

Senedd Cymru

Pwyllgor yr Economi, Masnach a Materion Gwledig

Ymchwiliad: Prosesu Bwyd

Cyf: FP04

Ymateb gan: Foundational Economy Research Limited (FERL)

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Welsh Parliament

Economy, Trade, and Rural Affairs Committee

Inquiry: Food Processing

Ref: FP04

Evidence from: Foundational Economy Research Limited (FERL)



The road not taken

Foundational Economy Research Limited (FERL) submission to the Senedd Economy Trade and Rural Affairs Committee inquiry into food processing

The argument and evidence set out in this submission is broadly relevant to the Committee's terms of reference but primarily addresses the first two issues. First, "the Welsh Government's performance in delivering against the objectives in its *Vision for the Food and Drink Industry*"; and, second, "whether the objectives in the *Vision for the Food and Drink Industry* remain fit for purpose or whether they should be revised".

On the first key issue, our evidence shows that food manufacturing has not delivered against the Vision 2021 objectives; and, on the second key issue, we recommend not new objectives but a radical change in the Welsh Government approach to policy formation and implementation.

Our argument is developed by contrasting two reports which were both officially published by Welsh Government in 2021.

- *A vision for the food and drink industry from 2021*¹ was one of a series of programmatic Welsh Government statements of objectives and priorities for the Senedd term 2021-6. There were parallel reports on education, healthcare, the economy and tertiary education. In food and other areas these vision reports represented and framed Welsh Government's approach which, we explain below argue, was likely to fail in its own terms.
- *What can Welsh Government do to increase the number of grounded SME firms in food processing and distribution*² was a one-off report commissioned by Welsh Government from Foundational Economy Research Ltd (FERL). This more narrowly focused report made policy recommendations based on a granular analysis of the sector. Although these recommendations were not followed up, the FERL report remains relevant because it represents an alternative approach to policy in this area.

Vision 2021 set objectives for the food and drink industry which centred around sectoral growth of output up to 2026. However, Welsh Government did not have the policy levers to deliver the desired outcomes, and in food processing none of the growth, productivity and higher wage objectives have been achieved.

The Vision 2021 report set out the ambition not only to "build... on our success" in growing output but also that "every business to be bigger, better, stronger".³ Targets were then set at an aggregate level for the "food and drink industry" which includes farming, food

¹ Published in November 2021 <https://www.gov.wales/vision-food-and-drink-industry-2021>

² Published in August 2021 <https://www.gov.wales/sites/default/files/publications/2022-07/what-can-welsh-government-do-to-increase-the-number-of-grounded-sme-firms-in-food-processing-and-distribution.pdf>

³ Vision 2021, p.15.

processing and distribution plus food retailing and hospitality. With the industry broadly defined in this way, the 22,000 then employed in Welsh food and drink manufacturing accounted for less than 10% of the industry's overall workforce.

For Vision 2021 the success of the whole food and drink was to be measured against three key goals:⁴

- Growth: "Every year the turnover value of Wales' food and drink sector will proportionately grow more than the rest of the UK, and to at least £8.5bn by 2025".
- Productivity: "The three-year average of Gross Value Added (GVA) per hour worked in the industry will increase proportionately more than the rest of the UK".
- Fair Work: "Every year, the proportion of food and drink sector employees receiving at least the Welsh Living Wage will increase, to achieve 80% by 2025".

The key goals of output growth, productivity improvement and increasing wages were unrealistic from the outset because, at that time, the UK economy as a whole was flatlining on growth and productivity, and there was no reason to believe Wales could do better. At an aggregate level, UK output growth and productivity increase have more or less stalled since the 2008 financial crisis and real wages flatlined through the decade of the 2010s.

In 2019, when the consultation on Vision 2021 began, all this was well known and widely discussed. It would have been more sensible then - as now - to ask, what should be the food and drink industry goals *in the absence of sustained economic growth and productivity increase*.

The problem of setting unrealistic, ill-advised goals were compounded because Welsh Government did not have policy levers with the reach and capacity to deliver on its ambitious acceleration and improvement targets. On "delivering our vision", Vision 2021 invoked the Well Being of Future Generations Act and set out action "themes". The first of these was: "whole system support to meet the wide ranging needs to deliver business resilience and enable sustainable growth".⁵

Successive Westminster governments have in various ways aimed to restore pre-2008 growth rates and implied they have the domestic policies to deliver faster growth. The current UK government favours planning reform, infrastructure and industry policy. At best these domestic policies will deliver some improvement in the medium term but this is subject to interference by external shocks such as pandemic and war. In an increasingly unstable, disordered and multi-polar world, where very low rates of growth are combined with the possibility of recessionary shock, setting out food industry goals in the absence of growth is now more relevant than ever.

⁴ Vision 2021 p. 5. An additional three goals covered operational issues: the proportion of businesses with accreditations, the numbers of businesses achieving awards, including the UK GI Scheme, and the %age with a food hygiene rating of 5 by 2025.

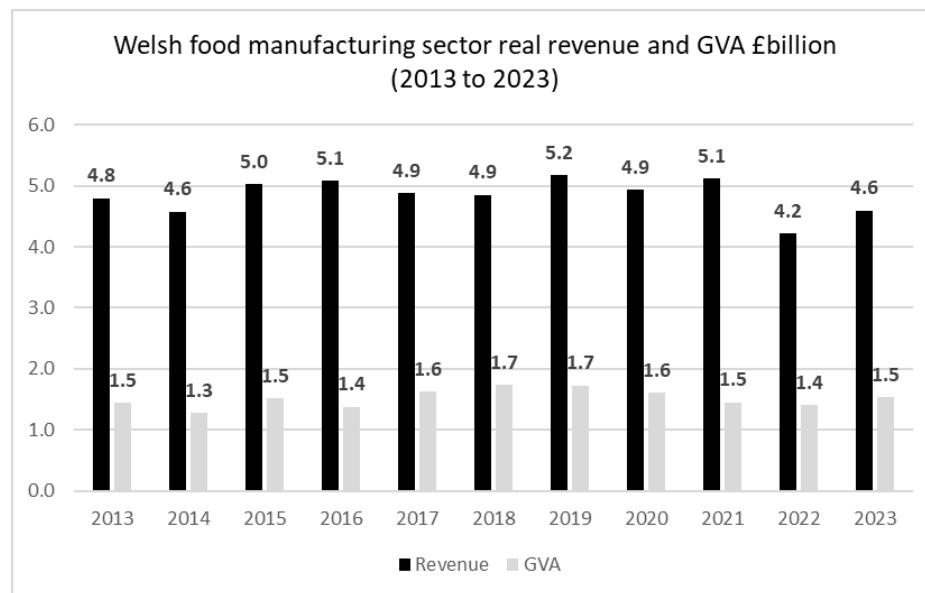
⁵ Vision 2021 p.14.

The Vision 2021 broad definition of the food and drink industry further complicates matters because organisation and operating conditions are very different in the various sub-sectors of the industry. Food production, processing and retailing are radically different activities with distinctive constraints and possibilities even when they are connected along one supply chain. For example, beef cattle farming is different from manufacturing beef curry, and different again from supermarket retail of ready meals or restaurant selling-on of food service distribution lines. Given this heterogeneity, it was and is more sensible to disaggregate and develop sub-sectoral analysis, objectives and relevant policies.

If we zoom in on the food manufacturing sub-sector - because this is an important source of value added in the supply chain - then the industry-wide growth target has not been met. The table in Appendix A summarises the available time series evidence for the decade 2013 -2023 (the last available year), which shows that the ambition of Vision 2021 was unjustified and it is therefore unlikely that the goals for 2026 will be achieved.

If we strip out the effects of price inflation on turnover and GVA net output, using an ONS index of food prices there is little real growth in turnover or GVA, as shown in Exhibit 1. There is some cyclical variation of real sales turnover between £4.2 and £5.2 billion in turnover and between £1.3 and £1.7 billion in GVA. But, if we compare 2013 and 2023 using 2013 prices, then GVA is exactly the same ten years later at £1.5 billion, and turnover is actually fractionally lower at £4.6 billion in 2023, as against £4.8 billion a decade earlier in 2013.

Exhibit 1: Welsh food manufacturing real turnover and GVA 2013 -23



Flat with gentle cyclicity rather than sustained growth is again the pattern with real wages, after nominal wages have been adjusted using the consumer price index⁶. Over the period 2013 to 2020, real median wages per employee increased by 19%, as shown in Exhibit 2. But after 2020 the real median wage per employee drops, and by 2023 the real median wage per employee is just 6.7% up on 2013 in real terms.

Exhibit 2: Welsh food manufacturing, nominal and real median wages per person, 2013-23

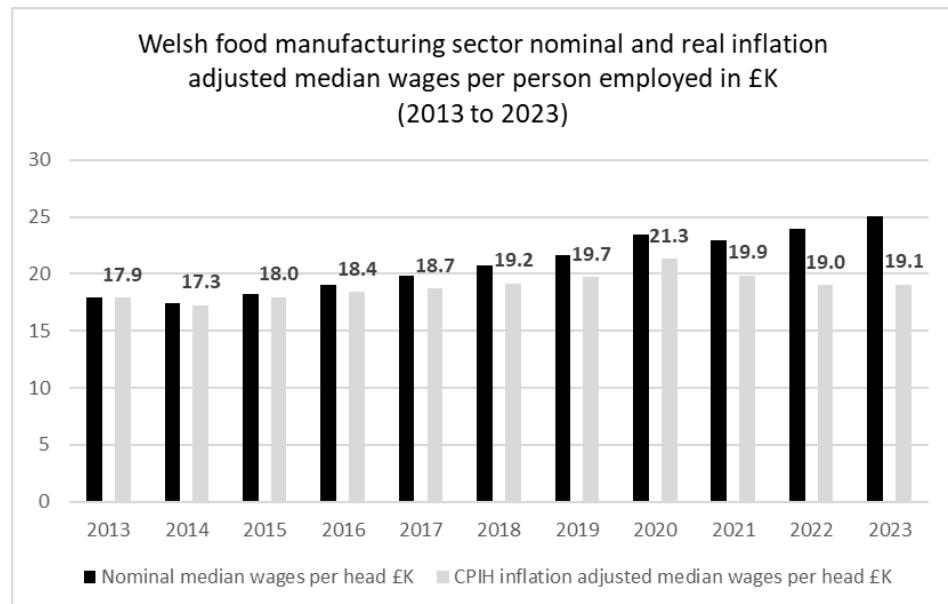
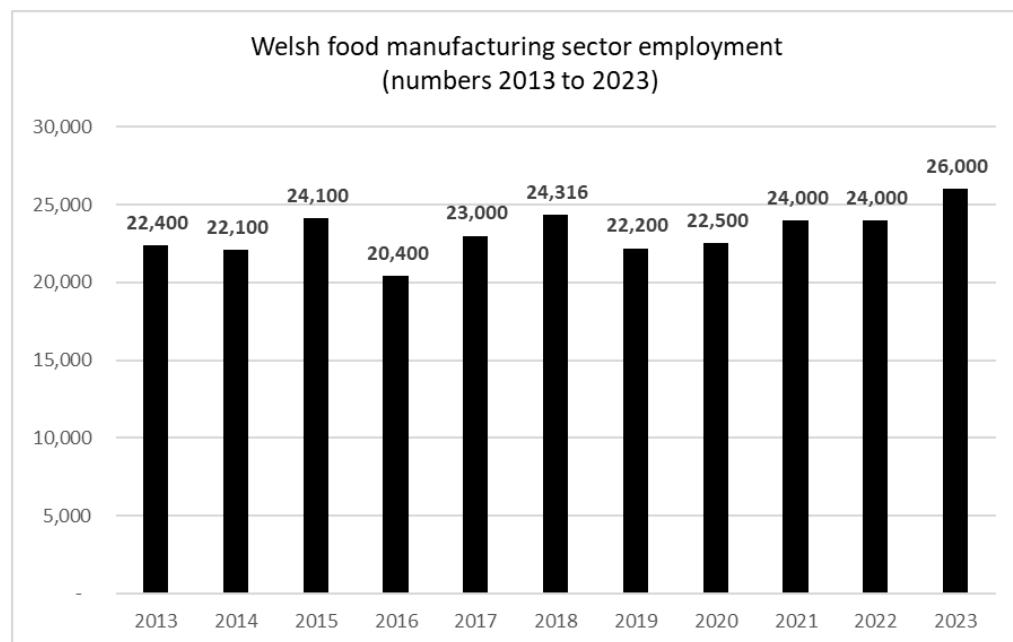


Exhibit 3: Welsh food manufacturing employment, 2013-23



⁶ The CPIH is used, which includes housing costs.

A head count of total numbers employed shows the same pattern of gentle cyclical not growth (Exhibit 3). The only difference is that the total number employed in 2023 at 26,000 is actually significantly above the 22,400 employed in 2013 to produce substantially the same GVA (net output). This could be due to a modest decline in labour productivity and/or a deterioration in the composition of employment with part timers becoming relatively more important in the overall mix. Either way the ambition of increasing real wages has almost certainly not been realised.

The FERL report started from a problem definition about a missing middle of capable, grounded Welsh firms. Food processing is a difficult business where firms with narrow margins operate in a heavily export and import dependent Welsh food system. Supermarkets and food service distributors are the only gateway to volume demand. The policy focus of FERL was, therefore, about opening these gates further and easing limits on expansion by offering more rented units on food parks.

The starting point of the analysis in FERL's 2021 report was the observation that Welsh Government had excellent business advice for Welsh food processors and marketing support for Welsh food, backed by food innovation centres. But, when we commissioned an ONS run based on VAT and PAYE data, we were able to show that these policies had not grown the number of capable, mid-sized *mittelstand*-type firms processing food and drink over the decade 2010-20.

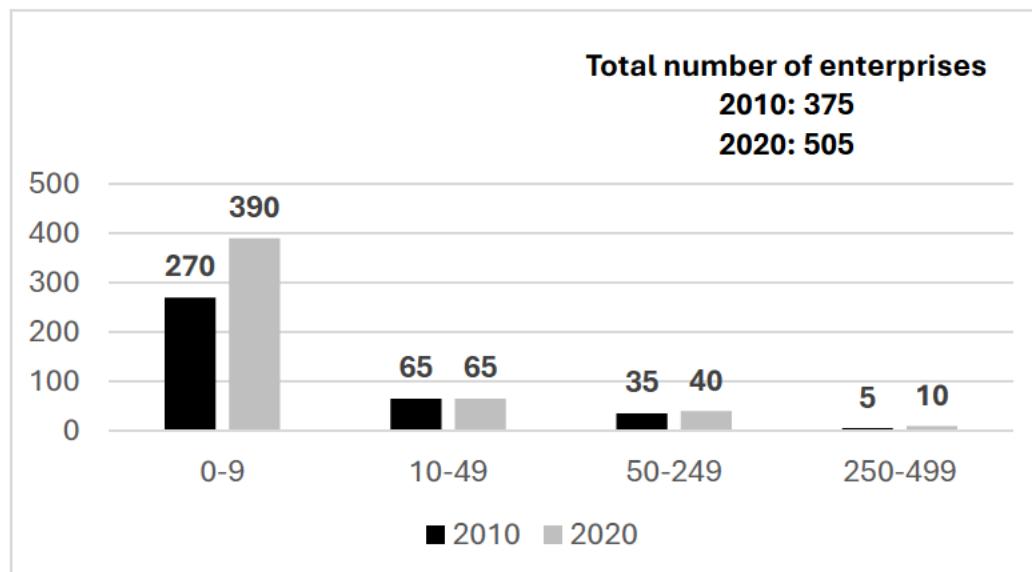
We would, of course, not pretend that the missing middle is the only issue in Welsh food manufacturing, let alone in the broader Welsh food system. The food system is important in all kinds of socio cultural ways from school meals to home cooking from scratch⁷. But the missing middle is an important problem in food manufacturing. If we want a capable and resourceful food manufacturing sector, we need grounded mid-sized firms with decent productivity levels that can sustain employment and pay decent wages. The point is not that this one problem has some kind of privilege but that all our food problems need to be approached in evidence driven, lever searching ways.

The ONS data summarised in Exhibit 4 shows that, as in the rest of the Welsh economy, in food manufacturing the growth in firm numbers from 2010-20 was in low productivity, micro firms, especially in craft brewing. Most probably, these trends have continued since 2020. The *Welsh Food and Drink Economic Appraisal 2023* reports 47 food and drink manufacturing businesses with turnover of more than £10 million, compared with 35 in 2000 and 40 in 2020, as shown in the FERL report.⁸ But most of this increase in the number of larger businesses in 2023 is probably accounted for by food price inflation which peaked at 19% in the twelve months ending March 2023.

⁷ There is a ferment of innovation in this socio cultural area. In South Wales by Castell Howell and by the social entrepreneur Simon Wright; and in North Wales by Can Cook and Clwyd Alyn housing. Much of this work is sponsored by progressive local authorities but it is uncertain whether it can spread and scale when Welsh social innovation is chronically precarious. See *The precarity of community benefitting innovation*. <https://foundationaleconomyresearch.com/wp-content/uploads/2025/04/Precarity-report-final-16-April-2025.pdf>

⁸ FERL 2021 report, p.14.

Exhibit 4 Number of Wales based food and beverage manufacturing enterprises by employment bands



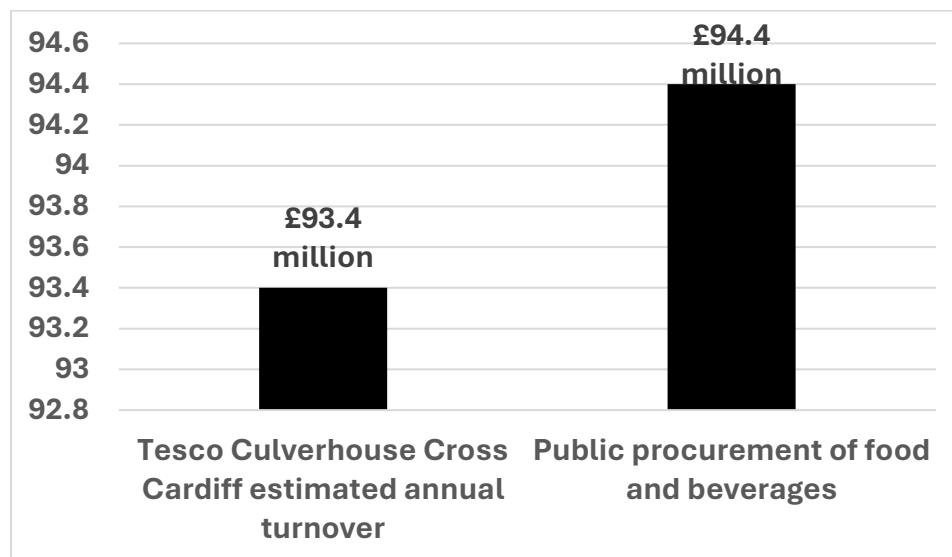
In the FERL report, this disappointing long term outcome was related to the activity specifics of food processing as a difficult business requiring many capabilities and generating slim cash and profit margins. Processors are intermediaries in a supply chain. Manufacturing margins over farmgate prices will always be squeezed by the market power of supermarkets and food service distributors. The business model constraints on firm expansion arising from narrow margins are reinforced by low property prices in much of Wales. When property is cheap, firms have limited collateral which can be pledged to cover bank borrowing for expansion which requires new premises and equipment.

Welsh grown and processed food is culturally and socially important. But the political enthusiasm for increasing Welsh demand (especially public sector demand) for Welsh grown and processed produce fits uneasily into the system of volume flows which mid-sized firms depend on. The Welsh food system was and is heavily import and export dependent because food production is narrowly specialised around meat and dairy. Welsh consumers want a diversified diet and the FERL report showed, for example, that in 2018 the demand of just over three million Welsh consumers accounted for just 5% of Welsh red meat output.

If we are looking forwards and want long term real growth in food manufacturing output in the late 2020s and beyond, much of it will have to come from high capability medium sized firms like Village Bakery and Hilltop Honey. Their business model is to process and add value to inputs which are largely imported into Wales, and they then make their profit by exporting to the rest of the UK without making a big deal of their Welshness.

Supermarkets and food service distributors were and are the only gateway to the volume demand which medium sized firms need. The FERL report showed that in the late 2010s, Welsh households spent more than £3,000 million per annum on food in local supermarkets whereas Welsh public sector food and catering expenditure then totalled just over £90 million, which was roughly equal to the turnover of just one Tesco superstore, as shown in Exhibit 5.

Exhibit 5: Comparison of turnover of Tesco Culverhouse Cross against Wales public sector procurement spend on food and beverages, 2018-19



The policy recommendations for facilitating the growth of medium sized firms followed on from this analysis.

- If Wales wants more medium sized processing firms, we need more volume outlets. So, the first policy priority in the FERL report was to lean on supermarkets to expand their shoestring Welsh buying operations. And then to use public sector food contracts to incentivise the two Welsh food service distributors (Castell Howell and Harlech) to stock more Welsh lines which they could sell to private as well as public sector customers.
- The second facilitating intervention was to ease the business model constraints on expansion caused by narrow margins and limited collateral for bank borrowing on equipment and premises. The recommendation here was for an expansion of food park provision to make rented units available for processors who gained a new contract and wanted to expand. On the flip side, firm failure or contraction would then simply free up units for expanding firms.

We will never know whether these policy recommendations would have made any difference to outcomes by 2026. Because Welsh Government officers, politicians, leading processing firms and their trade bodies have continued with what they were already doing by way of

business advice and marketing support, even though the FERL report showed that these policies had not solved the problem of the missing middle.

The FERL report had no discernible impact on policy because the Welsh Government machine and the food processors were both, for different reasons, comfortable with the policy status quo. And they were all positively attracted to Vision 2021, which created an impression of purposive progress with new targets for output growth and productivity improvement “building on success”. Why was this?

- (1) For Welsh Government officers and politicians, the Vision 2021 targets were safe. They did not require spending organisational effort or political capital on implementing constructive or disruptive new policies. The targets would never and could never be reached in a Wales with zero growth and lacking relevant policy levers. But that would only become clear in Senedd Committee and Audit Wales reports at the end of five years in 2026, at a point when personnel had moved on and many other targets had also not been met.
- (2) As for existing processing firms, they were positive about the status quo because under existing policies they were getting business advice, marketing support and networking facilities, all of which was useful to incumbents. They could go along with targets which were set at such an aggregate level that they had no meaning or implications for action by the individual firm. And this usefully distracted Welsh Government from focusing on awkward issues like family sale of successful *mittelstand* firms to large corporates.

So, the FERL report stands as “the road not taken” in the words of Robert Frost’s poem. It is an example of a different research and data-based approach to policy which focuses on problems, identifies specific actions and searches for levers which would have volume effects.

What should the Senedd Committee on Economy, Trade and Rural Affairs recommend?

Our aim in contrasting the two reports is not to exhume the 2021 FERL report, but to contrast two approaches to policy formation and consequential action. We also want to argue that, if the success of FERL recommended policies was and is uncertain, the failure of the Welsh Government Vision 2021 approach was frankly inevitable.

In our view, the Committee’s report on food processing is an opportunity to recognise the limits of and break with the Welsh Government approach to policy formation and implementation. This matters because the failure of Vision 2021 is replicated in many other policy areas where the Welsh Government has long lists of objectives (combining the worthy and the confused) but very little prospect of achieving its visions, missions and strategies.

For more than 20 years, the Cardiff Bay policy style has been government-by-announcement, with too little attention to empirical relevance, practical realisability and follow through implementation. Aims only become a strategy if there are policy levers which

can be pulled to deliver the outcome and if the relevant organisations have capability, resources and reach which underpin execution.

This policy style has been stuck with a surfeit of aims without a clear sense of how to achieve them in practice, highlighting a systemic disconnect between aspiration and delivery capacity. This runs through a whole gamut of policies, from poverty reduction aims in the Communities First programme to incorporating the UN Sustainable Development Goals in the Well-being of Future Generations Act. Announcement can be backed by regulation, as in public procurement, or limited grant incentives, as in afforestation. Or, on issues of importance, Welsh Government can add an office and create another committee as with the Future Generations Commissioner and the Public Service Boards.

But this does not produce rapid progress on key indicators because Welsh Government is working in a multi-level system where it has limited resources and reach, so that implementation and execution depends on the actions of lower-level organisations (public and private) with operating responsibilities. Welsh Government has not come to terms with the hard fact that most of these operating organisations are generally not willing or able to put sustained effort into delivering Welsh Government aims.

- In the *public sector*, implementation is the responsibility of local authorities and health boards. These are hierarchical and generally conservative organisations which avoid risk by defaulting onto standard sector practices and routines, as classically with time and task commissioning of home care or import of qualified nurses and doctors. We should recognise and value the effort of mid-level innovators in such organisations but also realise that internal organisational politics tends to defeat many of them.⁹
- In the *private sector*, the state is both a source of support, like free training and grants, and of constraints, such as through regulation. The role of the trade associations around Cardiff Bay is to lobby so the positive outweighs the negative for business. At individual firm level, corporates can take advantage because policy is not joined up so that, for example, City Deals offer grants against promises of full time equivalent (FTE) job numbers without ex-ante fair work conditions or systematic ex-post auditing of jobs delivered.
- The *third sector* is a ferment of radicalism which in many cases goes well beyond Welsh Government aims. Here progressive policies could hope to find support. But the third sector organisations which sustain social innovation live with precarity and near-death experiences because they are overly dependent on short-term grants from Welsh Government and charitable foundations. As a result, much third sector social innovation operates on a basis of one-in when a new grant is offered and one-out as an existing grant ends.

If these problems have been recognised, little has been done about them. But the electorate, at Senedd and local authority level, is rapidly losing patience with a political

⁹ See the 2025 report by FERL and People's Economy, *The precarity of community benefitting innovation*. <https://foundationaleconomyresearch.com/wp-content/uploads/2025/04/Precarity-report-final-16-April-2025.pdf>. This illustrates the limits on social innovation in public, private and third sectors.

system of worthy aims and non-delivery. It is, therefore, an urgent task to come together and do devolved government differently, based on new ways of working.

To this end the Senedd Economy, Trade and Rural Affairs Committee could usefully recommend the following.

- (1) On *policy formation*, that Welsh Government avoids visions, missions and strategies which are not supported by evidence-driven analysis, and which do not identify policy levers that could potentially produce volume results. The scope for redoing unfocused policy in areas like public procurement is huge. This shift in governmentality is not guaranteed to produce success, but it will break the cycle of predictable under-delivery. It would be sensible to start by commissioning a new approach in a policy area like procurement, where existing Welsh Government sponsored reform has failed to change practice on the ground in the public sector.
- (2) On *implementation*, that Welsh Government recognises the resistances to change are strong in many public sector organisations, as in the private sector. In our evidence to your Committee's inquiry on the Foundational Economy in 2024, we argued that this requires Welsh Government to promote *new ways of working*. Specifically, this includes: (a) alliances of the willing, which empower those who want to change; and (b) skunk works-type teams, which progress innovation tasks outside organisational routines and structures. And we were heartened to see that your report of April 2025 took up these issues¹⁰. However, these new ways of working need to be adequately resourced because there is no point willing the ends without providing the means.

Julie Froud, Colin Haslam. Sukhdev Johal, Kevin Morgan, Karel Williams
June 2025.

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¹⁰ [The Foundational Economy](#)

Appendix A: Time series 2013-23 on Vision 2021 goals

	Nominal		Real inflation adjusted				
	Revenue	GVA	Revenue	GVA	Nominal median wages per head	CPIH inflation adjusted median wages per head	Employment
	£bn	£bn	£bn	£bn	£K	£K	Number
2013	4.8	1.5	4.8	1.5	17.9	17.9	22,400
2014	4.5	1.3	4.6	1.3	17.4	17.3	22,100
2015	4.8	1.5	5.0	1.5	18.2	18.0	24,100
2016	4.8	1.3	5.1	1.4	19	18.4	20,400
2017	4.8	1.6	4.9	1.6	19.8	18.7	23,000
2018	4.8	1.7	4.9	1.7	20.7	19.2	24,316
2019	5.2	1.7	5.2	1.7	21.6	19.7	22,200
2020	4.9	1.6	4.9	1.6	23.5	21.3	22,500
2021	5.3	1.5	5.1	1.5	23	19.9	24,000
2022	5.1	1.7	4.2	1.4	24	19.0	24,000
2023	6.0	2.0	4.6	1.5	25.1	19.1	26,000

Source Economic Appraisal: Welsh Food and Drink sector for all nominal figures.

Inflation adjustment of turnover and GVA to 2013 prices using ONS price index for food and non- alcoholic drink. Inflation adjustment of wages using the CPIH all items price index.