas.<sup>7</sup>

A significant minority of respondents saw the following means of transport as ‘quite important’ or ‘very important’.



<sup>6</sup> Going the extra mile: Connecting businesses and rural communities (FSB: 2016).

<sup>7</sup> Ibid.

There are some variances across different geographical areas on these means of transport. For example, 50% of Vale of Glamorgan view trains as important versus 77% in Flintshire and 78% in Neath Port Talbot. The variation is far less with buses (probably due to wider bus networks).

The importance of the car is mirrored in a follow up question on what areas of government policy are most important, with 86% of respondents putting ‘investment in road infrastructure’ as ‘quite important’ or ‘very important’ – putting this as our respondents’ most important policy.

The policies viewed as most important after ‘road infrastructure’ were ‘better traffic management to reduce congestion’ (72%) and ‘improved rural transport’ (65%) showing concerns spanning the rural and urban.

“Transport infrastructure in our area is nothing short of atrocious. The conditions of roads needs serious addressing and the volume of traffic means we are often late for meetings.”

*Business based in Torfaen*

“Potholes and general disrepair of minor roads cause me enormous expense both to my vehicles and rental income as potential clients do not wish to rent in an area where they cannot avoid potential damage to their vehicles.”

*Business based in Torfaen*

Other policies with majority viewing as ‘quite important’ or ‘very important’ were lower fares for Public Transport (60%), expanding the bus network to a wider area (54%), and the ability to use one ticket for all forms of public transport (51%).

Similarly, when asked what would be the most important initiatives that would encourage the respondent and their employees to use the public transport network more the main responses were the same as in our 2014 survey – Lower fares (60%), more frequent services (50%) and increased routes offered (47%). Issues in both 2019 and 2014 surveys were punctuality and reliability of services (43%), integrated ticketing (39%), and integrated timetables (39%).

“We don’t get many trains a day from Cardiff so we can’t use the freelancers we want to use. The transport situation affects the young people we support locally to get to other opportunities in Wales, and young people who want to access our projects can’t get here. We spend a lot of time arranging transport.”

*Business based in Carmarthenshire*

- **Welsh Government should continue to see investment in roads as a priority, particularly looking to remove congestion and improve traffic flow.**
- **Welsh Government should look to reduce public transport costs where possible to encourage modal shift.**
- **Welsh Government should use new bus powers and the various metros to improve network coverage and frequency.**
- **The impact of changes to road transport and public transport inter-relate, therefore responsibility for roads should also sit under Transport for Wales to ensure joined up policy and evidence gathering.**

## Active Travel and Cycling

While it ranks as lower in importance to SMEs than other modes of transport when applied directly to their business activity, cycling is not viewed with hostility in the survey, as seen in the following question:

Q8. WHICH OF THE FOLLOWING INITIATIVES WOULD ENCOURAGE YOU AND YOUR EMPLOYEES TO USE A BIKE MORE OFTEN FOR BUSINESS?		
Support for cycle to work / walk to work schemes	85	24%
Better cycle paths	128	37%
Secure parking	70	20%
More connected cycle infrastructure	94	27%
More hire bike points	37	11%
Safety on roads	136	39%
Greater availability of couriers	17	5%
Other, please specify	7	2%
It will not be suitable to use bicycles at my business	109	31%
None of the above	57	16 %

“As I live in Newport infrastructure seems pretty good, I have easy access to London and to the north and Midlands by train. Cycle routes around Newport leave something to be desired. I have decent broadband.”

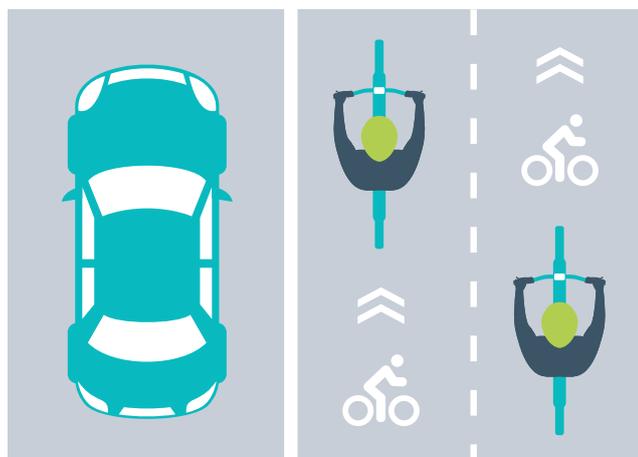
*Business based in Newport*

Responses here differentiate between the role of transport in terms of commuting and business travel. While there are practical reasons that cycling may not be as important to SMEs’ business activity as other modes, this question still shows an active engagement, with better cycle paths (and infrastructure generally) and safety on roads being cited as the main barriers to bicycle use.

Only 31.3% of SMEs said flatly that ‘it will not be suitable to use bicycles at my business’. In 2014, when asked ‘would it be suitable to make any business related journeys via bicycle’, 86.7% said ‘no’. While the difference may be due to the question wording, this response indicates openness to active travel, certainly on behalf of employees.

This mirrors Sustrans Cymru noting that safety concerns deter people from cycling, and routes “need to be attractive and connected”, and that 82% of residents in Cardiff alone wanted better safety in order to get them cycling.<sup>8</sup> These concerns mirror those of smaller businesses, and should be a focus for policy on cycling in the short-term.

- **The best means to normalise active travel is through increasing the safety and quality of cycle paths for commuters, rather than focus on its use in business travel, at least in the short-term.**
- **Investment in road and cycling infrastructure should go hand in hand, with road safety for cyclists being increased as investment is undertaken in roads.**



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### Scale of infrastructure projects

We wanted to explore at what level and scale SMEs wanted infrastructure developments and asked this on road and rail. We were looking as to whether respondents would choose the option of larger national projects or locally focused changes.

Q4. WITH WHICH OF THESE STATEMENTS DO YOU AGREE WITH MOST ON ROAD INFRASTRUCTURE?		
‘A focus on local level roads and traffic would be more beneficial to my business than a focus on larger national scale roads and traffic’	179	51%
‘A focus on national scale roads and traffic would be more beneficial to my business than a focus on local level roads and traffic’	109	31%
It has no impact either way	60	17%

Q5. WITH WHICH OF THESE STATEMENTS DO YOU AGREE WITH MOST ON RAIL INFRASTRUCTURE?		
‘A focus on local level routes and stations would be more beneficial to my business than a focus on larger national scale routes and stations’	136	39%
‘A focus on national scale routes and stations would be more beneficial to my business than a focus on local level routes and stations’	74	21%
It has no impact either way	138	40%

<sup>8</sup> <https://www.bbc.co.uk/news/uk-wales-41524127>

Respondents clearly favour local solutions to those of ‘larger national scale’. This result indicates that on a choice of local vs national, smaller vs larger, the majority would opt for projects that impact their local transport infrastructure. The question on rail reinforces this, but with a larger ‘no impact either way’, which is likely to do with the (necessarily) lesser coverage of rail as compared to roads – and areas with less rail coverage tend to be more likely to vote for no difference. Nevertheless, when we take away the ‘no impact’, the local infrastructure is preferred to ‘larger national’ by a healthy 2-1 margin.

Other evidence gathered by the Senedd Economy, Infrastructure and Skills Committee has highlighted how local road quality in particular has suffered from budget cuts in recent years.<sup>9</sup> Welsh Government recently examined the potential for regional Joint Transport Authorities to deliver transport interventions.<sup>10</sup> This shows that there is a need to rebalance funding away from single, large projects towards local projects. We would envisage this being delivered by regional authorities as proposed by Welsh Government. Based on our evidence of the importance of local infrastructure to SMEs we need funds that recognise that. We would recommend a minimum of £100 million in the context of the wider capital budget be allocated for this purpose.

- **Infrastructure should focus as much on local projects as on ‘big bang’ projects’ to promote wider sustainable growth.**
- **As part of its infrastructure strategy, Welsh Government should develop a local transport fund. This would be given to regional authorities and should be at least £100m.**
- **Welsh infrastructure institutions should have a duty to build local capacity and expertise to take advantage of local infrastructure opportunities, and support under-resourced council departments as well as engaging local businesses.**
- **Any regional funds replacing the current European funding should have a substantial proportion earmarked for local infrastructure projects.**



**As part of its infrastructure strategy, Welsh Government should develop a **local transport fund** which should be given to regional authorities and be **at least £100m****

<sup>9</sup> Economy Infrastructure and Skills Committee, The State of Roads in Wales (NAfW: 2018).

<sup>10</sup> Welsh Government, ‘Improving Public Transport’ (Dec 2018), at [https://gov.wales/sites/default/files/consultations/2018-12/improving-public-transport\\_0.pdf](https://gov.wales/sites/default/files/consultations/2018-12/improving-public-transport_0.pdf)

## Digital Connectivity

In a previous survey, 99% of respondents<sup>11</sup> viewed the internet as highly important to their business. Given how definitive this answer is we did not feel repeating the question was necessary. Rather, the question is, given how important it is, what steps do SMEs take to make their connection fast and secure?



**99% of respondents  
viewed the internet as highly  
important to their business**

In the self-employed and micro-sized businesses, we see a general choice of greater speed with fibre optic or cable being the preferred option. This chimes with our new UK broadband survey that suggests that small businesses are open to moving to faster broadband when practical. 52% of small businesses agree that they plan to upgrade to full fibre connectivity when it becomes available in their area. This appetite for improved connectivity shows that small businesses are willing to try a new technology to improve their connectivity, as their current level is not sufficient.

We see a bigger demand for more speed with more employees when moving from micro to medium sized businesses. Medium sized businesses of 50 to 249 employees are more likely to opt for a leased line than the other businesses in our sample – although even in this category only 29% of respondents opt for this security.

A leased line provides better insurance against disruption of the internet connection, with a guarantee of reconnection within 24-48 hours, whereas this is not the case with the other types of contracts. This can leave businesses vulnerable to losses because of loss of broadband connection (a greater risk with wider use of cloud-based services).

Ofcom’s data on the speeds available to premises in Wales suggest that while significant progress has been made in connecting premises to superfast broadband (with 93 per cent of premises now able to access it) significant challenges remain in our ability to keep pace with technological change.<sup>12</sup>

For instance, only 30 per cent of premises can access ultrafast speeds (300 Mbit/s or higher) and only 7 per cent can access full fibre. In Northern Ireland the corresponding figures are 45 per cent and 16 per cent and in England 56 per cent and 7 per cent.

This suggests that market led rollout of these technologies in Wales does not keep pace with other UK nations, something that was previously experienced with superfast broadband leading to the intervention through Superfast Cymru.

Another issue that often arises around infrastructure of this sort is that it is difficult to understand

<sup>11</sup> *Reassured, Optimised, Transformed: Driving Digital Demand Among Small Businesses* (FSB: 2015), p9.

<sup>12</sup> [https://www.ofcom.org.uk/\\_\\_data/assets/pdf\\_file/0021/146613/connected-nations-update-spring-2019.pdf](https://www.ofcom.org.uk/__data/assets/pdf_file/0021/146613/connected-nations-update-spring-2019.pdf)

where existing infrastructure is. This is particularly challenging for developers who often rely on plans that are poorly drafted or inaccurate. NICW could provide a role here as a depository for Welsh infrastructure, mapping our existing assets and ensure public accessibility to these asset maps.

- **The National Infrastructure Commission for Wales should seek to place Wales ahead of UK market rollout trends for technologies such as broadband and 5G mobile coverage in its 30 years infrastructure plan.**
- **Welsh Government should fund market interventions similar in scale and ambition to Superfast Cymru to ensure Wales is at the forefront of digital connectivity.**
- **99% of business view the internet as important to their business. UK and Welsh Governments should continue to work with mobile operators to expand the network coverage for mobile internet, especially with the onset of 5G.**

### Perceptions of Future Trends

An FSB UK-wide survey in 2017 asked whether the movement to a low carbon economy was a threat or an opportunity to their business.<sup>13</sup> The result was a healthy 2-1 viewing the move to decarbonisation as an opportunity rather than a threat, with 27% thinking a low carbon economy will create more opportunities than threats for their business, as opposed to just 14% who believe the opposite.

This underlined that SMEs, despite having difficult day-to-day issues to focus on such as managing cost related to environmental issues, overall viewed the issue of decarbonisation positively.

We wanted to ask a similar question on decarbonisation of the economy, along with issues around Automation and Artificial Intelligence (AI), which have been identified as key parts in the Welsh Government’s future of work agenda:

Q12. HOW DO YOU VIEW THE FOLLOWING TECHNOLOGIES AND CHANGES TO PROCESSES AND THEIR IMPACT IN RELATION TO YOUR BUSINESS?				
	Positive impact on my business	Will not affect my business	A negative impact on my business	Don't know / not sure
Automation (e.g. use of automatic machinery in any manufacturing or other processes you use)	21%	65%	6%	8%
Artificial intelligence (e.g. the use of computer systems to provide skilled labour)	22%	59%	10%	9%
Low Carbon Economy (changes to lower greenhouse gas emissions e.g. in transport policy, manufacturing or other processes)	26%	49%	15%	10%

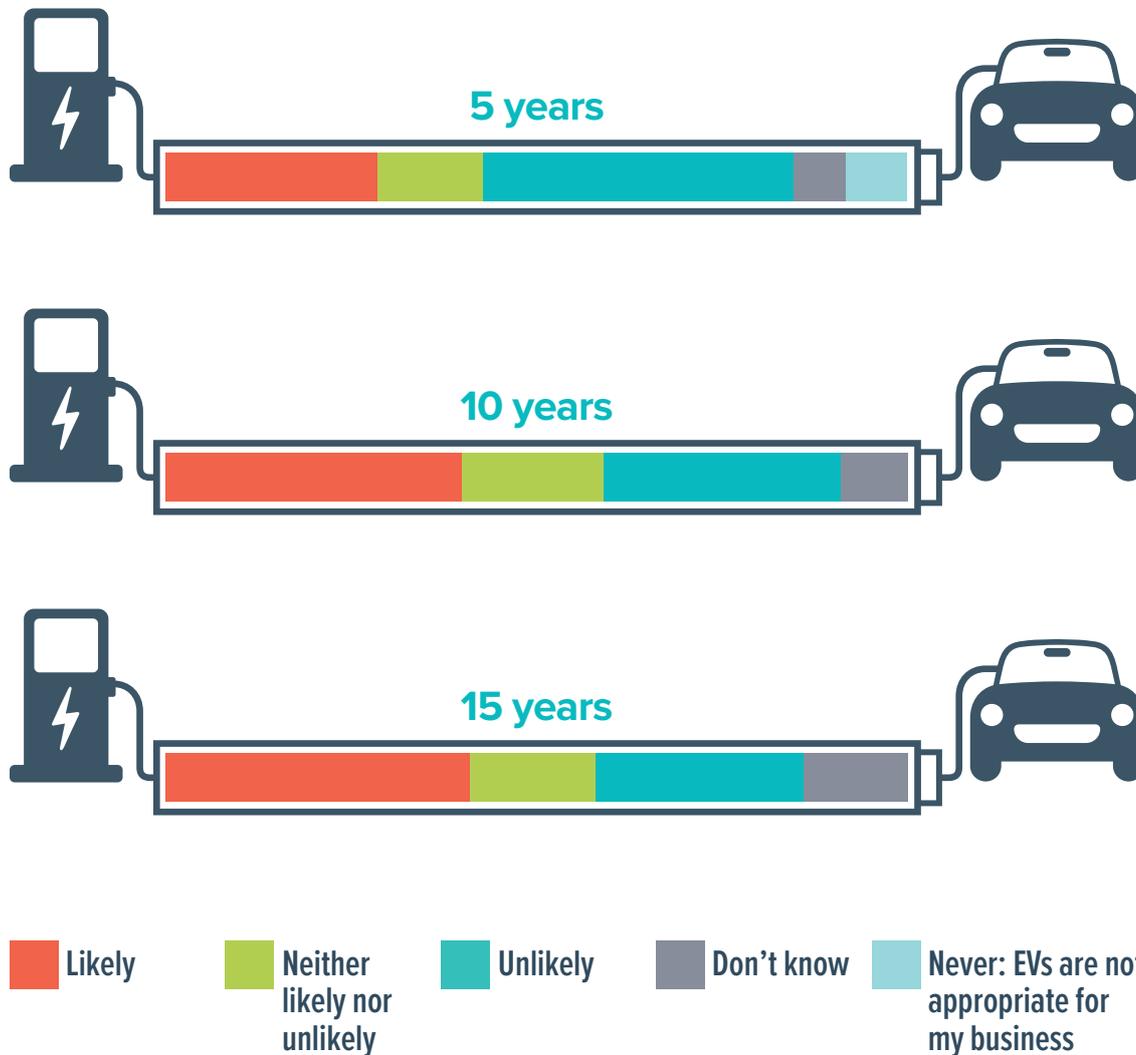
<sup>13</sup> *The Price of Power* (FSB: 2017), P6.

In general SMEs were neutral on the impact of these trends on their business, but of those who posited a view, in all trends substantially more respondents were positive than negative.

Those positing a neutral view were higher in Automation and AI, perhaps indicating that future trends forecasts has not filtered through to SMEs. This is understandable, given that these trends and their impact remain contested and are fairly recent.

The general impression that can be taken from this is that SMEs view these future trends as lacking immediacy to their business, but are generally positive in seeing them as opportunities rather than threats. This is also reinforced by our question on electric vehicles:

### Q.9 How likely are you to purchase or use electric vehicles in your business in the next...



Only 8% of respondents said at the outset that EVs are not appropriate for their business.

Respondents feeling they were likely to purchase an electric vehicle for their business in the next 5 years were at 28%, in 10 years at 40%, and in 15 years at 41% (there is a drop of answers from one category to the next, so it is at 10 years where we see the most openness to EVs).

Those feeling they were unlikely to do so at all in the next 15 years were at 28%, although given the staggered nature of the question respondents were more likely to move across categories or to 'don't know' the further they were asked to look to the future. Between them, those stating 'neutral' or 'don't know' for 15 years away were at 31%.

While there is a strong cohort who would look to EVs, for many this discussion has not addressed their immediate concerns, which is probably reflective of society generally. At present, the cost of electric vehicles and the lack of charging infrastructure are key barriers. There appears to be very little geographical pattern in the distribution of responses.

In terms of policy, this shows that there is a need to make the discussion more real and practical to business if Welsh and UK governments are to support the target of banning petrol and diesel vehicles by 2040.

- **A number of firms will look to adopt EVs in the next 5-10 years. At present, the cost of electric vehicles and the lack of charging infrastructure are key barriers. The UK and Welsh governments must address both of these if it is to decarbonise personal transport.**
- **With firms looking at a 5-10 years as a realistic time to move to EVs, there is opportunity to target a shift to electric vehicles for businesses within this timeline. The UK and Welsh governments should look to incentivise this shift by introducing tax incentives or scrappage schemes as have happened previously.**
- **On new technologies and decarbonisation, SMEs are generally positive about how they view the potential impact on their business, however many SMEs remain disengaged. More could be done using the Wellbeing of Future Generations Act to nurture these conversations with SMEs.**

### 3: FUNDING INFRASTRUCTURE

How we fund infrastructure and the amount of funding available are integral to success. Conversely, it is often in terms of funding and financing where projects can fail. It is important that best practice models such as the Treasury’s ‘five case’ model are used to best effect.

**THE INSTITUTE OF GOVERNMENT POINTS TO THE FOLLOWING HIGH-LEVEL OPTIONS FOR INFRASTRUCTURE SPEND:<sup>14</sup>**

Ownership	Finance	
	Public	Private
	Public	Private

	Public	Public spending from tax or borrowing (e.g. HS2)	Project Finance vehicles (e.g. road and waste PFI)
	Private	Public sector financial support (e.g. Thames Tideway)	Privatisation and corporate finance (e.g. regulated water companies)

In general, SMEs do not have an ideological preference in terms of the above – like most citizens, the sector is more concerned with ‘what works’. We are mindful that in times of economic flux, what has worked in the past may no longer work and we need to look at exploring new avenues of funding in Wales, as elsewhere, particularly in current circumstances.

Recently, we have seen the potential pitfalls of both private and public sector financing. With the M4 relief road, the Welsh Government decided that the effect on the wider capital budget and borrowing levels made the project unaffordable (along with environmental concerns). At Wylfa power station, Hitachi decided to pull out their funding of £20bn project having already invested £2bn, derailing a regional economic policy that had largely been geared toward the project.

**The Context:**

**Squeeze on Public Finances**

The global economic crash of 2008 has had, and continues to have, repercussions on infrastructure spending and finance, as with all other sectors.

In terms of public funding and finance, the UK Government has been more reluctant to use spending and borrowing levers, and as such, the amount of public money available has been less. This has affected the National Assembly budget and council budgets substantially.

It has also affected areas of infrastructure that are the responsibility of the UK Government in Wales. For instance, previous commitments to rail electrification to Swansea were cancelled and as Prof Mark Barry notes Wales has been severely underfunded in rail investment to upgrade capacity over a long period of time.<sup>15</sup> This has left the nation with rail infrastructure that is not fit for purpose and is unable to promote economic wellbeing.

<sup>14</sup> G Atkins et al ‘Public vs Private: How to pick the best infrastructure finance option’ (Institute for Government: Nov 2017), p8.

<sup>15</sup> <https://www.bbc.co.uk/news/uk-wales-politics-48921533>

### *Private funding and financing*

The use of Private Finance Initiatives (PFI) has dramatically fallen following 2008, in large part due to the new regulations in force.

As House of Commons research notes, there were perverse incentives to use PFI, often to projects to which it was unsuited.<sup>16</sup> Any future use of PFI, or its successors such as PFI2, the Mutual Investment Model (as currently used in Wales), or the Scottish ‘non-profit distribution method’ model should learn from these mistakes. The Development Bank may be a useful source of expertise in this regard. Gerald Holtham recently contrasted the Welsh approach to that in Scotland:

*“The Scottish Government has adopted an ambitious programme of infrastructure investment...it has created state institutions such as the Scottish Future Trust to devise new forms of contract for private finance initiatives (PFI) to reduce the risk of the public sector paying excessively for assets... Welsh response was not the Scottish one, of setting up specialist departments to attempt innovation, but avoiding PFIs altogether...There have been no egregious policy errors in infrastructure development in Wales. However, the absence of an economic policy detailed enough to establish priorities is evident.”<sup>17</sup>*

As will be seen, Wales is now developing new specialist institutions that together can provide such a detailed and ambitious plan, fitting with Welsh Government’s overarching strategy. As Gerald Holtham noted in his analysis referenced above, the Welsh Government’s debt exposure is currently very low, with debt servicing equating to less than 1 per cent of its budget.

Holtham estimated in 2010 that a £4bn programme would equate to no more than 1-2 per cent of the budget in debt service. Currently, debt servicing takes up 5% of the Scottish budget.<sup>18</sup> Whilst it is not without its risks, Welsh Government could use the Mutual Investment Model it has developed to invest in economic infrastructure at a much larger scale without creating excessive budgetary pressures.

- **Welsh Government should use MIMs to embark on an ‘infrastructure stimulus package’ to step up our investment in our nation’s assets.**

### *Brexit*

Another part of the international context that is causing uncertainty is Brexit. Wales is particularly dependent on EU funding, currently receiving about £680million a year in EU funding.<sup>19</sup> What will replace these remains unclear in the absence of the UK Government’s proposals for their ‘Shared Prosperity Fund’.

Wales needs to look at the role of investment and leveraging other funding via the Development Bank of Wales, and Brexit may provide a spur to this. FSB Wales has already called for Wales to receive the same quantum of funding as has been available through EU funding, and that any new funding complements the existing business support infrastructure in Wales through Business Wales and the Development Bank.

<sup>16</sup> L Booth & V Starodubtseva, ‘PFI: Costs and Benefits’ (HoC library: May 2015).

<sup>17</sup> G Holtham, ‘Has Devolution led to more effective government in Wales? The case of the economy’, from *Has Devolution Worked* p65-6, in A Paun & S Macrory *Has Devolution Worked? The First 20 Years* (Institute of Government: 2019).

<sup>18</sup> Ibid.

<sup>19</sup> *Brexit and Devolution: Securing Wales’ Future*, Welsh Government (2017).

## 4: NEW WELSH INSTITUTIONS

In Wales, there are some new institutions in the infrastructure ecosystem.

In general, these are ‘arm’s length’ bodies. This is a move towards depoliticising infrastructure that FSB Wales supports, but we will address some of the risks in terms of scrutiny and accountability in the next chapter. In this chapter, we will analyse these bodies’ potential for enabling future infrastructure development, what their roles and responsibilities should be, and how they should relate to each other.

### The Institute for Government have noted some of the problems common to infrastructure failure internationally:<sup>20</sup>

- **Lack of overarching forward-thinking strategy:** The political climate tends to incentivise short-term wins and spending. Indeed, decision-makers who act toward successful long-term infrastructure are unlikely to be in office to be rewarded for those decisions – this creates an incentive toward short term ‘big bang’ gain rather than building long-term foundations, or deferring the costs to a future government.

This can promote a lack of focus on sustainable long-term outcomes, and a tendency toward either prestige projects or incremental, piecemeal but uncoordinated actions.

- **Failure to secure consensus, creating high political risk:** Decision-makers tend to avoid early engagement (and conflict), and depend on driving decisions through. This lack of early engagement tends to come back as more highly charged conflict later in the process. Lack of continuity also make for risk, a change in administration allied with a system that promotes adversarial politics and a lack of cross-party agreements, means that decisions can be reversed quickly, and so carries the risk of instability from the outset of any project.

A system geared toward building consensus and mitigating against these weaknesses would be better.

- **Weak evidence base and lack of trust:** As decisions are often departmentally driven from the centre, there is a lack of public trust about the evidence marshalled in favour of the decisions made – the basis for evidence often veers according to terms of reference set out precisely to get a given project through rather than according to wider policy frameworks. Governmental departments working in uncoordinated silos across different policies can exacerbate this. An **independent evidence base** provided by a trusted actor or **institution at arm’s length from government** acting in accordance to **wider general principles** would allow for a debate based around a common ground of evidence.

- **Community opposition and lack of effective engagement:** The net effect of the above is to exacerbate community opposition and provide it with legitimate force as lying outside the decision-making process, as not having inputted into the evidence base or gathering, and of providing a strongly polarised debate.

Arm’s length bodies provide a part of the answer to these problems, and how these can be used in Wales is the subject of this chapter.

<sup>20</sup> Adapted from D Slade and N Davies, How to design an infrastructure strategy for the UK (Institute for Government: 2017) p6-7; *Getting Infrastructure Right* (OECD: 2017); M Coelho, V Ratnoo, S Dellepiane, *The Political Economy of Infrastructure in the UK* (Institute for Government: 2014).

### *National Infrastructure Commission for Wales (NICW)*

NICW was established in 2018, with a remit to inform the approach of Welsh Government, working ‘across the regions to identify Wales’ future infrastructure needs for the next 5-30 years.’<sup>21</sup>

Beyond being based on the Welsh Government’s obligations under the Well-being of Future Generations Act, it is unclear how NICW will work at present with ‘detailed working arrangements of the NICW will be agreed between the Welsh Government and the appointed commissioners by establishing ways of working and assessment criteria which align to the requirements of this remit letter’. NICW is to produce its first annual report in November 2019 and a ‘State of the Nation’ report in 2022, suggesting progress is slow thus far.<sup>22</sup>

NICW’s remit is ambiguous, and the remit focuses on what it cannot do, rather than what it can do.

Following the decision not to proceed with the M4 ‘Black route’ relief road, it is incongruous that Welsh Government chose not to task NCIW with investigating solutions to the problem of congestion around Newport but rather tasked an entirely new expert commission to investigate this. We see this as a missed opportunity as it would have been good proving ground for NCIW and cemented it as an authoritative vehicle in informing long-term priorities and solutions for infrastructure.

This raises doubts as to whether Welsh Government itself sees NICW as such an authoritative mechanism for informing infrastructure priorities and does little to reinforce confidence in it among external stakeholders.

While obliged to work in a transparent and engaged way, NICW currently has no website and the information available is on a Welsh Government page only. This contrasts with Scotland where, Infrastructure Commission Scotland has a website outlining clearly its functions, remit and approach.<sup>23</sup> Therefore, while the NICW ostensibly has a similar remit to the Australian State of Victoria’s Infrastructure Commission,<sup>24</sup> its functions are unclear. How it relates to other organisations is similarly unclear.

An unclear remit and a lack of progress in its work to-date creates other concerns. While the idea of a strategic vision over 5-30 years are laudable, in practice its authority is uncertain, and so its recommendations are in danger of falling into a trap in terms of sequencing – of being reactive to where progress has been made rather than proactive in understanding where progress should be made. For example, with Transport for Wales already taking a lead on rail and bus strategy, if its remit and authority are unclear we could have a situation where the strategy follows shorter-term imperatives and put the cart before the horse, rather than fulfilling its aims of providing a rationalised overarching strategy for other bodies to follow.

To provide the means towards a better evidence base from which to develop infrastructure proposals, NICW should hold data on infrastructure, assets and natural resources to aid future development. This should include registering of details and data of work done by providers and a record against delivery.

This central data repository should be developed with a view to future mapping of infrastructure assets (mapping of where assets lie is patchy and this may move us toward a better map of where assets lie).

NICW should also hold an atlas of assets and Welsh natural resources for sustainable infrastructure development in the future. This should also look at whether there are assets of national significance that should be given greater regulatory protection for use in projects in Wales.

Insofar as possible (taking into account security and commercial sensitivities) the data on infrastructure should be open data and accessible.

<sup>21</sup> Ken Skates, Remit Letter for National Infrastructure for Wales, <https://gov.wales/sites/default/files/publications/2018-12/national-infrastructure-commission-for-wales-remit-letter.pdf>

<sup>22</sup> <http://record.assembly.wales/Committee/5548>

<sup>23</sup> See, <https://infrastructurecommission.scot/>

<sup>24</sup> *From the Ground Up: Developing a 30-year Infrastructure Strategy for Victoria* (Infrastructure Victoria: 2016)

We would recommend that NICW’s role is clarified and placed on a statutory basis:

- **A clearer public facing remit for NICW should be produced.**
- **NICW should be placed on a statutory footing.**
- **The development of a 30 year vision should be NICW’s key responsibility with Welsh Government responsible for funding it.**
- **NICW’s relationship to other infrastructure bodies across sectors needs to be clarified. There should be a protocol about how it relates to (for example) Tfw, Natural Resources Wales, UK Government, Welsh Government, the National Assembly for Wales.**
- **With the above clarified, NICW’s role should be that of a central point of contact and an organisational fulcrum.**
- **This role of central point of contact should take account of any changes in the intergovernmental relationship between Westminster and the devolved administrations, including linking with the Wales Office.**
- **In partnership with Development Bank of Wales, NICW should take responsibility for developing and the use of public private models for finance (such as the Mutual Investment Model, or PFI) for infrastructure projects in Wales.**
- **The Welsh Government should produce a clear and publicly accessible mapping of how the different organisations relate.**
- **Welsh Government should hold a central repository for open data on infrastructure projects, including details of work undertaken, with a view to future mapping of infrastructure assets.**
- **Consideration should be given of how to increase the public visibility and understanding of NICW.**

#### *Development Bank of Wales / Business Wales*

Whatever the role of structural funds post-Brexit, the squeeze on public finances mean that we need to be innovative in how we access finance for infrastructure. This requires a move away from grants spending toward leveraging funds.

In wider policy, there have been recent moves to reorient this balance in the opening of the Development Bank of Wales (DBW) and Business Wales.

Globally, there is a financing gap in ‘infrastructure investment of roughly \$1 trillion per year, and \$100 trillion in institutional investor resources seeking a home’.<sup>25</sup> In an analysis of what development banks can do for infrastructure Humphreys notes that ‘Information gaps and risk perceptions’ have prevented infrastructure investment and ‘suggests a role for official coordination’, including “official action in supporting the process of converting infrastructure into an asset class in the eyes of institutional investors...to address information gaps and promote standardised data reporting, risk assessment frameworks and contractual arrangements related to infrastructure.”<sup>26</sup>

The Development Bank has seen initial success in terms of addressing market failure, while also illustrating through their investment success that there is opportunity for private investment in Wales. They are currently taking on roles such as developing a ‘Green Fund’ for investment in Wales and leveraging the Clwyd Pension Fund for their Management Succession Fund. This suggests that they could take on the role of addressing information gaps and risk perception and developing infrastructure in Wales into an asset offer.

<sup>25</sup> C Humphreys, ‘Channelling private investment to infrastructure: What can multilateral development banks realistically do?’ (ODI: 2018)

<sup>26</sup> Ibid.

While the DBW should be ambitious in its goals, there should also be clear checks and protocols on the public risk it takes upon itself. Firstly, it is important that it continue to build its credibility to increase its options in attracting investors in the future. Secondly, there have been numerous examples of development banks moving beyond their original remit and taking on too much public risk (such as the Cajas in Spain's risky investments in housing prior to 2008).<sup>27</sup> Thirdly, it is vital that it does not shift focus from developing the SME sector and providing for loans where banks have been unwilling to do so.

The DBW currently invest with private and public taking an equal level of investment and risk. This is prudent for its current purpose. If it is to look at wider infrastructure, alternatives may need to be explored, as well as how the risk is shared, especially if it were to develop capacities toward bigger investments.

#### **DBW should**

- **Work to develop Welsh infrastructure into assets for institutional investors, provide a means to lessen information gaps and risk perceptions for investors, and work with NICW in order to promote these effectively.**
- **This should build on DBW's work already in using the Clwyd pension fund to deliver the Management Succession Fund, and its development of a Green Fund.**
- **Protocols should be in place to ensure that increased DBW activity does not result in unacceptable public risk, in moving from its remit to develop SMEs, and that it continues to build its credibility for leveraging future investment.**

#### *Transport for Wales (TfW)*

*'It's improving and given time I think Transport for Wales will make a difference'  
Business based in Cardiff*

In its strategic aims, TfW has clarity about the delineation of its role(s) in terms of operations and advice as distinct from the Welsh Government:

*"Transport for Wales is a not-for-profit company, wholly owned by the Welsh Government. Across Wales and its borders, we collaborate with other transport providers, partners and stakeholders to deliver a safe, accessible, reliable, affordable and low carbon integrated transport system.  
"...We provide technical advice to allow the Welsh Government to develop policy. Everything we do is discharged within the Welsh Government's policy framework."<sup>28</sup>*

Transport for Wales as an arm's-length body can deal with a set of devolved powers and coordinate policy and the evidence base centrally. Similarly, in dealing with external partners and stakeholders it is useful to have a single identifiable body.

FSB Wales has welcomed the commitment to the TfW's role to 'establish an evidence-based approach to support decision-making associated with infrastructure investment' and in 'ensuring [TfW] serve all of Wales effectively... maximise our understanding of local and regional needs across Wales for the benefit of current and future transport users'.<sup>29</sup>

We note that these aims map well across the principles for infrastructure governance noted above.

However, we would note that within these documents these remain largely rhetorical commitments. There is always the risk that without a structured consultation process that is integrated into the TfW ways of working, this may fall by the wayside as other commitments take priority.

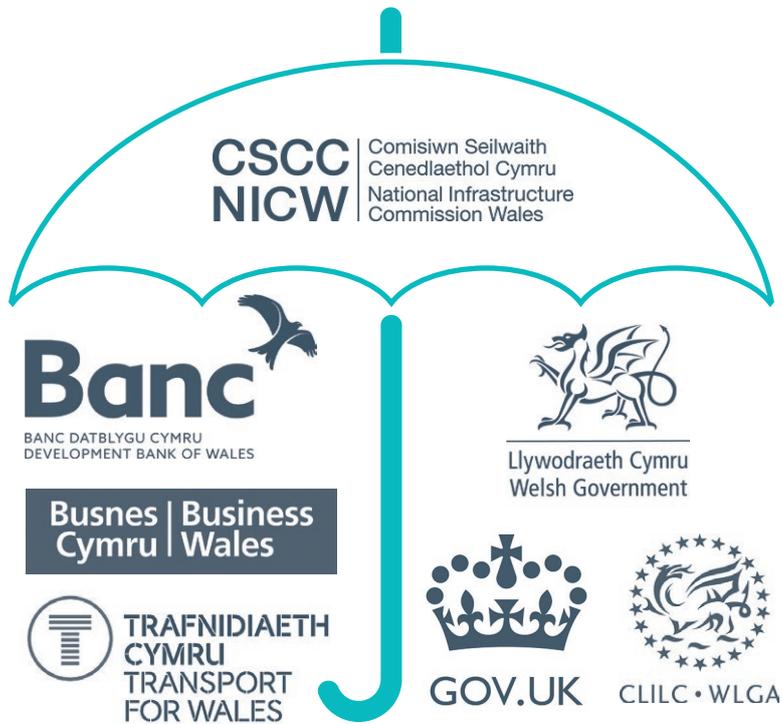
<sup>27</sup> Time for a Full Public Bank in Wales? (PPIW August 2017), p13-14.

<sup>28</sup> TfW, 'Summary business plan up to 31 March 2020' (2018), p3.

<sup>29</sup> Ibid, p4,5.

We would recommend that TfW and all other organisations within the Wales infrastructure ecosystem:

- **Develop an Open Government and Consultation strategy, taking into account how proportionate consultation should be, dealing with issues of confidentiality and commercial sensitivity, and a strategy for identifying SME stakeholders.**
- **Have a duty to providing a strong evidence base, of identifying local and regional needs and balancing benefits across Wales, and of aggregating different interests through a strong participatory and engagement framework.**
- **A clear outline of the lines of accountability in terms of governance structures.**
- **Is clearly accountable to the Economy, Infrastructure and Skills Committee of the National Assembly for Wales.**



## 5: POLITICAL GOVERNANCE AND INFRASTRUCTURE

The previous chapter has looked at the role of the developing Welsh infrastructure ecosystem of institutions and their role in answering the identified problems for infrastructure. This chapter looks at the representative institutions and decision-making processes, and how we can utilise the system in Wales to bring about better outcomes.

It is neither fruitful nor helpful to blame past decision makers, whom we expect to have approached risky infrastructure projects in good faith. The lack of a systemic approach to address problems of independent evidence base, trust in the decisions, engagement as outlined mean that individual ministers and departments have often had to make decisions with significant information gaps, lack of clarity on overarching strategy, and significant political pressures.

Wales has advantages. Indeed, if we can get the shape of infrastructure decision-making processes correct, there are comparative advantages that Wales and its institutions may have relative to other places. It can help in building towards consensus, in leveraging funding to Wales' needs, and due to its relative size, a means of real engagement with communities and its SME sector to maximise the benefits of infrastructure projects.

A strategy that promotes a clear evidence base, that delivers consensus, and has the legitimacy that real engagement brings, can also make it easier to provide for shared working and making the case to UK Government for projects and funding.

The development of an overarching strategy is a matter for the Welsh Government along with NICW. However, we should remember that the role of the legislature is also vital to this process, in terms of building consensus, and providing vital scrutiny and accountability. It is to this we look at in this chapter.

### The role of consensus building

#### • *Cross party consensus and the National Assembly for Wales*

The importance of policy consensus can be seen in the Danish experience, where there is generally a culture of cross party consensus building on growth and economic development:

*“In 2009, seven out of eight parties in the Danish Parliament agreed on a number of general principles and concrete initiatives as part of a new green transport policy that applies until 2020. A number of accords followed the agreement in 2009, 2010 and 2011. These accords have produced a large number of infrastructure investments and projects. Some of these projects have already been completed, whereas we are going to see the results of the remaining projects in the coming years.”<sup>30</sup>*

This consensus has then been replicated in 2018's Green infrastructure deal and so is leading to further consensus. The initial spur to agreement was a solution to the problem of historical failure in providing for infrastructure – discussions of the Fehmarn Belt Fixed Link rail and road tunnel to Hamburg having taken place over 30 years, and now set to finish construction in 2028.<sup>31</sup>

The National Assembly for Wales can take a similar approach. Policy frameworks such as the Well-being of Future Generations Act provide an underpinning that should promote healthy cross-party debate based on clear principles.

<sup>30</sup> Danish Ministry of Transport, Danish Infrastructure Investments (DMoT: 2012), p5.

<sup>31</sup> National Infrastructure Commission, International Infrastructure Governance Report (NIC: 2017) <https://www.nic.org.uk/wp-content/uploads/NIC-International-Infrastructure-Governance-Report.pdf> p15-6.

However, providing a level of consensus requires taking such frameworks seriously as principles underpinning future policy and long term strategic policy goals, or they undermine the point of their introduction as frameworks in the first place. Doing so effectively can provide a means toward cross party consensus at the strategic level (even if there would necessarily be disagreements on implementations).

- **All parties should include clear infrastructure priorities in their manifesto.**
- **This should provide the basis toward building a cross-party consensus on a 30-year infrastructure plan. All parties should agree to cross-party meetings with the aim of providing consensus on a strategy. The meetings should be facilitated by NICW.**
- **The aim should be to gain as much consensus as possible in a vote in the National Assembly for Wales.**



**Cross-party  
consensus on a  
30-year  
infrastructure  
plan  
should be agreed**

Given the need to work across governments with Westminster on infrastructure projects, building consensus in the National Assembly is an important legitimising force. It provides continuity should there be a change in the party make-up of the National Assembly in the future. It also ensures all parties are involved regardless of who is governing in Cardiff Bay or in Westminster. Developing a joint infrastructure strategy across the parties for the long term would be a good starting aim.

This is not to say there wouldn't be any space for disagreements on spending priorities. However, an overall vision for the longer term backed by consensus would look to remove the gulf of differences that have emerged in the past, for instance around the M4 Relief Road project.

• ***Working across governments and institutions***

The governance of Wales within the UK has changed dramatically over the past 20 years. This devolved context, alongside wider infrastructure led by such as the Northern Powerhouse and the Midlands Engine, is novel within the modern UK. However, decentralised infrastructure spend is not an oddity worldwide:

*“Sub national governments, defined as federated states, regions and municipalities, undertake almost 60% of the total public investment across the OECD area (OECD 2016). A large part of this investment is spent on infrastructure. Sub national public investment ranges from 13% in Chile to 95% in Canada.”<sup>32</sup>- OECD*

In the context of Brexit, Westminster policy on Wales is as important as it ever was. While there are particularities to this relationship, such tensions are not unique by any means. As the OECD put it in their ‘Getting Infrastructure Right’ report:

*“Collaboration for public investment strategies across jurisdictions and levels of government is difficult, even in situations where the actors involved clearly recognise the need for it. Transaction costs, competitive pressures, resource constraints, differing priorities and fears that the distribution of costs or benefits from co-operation will be one-sided, can all impede efforts to bring governments together.”<sup>33</sup>*

<sup>32</sup> ‘Getting Infrastructure Right’ (OECD:2016), p8.

<sup>33</sup> Ibid.

Both the non-devolved and devolved governments have a responsibility to the citizens of Wales, and this is particularly so where the powers are complex and jagged. It is important therefore that both governments recognise their shared responsibilities and work together to achieve the best outcomes – this is easier if there is a strong institutional consensus within the Welsh Institutions.

It will require, following the ongoing review of intergovernmental relations, a better relationship through departments from both institutions, or in the intergovernmental processes between governments.<sup>34</sup> The goal is to find framework and institutional architecture that can contribute to a ‘win-win’ view of such spending across both governments (and legislatures).

For it to be holistic NICW must in its 30 year strategy take into account all infrastructure levers, not merely those devolved or likely to be devolved. This means that there needs to be a clear mechanism for how NICW relates to UK Government, its departments and key infrastructure bodies.

- **The UK Government should continue its review of intergovernmental working and its structures, with a view to how these can optimise the potential for infrastructure decisions and funding in Wales.**
- **A mechanism should be put in place for developing infrastructure in Wales where powers are shared, unclear and non-devolved.**
- **NICW should seek to build its vision, and the consensus that underpins it, across the boundaries of devolution.**

#### **Accountability and Scrutiny**

For the arm’s length bodies analysed in the previous chapter, a level of independence is important to ensure a trustworthy and independent evidence base. However, the level of independence also requires the balance of clear lines of public and political accountability and scrutiny.

The relationship between Welsh Government and particular infrastructure bodies should be clarified through clear remits and delineation of responsibilities, publicly available in easily understood form. The lines of accountability to the relevant Welsh Minister(s) should be outlined.

Without clear lines of accountability and a need for reporting and scrutiny built in to the system, there is a danger of ‘mission drift’ whereby institutions can become inward looking and looking to its own priorities rather than that of the wider needs of Wales.

- **Lines of accountability should be clear between Welsh Government Ministers and institutions (based on clear delineation of responsibilities between them)**
- **All institutions should be required to report to the National Assembly on an Annual basis.**
- **All institutions’ senior staff and members should be required to attend any inquiries or meetings by Assembly Committees.**

**Lines of accountability  
should be clear between  
Welsh Government  
Ministers and institutions**



<sup>34</sup> See <https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-03/HCWS1687/>

## Wales Economic Geography

“Although road transport along the North Wales coastal strip can be considered adequate, a major proportion of Wales has no proper road transport and we are virtually three separate nations: North, South and the neglected interior which has neither road nor rail and poor digital and telecommunications infrastructure.”

*Business based in Conwy*

In undertaking our project on *Wales Missing Middle* we noted that Wales’ geography has a significant bearing on economic policy. In our view, the availability of infrastructure has a direct bearing on whether certain businesses are viable in parts of the nation. For instance, businesses heavily reliant on fast and reliable internet speeds often come under pressure to relocate away from rural areas to avoid limiting their growth.

While disappointed with the decision-making process surrounding it, FSB Wales agrees that the M4 Relief Road ‘black route’ would have had an unsustainable impact on the capital budget elsewhere had it gone ahead. However, despite Welsh Government’s decision on the M4, there is still no clarity as to how infrastructure elsewhere in Wales will benefit from this decision.

“Road network is poor. M4 continually strangles deliveries in and out of the country. Any deliveries to Mid and North Wales take unnecessarily long times.”

*Business based in Cardiff*

In summary, this serves to highlight that decisions on infrastructure cannot be taken in isolation of geography. Whilst we do not believe budgets should be fixed for each region – it is important that where large projects are necessary that they can be pursued – nonetheless every business in Wales should be able to benefit from investment in their region’s infrastructure.

In this respect, the advent of city deals and city regions has also added an extra source of funding and governance to the infrastructure conversation. This is particularly important for large infrastructure projects that have a regional dimension such as the South Wales Metro. Future governance of these areas needs to be properly aligned to regional governance. For instance, if Welsh Government does pursue a model of joint transport authorities to allocate spending and make strategic decisions then it is crucial that the city deals are able to form part of the decision making process.

It is also important to understand the cross-border nature of many of Wales’s communities in decision making. It will frequently be necessary to undertake projects across the England/Wales border to the benefit of both countries.

- The National Infrastructure Commission for Wales should look to ensure every region of Wales receives sufficient funding to develop its infrastructure.
- As is the case with the Economic Action Plan and the proposed National Development Framework, the regional footprint should be a key driver in the allocation of resources for infrastructure investment.
- Regional governance of infrastructure should ensure alignment with the city deals, recognising that they are an important means of drawing down additional infrastructure investment.
- NICW should keep in mind cross-border issues when considering its 30 year vision for infrastructure.



Every region of Wales  
should receive  
**sufficient funding**  
to develop its  
infrastructure

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## CONCLUSION

### Picture yourself in 2050.

*In Wales, infrastructure spending now follows an ambitious, shared national strategy and has driven economic development contributing to a thriving small and medium business sector. Small businesses are attuned to innovation opportunities that technological change brings.*

*There has been a significant investment on Wales’ roads, with congestion far less of an issue and with cyclists and walkers sharing road space with private vehicles safely. Wales’ rail network has been transformed with metros in major urban areas joining up with efficient and affordable bus and local rail networks. Journey times between north and south Wales have been reduced bringing Wales’ regions closer together.*

*Even Wales’ rural areas have access to some of the best digital connectivity available in the world.*

*There is a core of sustainable, skilled and well paid employment to businesses that are embedded in their communities. Learning through supply chains has raised businesses and built firms’ capacity to innovate and export. The focus on developing SMEs has knock on effects for local economies and the wellbeing of citizens across all areas of Wales.*

*Wales has long been called ‘a nation of entrepreneurs’ and a long running joke in the international media is to ask ‘what’s Welsh for entrepreneur?’.*

*All parts of Wales’ infrastructure ecosystem works productively together, and continue to embrace new technologies while ensuring that these are harnessed for wider economic development for the wellbeing of citizens. Its institutions continue to develop and embrace innovative new funding and financing solutions.*

*Wales is fully carbon neutral, has embraced the opportunities of automation and AI and mitigated its difficulties, and has been ready to embrace 5G and its successors.*

*The public look back on the cross party talks in 2021, the work of NICW, work across the UK and Welsh Governments, and the creation of a long term and detailed infrastructure strategy, with great fondness. They now feel a fully engaged part of the infrastructure debate in Wales.*

*Dragon Taxis now offer carbon neutral flying cars services...*

The above may seem as much science fiction as predicting flying cars for 2015.

There will be more disruptive change, unpredictable events and big disruptive technological changes. After all, the internet as the social change that it has become was largely unfathomable in 1985.

Indeed this report is not looking to infrastructure as a ‘big shiny thing’ or the idealistic panacea to all ills. Rather, it is part of a toolbox for economic development, for growth in the small business sector, and the value added to communities of a strong infrastructure strategy, underpinned by strong decision-making institutions and processes, and a political will to building cross-party consensus.

In building these capacities, and making the best of the potential for decision-making in Wales on infrastructure, this report argues that Wales will be in a better position to deal with uncertainties ahead, to take advantage of opportunities to grow our embedded business sector, and to mitigate any risks.

We would encourage all parties to commit, following the next National Assembly election, to the principle of seeking consensus for Wales’ infrastructure, based on the economic development of Wales’ SME sector. All parties should provide details on their priorities ahead of it in manifesto, and to commit to ensuring that the institutions within the infrastructure ecosystem are given the tools to provide the independence, evidence base and public and interest engagement that are needed to make infrastructure in Wales a success.

### Full list of Recommendations

- Welsh Government should continue to see investment in roads as a priority, particularly looking to remove congestion and improve traffic flow.
- Welsh Government should look to reduce public transport costs where possible to encourage modal shift.
- Welsh Government should use new bus powers and the various metros to improve network coverage and frequency.
- The impact of changes to road transport and public transport inter-relate, therefore responsibility for roads should also sit under Transport for Wales to ensure joined up policy and evidence gathering.

### Transport

- The best means to normalise active travel is through increasing the safety and quality of cycle paths for commuters, rather than focus on its use in business travel, at least in the short-term.
- Investment in road and cycling infrastructure should go hand in hand, with road safety for cyclists being increased as investment is undertaken in roads.

### Scale of infrastructure projects

- Infrastructure should focus as much on local projects as on 'big bang' projects to promote wider sustainable growth.
- As part of its infrastructure strategy, Welsh Government should develop a local transport fund. This would be given to regional authorities and should be at least £100m.
- Welsh infrastructure institutions should have a duty to build local capacity and expertise to take advantage of local infrastructure opportunities, and support under-resourced council departments as well as engaging local businesses.
- Any regional funds replacing the current European funding should have a substantial proportion earmarked for local infrastructure projects.

### Broadband & 5G

- The National Infrastructure Commission for Wales should seek to place Wales ahead of UK market rollout trends for technologies such as broadband and 5G mobile coverage in its 30 years infrastructure plan.
- Welsh Government should fund market interventions similar in scale and ambition to Superfast Cymru to ensure Wales is at the forefront of digital connectivity.
- 99% of business view the internet as important to their business. UK and Welsh Governments should continue to work with mobile operators to expand the network coverage for mobile internet, especially with the onset of 5G.

### Future Trends

- A number of firms will look to adopt EVs in the next 5-10 years. At present, the cost of electric vehicles and the lack of charging infrastructure are key barriers. The UK and Welsh governments must address both of these if it is to decarbonise personal transport.
- With firms looking at 5-10 years as a realistic time to move to EVs, there is opportunity to target a shift to electric vehicles for businesses within this timeline. The UK and Welsh governments should look to incentivise this shift by introducing tax incentives or scrappage schemes as have happened previously.
- On new technologies and decarbonisation, SMEs are generally positive about how they view the potential impact on their business, however many SMEs remain disengaged. More could be done using the Wellbeing of Future Generations Act to nurture these conversations with SMEs.

## Funding

- Welsh Government should use MIMs to embark on an ‘infrastructure stimulus package’ to step up our investment in our nation’s assets.

## National Infrastructure Commission for Wales

- A clearer public facing remit for NICW should be produced.
- NICW should be placed on a statutory footing.
- The development of a 30 year vision should be NICW’s key responsibility with Welsh Government responsible for funding it.
- NICW’s relationship with other infrastructure bodies across sectors needs to be clarified. There should be a protocol about how it relates to (for example) TfW, Natural Resources Wales, UK Government, Welsh Government, the National Assembly for Wales.
- With the above clarified, NICW’s role should be that of a central point of contact and an organisational fulcrum.
- This role of central point of contact should take account of any changes in the intergovernmental relationship between Westminster and the devolved administrations, including linking with the Wales Office.
- In partnership with Development Bank of Wales, NICW should take responsibility for developing and the use of public private models for finance (such as the Mutual Investment Model, or PFI) for infrastructure projects in Wales.
- The Welsh Government should produce a clear and publicly accessible mapping of how the different organisations relate.
- Welsh Government should hold a central repository for open data on infrastructure projects, including details of work undertaken, with a view to future mapping of infrastructure assets.
- Consideration should be given of how to increase the public visibility and understanding of NICW.

## Development Bank of Wales

- Work to develop Welsh infrastructure into assets for institutional investors, provide a means to lessen information gaps and risk perceptions for investors, and work with NICW in order to promote these effectively.
- This should build on DBW’s work already in using the Clwyd pension fund to deliver the Management Succession Fund, and its development of a Green Fund.
- Protocols should be in place to ensure that increased DBW activity does not result in unacceptable public risk, in moving from its remit to develop SMEs, and that it continues to build its credibility for leveraging future investment.

## Transport for Wales

- Develop an Open Government and Consultation strategy, taking into account how proportionate consultation should be, dealing with issues of confidentiality and commercial sensitivity, and a strategy for identifying SME stakeholders.
- Have a duty to provide a strong evidence base, of identifying local and regional needs and balancing benefits across Wales, and of aggregating different interests through a strong participatory and engagement framework.
- *A clear outline of the lines of accountability in terms of governance structures.*
- Is clearly accountable to the Economy, Infrastructure and Skills Committee of the National Assembly for Wales.

### **Political Parties**

- All parties should include clear infrastructure priorities in their manifesto.
- This should provide the basis toward building a cross-party consensus on a 30-year infrastructure plan. All parties should agree to cross-party meetings with the aim of providing consensus on a strategy. The meetings should be facilitated by NICW.
- The aim should be to gain as much consensus as possible in a vote in the National Assembly for Wales.

### **UK Government**

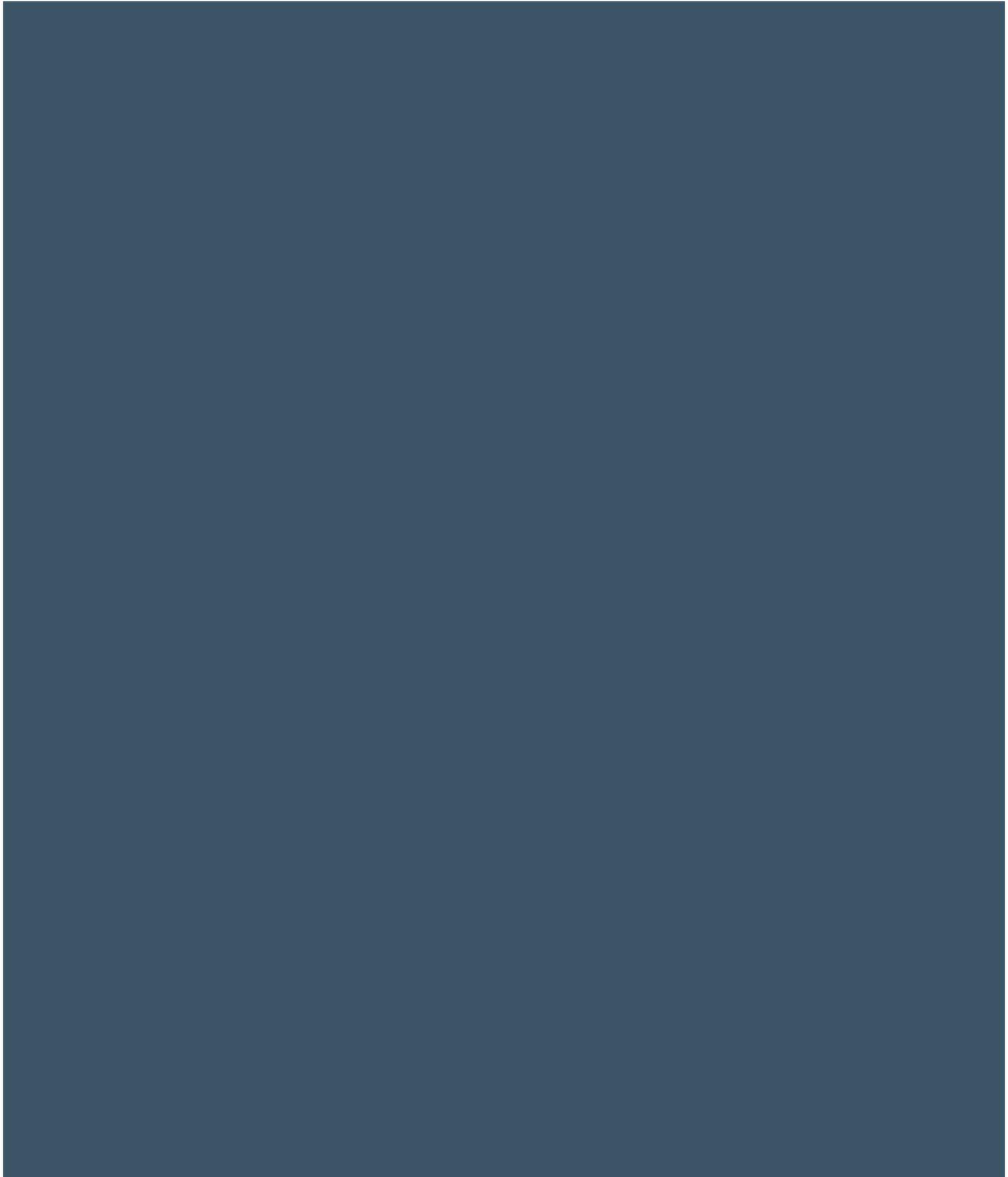
- The UK Government should continue its review of intergovernmental working and its structures, with a view to how these can optimise the potential for infrastructure decisions and funding in Wales.
- A mechanism should be put in place for developing infrastructure in Wales where powers are shared across the governments, or where the respective roles of different governments are unclear, or where powers are non-devolved.'
- NICW should seek to build its vision, and the consensus that underpins it, across the boundaries of devolution.

### **Accountability and Scrutiny**

- Lines of accountability should be clear between Welsh Government Ministers and institutions (based on clear delineation of responsibilities between them).
- All institutions should be required to report to the National Assembly on an Annual basis.
- All institutions' senior staff and members should be required to attend any inquiries or meetings by Assembly Committees.

### **Wales Economic Geography**

- The National Infrastructure Commission for Wales should look to ensure every region of Wales receives sufficient funding to develop its infrastructure.
- As is the case with the Economic Action Plan and the proposed National Development Framework, the regional footprint should be a key driver in the allocation of resources for infrastructure investment.
- NICW should keep in mind cross-border issues when considering its 30 year vision for infrastructure.



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