



Arbenigwyr mewn Busnes
Experts in Business

Y Pwyllgor Cyllid | Finance Committee

Cyllideb Ddrafft Llywodraeth Cymru 2020-21 | Welsh Government Draft Budget 2020-21

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FSB Wales

Welsh Government Budget 2020/21

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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.

Summary of Recommendations

General Spending

- FSB Wales would like to see a Future of Welsh Towns fund of around £33m instigated. The fund would allow individual towns to put together bids to support change in the face of the three megatrends identified in our work.
- Welsh Government should commit to at least maintaining and preferably increasing funding for Business Wales post-Brexit.
- Welsh Government should introduce a Rural Challenge Fund, to help rural economies to innovate and diversify.
- Increase funding to support SMEs engage in apprenticeships to stem the recent percentage decline in SMEs undertaking apprenticeships.

Infrastructure

- Welsh Government should explore the use of MIMs and embark on an 'infrastructure stimulus package' to step up our investment in our nation's assets.
- As part of its infrastructure strategy, Welsh Government should develop a local transport fund. This would be given to regional authorities and should be at least £100m.
- Welsh Government should fund market interventions similar in scale and ambition to Superfast Cymru to ensure Wales is at the forefront of digital connectivity.
- A number of firms will look to adopt EVs in the next 5-10 years. At present, the cost of electric vehicles and the lack of charging infrastructure are key barriers. The UK and Welsh governments must address both of these if it is to decarbonise personal transport.

Taxation

- Welsh Government should focus on growing the tax base in Wales as the best means to raise revenue for spending commitments.
- Protect last year's £26m High Street rates relief package making it clear that the proposal for this relief is over the longer term.
- Set out Welsh Government's ambitions with regards to the revaluation cycle, specifically whether it intends to move to a 3 yearly process as is happening in Scotland and England
- Ensure legitimate holiday letting businesses are not adversely impacted by any changes to the 70 day occupation rule for self-catering accommodation.
- We would recommend no significant change to the rates (for WRIT and LTT) and the lower bands (for LTT).
- Welsh Government should commit to using any devolution of Air Passenger Duty in order to support further routes from Cardiff Airport.



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Introduction

Welsh Government Budget 2020/21

FSB Wales welcomes the opportunity to inform the Finance Committee's scrutiny of the Welsh Government budget proposals for 2020/21. We recognise the difficulty in scrutinising the budget before it is published and without a significant amount of certainty around the comprehensive spending review. As such, the comments made within this response are more general principles and approaches that we believe should be examined in the budget.

Feedback on the 2019/20 Budget

FSB Wales made a detailed submission to the Finance Committee and directly to the Minister for Finance prior to the finalisation of the 2019/20 budget. We were pleased to see a number of key commitments within or deriving from the budget including:

- Setting the Welsh Rates of Income Tax at 10p
- Maintaining the 1 per cent lower band with the Land Transaction Tax for non-domestic properties between £150,000 and £250,000
- An increased spending commitment, linked to the publication of the Economic Action Plan
- £26m in non-domestic rates relief to support high street businesses.
- Research being undertaken by the Development Bank of Wales' Economic Intelligence Unit into the Missing Middle of Wales' SME population
- The £10m investment of Clwyd Pension Fund in the Development Bank of Wales' Management Succession Fund

Despite these positive interventions, there are a number of areas that have yet to be addressed and should be seen as issues of priority for the 2020/21 budget.

Taxation

There are now 5 taxes that are operating under the control of Welsh Government, all of which are relevant to SMEs. FSB Wales has been involved in the Welsh Government's Tax Advisory Group (TAG) and appreciate the approach of subsequent ministers and the Welsh Treasury in involving us in the decision making process through TAG and regular Tax Forums.

As a general rule, **FSB Wales believes one of the best ways for Welsh Government to raise revenue is to increase the vitality of the tax base in Wales.** For that reason, we believe Welsh Government should prioritise policy measures aimed at increasing employment rates and wage growth. We believe successful SMEs can be a key mechanism for delivering this growth.

Welsh Rates of Income Tax (WRIT) and Land Transaction Tax (LTT)

In general, FSB Wales sees two significant risk factors that will impact on tax decisions in the coming period.

The first relates to the fact that recently devolved taxes, most notably income tax, is currently reliant on forecast rather than outturn data. Experience in Scotland suggests that there are risks



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here with a significant shortfall between expecting forecasts and actual revenue raised.¹ Whilst the Welsh Government has less exposure to this risk owing to income tax being a shared tax in Wales, it is nonetheless a cause for reasonable caution.

Secondly, the impact of Brexit on public finances is difficult to ascertain. The OBR estimates that a no-deal scenario could lead to a recession with a 2 per cent reduction in Real GDP by the end of 2020. They highlight income tax as particularly vulnerable, but also note a potential reduction of up to 13 per cent in house prices with 20 per cent fewer transactions. This means LTT and WRIT are both subject to uncertainty in terms of receipts, particularly if there are UK 'regional' variations in economic performance.

For this reason, we would recommend no significant change to the rates (for WRIT and LTT) and the bands (for LTT) in the coming Welsh Government budget.

Non-Domestic Rates

Welsh Government currently has a programme underway to develop medium-term proposals for reform of non-domestic rates. Whilst we are closely engaged in this process and welcome it, we believe there is a need for shorter term action to improve the nature of the tax. In the next budget, Welsh Government should:

- **Continue with last year's £26m High Street relief package making it clear that the proposal for this relief is over the longer term.**
- **Set out its ambitions with regards to the revaluation cycle, specifically whether it intends to move to a 3 yearly process as is happening in Scotland and England**
- **Ensure legitimate holiday letting businesses are not adversely impacted by any changes to the 70 day occupation rule for self-catering accommodation.**

Air Passenger Duty

FSB Wales continues to support the devolution of Air Passenger Duty to Wales. We note that the recent cross-party Welsh Affairs Committee report has strengthened the evidence for this change.²

However, FSB Wales also believes **Welsh Government should make a firm commitment to using the tax once devolved to support the growth of Cardiff Airport.** In doing this, Welsh Government should consider the implications for the environment in light of its decarbonisation strategy.

New Taxes

The Welsh Government should set out a clear timeline for the consideration of new taxes. In particular this would be useful for the Vacant Land Tax, which is likely to be the first introduced.

¹ <https://www.bbc.co.uk/news/uk-scotland-scotland-business-49032245>

² <https://www.parliament.uk/business/committees/committees-a-z/commons-select/welsh-affairs-committee/news-parliament-2017/apd-wales-report-published-17-19/>



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FSB Wales does not believe now is the time to introduce a tourism tax in Wales. We would suggest the Welsh Government consults with the sector to better understand the impact of VAT on tourism businesses, learning from the review in Northern Ireland.

Spending

FSB Wales would like to see the following areas priorities for spending by the Welsh Government as it considers its budget.

Future of Welsh Towns Fund

In our recent work on the future of Welsh Towns, we found that there was a significant lack of capacity in towns across Wales to help shape their future against social, demographic and consumer change. **We would like to see a Future of Welsh Towns fund instigated. The fund would allow individual towns to put together bids to support change in the face of the three megatrends identified in our work.** These trends are; changing demography and ageing towns, the shift towards internet shopping and digital innovation and a shift in focus towards city regions.

Originally we suggested that this could be a Barnett equivalent of the funding in England for their 'High Streets Fund'. This would be around £33m over five years. In light of recent consequentials suggested under the UK Government's 1 year spending review, we would urge Welsh Government to be more ambitious in this area.

Rural Economies

In our report, *A Taskforce for Rural Economies* we highlighted the pressures currently facing small firms in rural areas from the developing 'city region' agenda and uncertainties around Brexit. In particular, policies such as LEADER and the broader RDP have built up momentum over time that risks being lost through the transition period.³ Our proposal was to convene as taskforce to examine the role of rural economies in the Welsh Government's broader economic strategy and to institute a 'rural challenge fund' that would continue and enhance programmes such as LEADER post-Brexit.

This would be an open fund designed to attract new ideas and new thinking for economic development in rural areas. The emphasis would be on allowing rural areas to design their own projects and interventions in a number of areas in order to further economic development.

Welsh Government should introduce a Rural Challenge Fund, to help rural economies to innovate.

Apprenticeships

FSB Wales is concerned that the proportion of apprenticeships taking place with SMEs has been declining over recent years. We know from previous data that 56 per cent of Wales' apprentices were placed with an SME during 2016/17, showing how SMEs are committed to the apprenticeship pathway to employment. Unfortunately, this figure has declined by 2 per cent per

³ FSB Wales. 2017. *A Taskforce for Rural Economies* [Online]. Available at: https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb_taskforce_for_rural_economy.pdf?sfvrsn=0



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year over the last few years. As such, **we would like to see funding to support SMEs engage in apprenticeships increased to stem this change.**

Business Wales

As we approach our exit from the European Union, the future of European Funds will become a significant factor in the nature of the business support environment. In our report, *Supporting Success: Business Support Beyond 2020* we made a persuasive case for investment in Business Wales and the Development Bank as a cost effective means of supporting job creation and economic growth. This has been accepted by Welsh Government during evidence presented to the Public Accounts Committee on business support recently.⁴

Welsh Government should commit to at least maintaining and preferably increasing funding for Business Wales post-Brexit.

Development Bank of Wales

FSB Wales has worked closely with the Development Bank of Wales, particularly as it looks to develop its product offering over the coming years. We are pleased the Bank is examining the Missing Middle of firms through its Economic Intelligence Wales. We are particularly interested in any products to help deliver patient capital and succession finance, both issues that emerged strongly in our work.

Should these elements require further funding to make them a reality, we would hope Welsh Government would allow for this provision in its budget.

Infrastructure Investment

Infrastructure investment is vital in many areas to make day-to-day business easier for SMEs. We have recently published a detailed report on this issue, titled [Are We There Yet? A Roadmap to Better Infrastructure for Wales](#).

The report makes a number of recommendations for Welsh and UK governments and the National Infrastructure Commission for Wales. Many of these recommendations relate to governance issues around infrastructure which at present are weak and patchy. In relation to budgetary asks the following are proposed:

- **Welsh Government should use MIMs to embark on an 'infrastructure stimulus package' to step up our investment in our nation's assets.** Currently Wales has limited exposure to debt financing. As a result, there is scope for the use of MIMs and general borrowing powers to provide an infrastructure stimulus package. The Development Bank of Wales' expertise should be harnessed to coordinate and develop infrastructure asset packages for investors to fit a wider Welsh infrastructure strategy.
- **As part of its infrastructure strategy, Welsh Government should develop a local transport fund. This would be given to regional authorities and should be at least £100m.** This is in response to a preference amongst SMEs for investment in local infrastructure as opposed to national infrastructure.

⁴ Public Accounts Committee, 24th June 2019. Available at: <http://record.assembly.wales/Committee/5458> (accessed 13th August 2019).



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- **Welsh Government should fund market interventions similar in scale and ambition to Superfast Cymru to ensure Wales is at the forefront of digital connectivity.** This would recognise that market rollout is often behind the curve in Wales and would use the template of Superfast Cymru to encourage earlier development of issues such as 5G and other technologies.
- **A number of firms will look to adopt EVs in the next 5-10 years. At present, the cost of electric vehicles and the lack of charging infrastructure are key barriers. The UK and Welsh governments must address both of these if it is to decarbonise personal transport.**

Given the M4 Relief Road is no longer being pursued, we would call for Welsh Government to act quickly to implement the recommendations of the Commission on the M4 corridor being led by Lord Burns. Should this include further investments in either the South Wales Metro or road enhancements, then this should be seen as a matter of priority. Likewise, in North Wales the third Menai Crossing should be pursued as a priority.

Over the longer term, clarity is needed on the National Infrastructure Commission's timelines for producing a 30 year infrastructure plan. We would like to see funding for infrastructure increased to meet the ambitions of a 30 year plan, once developed.