



# Recovery from COVID-19: Note of the expert roundtable on vulnerable groups and the economy

The Counsel General and Minister for European Transition chaired an expert roundtable on 4<sup>th</sup> May, convened to consider the following question:

*The differential impact of the COVID-19 pandemic on vulnerable or disadvantaged groups in Wales and how to mitigate this by economic interventions, welfare interventions, and the development of public services, within the powers of the Welsh Government.*

This note provides a summary of the main themes of the discussion. It should be read alongside the discussion papers circulated in advance.

## Overview

This pandemic has arisen in a context of uncertainty generated by Brexit, and after a period of austerity and retrenchment in public services funding across the UK following the 2008 financial crisis. Therefore, people already in vulnerable situations are increasingly exposed and the state's capacity to effectively support them has been reduced by austerity. The role of the state as a safety net is essential, both for individuals at risk of poverty and also for keeping businesses running, which may be for longer than originally anticipated.

The lack of certainty and clarity is a huge challenge. The path out of the lockdown is currently unclear, and this has implications for the recovery path of the economy and how vulnerable groups are affected. The recovery is expected to take a long time and the economy will be significantly smaller for the medium term. This however should not become a self-fulfilling assumption, as there is a possibility of a quicker return in some areas and opportunities that can be pursued. Much of the discussion on COVID-19 so far has been focussed on the universal movement out of the crisis but there is a pressing need to ensure that the response is adapted to the needs of different parts of the economy and society.

The crisis will affect Wales in different ways from the rest of the UK due to its specific characteristics. To a degree Wales is protected by a greater proportion of key workers, a greater proportion of workers employed in the public sector and a higher share receiving the national living wage. However, it also has a greater proportion of workers on low pay and people who are unable to work from home. Some sectors that are key to the Welsh economy are also particularly affected. The labour market impact is not equal and the different impacts upon people will lead to different experiences.



The crisis has changed the balance between rights, responsibilities and risk in society, which suggests a need to reframe the social contract. The Well-being of Future Generations Act (Wales) 2015 could be used to ground a clear narrative and to frame the future vision of the Welsh economy. There is the potential to collaborate with other governments emphasising wellbeing. There has been a long focus on a fair work agenda in Wales, and particularly so in sectors deemed key and foundational. The crisis presents an opportunity to implement these.

The roundtable highlighted some of the huge challenges that this pandemic and the public health response will continue to create. Some of the most significant interventions – through the tax and welfare system – remain with the UK Government. The implications of COVID-19 for poverty and child poverty are substantial and existing settlements are inadequate for addressing these challenges. The relationship between the Welsh Government and the UK Government will have implications for what can be achieved in Wales and a new partnership needs to be forged, through active campaigning by the Welsh Government. There is also the potential for the Welsh Government to pursue its own objectives and to build change within the existing devolution settlement; collaborative mechanisms might include citizen assemblies and roundtables.

## Vulnerable groups

Groups already in a vulnerable position as a result of social and economic inequalities will be greatly affected and at risk of even greater poverty. While the UK Government's short term support measures have partially protected many people's income, they have not provided significant help to those in poverty. There is substantial risk of scarring through long term unemployment and poverty for both individuals and communities. It was noted that the pandemic has disproportionately affected those from BAME backgrounds.

Unemployment, underemployment and the lack of state support will have big implications for child poverty. The long-term impacts of this crisis on children and young people could undo two decades of progress in educational attainment and future economic prospects. There are significant gradients in how the lockdown will affect children's educational attainment, for example through differential access to broadband - ensuring that this does not further widen the educational divide will be critical.

There was general agreement that the immediate support provided by the UK Government would be quite short term and could not be sustained at scale. Universal credit is important, particularly for single parent families. There was broad consensus that the Welsh Government should make the case for significant investment in employment support, and try to ensure active labour market policies for those out of work. This may be in the form of job guarantees or training for the long-term unemployed.

There was discussion of the need to better understand the effects of this crisis on the large group in the middle of the income distribution. This group has the highest level of unsecured debt, and some will have had their lives set up in a way that this crisis has made unsustainable.



## Further and higher education

The education system could play a strategic role in anticipating changes in the economy and developing training opportunities and incentives in response. It was recognised that apprenticeships have the potential to be an important mechanism for supporting skill development and labour market recovery. They can support the movement of workers from affected sectors into different jobs in the short term, such as health and social care or broadband and technology sectors.

There is, however, a need to ensure that apprenticeships are high quality skill-based training programmes, rather than a route to obtain cheap labour. One example is an IPPR project in London to facilitate effective apprenticeship programmes with large and small employers. To establish such a scheme it was argued that it would be necessary to identify providers and explore conditions under which that to provide government support will be key. Suggestions included encouraging collaboration amongst providers and companies and strengthening the role of trade unions to both identify and propose methods to fill skill gaps. It may not be the case that new programmes will be needed everywhere, but that existing programmes can be expanded and repurposed. Business Wales has 30 skills and apprenticeship schemes, presenting an opportunity to increase accessibility by simplifying the structure, access requirements and application process. The Welsh Government could steer potential applicants through a simplified process.

There was consideration of the risks and opportunities for universities. The short term income loss resulting from a decline in international student numbers is expected to be substantial. Given that universities are likely to have greater capacity in the autumn of 2020 as student numbers fall, Welsh universities could be encouraged to provide further education. In addition to boosting skills, training and university finances, this could also alleviate immediate pressures on the labour market and reduce youth unemployment. Incentives such as reducing council tax for graduates to retain them in the locality and encouraging Welsh graduates to return after developing networks and skills outside Wales were discussed.

Universities could become catalysts for regional development.<sup>1</sup> Although this would not be suitable for all parts of Wales given the geography of universities, more could be done to provide support to universities, local authorities and businesses to work in regional partnerships to encourage skills-oriented programmes. HEFCW could play a role in facilitating this.

It was also observed that the UK is behind in comparison to American universities including Harvard, who have developed online courses. There is the potential for universities to collaborate and to contribute to a combined degree.<sup>2</sup>

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<sup>1</sup> See WCPP's report on universities' civic mission <https://www.wcpp.org.uk/publication/maximising-universities-civic-contribution/>

<sup>2</sup> The Welsh Government has already put in place measures with the Open University and other providers to provide a free e-learning platform for skills and training. This may experience high demand in the coming months and may need additional support.

## Business support

Understanding how different sectors are affected can inform a tailored support strategy. It was recognised that some sectors, including steel, aerospace, automotive, hospitality and tourism have been particularly affected, while others including social care will need to be expanded and evaluating the jobs, remuneration, and skills and training in such sectors will be important. Regional inequalities are also likely to be compounded by these sectoral impacts, resulting in some parts of Wales being less able to 'bounce back' than others, further compounding the effects of previous economic shocks.

There are three broad categories, each requiring different interventions:

1. Some businesses will require support while they gradually phase their return to something resembling normal activity.
2. Other, including those in the hospitality sector, will not be able to resume for some time and therefore employees should be supported to retrain.
3. Businesses connected to remote tourist areas, face particular difficulties as they do not have obvious alternative employment opportunities while restricted travel persists and are likely to face a long period of income loss. These areas will need a different type of support, such as a job guarantee scheme.

Implicit in the UK Government's support is that it is keeping businesses afloat until they are viable. However, realism was encouraged in recognising that some will not be able to return to being viable and there may be a need to let these businesses fail. In such circumstances retraining grants could support labour reallocation. This could be done alongside encouraging furloughed employees to take up online training opportunities.

There is an urgent need to think of how to exit from the job retention scheme in a flexible manner to support the transition to recovery, for example moving to an active labour market policy that includes a wage subsidy scheme and retraining. This would require rethinking the balance of responsibilities between the Welsh and UK Governments, and could benefit from drawing on Wales' flexibility to use different options such as loans to SMEs and debt equity swaps.

There are some important interventions that the Welsh Government can undertake, subject to borrowing limits. There was consensus that broadband capability is an important area of investment. Broadband access, particularly in rural areas where it is more limited, now has even greater implications for economic inclusion. Investing in ultra- and super-fast broadband will be critical and it was suggested that a scheme similar in format to the cycle to work scheme could be used to aid digital inclusion. Should there be greater demand for housing in rural areas as a result of this crisis, greater broadband investment would be necessary.

Other suggestions included: reshaping the Development Bank of Wales into an economic development agency and extending its role beyond that of a funder; increased investment in business surveys (as undertaken by the Federal Reserve in the United States) to provide a nuanced understanding of where there are strengths and opportunities, where there are vulnerabilities, and also bottlenecks and challenges to be addressed; and using the Well-being



of Future Generations Act to develop conditionalities for business support, for example Denmark does not support companies using tax havens.

Both the Welsh Government and the UK Government will be subject to extensive lobbying by different sectors and businesses. There was agreement that it will be important to be firm and transparent about how support will and will not be provided.

## Public finances

The recovery trajectory will have implications for public finances, and the challenge of the unknown was recognised. Most agreed that the OBR analysis and forecasts were optimistic and it is most likely that the recovery will take longer and the economy will be significantly smaller for the medium term. In the context of a large deficit and rising debt there are choices to be made about how to finance the debt, particularly in the context of global debt pressures. Questions include how quickly to return to a current budget balance and when and how to raise taxes. There was agreement that as austerity is not a viable path, revenue will need to be sourced from tax increases. There are likely to be reductions in tax income, loss of business rates and reductions in stamp duty revenues this year, and possibly next. The importance of the timing of the introduction of a tax rise with political and economic objectives was emphasised.

The public finance position will influence the timing of the phasing out of the job retention scheme. The financing of this along with other welfare support including universal credit will depend on the negotiations with the UK Government.



## Attendees

**Chair:** Jeremy Miles

*Counsel General and Minister for European Transition, Welsh Government  
(responsible for future recovery work)*

**Experts participating:**

Gordon Brown

*United Nations Special Envoy for Global Education and former UK Prime Minister*

Jonathan Portes

*Professor of Economics and Public Policy, King's College London*

Torsten Bell

*Chief Executive of the Resolution Foundation*

Paul Johnson

*Director of the Institute for Fiscal Studies; Visiting Professor in the Department of Economics at University College London*

Carys Roberts

*Executive Director of IPPR*

Elke Heins

*Senior Lecturer in Social Policy at the University of Edinburgh*

Steffan Ball

*Chair of the Council of Economic Advisers at HM Treasury*

Gareth Jones

*CEO of Town Square Spaces*

Meena Upadhyaya

*Honorary Distinguished Professor at Cardiff University*

**Welsh Government:** Lauren Stamp, Jonathan Price, Ian Butler, Liz Lalley, Charlie McCurdy

**Wales Centre for Public Policy:** Helen Tilley, Craig Johnson