



FIN(4) FF01
Ymateb gan Ffederasiwn Busnesau Bach
Response From The Federation of Small Businesses

National Assembly for Wales Finance Committee Consultation into Future Funding FSB Wales

FSB Wales welcomes the opportunity to present its views to the National Assembly for Wales Finance Committee consultation into Future Funding. FSB Wales is the authoritative voice of businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with business at a grassroots level. It undertakes regular online surveys of its members as well as a biennial membership survey on a wide range of issues and concerns facing small business.

The overwhelming majority of businesses in Wales are micro or small businesses, which account for 98% of all businesses in Wales and provide a significant proportion of employment¹. Accounting for such an important element of the Welsh economy, small businesses have a major stake in the future funding of, and the devolution of fiscal powers to, Wales. FSB Wales believes these issues are important as they offer the key mechanisms and levers to support the development of stronger and more resilient economies across Wales.

Future Funding for Wales

FSB Wales broadly welcomes moves to strengthen the accountability and empowerment of the Welsh Government and the National Assembly for Wales through the provision of measures designed to increase fiscal autonomy. We welcomed the publication of the Holtham and Silk Reports as they provided positive and constructive proposals to increase the economic levers and financial resources available to Wales. We were pleased to provide our own detailed evidence to the Commission on Devolution². Our responses to the Commission, and those presented here, are based on extensive consultation with our members across Wales.

For our members the growth and development of the Welsh economy is critical to the future prosperity of Wales, and it is important to realise that the devolution of powers and the allocation of resources to Wales is important as a means to achieve this end. Therefore, the ultimate test for any decisions concerning future funding and devolution of powers is whether they are likely to assist in the development of Wales' economy, and in particular strengthening the resilience of local economies across Wales. A stronger and more distributed economy, based on supporting the development of small businesses across Wales, is of paramount importance as it is the means to achieve stronger and more sustainable communities across Wales.

Previous work undertaken by the FSB with CLES (the Centre for Local Economic Strategies) showed that small local firms re-spend 63p locally out of every £1, whereas larger firms tend to spend 40p out of every £1. The FSB-CLES research found that across the UK small local firms generate 58%

¹ Welsh Government (2011). *Size Analysis of Welsh Businesses*.

² FSB Wales (2012). Response to the Commission on Devolution in Wales

<http://www.fsb.org.uk/policy/rpu/wales/images/final%20fsb%20wales%20silk%20commission%20part%202.pdf>

FSB Wales(2013). Commission on Devolution in Wales: Part 2

<http://www.fsb.org.uk/policy/rpu/wales/images/submission%20to%20part%201%20of%20commission%20on%20devolution%20final.pdf>



more economic benefit for local economies over two rounds of re-spend than large firms did.³ Therefore, supporting the development of small businesses, and by extension the strength of Wales' local economies, presents an important opportunity to derive sustainable funding for Welsh Government via increased tax returns resulting from increased economic activity.

Reserved Powers

FSB Wales supports the introduction of a further Government of Wales Act to provide a lasting settlement for Wales' governance, and we believe that this should include a move to an expression of powers on the reserved model. This would provide an important opportunity to end the ambiguity over competency that has resulted in regular disagreements between the UK and Welsh Governments that have resulted from the Welsh model of executive devolution. The devolution of business rates has been one such area of ambiguity and this adds damaging uncertainty for Welsh businesses and the Welsh economy more generally. This lack of clarity and the existence of disagreement has led to potentially poorer outcomes for Welsh businesses, particularly where this has been subject to legal challenge, which is also costly and time consuming. For these reasons we welcomed the announcements in the recent Queen's Speech.

We also believe that powers over transport should be rationalised to provide greater clarity over what the Welsh Government is able to do, and this should include the transfer of transport powers to Wales to ensure a strategic approach can be taken towards transport planning in Wales. We note the recent Queen's Speech contained proposals to transfer bus regulation to Wales, but are concerned that further powers over rail are not proposed. We believe this is a missed opportunity as transport is a significant economic lever and it should be available to Wales.

Devolved Taxation

As the voice of small businesses in Wales, FSB Wales is mainly concerned with business taxation. We welcomed the recent decision to devolve Landfill Tax and Stamp Duty Land Tax to Wales, and the Welsh Government's proposals concerning the creation of a Welsh Revenue Authority. We have previously provided evidence on these taxes and the proposed Welsh Revenue Authority to the National Assembly for Wales Finance Committee's inquiry into the collection of devolved taxes⁴.

On the devolution of further taxation powers to Wales, FSB Wales has a measured view in relation to the devolution of corporation tax and would call for the inclusion of appropriate checks and balances to ensure that any measure could only be used to increase the competitiveness of small businesses in Wales. We are also concerned that any increase in corporation tax above that set in England could have a detrimental effect on the Welsh economy. Furthermore, lowering the rate to attract inward investment might seem to be an attractive option, but in itself it is a rather crude approach and broader approaches such as raising skills levels are far more likely to have a lasting impact on strengthening the Welsh economy. Reductions of corporation tax would have little impact on small businesses in Wales, as they are less likely to be incorporated.

³ FSB and CLES (2013). *Local Procurement: Making the Most of Small Businesses, One Year On*.

⁴ FSB Wales (2015). *The Collection and Management of Devolved Taxes in Wales*.



Borrowing Powers

Whereas we would welcome the devolution of the taxation powers identified above as a longer-term and more sustainable funding option for Wales, which also provides additional economic levers, the devolution of borrowing powers for capital projects is of less immediate concern to small businesses in Wales. FSB Wales believes that major infrastructural projects should be paid for as a specific capital investment by the UK Government. We also remain concerned that there is a danger that too much of the available funding could be swallowed up by projects such as the Welsh Government-preferred 'Black route' option for the proposed M4 relief road, leaving little for vital infrastructure investment in other parts of Wales to assist in the development of Wales' distributed local economies. The repayment of the borrowing would also reduce the available funding for more sustainable forms of business and infrastructural investment.

Fair Funding

The FSB supports the Holtham Commission findings that fair funding for Wales should be on the basis of relative need. As the move to a needs-based formula would likely take some time to achieve, however, we also support the Commission's suggestion of the more immediate implementation of a 'Barnett floor' as an interim measure to increase funding for Wales. The reform of the Barnett formula is important only insofar that it may increase the available funding to develop the Welsh economy.

In research we undertook with our members to inform our response to the Silk Commission, our members favoured the devolution of fiscal powers to Wales as a means of stimulating economic growth. This is not without qualification, and FSB Wales believes that the underlying incentive for the greater devolution of fiscal powers to Wales should be that Welsh Government must improve the conditions for economic growth as well as a renewed focus on ensuring value for money. We also found that our members believed that any increase in Welsh Government's powers should be matched in the National Assembly for Wales' powers in any areas that are not reserved, so as to ensure accountability and legislative competence.

In that respect, although reform of the Barnett formula may lead to a short-term funding boost for Wales, which should be utilised to support the development of the Welsh economy, the longer-term solution will be for Wales to have an increasing ability to control its own fiscal powers and economic destiny by the economic levers available.



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The Federation of Small Businesses Wales

The FSB Wales is non-profit making and non-party political. The Federation of Small Businesses is the UK's largest campaigning pressure group promoting and protecting the interests of the self-employed and owners of small firms. Formed in 1974, it now has 200,000 members across 33 regions and 194 branches. FSB Wales currently has around 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees meaning FSB Wales is in constant contact with small businesses at a grassroots level in Wales.

Lobbying

From the Press and Parliamentary Affairs Office in Cardiff, FSB Wales campaigns with AMs, MPs and MEPs in Cardiff Bay, Westminster and Brussels in order to promote our members' interests. FSB Wales also works closely with local, regional and national media outlets to highlight our members' concerns. Development Managers work alongside members in our regions to further FSB Wales influence at a regional level. More widely, the FSB has Press and Parliamentary Offices in Westminster, Glasgow, Belfast and Brussels to lobby the respective Governments.

Member Benefits

In addition, Member Services is committed to delivering a wide range of high quality, good value business services to members of the FSB. These services will be subject to continuing review and will represent a positive enhancement to the benefit of membership of the Leading Business organisation in the UK.

Vision

A community that recognises, values and adequately rewards the endeavours of those who are self employed and small business owners within the UK.

The Federation of Small Businesses is the trading name of the National Federation of Self Employed and Small Businesses Limited. Our registered office is Sir Frank Whittle Way, Blackpool Business Park, Blackpool, Lancashire, FY4 2FE. Our company number is 1263540 and our Data Protection Act registration number is Z7356876. We are a non-profit making organisation and we have registered with the Information Commissioner on a voluntary basis.