

Cyflwynwyd yr ymateb i ymgynghoriad y [Pwyllgor Cyllid](#) ar [Cyllideb Ddrafft Llywodraeth Cymru 2024-25](#).

This response was submitted to the [Finance Committee](#) consultation on the [Welsh Government Draft Budget 2024-25](#).

WGDB_24-25 45: Ymateb gan: Ffederasiwn y Busnesau Bach (Saesneg yn unig) |
Response from: Federation of Small Businesses (FSB) (English Only)



Welsh Government Draft Budget Proposals for 2024-25

Senedd Finance Committee Consultation Response

FSB Wales

November 2023

1. What, in your opinion, has been the impact of the Welsh Government’s 2023-2024 Budget, including funding related to the recovery of the pandemic? Have Welsh Government business support policies been effective, given the economic outlook for 2024-25?

Welsh businesses and the Welsh economy had to navigate and survive the challenges of the Covid-19 pandemic only to be faced with the significant pressures arising from the cost-of-doing business/ cost-of-living living crisis. This has left many SMEs in survival mode, unable to think about innovation or future investment, and in a constant state of firefighting. While Welsh and UK Government interventions to ease these burdens has been helpful, the removal of this support before businesses and the economy had fully recovered has left many SMEs struggling this year. Recent high inflation has reduced consumer spending while significantly increasing input costs for business, especially but not exclusively in energy. Consequential increases in the base rate has also led to an increased cost of borrowing which slows business investment in machinery, new and green technologies, staff, and premises. This has particularly impacted Welsh high streets and the tourism, leisure, and hospitality sector.

Following discussions FSB Wales had with the Finance Minister and Cabinet colleagues, the extension of Small Business Rates Relief for many businesses within these sectors was used to help ease pressures in these key sectors. This was a crucial intervention that was welcomed by FSB Wales and SMEs across Wales. It provided some much-needed certainty for small businesses in an otherwise uncertain time.

Despite these various challenges, Welsh businesses have displayed notable resilience. Our ongoing research, reflected in numerous interviews conducted for our recent skills report¹, underscores the strong desire and commitment among SMEs to expand in the coming year. Although the ability to substantially increase employment is presently limited, we anticipate that businesses, recognising the essential role of their current employees, will make every effort to retain them over the next 12 months.

2. How should/could the Welsh Government support the economy and business following the pandemic, Brexit and inflationary and other economic pressures? – How financially prepared is your organisation for the 2024-25

¹ <https://www.fsb.org.uk/resource-report/a-skills-led-economy-for-wales.html>

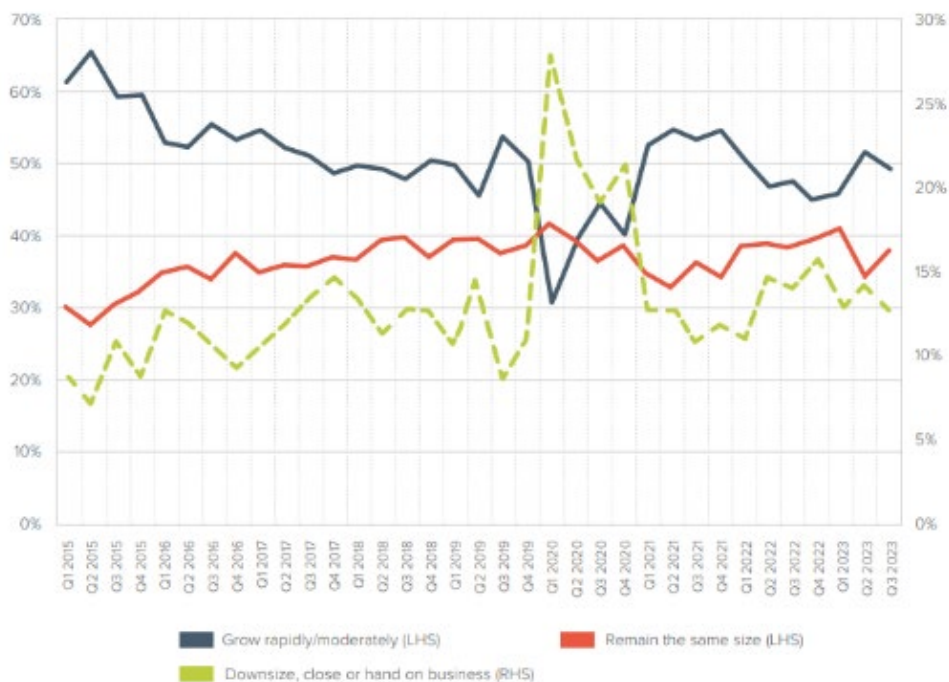
financial year, how will inflation impact on your ability to deliver planned objectives, and how robust is your ability to plan for future years?

FSB have recently published our Small Business Index Report² for Q3 2023. While small business confidence did regain some ground between Q2 and Q3 2023, it is still in negative territory for the sixth quarter in a row. This suggests that many small businesses in Wales and across the UK will not find themselves in a position to plan for growth and will be vulnerable to various changes in different Government’s policies and increasing costs. This is supported by the fact that our research found that 53% of small business found the availability and affordability of new finance as poor. The economic landscape is not one that is allowing for or supporting small business growth.

In Q3, the net balance of small businesses reporting an increase in their operating costs rose to 83.5%. This marked a return to a rising share of businesses reporting cost increases. Utilities continues to be the most commonly cited source of changing business costs. Financing also remains a notable source of cost pressure, with nearly a fifth (19.8%) citing this as a source of changing business costs in Q3. Interest rates remain elevated which has impacted borrowing costs for businesses.

The share of small businesses expecting to grow over the coming year has decreased slightly to 49.6% in Q3, following a 51.3% majority in Q2. This marked a return to a situation where only a minority of SMEs expect to grow over the next 12 months. The domestic economy was the most frequently cited potential barrier to businesses expecting to grow over the next 12 months. This suggests the economic landscape is altering the growth objectives and business plans of SMEs. It is because of this that we feel it is

Figure 12: Growth aspirations for next twelve months
Source: FSB - Verve 'Voice of Small Business' Panel Survey



essential that Welsh Government deploys the consequential funding from the UK

² <https://www.fsb.org.uk/resource-report/small-business-index-quarter-3-2023.html>

Government Autumn Statement and utilises their business rate lever to create headroom, space, and time for SMEs so they can have enough certainty to create a business plan, deliver upon that business plan, and create growth. FSB Wales are calling for Welsh Government to freeze the small business rates multiplier and extend the 75% business rates relief for the most affected sectors. Welsh Government can also help foster growth and recovery via skills and business support in the medium term by committing to continued funding for Business Wales and improving SME voice and engagement in higher education, further education, and the skills system.

Notably, the confidence of businesses in the accommodation and food services, followed by wholesale and retail, was lowest when small business confidence was broken down by sector (at -31.1 and -22.9 respectively). This is why we are asking Welsh Government to further extend the 75% rates relief for businesses in retail, leisure, and hospitality, which will also provide parity with those small businesses in England following the Autumn Statement.

Retail, hospitality and leisure businesses are among the most impacted by constrained consumer spending but are essential for the recovery of our high streets and local communities. Retail sales volumes in October this year were at their lowest level since Covid lockdowns in February 2021 causing concerns about the festive trading period so vital to these businesses.³ Using business rate interventions will help protect businesses during this challenging economic climate and foster viability in our high streets – which will be immensely valuable in Wales’ more deprived communities and rural areas. Business rates are consistently cited by small businesses as one of their greatest barriers and serves as a disincentive to setting up and developing physical premises – taxing businesses before they have made their first pound of profit. Extending the current level of relief and freezing the multiplier is a key part of ensuring future viability of these businesses and seems consistent to reinforcing and helping re-grow the retail sector, a sector highlighted as important in Welsh Government’s own Retail Action Plan.

We are alarmed at recent reports about a potential significant reduction in funding available for apprenticeships in Wales outlined in a letter from Colleges Wales and NTFW (National Training Federation for Wales)⁴. There is no doubt that a 24.5% cut in funding will have a significant impact on delivery among providers on which small businesses depend. At the time of writing, there is lack of clarity as to how this cut is so at odds with what had previously been communicated to providers and could dent confidence among smaller businesses as to future provision. Given that skills are a core element of Welsh Government’s recent Economic Mission, it is essential that skills are properly funded to realise this aim.

While we recognise there are significant pressures on Welsh Government’s budget, FSB Wales believe it is important that a clear narrative is communicated around business and sustainable economic growth, and Welsh Government’s intent in policy and resources support this.

³ <https://www.ft.com/content/c90b297e-258b-4c54-a4d4-94d42648d553>

⁴ <https://www.business-live.co.uk/economic-development/number-new-apprentices-wales-facing-28188789>

3. What action should the Welsh Government take to help households cope with inflation and cost of living issues? – How should the Budget address the needs of people living in urban, post-industrial and rural communities and in supporting economies within those communities?

While other organisations may be better placed to fully answer this, FSB Wales would like to emphasise that the recovery and regrowth of our economy and communities depends on the recovery and regrowth of smaller businesses across Wales. It is crucial to note that SMEs constitute 99.3% of enterprises across Wales, 62.9% of total employment, and 42.% of turnover.⁵ Individual businesses are eager to achieve stability and growth in the next 12 months. However, the realisation of this stability hinges on the decisions made by the governments in Westminster and Wales.

4. Are Welsh Government plans to build a greener economy clear and sufficiently ambitious? Do you think there is enough investment being targeted at tackling the climate change and nature emergency? Are there any potential skill gaps that need to be addressed to achieve these plans?

FSB Wales believes that there may be further scope to use targeted business rates relief to help drive Welsh Government's mission to move towards net zero. Providing relief to those businesses which invest in sustainable operations within their business may encourage other businesses to follow suit, incentivise this behaviour, and further drive net-zero ambitions. This, alongside finance avenues, such as Development Bank of Wales' Green Investment Fund, helps to de-risk sustainable operational changes and incentives more sustainable practices.

Net-zero skills are still missing in the Welsh economy to sufficiently achieve Welsh Government targets, both for employees and employers. There is an appetite among SMEs for the move to net-zero. We know from previous FSB research, that 73% of small businesses in Wales believe that they have a responsibility to become more sustainable⁶, so providing the right economic incentives will help this responsibility become a reality. Many businesses don't know where to start. Carbon auditing, for example, is one skill that many SMEs struggle with.

Funding and support for schemes like Green Digital Academy⁷, running in north Wales, will be critical to support SMEs to move to net-zero. Businesses are keen on net-zero, not only for the sake of the environment but to help them economise, which has become especially prominent given current issues around costs, specifically energy costs. This makes it a perfect time for Welsh Government to push support in this area using both of these motivators in tandem. However, there is a key distinction to note here between businesses who are doing well and are keen on net-zero, who have the space, ability and capacity to think about net zero with a lack of other pressures compared to many other businesses for whom this is somewhat on the back burner. A lot of businesses do not have the ability to prioritise net-zero measures currently due to the economic landscape – they're in survival

⁵ <https://www.gov.wales/sites/default/files/statistics-and-research/2023-06/size-analysis-businesses-2022-655.pdf>

⁶ <https://www.fsb.org.uk/resource-report/what-we-value.html>

⁷ <https://www.gllm.ac.uk/busnes/projects/green-digital-academy>

mode – supporting them to grow and recover will also allow them the room to contribute towards net zero.

We know that employers are also struggling to find net-zero skills in the workforce. Welsh Government has to make sure they are anticipating future skills requirements for harnessing new economic opportunities during the transition to a net-zero economy. This will ensure that Welsh businesses and their workforce can adapt and flourish the future, harnessing the opportunities and not just absorbing the costs. Our recent skills report found that many small businesses in Wales are currently grappling with a mismatch between the skills in the education system and business needs, which will be especially prevalent in net-zero skills due to ongoing, changing, and complex needs/demands.

Welsh Government's Green Investment Fund delivered through the Development Bank of Wales is a positive and welcome intervention providing funding for measures which decarbonise property, product or process.

Finally, FSB Wales is concerned that messaging and engagement around environmental policy changes is not comprehensive, far-reaching, or accessible enough. Given there has been a lot of movement in this area (such as the UK Government plastic tax, deposit return scheme, waste and recycling separation, and the single-use plastics ban), and this had differed in the UK constituent countries which will lead to further complexity in messaging and compliance. Micro businesses and the self-employed should be considered 'hard to reach' in communications, which leaves them at risk of non-compliance through ignorance. Despite the majority of SMEs in Wales acknowledging their responsibility to be more sustainable, FSB Wales research found that only 25% felt they knew enough about Welsh Government policy on the environment to know how it will impact their business.⁸

5. Is the Welsh Government using the financial mechanisms available to it around borrowing and taxation effectively?

As previously mentioned, FSB Wales believes Welsh Government could use business rates to better support small businesses and the Welsh economy, and to incentivise green growth.

The freezing of the small business rates multiplier is a crucial demand to provide much-needed certainty for small and medium-sized enterprises (SMEs) in Wales. Business rates are consistently identified as significant barriers for small businesses, often acting as a disincentive for establishing and developing physical premises. By freezing the multiplier, the Welsh Government can alleviate financial burdens on SMEs, allowing them the headroom, space, and time necessary to create robust business plans and foster growth. Freezing the multiplier sends a clear signal of support and confidence in key sectors. It ensures that businesses are not taxed disproportionately, especially during challenging economic climates. SMEs, being the backbone of the economy, will benefit from this measure, enabling them to focus on generating profits and contributing to economic recovery. This demand reflects the need for proactive government intervention to create a favourable environment for sustainable business growth in Wales.

⁸ <https://www.fsb.org.uk/resource-report/what-we-value.html>

Extending the 75% rates relief for businesses in the hospitality, tourism, and leisure sector is a targeted and essential demand to address the unique challenges faced by these industries. The accommodation and food services sector, in particular, has demonstrated the lowest confidence, with constrained consumer spending and concerns about the festive trading period and utility costs, providing additional rates relief is a strategic move to support the recovery of these vital sectors. These businesses play a crucial role in the revitalisation of high streets and local communities. The extension of rates relief aligns with the goal of fostering viability in these sectors.

Finally, the introduction and continued use of schemes such as the energy efficiency, renewable energy, electric vehicle charging points plant and machinery, and microgeneration rates relief will help support those businesses who are trying to be more sustainable and provide incentives to those who are yet to make changes.

6. The Committee would like to focus on a number of other specific areas in the scrutiny of the Budget. Do you have any specific comments on any of the areas identified below?

a. Is enough being done to tackle the rising costs of living and support those people living in relative income poverty? – How could the budget further address gender inequality in areas such as healthcare, skills and employment?

In FSB Wales' most recent skills report, we had a few businesses in the STEM sector identify challenges with careers information, advice and guidance, and presumed gender roles. If young people from oppressed groups are facing bias in their education, these biases will reproduce in later in employment. It is clear that despite activity in recent years, more needs to be done to increase the visibility of women entrepreneurial role models for young women in education – which could be done as part of wider engagement SMEs in further and higher education and the general skills system.

We also know that when it comes to business support and access the finance, the breakdown on data by gender is interesting. A slightly higher percentage of women have accessed Business Wales than men (79% to 75%) but there is a significantly lower percentage of women (51%) who are aware of Development Bank of Wales as compared to men (70%). This finding fits with wider evidence that women have less knowledge of and access to finance than male business owners. It is also reflected by the fact that in our survey a lower proportion of women (26%) say they are like to access finance than men (37%). Ensuring that Business Wales is sufficiently funded and safeguarded will be crucial to supporting women and minority groups in business. This needs to be complemented by improving access to finance. Women need to be aware of the full range of finance options available to them, including alternative sources.

To improve on this, Welsh Government-supported enterprise development programmes undertaken by the Development Bank of Wales could be equality impact assessed, to review the impact on protected characteristics at the budgeting, design, implementation, monitoring and evaluation stages. The Development Bank of Wales should assess the availability of finance for women entrepreneurs and ensure there are no unnecessary restrictions to the awarding of finance. This should include access to its own funding and

financing mechanisms, but also assessment of the gender gaps in the wider funding environment (including the big banks).

b. Is the Welsh Government’s approach to preventative spending represented in resource allocations (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early).

FSB Wales would like to note that investing in Business Wales or providing business rates relief will help the rebuild our economy and improve the medium and long-term health of the economy. We recognise that there are budget constraints but spending in the economy now will have long term gains in terms of revenue and multiplier effects socially.

The recovery and regrowth of our economy and communities in Wales requires strong local and small businesses across Wales. It is important to remember that SMEs constitute 99.3% of enterprises across Wales, 62.9% of total employment, and 42.0% of turnover, as mentioned previously.⁹ Small businesses employ local people, who spend their money locally - the stability and health of Wales’ economy and communities are intricately tied to the prosperity of SMEs. It is important to remember that decisions made by governments in Cardiff Bay and in Westminster now, will impact the longer term growth of the economy, revenue collection, and the success of local communities.

c. How should the Welsh Government explain its funding decisions, including how its spending contributes to addressing policy issues? How can the documentation provided by the Welsh Government alongside its Draft Budget be improved?

While we recognise the difficult choices faced by Welsh Government currently, it is important to be clear about the impact of these decisions. Any loss of resource in budgets to protect and reinforce or grow the Welsh economy will inevitably be felt by businesses at what is a delicate and precarious moment for our economy. Welsh Government needs to explain clearly the choices it makes and what it chooses not to do. This also includes adjusting targets or policy aims where these are affected.

As already mentioned, awareness on policy decisions needs to be improved generally, but particularly on net-zero and environmental policies. SMEs have to be considered ‘hard to reach’ and if policy is to be effective, larger, more comprehensive, and innovative campaigns are needed. SMEs have limited financial and human resources so won’t have the time necessary to keep always be aware of new and upcoming policy, especially the detail of policy and how it may or may not affect them. Small businesses owners often wear multiple hats and are time poor, which means that complex policy, processes, bureaucracy, and paperwork is disproportionately burdensome on them. To build trust in government and achieve better compliance (where relevant), reaching out to SMEs is crucial. In some cases, SMEs, particularly in rural areas or certain industries, may not be fully integrated on digital platforms which can limit the effectiveness of online communications and outreach. While we acknowledge that FSB has a role in helping

⁹ <https://www.gov.wales/sites/default/files/statistics-and-research/2023-06/size-analysis-businesses-2022-655.pdf>

businesses understand policy, we cannot advocate policy to all small businesses and Welsh Government needs to fund outreach campaigns appropriately to fill this gap.

d. How should the Welsh Government prioritise its resources to tackle NHS waiting lists for planned and non-urgent NHS treatments. Do you think the Welsh Government has a robust plan to address this issue? – Is the Welsh Government providing adequate support to the public sector to enable it to be innovative and forward looking through things like workforce planning.

N/A

e. Has there been adequate investment from the Welsh Government in basic public sector infrastructure. Is there enough infrastructure investment targeted at young people?

Improving transport infrastructure in Wales should play a key part in any economic mission. Currently transport infrastructure in Wales is holding back the Welsh economy, limiting the ability of moving product or labour force around Wales, limiting where businesses can establish themselves, and hindering supply chains.

Small businesses are overwhelming reliant on roads, with our surveys regularly showing that 9 in 10 UK SMEs place a high value on the road network.¹⁰ Small businesses have a necessary dependence on road-based transport so reliable, well-maintained, road infrastructure across the whole of Wales should be a key concern. As already mentioned, rural businesses are especially likely to rely on roads as they often report little or no access to public transport links like rail or buses. 78% of goods in the UK are transported by road, whereas only 13% are moved by water and 9% by rail. As such, congestion, poorly maintained local roads and a lack of regional strategic transport planning pose a significant barrier to economic growth.

There is a danger that sequencing of transport policy has begun from emphasis on disincentives to car use without detail and credible plan for funding wider public transport, and so without the guarantee of a viable alternative. Chronic under-investment over decades means that the scale of change needed is challenging at the time when revenues from fuel duty will fall, and during financial squeeze.

Train infrastructure has historically been underfunded in Wales with 11% of the rail networks and just over 1% of the rail enhancements in the years leading to 2018. Unlike Scotland and Northern Ireland, Wales has not gained any additional spending through Barnett consequentials following the development of HS2 and the Northern Powerhouse Rail project although we await clarification of the detail of investment in the North Wales mainline which if realised in full, will be welcome.

The recent reduction in bus grants and the current position of buses do not provide confidence that viable alternatives are being put in place, with bus services in danger of becoming a 'skeleton' service'. Evidence from the Confederation of Passenger Transport (CPT) said that Welsh bus patronage is about 30-35% below pre-pandemic levels. The Campaign for Better Transport (CBT) putting local bus and rail use is 75-80% of pre-

¹⁰ <https://www.fsb.org.uk/resource-report/different-routes-same-destination.html>

pandemic levels. It is therefore a matter of urgency that a clear plan of financing and linking together the investment and pricing of modes of transport be put in place to ensure confidence in connectivity in the future.

f. How is evidence and data driving Welsh Government priority-setting and budget allocations, and is this approach clear?

N/A

g. Is the support provided by the Welsh Government for third sector organisations, which face increased demand for services as a consequence of the cost of living crisis and the pandemic, sufficient?

N/A

h. What are the key opportunities for the Welsh Government to invest in supporting an economy and public services that better deliver against the well-being goals in the Wellbeing of Future Generations Act?

Welsh Government has to ensure that our economy and the economic mission still has an economic development focus, but we do need to move away from the idea of job creation being the ultimate measure. For example, when measuring the skills and capacity, looking at the overall creation of apprenticeships is not an effective measure. We need to be looking at the distribution of skills and capacity – how do we know SMEs are accessing the skills they need? Where are apprenticeships prevalent? Another potential measure that could be useful for determining the success of the economic mission and the health of our economy is ‘missing middle charting’. How many businesses are moving up through different bands of employees over time?

With regards to the national milestones and national wellbeing indicators, while goals for 2050 are useful high-level goals, we would suggest that milestones must also provide a sense of greater urgency and that there needs to be more short-term and medium goal milestones. This will help creating ‘living’ aims. FSB Wales doesn’t believe that the indicators adequately take into account the economy or economic development, in particular when looking at milestones towards a ‘prosperous Wales’. The argument around sustainable development articulated through the Well-being of Future Generations framework is about how different policy strands are mutually reinforcing. This is a good general principle.

However, we are concerned that without placing an emphasis that place the economic as foundational base that are key for success within wider outcomes that well-being and prosperity in Wales will not be captured properly by the milestones and indicators, and moreover that it will skew policy attention away from the foundational aspect of sustainable economic development as reinforcing wider well-being outcomes. We would suggest more measures that have a renewed emphasis on economic development and developing sustainable businesses for local communities, given that SMEs account for the vast majority of businesses in Wales. The following could be considered:

- Number of businesses with a HQ in Wales



Federation of Small Businesses
Ffederasiwn y Busnesau Bach

- Early exit and succession planning – is there a steady stream of business growth without change of ownership?
- Human Development Index – increase in score and where Wales sits in the table by 2050

Having measures that track interventions well provides value for money. FSB Wales has some concerns that the Economic Mission lacks measurement. Where the mission is measured, this is against the well-being goals which aren't particularly well understood by the businesses community nor do they track well against the economy. This will make understanding the success of the mission more difficult.