



Recovery from the Coronavirus pandemic: Human capital, skills, Further and Higher Education

Introduction

This paper was written in June 2020. It is one of a series of six briefings commissioned by the Counsel General and Minister for European Transition to inform and challenge the Welsh Government's strategy for reconstruction and recovery from the Coronavirus pandemic.

The briefings focused on topics that were selected by Ministers. They built on [our work to support earlier roundtable discussions convened by the Minister](#) and helped to frame and inform the work of an [Expert Group](#)¹ which met with the Minister between July and September 2020. We wrote up the Group's conclusions which fed into Cabinet discussions about the Welsh Government's priorities for tackling the economic and social impacts of the pandemic.

This first paper focuses on the implications of the pandemic for human capital, skills and post-16 education. It considers:

- The economic context in Wales;
- The importance of prioritisation and pro-active support;
- Business support;
- Investment in human capital including skills development and active labour market policies; and

- The role of further and higher education in supporting lifelong learning and economic prosperity locally and across Wales.



The economic context in Wales

How the Welsh economy will emerge from the Coronavirus pandemic is still unclear but, as in the rest of the UK, the risks are unevenly distributed across different regions, sectors and demographic groups. Those on the lowest incomes are more likely to be working in jobs affected by the lockdown, and younger workers,

¹ The Expert Group comprised four standing members: Torsten Bell (Chief Executive of the Resolution Foundation), Rebecca Heaton (UK climate change committee), Paul Johnson (Director of the Institute for Fiscal Studies) and Miatta Fahnbulleh (Chief Executive of the New Economics Foundation).

women and those from BAME backgrounds appear to be most at risk of unemployment / underemployment (Wales Fiscal Analysis, 2020a).

Vulnerable sectors

Relative to the rest of the UK, the Welsh economy has fewer high-value, high-productivity services; it mostly consists of lower productivity services, manufacturing, tourism and agriculture, and a high proportion of small firms. This makes it particularly vulnerable to the impacts of the economic shock caused by the pandemic (Portes et al., 2020).

It is impossible for the Welsh Government to support all parts of the economy. It will need to prioritise and provide proactive support to those parts of the economy that it considers matter most

Some high-value manufacturing sectors, notably aerospace, have also been disproportionately affected by the crisis and may be slower to recover as the cost of cancellations and refunds will be difficult for the sector to recoup (Muro et al. 2002, Konings, 2020).

Vulnerable communities

Less prosperous areas in Wales have concentrations of jobs in those sectors that have been most adversely affected by the pandemic, notably tourism, retail and agriculture. In Wales overall, 21.7% of workers are employed in four shutdown sectors – 11.7% in non-food retail, 6.5% in pubs and restaurants, 2.1% in arts and leisure, and 1.4% in accommodation. Many employees and business owners in these sectors rely on highly seasonal income

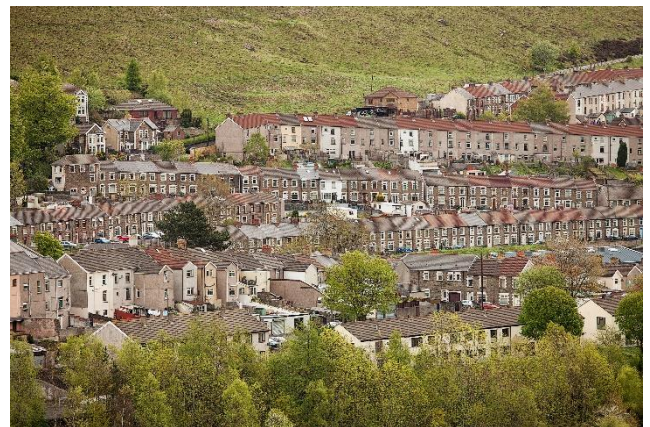
fluctuations and have few alternative employment opportunities.

Local economies in remoter rural areas, the south Wales valleys and coastal towns are particularly at risk from the economic shock resulting from the pandemic.

Research by the Centre for Towns suggests that Aberystwyth is the most vulnerable town in Wales with 47% of employees in these sectors; Porthcawl (43%), Llandudno (41%), and Kinmel Bay (40%) are also badly affected (Warren et al., 2020).

Rural areas and the south Wales valleys have high estimated rates of closure (Bevan Foundation, 2020). In Gwynedd, for example, it is estimated that three in ten businesses are closing.

Of the three largest Welsh cities in terms of jobs, Newport is the most exposed to the crisis followed by Cardiff, with Swansea the least exposed (ONS, 2020).



Vulnerable groups

The pattern of impacts for different demographic groups in Wales is similar to the rest of the UK. Young people are more likely to be in affected sectors, and more likely to be in more insecure forms of work. There is a risk that the pandemic creates a significant cohort of people whose economic wellbeing is newly threatened. Older people are also at risk. Many in their 60s and 70s are still working, many key workers are over

50, and half of self-employed people are over 50 (Rest Less, 2019). Older workers employed in sectors that are vulnerable to the effects of the pandemic may find it particularly difficult to find alternative jobs, leading either to risks of unemployment or underemployment. But it is important to keep in mind the intersectional nature of disadvantage and to seek to support all of those who are most at risk of unemployment, low pay, ill health and premature mortality including low paid women, BAME communities, people with disabilities, those suffering mental ill health and children living in poverty (Bennett et al., 2020).

For low wage, low skilled jobs, career progression opportunities will be key. They can help to improve job quality, income and wellbeing, and also to boost economic productivity and growth

Prioritisation and pro-active support

The policy response at the UK level will largely determine the overall shape of the recovery in Wales. However, the Welsh Government has control over some significant policy levers. UK decisions on scale and parameters for any stimulus package, and on conditionality around social security support, will be key. The Welsh Government can and should provide support for economic development, business support, skills and employability that is tailored to the particular needs and opportunities of the economy and communities in Wales.

It is impossible for the Welsh Government to support all parts of the economy. It will need to prioritise and provide proactive support to those parts of the economy that it considers matter most. Key questions for Ministers are:

- The extent to which the Welsh Government seeks pro-actively to define and shape the direction of the Welsh economy; and
- Which parts of the economy it focuses its support on.

The answers to these questions will determine the nature and extent of its support for businesses and individuals to recover from the pandemic.

Recent Welsh Government economic policy has sought to increase resilience and raise productivity whilst also fostering a more equal society. It emphasised the importance of 'foundation' sectors – retail, food, care, and tourism – but otherwise focused its direct financial support through defining '*Calls to Action*'² and setting conditionality for Government support through an '*Economic Contract*'³. Cutting across this was a continued interest in high-value manufacturing, tradeable services, and 'enablers' of competitiveness (e.g. digital) (Welsh Government, 2017).

The propositions which the Expert Group have been asked to consider imply a focus on certain areas of the economy: housing construction and retrofitting, social care, renewables, digital, and land management. There is a strong rationale for this but, as highlighted in our recent report on economic resilience (Healy, 2020), there are potentially difficult choices to be made between:

- **Mitigation:** Support to sustain existing jobs in sectors whose long-term future is, at best, uncertain but which are the economic mainstays of many communities in Wales; and

² These are: "Decarbonisation; Innovation, entrepreneurship and headquarters; Exports and trade; High quality employment, skills development and fair work; R&D, automation, and digitalisation".

³ This includes: "Growth potential; Fair work; Promotion of health (including mental health) skills and learning in the workplace; Progressing in reducing carbon footprint."

- **Building back better:** Focusing Welsh Government support on more sustainable economic activities which have greater long-term potential to secure a more prosperous, fairer, greener Wales but will not replace jobs lost in other sectors in the short-term.

Supporting businesses and supporting individuals

Research into the resilience of economies to the economic shock following the global financial crisis in 2008 highlights the adaptability and innovative capacities of businesses as critical – how well they were able, for example, to shift to different markets, or change their modes of production or ways of working. Similarly, the adaptive capacity of households and individuals was important. Less resilient groups had few buffers in terms of household savings, as well as higher levels of debt, less capacity or willingness to move from where they live, and less capacity to retrain or change jobs (see Healy and Bristow, 2018).

Targeting entrepreneurship and innovation is a key issue for businesses in Wales, and especially for small and micro firms

In developing a recovery plan, the Welsh Government should consider approaches to fostering and supporting this ‘adaptive capacity’ among both firms and households.

Business support

Beyond the immediate ‘rescue’ packages, governments will want to develop strategies for

business recovery⁴; this might include support for the following:

- **Investment in key infrastructure:** Implementing more of the Review of Digital Implementation report (2019) by Professor Phil Brown could drive a pro-business infrastructure. The report recommendations included creating innovation clusters across Wales; an AI institute; a new skills framework; and substantially increasing funding to support areas of the foundational economy to improve their digital infrastructure and skills.
- **Targeted support for SMEs:** Owner-manager growth characteristics and growth ambition are recognised constraints upon the growth of SMEs. Few firms in Wales have a full strategic plan in place and many have limited systems in place to monitor performance (Morgan and Holtham, 2020). An economic shock leaves those businesses with less adaptability and innovative capacity in a more vulnerable position (Healy, 2020).



- **Business networks:** Business networks in Wales are limited and do not support networking and growth to the extent possible. Business support services could explicitly facilitate more effective

⁴ At present, business support is provided through Business Wales. Business Wales provides free, impartial, independent support and advice to people starting, running and growing a business in Wales.

networking and collaborative activities to address productivity and performance issues (Morgan and Holtham, 2020).

- **Reshaping the role of the Development Bank of Wales** by extending its role beyond that of a funder to that of a restructuring and regeneration organisation. Increased investment in business surveys – similar to those carried out by the Federal Reserve in the United States – could provide an ongoing nuanced understanding of businesses’ issues and opportunities. A new, government-backed venture fund of scale, embedded in Wales, run by experts and encompassing a network of smart enterprise and business support, could help Welsh firms get to the next level, and encourage the establishing of start-ups (Business Live, 2020).
- **Supporting innovation in manufacturing processes:** Ensuring distance between employees is likely to be more challenging for some manufacturing businesses than for others. Some businesses cannot operate at a distance from each other, nor can they provide well-ventilated spaces, pointing to risks and challenges in terms of business closures, job losses and automation. The recent Coronavirus outbreak in Ynys Mon is a stark example of that. The move towards automation without substantial job losses might require targeted support for some organisations.
- **Targeting entrepreneurship and innovation** is a key issue for businesses in Wales, and especially for small and micro firms. A summary by Henley (2020) suggests that key challenges are not just creating 'new' products but understanding and applying new organisational processes. Investing in employee skills and well-being is

essential to retain human capital, as is supporting businesses to maintain supply chains and market demand. A supportive macroeconomic/public spending environment is as important as specific business support to realise this.

There have been examples of more intensive attempts to ameliorate the effects of economic shocks. For example, the response to the closing of a car manufacturing plant in Longbridge was to establish a multi-sector group tasked with mobilising expertise and resources to support individuals and firms affected. While successful, consideration would need to be given to whether and how this approach could be adapted to the current crisis, and the resource implications of this.



Supporting skills and employability

The need for the state to support human capital has been brought sharply into focus by the Coronavirus pandemic. It will be necessary to target support at those in low-wage and low-skilled jobs, the newly unemployed, and new entrants to the labour market, and to combine this with support for those with low or no savings. Alongside this, tailored and intensive support for those furthest from the labour market is needed.

For low wage, low skilled jobs, career progression opportunities will be key. They can help to improve job quality, income and

wellbeing, and also to boost economic productivity and growth. Barriers to progression in low-paid work include the cost of participation in existing initiatives; management practices; welfare constraints; limited internal job ladders within flat employment structures; and a lack of correspondence between gaining new skills and increased earnings.

Government policy to incentivise employers to remove barriers to job progression could complement other policies, such as the promotion and enforcement of a national living wage. New procurement clauses, for example, could require companies who wish to work with the public sector to provide progression (Webb et al., 2018). Much has been made of the Preston approach to procurement – evidence suggests that it can more efficiently boost local economic wellbeing, but care should be taken not to damage local firms' competitiveness and export potential (Price, 2019).

The post-16 education system could and should play a crucial role in the recovery period. Efforts should be made to encourage young adults to stay in, or return to, post-16 education and training

For new entrants to the labour market, or for the newly unemployed, an active labour market policy that includes a wage subsidy scheme and retraining grants (building on existing policies) could be the best approach. These could include job guarantees or training for the long-term unemployed with a focus on the lowest skilled workers. Flexible support based on collaboration between the Welsh Government and other governments, local authorities, and regional structures such as City Deals may be more effective. More tailored

approaches for those furthest from the labour market are likely to be needed.

Identifying skills gaps

The Welsh Government has established regional skills partnerships to identify skills gaps in local labour markets. This could be supplemented by a nationally articulated set of 'skills for the future', drawing on existing efforts to identify these (see for example Bell et al., 2018) and the work that informed the development of the new school curriculum, as well as reflecting the calls to re-orientate support towards high-value skills and sectors.

The Higher Education Funding Council for Wales (HEFCW), responsible for funding higher education, could help to facilitate regional partnerships between universities, local authorities, FE colleges and businesses to provide skills-oriented training programmes that respond to current and anticipated need.



The role of further and higher education

The post-16 education system (including schools, colleges, universities, and apprenticeships) could and should play a crucial role in the recovery period. The extent to which education institutions, particularly in further and higher education, will reorient their programmes sufficiently or will need direction from Welsh Government to do this is unclear. However, Ministers may need to consider how they will incentivise institutions to do this. Some reconfiguration of the higher education sector in Wales may be required to respond to the new

pressures on student recruitment and other sources of funding, from both the pandemic and Brexit. There may also be a case for examining the current balance of financial support for students in further and higher education.

Further education and community-based learning provide opportunities for young people that are vocational and local to home; for these to be successful:

- There may be a need for enhanced financial support for learners; and
- A focus on quality will be of vital importance, particularly the skills of FE teachers.

Efforts should be made to encourage young adults to stay in, or return to, post-16 education and training. For some groups, particularly the most disengaged and disadvantaged, this will require tailored and intensive support. This will be resource intensive, and there may be a decision to be made about the balance between this and the 'generic' support offered.

Decisions about Welsh Government support for education, training and skills will be crucial to support a greener economy that is more resilient and productive while fostering a more equal society

Apprenticeships have the potential to be an important mechanism for supporting skill development and labour market recovery. They could support the movement of workers from affected sectors into different jobs, 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. Extending

vocational qualifications to level 7 could incentivise firms to conduct their own training and improve management skills (Morgan and Holtham, 2020).

Universities play a key role in securing a well-educated and highly skilled workforce and driving economic activity. They generate around £5bn a year and almost 50,000 jobs in Wales (Universities Wales, 2020), and can be important catalysts for regional development (Goddard et al., 2018). Welsh universities are expected to lose approximately £100-£140m in income from student fees in 2020-21 (Wales Fiscal Analysis, 2020b). Although fees are capped at a lower rate in Wales than elsewhere, they make up a larger proportion of Welsh universities' income. Welsh Government support may be needed if some institutions are to be prevented from failing financially or significantly scaling back teaching and research activities (Universities UK, 2020).

Universities with spare capacity owing to a drop in student admissions might be encouraged to invest in remote learning. This could open up new opportunities for people who find it difficult to attend campuses, particularly those with disabilities or caring responsibilities.

Ministers may also want to consider ways of retaining graduates who come to study in Wales and of attracting back to Wales Welsh domiciled students who attend universities in other parts of the UK. They could introduce financial and other incentives to better link education and the labour market. Wales could, for example, develop a pro-active migrant retention scheme to make it more attractive for EU and other international students to stay here to work. This might focus as much on the benefits of living and working in Wales – the people, culture, the physical environment, and the commitment to well-being – as on financial incentives. There could be a similar campaign focused on UK graduates.

Reflections

It will be important to articulate a coherent direction of travel for the economic recovery, to help guide what will be some challenging decisions about which areas of the economy the Welsh Government will support pro-actively.

Decisions about Welsh Government support for education, training and skills will be crucial to support a greener economy that is more resilient and productive while fostering a more equal society. There should be a focus on expanding high value-added manufacturing sectors with both shorter supply chains and higher export orientation. This will require increased investment in skills for green energy, construction and digital sectors, supported by a greater focus on STEM within the education system.

It will also be important to ensure that there is the leadership and institutional capacity and capability needed to deliver the support that Ministers invest in. This may require a careful assessment of the roles and responsibilities of the Welsh Government, UK Government, local authorities, anchor institutions, City Deals, the third sector and the private sector, and the funding available to them will be a crucial issue to get right.

Finally, the Welsh Government should also consider how to make best use of both its 'hard' and 'soft' powers so that it deploys all of the levers available to it, including law making powers and financial incentives but also its convening power and ability to help stimulate and frame thinking about the future Wales that its citizens want.

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Author details

Helen Tilley, Dan Bristow, Craig Johnson, and Manon Roberts – Wales Centre for Public Policy

Our other work on the Coronavirus pandemic

We have conducted a range of projects to provide policy makers and public services with independent evidence on economic and social recovery from the Coronavirus pandemic. In addition to papers prepared for the Expert Group convened by Welsh Government Ministers, we have led a comprehensive assessment of the evidence on Supporting Public Services for the UK Government's initiative on 'Rebuilding a Resilient Britain' led by

Sir Patrick Vallance; published [the conclusions reached by six expert roundtables](#) on recovery from the pandemic; published an analysis of [responses to the Welsh Government's consultation](#) on 'Our Future Wales'; and produced [a series of blogs](#) on key issues including: [loneliness in the lockdown](#), the [implications for the Welsh economy](#), the [importance of a green stimulus to aid recovery](#), and the [future of health and social care](#).

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For further information contact:

Professor Steve Martin


+44 (0)29 2087 5202

steve.martin@wcpp.org.uk

Wales Centre for Public Policy

Cardiff University, 10/12 Museum Place, Cardiff CF10 3BG

 www.wcpp.org.uk

 029 2087 5345

 info@wcpp.org.uk

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