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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: RE/2605/19

Rt Hon Nicky Morgan MP
Chair, Treasury Committee
House of Commons
London
SW1A 0AA

9 August 2019

Dear Nicky,

We welcome the opportunity to give written evidence to your committee's inquiry into regional imbalances in the UK economy.

Our response is set out in the annex to this letter.

In addressing the questions raised by the committee, we are responding on behalf of the Welsh Government and do not presume to speak for the National Assembly as a legislature. We would anticipate that it would wish to respond separately

We look forward to reading the report of your inquiry in due course.

We are copying this letter to the Secretary of State for Wales and the Chairs of the Finance Committee and the Economy, Infrastructure and Skills Committee of the National Assembly for Wales.

Yours sincerely,

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

The Welsh Government's Written Evidence to the Treasury Committee's Regional Imbalances in the UK Economy Inquiry

Structure

The Welsh Government's submission is divided into three sections:

- i. Section one examines the nature of regional imbalances in economic growth that exist in the UK from a Welsh perspective;
- ii. Section two summarises the current institutional arrangements relating to economic policy between Wales and the UK and proposes a number of ways these arrangements could be improved to address regional imbalances across the UK whilst fully respecting the devolution settlement; and
- iii. Section three sets out how the Welsh Government uses regional economic data and our priorities for improvements in economic statistics.

Section One: The nature of regional imbalances in economic growth that currently exist in the UK.

1. This section reflects on the nature of regional imbalances in economic growth that currently exist in the UK from a Welsh perspective. In this section, we argue that differences in regional economic performance should be considered using a range of indicators rather than by focusing on a single measure.
2. Much of the discussion on regional imbalances in the UK economy focuses on the differences in gross value added (GVA) per head between the countries and regions of the UK. Most analysis using this measure concludes that the UK is a lot more geographically unequal than most other OECD countries. However, comparisons made solely this basis, whilst informative, only tell a part of the story. Recent analysis by Beatty and Fothergill emphasises the importance of adopting a more holistic approach to examining the variations in economic performance across the UK¹.
3. Differences in population structures, commuting patterns, imputed rents and regional prices distort comparisons of economic performance based on GVA per head. These factors mean that GVA per head tends to understate the performance of the economy in Wales compared to the UK.

4. The current standard geographies for economic statistics provide a structure for collecting, processing, storing and aggregating data. However, their boundaries do not always align well with patterns of economic activity or economic development initiatives such as enterprise zones and city and growth deals.
5. Relatedly, there isn't a single, autarkic, Welsh economy. A range of information on where people live and how they move around for work, leisure and study, the movement of freight, and the flows of digital communications demonstrates that the patterns of economic activity within the UK transcend administrative and statistical boundaries. In the Welsh case, there are significant east-west linkages from South Wales into southern England, from North Wales into the North West of England and between Mid Wales and the Midlands. Similarly, there are important variations in the patterns of economic activity below the all-Wales level.

An Overview of Economic Indicators for Wales

6. Table 1 summarises Wales' economic performance on a range of economic indicators. The table shows that GVA per head in Wales is just over £7,000 lower than the UK figure. This is partly due to the reasons noted in paragraph three. Examining the rates of growth in real GVA per head provides a more balanced perspective of recent Welsh economic performance. Since the National Assembly for Wales was established in 1999, Wales has had the fifth largest proportionate increase in GVA per head of the countries and regions of the UK. Moreover, since the low-point of the last recession, i.e. from 2009 to 2017, Wales has had the third largest proportionate increase in GVA per head of the countries and regions of the UK.
7. One of the underlying drivers of the improvements in GVA per head has been the improvement in productivity (output per hour worked), which, since the last recession, has increased more quickly in Wales than in most of the other countries and regions of the UK. More generally, work by the Office for National Statistics has shown that, outside of London and the South East, most sub-regions of the UK have very similar productivity levels to each otherⁱⁱ.
8. Wales is closer to the UK value on measures of Gross Disposable Household Income (GDHI) per head, partly as the result of transfers under the UK tax and benefits system and also the contribution of net outflow of commuters who contribute to Welsh incomes but not GVA.

Table 1: Welsh Economic Performance on Selected Indicators¹

Indicator	Wales value	Most recent reference period	Difference between Wales and the UK value	Difference between Wales and the best performing UK region/country
Gross Disposable Household Income (GDHI) per headⁱⁱⁱ	£15,754	2017	-£3,760	-£12,071
Primary income per head^{iv}	£16,748	2017	-£5,888	-£18,754
Gross Value Added (GVA) per head^{a,v}	£19,899	2017	-£7,399	-£28,958
GVA per hour worked^{vi}	£28.1	2017	-£5.5	-£16.7
Employment rate (aged 16 to 64 years)^{vii}	75.0%	April to June 2019	-1.1p.p.	-5.5p.p.
Median full-time weekly earnings including overtime (residence based)^{viii}	£518.6	2018	-£50.4	-£152.2
Poverty rate^{b,ix}	24%	2015-16 to 2017-18	+2p.p.	+6p.p.
Median total household wealth^x	£226,300	July 2014 to June 2016	-£36,100	-£161,100
Median equivalised household disposable income before housing costs^{xi}	£440	14/15-16/17	-£46	-£104
Median equivalised household disposable income after housing costs	£384	14/15-16/17	-£33	-£82
Average weekly household expenditure (£)^{xii}	£470	2018	-£81.50	-£187.90

9. In addition, measures of median full-time weekly earnings, median income and average weekly household expenditure in Wales are much closer to the UK average than measures of GVA per head.

¹ Notes to table 1

a) Nominal (smoothed) GVA (B) per hour worked (£)

b) Percentage of all individuals living in households with an income below 60 per cent of the median household income for the UK, after housing costs.

c) Excludes Northern Ireland

Household Wealth

10. In comparison to measures of output and income, Wales ranks higher on measures of household wealth compared to the other countries and regions of the UK. In part, this reflects the relatively high levels of home ownership in Wales - itself a reflection of a higher share of Wales' population being aged over 65 years and a smaller share aged less than 16 years than the UK as a whole.
11. Headline labour market conditions in Wales have improved notably since the late 1990s. As a consequence, the long-standing differences between the headline labour market indicators for Wales and the UK have closed markedly. The employment rate in Wales has increased from around 65 per cent in the early 1990s to over 75 per cent from mid-2018 onwards. Over the last twelve months, employment in Wales has been at or near its highest rate since comparable records began. Correspondingly, over the same period unemployment and inactivity rates have been at or close the lowest rates on record. The economic inactivity rate in Wales has fallen from just below 30 per cent in the early 1990s to just above 20 per cent from late 2018 onwards.
12. These improvements have been driven by a marked improvement in the skills profile of the population in Wales since devolution. The proportion of working-age people with no qualifications has more than halved since 1999, whilst over the same period, the proportion educated to NVQ4 and above has increased from around one-in-five people to more than one-in-three.
13. The private sector has also been central to improving Welsh labour market outcomes. The additional 153,000 private sector jobs created in Wales since 2008 mean the private-public split in employment is now the same in Wales as in Scotland and Northern Ireland.
14. The majority of additional employment in Wales since the last recession has been full-time in nature and concentrated heavily in the three upper occupational groups.

Future Prospects

15. The close integration of the economy in Wales with the wider UK means that the evolution of the UK economy will strongly influence outcomes in Wales. The economic

environment is characterised by a higher than usual degree of uncertainty. Brexit, geopolitical events, such as those in the Middle East, and US-China trade tensions are all likely to provide economic headwinds in the short to medium term.

16. Differences in the sectoral composition of the Welsh economy compared to that of the UK mean that Brexit could have an asymmetric impact on the Welsh economy, further widening regional inequalities. However, the larger risk to the Welsh economy is likely to be a significant slowing or contraction of the UK economy. The form and likelihood of these risks crystallising depends, crucially, on the form of any final Brexit deal, including transition arrangements.
17. In the longer term, prospects for Welsh relative economic performance will be crucially shaped by the extent to which:
 - a. Productivity and pay increases;
 - b. Labour market performance can be further improved, eliminating the gap in employment rates between Wales and the UK as a whole.
18. Given the tools currently available to the Welsh Government, the success of policies to improve levels of education and skills, and to help to increase effective economic mass by improving transport and communication links, will be crucial to improving Wales' relative economic performance. The Welsh Government's approach to these challenges is diverging from that of the UK Government in England. A feature of Welsh policy is applying international best practice, such as separate programmes of work with the OECD informing education reform and plans for regional economic development.

Section Two: Institutions and activities to promote regional economic growth

19. The National Assembly for Wales is the principal law-making body for Wales on a range of policy areas, including economic development. Welsh Government Ministers exercise a wide range of executive powers in broadly the same fields as those in which the Assembly can legislate. Welsh Ministers make decisions, make secondary legislation and take other action necessary to promote the economic, social and environmental well-being of Wales. In carrying out these functions, Welsh Ministers are accountable to the National Assembly.
20. However, there are a number of areas of economic policy not devolved to Wales and, in relation to which, the National Assembly has no power to legislate. These include monetary and fiscal policy (except devolved taxes), insolvency, anti-competitive practices and consumer protection.
21. Under the UK constitution, the UK Parliament retains the power to legislate on any matter for Wales as for the rest of the UK. However, in accordance with the 'Sewel Convention', Parliament will not normally legislate for Wales on matters that lie within the National Assembly's legislative competence, or affect that competence, unless the Assembly has given its formal consent through a Legislative Consent Motion.
22. In contrast, Welsh Ministers' executive powers have been transferred away from the UK Government and are generally exercisable free of any possibility of interference by UK Ministers. Welsh Ministers owe no accountability to the UK Parliament. The model of devolution practised in the UK has some examples of co-ordinated agreements in relation to the exercise of competence, but most decisions are taken either by Welsh Ministers or by UK Ministers as appropriate.
23. In reality, the close integration between the Welsh economy and that of the rest of the UK, means actions to support economic development by one government may well have implications for the economy and citizens of the other.
24. Paragraphs 25 to 44 present a range of examples where the actions of the UK Government continue to contribute to regional imbalances in the UK.

Failure to Support Infrastructure Investment

25. The UK Government has failed to support a number of key infrastructure projects that would have benefited the economies of Wales and the UK, including the ground-breaking Swansea Tidal Lagoon project and the electrification of the mainline between Cardiff and Swansea.
26. More broadly, Network Rail has failed to address the poor line speeds, limited network and station capacity, which is hampering rail services in Wales. Between 2011-12 and 2017-18 the Network Rail Wales Route has received about three per cent of enhancement spending despite having more than nine per cent of the route kilometres.
27. The Welsh Government does not have control over rail infrastructure planning and investment, and so receives no block grant allocation for infrastructure. This requires us to divert our budget to a non-devolved policy area to the detriment of devolved policy areas to achieve our policy priorities.

Research and Development (R&D) Funding

28. As the UK Government attempts to meet its target of 2.4 per cent of GDP invested in UK R&D by 2027, it must ensure R&D funding is spread more evenly across the UK than at present.
29. The Reid Review of Government Funded Research and Innovation in Wales highlighted that for at least two decades, the proportion of competitively awarded research funds from the UK Research Councils has been around 3.0 per cent to 3.4 per cent of the UK total, despite the population of Wales being approximately 4.9 per cent of the UK's population. By comparison, Scotland has some 8.3 per cent of the UK population but attracts over 14 per cent of Research Council funding.^{xiii}

Support for Key Sectors e.g. Steel

30. The steel sector is of vital importance to the Welsh and UK economies and steel companies are strategic UK assets that sit at the foundation of wider UK manufacturing. As such, we believe that, when necessary, the UK Government needs to

be prepared to support these companies directly. It is also important that any broader UK Government programmes are developed and delivered in a way that enables steel companies in Wales and across the UK to access and benefit from them. This includes the Industrial Energy Transformation Fund. The Welsh Government continues to press the UK Government to progress a steel sector deal to help ensure the sustainability of the industry across the UK, including in Wales.

Application of Green Book Guidance

31. Research by the Bennett Institute suggests the current application of HM Treasury's Green Book the guidance for major funding allocation decisions risks reinforcing the regional imbalances of the UK economy.^{xiv}

The UK Funding Framework

32. While the Welsh Government has a high degree of autonomy within the UK funding framework, the UK Government operates the framework in a centralised model with little genuine co-production. In addition, the UK model can be open to wider political influence as demonstrated by the UK Government's financial package for Northern Ireland following the confidence and supply agreement the Conservative party reached with the Democratic Unionist Party following the General Election in 2017. The current arrangements in the Statement of Funding Policy are imposed by the UK Government with little meaningful consultation with the devolved governments and are not jointly agreed. The Welsh Government has escalated this issue via the formal dispute mechanism but the UK Government has failed to rectify the issue or show due regard for the agreed principles that govern funding allocations across the UK.
33. More recently, changes to public sector pensions announced by the UK have led to greater costs for devolved administrations which have not been matched by UK Treasury. The UK Government has confirmed the final allocation for the Welsh Government in respect of these costs for 2019-20 is £219m. The total cost of these changes for devolved and non-devolved public service pension schemes in Wales is £255m, a funding gap of £36m.
34. Despite pressing the UK Government for early certainty about what these changes mean for public sector organisations to enable them to set their budgets for 2019-20 with

confidence, we were only notified of the additional funding for Wales a matter of weeks before the beginning of this financial year. Even then, the final funding arrangements were not confirmed until recently.

35. The Welsh Government has since written jointly with the other devolved administrations to the Chief Secretary to the Treasury expressing deep concerns that the proposed funding does not meet the full costs associated with the self-imposed changes by the UK Government. This is unacceptable and further undermines the Statement of Funding Policy and the principles for allocating funding within the UK.

36. The Welsh Government has also reiterated the importance of transparency in relation to UK Government funding decisions that have implications for devolved administrations' responsibilities. The lack of transparency and engagement in relation to changes with significant public spending implications undermines and discredits the established UK public spending framework.

37. The Statement of Funding Policy is very clear on how decisions of this nature should be implemented:

“where decisions taken by any of the devolved administrations or bodies under their jurisdiction have financial implications for departments or agencies of the UK government or, alternatively, decisions of UK government departments or agencies lead to additional costs for any of the devolved administrations, where other arrangements do not exist automatically to adjust for such extra costs, the body whose decision leads to the additional cost will meet that cost”.

38. It is on this basis that Welsh Ministers make decisions on how best to allocate additional funding to public sector organisations in Wales. Where these principles are not upheld by the UK government, it damages the ability of Welsh Ministers and public bodies to plan with confidence.

Replacing EU Funding

39. Addressing regional disparities is one of the aims of European Structural and Investment funds, from which Wales benefits to a much greater degree compared to other UK regions. This reflects the additional need in Wales and the long-term structural

challenges it faces. Currently Wales benefits from some £680m a year of EU investment, including around £370 million a year from the European Structural and Investment Funds for regional economic development. These funds have helped to improve significantly Wales' economy and labour market, increase research capacity and improve infrastructure, amongst a range of other outcomes. This investment has helped Wales mitigate the worst effects of the recession and provide a stable source of investment during an extended period of austerity.

40. Despite this important progress, parts of Wales continue to face structural challenges that will not disappear as the UK leaves the EU. These inequalities may even be exacerbated in the event of an economic shock resulting from a no deal Brexit. Wales will continue to need high levels of investment based on economic need and must take the opportunity now to develop a strong regional policy to prepare for the transition away from the EU. The Welsh Government is working with partners across Wales to develop successor arrangements for these EU funds, building on the policy document, *Regional Investment in Wales after Brexit*^{xv}. A project with the OECD is also running concurrently to inform this work and build capacity for multi-level governance in Wales. We continue to call on the UK Government to honour commitments given during the referendum that Wales will not be a penny worse off as a result of leaving the EU and to respect the autonomy of the Welsh Government to design and deliver successor arrangements in Wales, in line with the devolution settlement.
41. The Welsh Government rejects any notion of a UK centralisation of regional economic development policy, or attempts that seek to bypass the National Assembly for Wales and the Welsh Government. To do so would be a betrayal of devolution and the legitimate expectations of people and communities across Wales.
42. The Welsh Government has had 20 years' experience of managing EU funding programmes as part of our devolved responsibilities for economic development, and we expect to have full control, working with our Welsh partners, over the administration and strategic direction for successor funds. The Welsh Government has a wealth of evaluation evidence on effective investments and positive reports on its use of this funding from the Wales Audit Office; contrasting sharply with reports on the use of Local Growth Funding in England from the National Audit Office and Public Accounts Committee.

43. The importance of the Welsh Government retaining control over this funding, and for the scale of this needs-based funding to be maintained, is a view shared by our partners across Wales and featured prominently in responses to our engagement on the Regional Investment in Wales After Brexit paper. The National Assembly for Wales, through both a debate motion and Committee inquiries, has also emphasised the importance of funding returning to Wales and the strategic direction being set by the Welsh Government. Given the consensus in Wales and beyond on these points, the lack of clarity from the UK Government is hampering planning for successor arrangements. This position is also shared by the UK Parliament's All Party Parliamentary Group on Post-Brexit Funding for Nations, Regions and Local Areas.
44. The lack of clarity has been compounded by the numerous delays to the launch of UK Government consultation on its proposed Shared Prosperity Fund. The UK Government has indicated that the consultation will now coincide with the Comprehensive Spending Review which itself has been subject to delay and is widely expected to not take place at all this year.

Opportunities for Improvement

45. The Welsh Government's paper Brexit and Devolution calls for deeper and more sustained co-operation between devolved administrations and the UK Government after EU exit based on agreement between the four governments and building on the traditions of co-operation built up during the years of EU membership^{xvi}. This means the UK's inter-governmental machinery must be reformed with a new UK Council of Ministers, served by an independent secretariat, to strengthen decision-making and collaboration. The existing arrangements operate under the aegis of the Joint Ministerial Committee (JMC), which brings together Ministers from the four administrations to discuss matters of common concern. The JMC is a consultative body and takes no decisions - EU withdrawal raises fundamental questions about its role and working arrangements.
46. The UK's departure from the European Union potentiates the need to improve discussions about economic priorities across the UK. Some of this has previously taken place at EU level (through the EU single market) and there will need to be alternative approaches to dealing with these issues. However, there is also an opportunity to:

- a. improve coordination of cross-border policy and regional infrastructure;
- b. ensure high quality regulatory approaches within Wales are recognised and supported (e.g. environmental standards) across the UK, and vice versa;
- c. consider consistent approaches where they can support free movement, deliver economies of scale or pool specialist expertise at UK level; and
- d. enable substantive and considered discussions on policy areas which are not formally devolved but have an impact on devolved competence (e.g. labour market policy).

47. We need to secure effective joint political oversight across the four nations to enable this, ensure that current regulatory and coordination mechanisms (e.g. the Common Frameworks, regulatory impact assessments, etc.) are working effectively, and consider future challenges and opportunities.

48. We need to look at ways the Common Frameworks programme could be used to develop forward thinking on the internal market – this would ensure a shared four-way approach. Alongside this, we should work on developing a modern regulatory framework through smarter regulation which could lead to a shared approach in this space. This specifically includes enhancing regulatory impact assessments across the UK. Third, we should embed the approach of good inter-governmental relations with the UK Government and other devolved administrations, ensuring parity of participation. This will also need to include greater clarity of when the UK Government is acting for England, and when it is operating for the UK as a whole.

49. We also advocate progression to a new, rules-based funding system which is embedded in a Fiscal Agreement, developed in parallel with the other post-EU UK frameworks.

50. The addition of a specific needs based factor means for the first time relative funding in Wales is aligned to Wales' relative need to fund devolved public services implemented the funding floor proposed by the Holtham Commission. However, the Holtham Commission's funding floor was always proposed as an interim measure while more fundamental reform to funding arrangements was undertaken. Furthermore, the framework was not designed to operate in a post-EU UK.

51. As a matter of principle, the Welsh Government believes the allocation of resources across the UK should be based on relative need set within a new funding framework agreed between all four UK nations. The fiscal arrangements of the UK should enable all parts of the union to provide an equivalent level of services taking account of relative needs of the population and assuming equivalent tax effort.

Section Three: Regional Economic Data

Uses of Regional Economic Data

52. Most of the indicators in table 1 are included in a broad suite of indicators used by the Welsh Government to measure progress towards the achievement of the well-being goals set out in the Well-being of Future Generations (Wales) Act 2015^{xvii}.
53. Our National Strategy, *Prosperity for All* sets out how we will deliver for Wales during this assembly term and set long-term foundations for the future^{xviii}. One of the twelve well-being objectives set out in the strategy is to tackle regional inequality and promote fair work. Our Economic Action Plan sets out in more detail the actions we are taking to delivers a fairer distribution of the benefits of economic growth both at an individual level and between different parts of Wales.^{xix}
54. Our Employability Action Plan contains targets for reducing working-age unemployment and economic inactivity relative to the UK rates within the next decade.^{xx}
55. We are developing Regional Economic Development Plans with stakeholders with the intention is to consolidate key themes and priorities from existing plans to help bring clarity and coherence. The Welsh Government does not wish to see the UK Government to impose Local Industrial Strategies upon Wales as part of its UK Industrial Strategy.
56. We are also working with the OECD to examine the range of evidence around regional policy, including how the impact of policies can best be measured. Part of this work will identify the most appropriate indicators, including those that provide the opportunity for international benchmarking with comparator regions.

Priorities for Improvements in Regional Economic Data

57. Our priorities for improvements to regional economic data are driven by the nature of the policy levers we hold. These mainly operate over the long-run and impact mainly on the structure, or “supply side”, of the economy.
58. We acknowledge the improvements to UK regional statistics since the Allsopp and Bean Reviews, for example in the production of regional GDHI, GVA for city regions, and the

forthcoming production of regional quarterly GDP. However, a number of shortcomings remain.

59. Our view is that, with some exceptions, the main weaknesses relate to:

- a. the reliability of the statistics currently produced; and
- b. their availability at geographies that reflect economic activity (where the policy need is increasing in Wales).

60. In both cases, issues arise from concerns over sample sizes and, in some areas, an undue reliance on modelling rather than data collection.

61. We welcome initiatives by the ONS such as publishing GVA for 'new areas of economic interest' such as the four capital city regions and the Welsh Government's three economic regions. These initiatives could be strengthened by an online dissemination tool that gives users the flexibility to create statistics based on their aggregation of pre-defined areas would support the Welsh Government in planning, monitoring and evaluating the impact of its activities over time, whilst protecting against any risk of accidental disclosure of confidential information.

62. In general, we would strongly favour the use of good quality survey-based data and better utilisation of administrative data rather than modelling to meet user needs. The use of modelling carries the risk of the misinterpretation of statistics – for example, policy-makers may misinterpret a statistical change as reflecting the effect of a policy intervention on a target outcome when in fact it reflects a change in the variable used to apportion the target outcome statistic. Where the use of modelling is unavoidable, we would stress the need for transparency about the relative contributions of data and modelling, including apportionment, to the resulting statistics. Currently, this is not clearly explained to users in an accessible way.

63. We would prioritise the following areas for improvements in data quality and coverage:

- a. Labour market – integration of the Annual Population Survey (APS) and Labour Force Survey (LFS) would give a unified picture of labour market developments. The recent disparities between the APS and LFS in Wales in respect of the employment and economic inactivity have been particularly problematic.

- b. Fair work – recognition of the fair work data requirements of the devolved administrations and implementing solutions that can produce good quality data at a sub-regional level (e.g. including new questions on fair work in the APS, rather than the smaller sample LFS).
- c. Household Income – larger and more reliable survey-based data (perhaps from an expanded Family Resources Survey) would help in assessing material well-being and in undertaking distributional analysis and in monitoring low income and poverty (including at a sub-regional level)
- d. Wealth – similar considerations apply to wealth, where data should be collected on consistent basis with income, permitting a more complete analysis of household circumstances.
- e. Assets more generally – policy development and business decision making would be greatly assisted by providing statistics at the regional level for:
 - business capital stock and investment;
 - inward investment; and
 - natural capital.

64. Our priorities for development in areas where there is currently little or no statistical coverage are:

- a. Data on inter-regional trade within the UK is crucial for improving our understanding of the patterns of economic activity within the UK and the implications of new trade deals, particularly in the context of Brexit. Such data are also a vital building block for robust regional input-output tables, which would play a key role in improving regional accounts, understanding micro-economic shocks and policy analysis including by identifying the scope for supply chain development. (It may be possible to develop such data in part through an extension to ONS's current business surveys, such as the purchases survey.)
- b. The development of measures of regional cost of living / deflators would also help in assessing well-being and in analysing economic performance (e.g. in respect of productivity variation).

65. We welcome the work of the Economic Statistics Centre of Excellence on a number of the topics listed above.
66. Our Development Bank, in partnership with Cardiff Business School and the ONS, has established Economic Intelligence Wales with the aim of collating and analysing data to create independent, robust and reliable insight to help better understand and improve the Welsh economy.^{xxi}
67. Alongside data improvements, statistical producers including the ONS and HMRC should significantly improve their commentary and understanding of sub-national trends when publishing statistics. This will ensure greater public value from the statistics through promoting better understanding amongst the national and local media of regional disparities. For example, moving away from crude league table type statistics to explaining the different socio-demographic and economic context of countries and regions, the linkages between different parts of the UK and how these influence short and medium term economic trends. Providing more insight on the medium term trends, rather than focussing on short-term changes. Highlighting more clearly the statistical noise in data at a sub-national level that is important to recognise when considering short-term trends.
68. On access to data, the ONS' website is still difficult to use and access to the microdata, which is useful for policy development, is problematic.
69. However, more fundamentally, we fully support the ONS in their efforts to access administrative data (such as HMRC data) that will add significantly greater insight into the economy as a whole - but is particularly crucial in considering regional analysis given the structural weaknesses highlighted above. Progress to date has been frustratingly slow, hampering ONS' plans to transform its operations and produce world-leading analysis and insight. Our view is that administrative data held by government should be available, securely, to ONS and devolved administration statisticians to produce the best official statistics that support decision-making, and to researchers (through initiatives such as ADR-UK) to add further insight.

70. While there have been expressions of interest in economic forecasts for Wales from stakeholders, the Welsh Government has concerns about the feasibility of producing such forecasts on a reliable basis, especially over the short to medium term. Even at the level of the UK as a whole, and with the deployment of high levels of resources and a relatively rich data set, the track record of economic forecasts in identifying “turning points” or changes in trend has been weak.
71. The Welsh Government’s policy levers operate mainly over the long term and hence short term forecasts would be of limited value. Longer term forecasting and/or policy simulation would require a different modelling strategy, and while the Welsh Government wishes to support the development of appropriate modelling we believe this is better pursued as part of a longer term research programme.
72. At present, along with the Office for Budget Responsibility (OBR), the Welsh Government’s main operational interest in economic forecasts is to inform forecasts of the public finances. The OBR does not produce separate economic forecasts for Wales to forecast the devolved Welsh taxes and instead uses UK forecast determinants supplemented by other information which might drive a divergence between Wales and the UK. The OBR will use this methodology to produce forecasts of devolved Welsh taxes to accompany Welsh Government budgets. Both because of the quality and scope of the underlying data and the interconnectedness of the Welsh economy with the rest of the UK, the Welsh Government does not consider that separate forecasts of the Welsh economy would contain enough additional insight to make them worth producing at present.

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