



Arbenigwyr mewn Busnes
Experts in Business

Senedd Cymru / Welsh Parliament
Y Pwyllgor Cyllid / Finance Committee
Cynigion Cyllideb Ddrafft Llywodraeth Cymru
2021-22 / Welsh Government Draft Budget 2021-22
WGDB_21-22 26
FSB Cymru / FSB Wales

FSB Wales written evidence for Draft Budget Scrutiny by Senedd Finance Committee

January 2021

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About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales, with around 10,000 members. It campaigns for a better social, political and economic environment in which to work and do business. With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

We welcome the opportunity to provide evidence to the committee on the draft budget and to contribute to the discussion. We hope this evidence will help provide for a final budget settlement that works for smaller businesses, and that fits within a strong economic development agenda for reconstruction and recovery.

Uncertainty caused by Covid-19

We note that there are significant gaps in this budget, with areas deliberately left open on many of these points due to ongoing uncertainty due to Covid-19 and Brexit.

Events in the months since the Draft Budget's publication have shown that the budgetary landscape could change substantially in the months before the final March budget. We agree that in the circumstances, this approach of keeping many budgetary interventions open is 'prudent'.

We would also raise a wider concern on business support having been dependent on EU funding, and that as this tapers off in the year 2022-23, businesses will need clarity on how this gap will be filled, and on the role of the Shared Prosperity Fund is crucial in this regard. This is particularly so as there will be a new Welsh Government in place with a new five-year programme for government after May 2021, and clarity is needed for any Welsh Government to fulfil its economic development vision and strategy.

The lack of clarity in budgetary allocations on some matters is concerning and points to a need for better intergovernmental processes and engagement. This links to the current debate on whether the new Covid-19 support for Wales is 'new money' or not. For businesses who do not deal in the political intricacies of the quantum of grants in England and how they are then allocated in Wales, such arguments are in danger of undermining trust and confidence in the whole process. As such it is important that governments engage with each other and with the public constructively and in a way that keeps the wider economic and social needs in mind.

We hope some of the longer-term aims we outline below form a basis for depoliticising these aspects and so promote trust, by linking to engagement with business for longer term planning, and the institutional support and Covid discussions that allow this to happen.

Priorities for SMEs

Our main aim is to secure the business support required now so that business can survive the last months of full lockdown, and have capacity and capability to take advantage of any economic bounce that may come.

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This includes support in particular those in need who have slipped through the cracks so far, including company directors, and new businesses.

Following the lockdown over Christmas period – a key period for many traders – businesses start the New Year in an even more precarious position than may have been expected a few months ago.

Some key figures from our UK report ‘A Fighting Chance’, illustrate this in stark terms – and are based on surveys taken in November 2020 (ahead of the current lockdown):

- Small business confidence has been in negative territory for 9 straight quarters.
- Almost half (49%) of small firms believe their revenue will still be down on pre-COVID levels this time next year, while only 29% think it will be up.
- A record one in four (25%) small firms said they reduced headcounts between Q2 and Q3 of 2020. An even higher proportion (29%) expected to make redundancies in Q4 – one in ten (12%) expected to let at least a quarter of their staff go.
- 39% of small firms lack confidence in their longer-term survival (61% are confident their business will survive COVID).
- As a result of the COVID-19 crisis, the proportion of small businesses carrying some form of debt has increased from 56% (pre-COVID) to 69% (post-COVID).
- Of those small businesses carrying debt, the proportion that describe their level of borrowing as ‘unmanageable’ rose from 13% (pre-COVID) to 40% (post-COVID). For those that borrowed for the first time due to COVID-19, this figure rises to 49%.

These businesses need immediate business support for survival, but also the Welsh Government’s vision for economic recovery and reconstruction in terms of SMEs, and the tools for businesses to plan to take advantage of any renewal in 2021.

This can be viewed in the terms the committee suggests of a preventative approach to help maintain resilience to prime businesses for recovery. We must not lose Wales’ innovative businesses of tomorrow by not helping them today.

It is vital that there is a vision for reconstruction and recovery, that is easily understandable for our businesses and providing for greater trust and confident in planning for businesses.

This recovery plan should align with clarity on the wider Covid recovery and reopening plan following a reassessment in spring of the Covid Control Plan for the second quarter of 2021:

- Setting out:
 - different best case and worst case scenarios
 - The Alert Levels that align with the different levels of community risk (as in Winter plan),
 - the measures that trigger different public health policy responses and the linked effect on businesses, including the changing risks to the NHS in moving into spring from winter, and the effect on community risks of vaccination roll out;
- the business support aligning with the tiers of restrictions;



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- providing for clarity on the roles and responsibilities of government, businesses, and individuals as we move from the harshest restrictions.

The publication of at least a draft framework for reopening scenarios in Quarter 2 of 2021 should be available early. This would learn the lessons of 2020 in allowing businesses to plan, allow time to understand and adhere to the guidance, and avoid last minute dash to communicate all the changes to all businesses.

In turn, early engagement will provide for better buy in and understanding when looking at promoting good practice and social norms for businesses. It will also allow for planning. Many businesses need weeks or months to plan in terms of stock, orders, repurposing spaces (including issues such as ventilation etc.). As such, a longer-term communication and business engagement strategy around a scenario-led plan will provide confidence to plan accordingly, which is helpful in terms of building toward reopening, and in terms of employment and readiness to grasp opportunities quickly.

We are aware that there remains considerable uncertainty and it is important for trust that unrealistic expectations are kept at a minimum. This needs to be balanced by the need to allow for a steer for business planning. Scenario setting provides space for businesses to plan for different scenarios for themselves within a common framework, and provides for judgement over an uncertain transition to normality during 2021.

Investment of time and business support in this way provides for capacity and capability building for businesses to prime them for recovery and reconstruction.

It is important that businesses have confidence that the institutional business support of Business Wales and the Development Bank for Wales, which are now a recognisable support infrastructure after being an instrumental part in delivering Covid support in 2020, will continue to be developed and seen as an important priority for government.

For the purposes of long-term certainty on the business support infrastructure we would welcome a public statement of commitment to the future role of Business Wales as a key part of economic development strategy in Wales, reflecting its importance to recovery and reconstruction after Covid-19.

Business Wales will be vital business support infrastructure over the whole of the next Senedd term. We are concerned that the business support budget – and Business Wales with its strong brand and recognisability among SMEs after the Covid-19 support response in particular - will come under increasing threat as EU funding tapers off. We are alarmed that the funding for the 2022-23 for Business Wales could face a cliff edge, at a time that will still be vital for Covid-19 reconstruction and when it is plausible many businesses will remain in a precarious state.

The lack of clarity around the quantum of Welsh Funding under a Shared Prosperity Fund remains, and we would wish to see a strong commitment from both UK and Welsh Government to retaining support for Business Wales over the entire 2021-26 Senedd term.

Recovery and Reconstruction

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The draft budget reference to a 'recovery and reconstruction plan'. We need to see more details on this plan and its vision for business recovery in 2021.

Committing money to the regeneration of Wales' town centres is a vital development, but we must be realistic about the question of whether more money will be needed, and ideas such as our call for a Local Transport Fund should be considered. The funding for foundational economy projects is also welcome, delivering on development of the strategy prior to Covid-19 over this Senedd period. There is clear ambition for decarbonisation in schools and public transport but would ask that Welsh Government extend this ambition beyond the public sector and develop a plan for how they will support businesses to play their part, given the scale and urgency of the need to decarbonise.

We also welcome the commitments to infrastructure, alongside the management of MIM funding by the Development Bank for Wales. The further £5m allocation in the Economy futures Fund is welcome, and we look to further details on how this is to 'work in tandem with the Development Bank of Wales 'offer''. The ongoing additional support to infrastructure plans is welcome.

However, all of these interventions, while important, do not yet cohere to a vision taking into account the impact of the pandemic. We acknowledge that the election will provide for debates that shape the next government's position. Nevertheless, businesses require this vision in looking at our economic prospects after the current lockdown more urgently. We hope that the mooted 'COVID-19 reconstruction and recovery plan' will outline the Welsh Government's vision for how Wales can begin the economic recovery from Coronavirus, and look forward to more detail in this regard. This should also look at the further expansion of the Development Bank's roles, and that of Business Wales, as well as – as mentioned in the draft budget – support to deliver on the new £1.6m Export Plan.

Sectors in particular need

It will come as no surprise that – while many businesses across the board will be in a precarious position after 2020 – a key sector requiring attention is Tourism, Hospitality and Leisure. Given its importance to (in particular) Wales' rural economy and employment, this area should be treated as a key sector and an area that needs targeted support. We called for a Tourism Hibernation Scheme from near the start of the pandemic, and acknowledge that support has been set aside for this sector.

Our points above on business planning are particularly relevant to tourism and hospitality, with winter months providing valuable planning time for high seasons. Ideally, one would hope that Easter (the start of April) will be able to be relatively unrestricted, and so provide the first bounce, and would hope that we can plan for that scenario. However, with 'staycations' being the likely prevalent activity this year, and a likely glut of tourists looking to holiday when restrictions allow from the 2nd Quarter of 2021, we would suggest that providing information early and tools planning for that time – whenever it will occur – would still bear fruit. If it occurs outside school holidays there is still likely to be a substantial demand for UK tourism this year, and Wales' businesses need to be in a position to plan accordingly.



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Other areas of particular concern are those built around creative industries and events, and those freelancers that support them.

There remain too many groups who need more support to weather this storm such as the newly self-employed, those in supply chains and company directors. For example, the support for the recently self-employed was a one-off payment of £2500 in June 2020. The messaging around long-term economic development and recovery, with continued support outside the Covid support through Business Wales is important too in encouraging new start-ups in 2021 during the recovery, with new potential businesses confident that they can thrive in the new environment.

At the time of writing, we are awaiting the next tranche of Economic Resilience Fund, and see this as a vital part of priming for business growth with a focus on businesses looking to expand in 2021.

It is useful to note the preparatory work will happen towards the end of 2021 on NDR revaluations on the tax base. We would note that the impact of Covid-19 may not yet be reflected in property values, and so there is a need to take this into account. For example, the impact on footfall caused by the pandemic, including on high streets, and the longer-term impact on footfall through long-term remote working aims, should also be taken into account. A business rate freeze for the duration of the next Senedd would provide for more certainty for business.

Welsh Budgetary Inflexibility

While there is general uncertainty that is making clarity in budgetary allocations difficult, we would also note that the lack of flexibility in the Welsh budget is also a problem.

It has long been FSB's position that Welsh Government's borrowing powers should be enhanced, and the Covid-19 situation illustrates why this is needed. We have long noted that Wales' debt levels are low and that borrowing powers should be relaxed to allow for infrastructure spending programme. We agree with the draft Budget's commitment to 'push HM Treasury' for 'broader flexibilities...to manage our budget in the most effective way' and increases on 'limits on our access to capital borrowing', as well as 'greater year-end carry forward and drawdown flexibilities within the Welsh reserve'. Covid-19 has illustrated the practical limits these budgetary constraints have on policy making in Wales, and we acknowledge that they place limits on Welsh Government's room for more effective planning.

We would note that the draft budget looks to borrow the maximum level, and to take out of reserves the uppermost limit.

While we would look for Welsh Government to use consequential in Covid business support to support business in need now, the lack of ability to carry over any unspent money is not conducive to a virus that takes no account of budgetary dates, and is not particularly useful in terms of fiscal responsibility in promoting a budgetary maximisation approach.

Conclusion

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The next few months ahead of the final Budget are a vital period in providing resource, space and frameworks to allow businesses to plan for the year ahead. It is vital that the final Budget provides for the reassurance that SMEs form a key part of the vision for recovery and reconstruction, and we expect to see the final budget provide for the institutional support and vision to ensure that the SME sector can 'build back better'.

It is also incumbent on all parties in the Senedd seeking to become or form part of the new Welsh Government in May to set out their vision for business recovery, and contribute to a constructive debate on the best road to prosperity as we look to a better year for business in 2021. This should also include a strong commitment to the business support infrastructure which will be particularly crucial over the next Senedd term.

We hope that this evidence will help form part of that ongoing discussion and is of use to the Committee's scrutiny.