Agenda - Finance Committee

Meeting Venue: **Hybrid - Committee room 4 Tŷ Hywel and video conference via Zoom**	For further information contact:
Meeting date: 20 November 2025	**Owain Roberts**
Meeting time: 09.30	Committee Clerk
	0300 200 6565
	SeneddFinance@senedd.wales

Registration

(09.00 - 09.15)

Private pre-meeting

(09.15 - 09.30)

1 Introduction, apologies, substitutions and declarations of interest

(09.30)

2 Paper(s) to note

(09.30)

2.1 PTN 1 - Letter from the Cabinet Secretary for Economy, Energy and Planning: Local Growth Fund - 7 November 2025

(Pages 1 - 2)

2.2 PTN 2 - Letter from the Deputy First Minister and Cabinet Secretary for Climate Change and Rural Affairs: Independent Intergovernmental Relations (IGR) Secretariat Annual reports for 2022-23 and 2023-24 - 11 November 2025

(Page 3)

2.3 PTN 3 - Letter from the Welsh NHS Confederation - Scrutiny of the Welsh Government Draft Budget 2026-27: Inflationary pressures - 11 November 2025

(Pages 4 - 5)

Senedd Cymru
Welsh Parliament

2.4 PTN 4 – Letter from the Welsh Local Government Association (WLGA) – Scrutiny of the Welsh Government Draft Budget 2026-27: Inflationary pressures – 12 November 2025

(Pages 6 – 7)

2.5 PTN 5 – Senedd Commission response to the Finance Committee's report on the Senedd Commission Budget 2026-27 – 11 November 2025

(Pages 8 – 14)

3 Welsh Government Draft Budget 2026-27: Evidence session 6

(09.30 -10.30) (Pages 15 – 48)

Professor Melanie Jones, Academic Lead, Wales Productivity Forum

Professor Arnab Bhattacharjee, Regional Modelling and Microsimulation, National Institute of Economic and Social Research

Break

(10.30 – 10.45)

4 Welsh Government Draft Budget 2026-27: Evidence session 7

(10.45 – 11.45) (Pages 49 – 124)

Marc Strathie, Devolved senior policy advisor, Institute of Directors

Josh Miles, Head of Wales, Federation of Small Businesses (FSB) Wales

Sara Jones, Head of the Welsh Retail Consortium

5 Motion under Standing Order 17.42 (ix) to resolve to exclude the public from items 6, 7, 8 and 10

(11.45)

6 Welsh Government Draft Budget 2026-27: Consideration of evidence

(11.45 – 12.00)

7 Public Services Ombudsman for Wales – Annual Report and Accounts 2024-25, and Estimate 2026-27: Consideration of draft report

(12.00 – 12.15) (Pages 125 – 153)

8 Annual scrutiny of the Wales Audit Office and the Auditor General for Wales: Consideration of draft report

(12.15 - 12.30) (Pages 154 - 194)

Break

(12.30 - 13.00)

9 Financial implications of the Senedd Cymru (Member Accountability and Elections) Bill: Evidence session

(13.00 - 14.00) (Pages 195 - 213)

Julie James MS, Counsel General and Minister for Delivery

Ryan Price, Head of Senedd Policy, Welsh Government

Will Whiteley, Deputy Director, Senedd Reform, Welsh Government

Supporting documents

Senedd Cymru (Member Accountability and Elections) Bill, as introduced (PDF, 1.3MB)

Explanatory Memorandum (PDF, 1.3MB)

10 Financial implications of the Senedd Cymru (Member Accountability and Elections) Bill: Consideration of evidence

(14.00 - 14.15)

Rebecca Evans AS/MS
Cabinet Secretary for Economy, Energy and Planning
Ysgrifennydd y Cabinet dros yr Economi, Ynni a Chynllunio

Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref

Peredur Owen Griffiths MS
Chair
Finance Committee

7th November 2025

Dear Peredur,

Following confirmation of the UK Government restoring devolved responsibility over post-EU funding, I am writing to inform you, as Chair of the Finance Committee, that the Welsh Government will be launching a six-week consultation on our proposals for a new Local Growth Fund in Wales today.

The consultation document, which will be published here, reflects our key objectives for this funding – raising productivity and tackling economic inequalities – which align with the UK Government's growth mission and UK Industrial Strategy and the Welsh Government's *Economic Mission*.

It also reflects the emerging evidence from our socio-economic analysis of the economy and labour market and our previous work on regional economic development with Welsh partners, including the 2020 Framework for Regional Investment in Wales, our work with the OECD, and lessons learned from legacy EU and UK funds.

I welcome the work your committee has previously done in this area, which we have considered in developing our proposals. I am pleased the approach we have agreed with the UK Government and set out in this consultation addresses many of the issues you raised in your October 2022 report. For example, there is now clarity over the role of the Welsh Government which will allow us to maximise the impact of investment and ensure a greater focus on growth. With decisions returning to the Welsh Government, we can adopt a more collaborative approach to this funding, including with local government as trusted partners.

The consultation document includes a selection of potential objectives which can contribute to our ambitions to increase productivity growth and tackle economic inequalities. The funding levels will mean a need for careful prioritisation within these if we are to see measurable impacts.

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The consultation also seeks views on the delivery of this Fund, including national, regional, and local delivery approaches.

This month my officials will be holding four regional events to discuss our proposals with Welsh partners. The Regional Investment Steering Group chaired by Carolyn Thomas MS will also directly inform the development of proposals and we will continue to work closely with our trusted partners in local government to manage the transition from current funding streams.

I would be happy to meet with the Committee to discuss the consultation or the development of the new Local Growth Fund as work progresses over the coming months.

I will also keep the Senedd updated on developments.

Yours sincerely,

Rebecca Evans.

Rebecca Evans AS/MS
Cabinet Secretary for Economy, Energy and Planning
Ysgrifennydd y Cabinet dros yr Economi, Ynni a Chynllunio

Huw Irranca-Davies AS/MS
Y Dirprwy Brif Weinidog ac Ysgrifennydd y Cabinet dros Newid Hinsawdd a Materion Gwledig
Deputy First Minister and Cabinet Secretary for Climate Change and Rural Affairs

Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: HID-PO-575-25

Mike Hedges MS
Chair
Legislation, Justice and Constitution Committee
Senedd Cymru

11 November 2025

Dear Mike,

I am writing to inform you that the Independent Intergovernmental Relations (IGR) Secretariat has now published its annual reports covering the periods 2022–2023 and 2023–2024. These reports have been prepared using existing published information drawn from supporting documents; published Communiqués and quarterly transparency reporting on the gov.uk web pages. As these are independent reports, we have reviewed them solely for factual accuracy. These reports can be accessed here.

As previously notified, the Welsh Government previously published its own IGR Overview reports covering the same periods, in line with the Inter-Institutional Relations Agreement as laid before the Senedd on 18 November 2021. These reports can be accessed here.

I have copied this letter to the Chairs of the following Senedd Committees: Children, Young People and Education; Climate Change, Environment, and Infrastructure; Culture, Communications, Welsh Language, Sport, and International Relations; Economy, Trade and Rural Affairs; Equality and Social Justice; Finance; Health and Social Care; and Local Government and Housing.

Yours sincerely,

Huw Irranca-Davies AS/MS
Y Dirprwy Brif Weinidog ac Ysgrifennydd y Cabinet dros Newid Hinsawdd a Materion Gwledig
Deputy First Minister and Cabinet Secretary for Climate Change and Rural Affairs

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gohebu yn Gymraeg yn arwain at oedi.

Welsh NHS Confederation
Conffederasiwn GIG Cymru

Date
11/11/2025

For the attention of
Peredur Owen Griffiths MS, Chair of the Finance Committee
Senedd Cymru,
Cardiff Bay,
CF99 1SN

Dear Peredur,

Scrutiny of the Welsh Government Draft Budget 2026-27: Inflationary pressures

We're writing to the Senedd Finance Committee following your letter dated the 30 October requesting further information from the Welsh NHS Confederation around the impact of inflation on the cost of delivering NHS services in 2026-27.

Following engagement with our members, NHS leaders in Wales, we have been informed that at this stage of the financial year it is very difficult to specifically quantify the impact of inflation on the cost of delivering NHS services next year on an individual NHS organisation or at an all-Wales level.

Each Health Board will commence the financial planning process at different times, but the overall deadline for the submission is set by Welsh Government. Part of the financial planning process will be quantifying the impact of inflation on the cost of delivering NHS services into the new financial year. This assessment is then run through the internal governance processes of each Health Board and is then formally submitted as part of the wider Integrated Medium Term Plan (IMTP) for each NHS organisation at the end of March.

Within the finance community (Executive Directors of Finance/ Assistant Directors of Finance etc) they undertake a 'check and challenge review' of other Health Board's assumptions, through the sharing of key information regarding growth and inflation. This element of the process is normally undertaken during January, to allow time for all Health Boards and other NHS Wales organisations to undertake the initial work on assessing the financial impact for the next financial year (2026-27).

Until all organisations have completed this, it would be difficult to provide a robust assessment of the impact of inflation and growth on the cost of delivering NHS services in Wales in 2026-27.

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There is currently a high-level review being undertaken, but this is only to support discussions on the challenges ahead for NHS Wales and not a detailed assessment of all aspects of a Financial Plan.

Whilst NHS Wales will be assessing the impact of inflation/growth, this will be produced to meet the requirements of the IMTP as per the 2026-27 Planning Guidance and would not be available from all organisations at the moment.

I hope the information is useful for the Senedd Finance Committee and the work that you are undertaking in scrutinising the Welsh Government Draft Budget 2026-27.

Yours sincerely,

Nesta Lloyd-Jones

Nesta Lloyd – Jones

Assistant Director,

Welsh NHS Confederation

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2.4

Dr Chris Llewelyn
Prif Weithredwr / Chief Executive

Cymdeithas Llywodraeth Leol Cymru
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Ein Cyf / Our Ref: Leaders/Senedd

Dyddiad / Date: 12 November 2025

Gofynnwch am / Please ask for: Jon Rae

[redacted]

Peredur Owen Griffiths MS
Chair of Finance Committee
Senedd Cymru / Welsh Parliament
Bae Caerdydd,
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By email

Dear Peredur,

Scrutiny of the Welsh Government Draft Budget 2026-27: Inflationary pressures

Thank you for your letter of 30 October about the evidence we have submitted to support your scrutiny of the Welsh Government Budget. You have raised three issues that require further clarification.

You correctly identify the cost pressures in the next financial year as £560m and we have said that this is 6.6% of budgeted expenditure[1]. This captures the totality of local government inflation which can be broken down into 4 elements, pay inflation, non-pay inflation, commissioning and demand. Stripping out demand would leave £328m as a standstill pressure, which is approximately 4% of budgeted expenditure. The appendix to the evince paper, on pages 26 and 27, breaks down all inflationary

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[1] A £560m pressure would require an increase of 9.2% of aggregate external finance (AEF) and an increase of £328m would require an increase of 5.4%.

elements in some detail.

Your second bullet is linked to the first in that CPI, the consumer price index, is not an adequate measure of local service inflation. It is a measure of household inflation for a basket of goods and services. That said, projections are used by councils for financial planning purposes, but a large proportion of our inflation is linked to pay which was settled at 3.2% for this year and we are awaiting the unions pay claim for 2026-27. Some inflationary assumptions, for example for commissioned social care can be quite high and we've seen figures as high as 10% used in previous years.

Your final question on alternative metrics has probably been addressed but just to reiterate, the OBR's forecast of CPI is probably as good a measure as any for non-pay inflation. The alternative inflationary metrics are the ones we have presented. They are the most appropriate for local services and are derived from the medium-terms financial plans of councils.

In summary local service inflation tends to be driven by specific demand and pay inflation that is much higher than forecast CPI. As we said in our recent letter to Senedd political group leaders, a rollover budget would be extremely challenging for local services, set against the backdrop of our own financial pressures.

Yours sincerely,

Councillor Andrew Morgan OBE
WLGA Leader

Senedd Cymru
Welsh Parliament

Peredur Owen Griffiths AS
Chair of Finance Committee
Welsh Parliament
Tŷ Hywel, Cardiff Bay
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11 November 2025

Dear Peredur

Thank you for your Committee's **Report on the Scrutiny of the Senedd Commission Draft Budget 2026-27**, published on 20 October 2025. The Commission's response to the Finance Committee's recommendations is detailed in **Annex A.**

I am pleased that the majority of the Committee supports the overall request for resources in 2026-27. As in previous years, the Commission intends to provide as much transparency as possible over budget-setting and management; as is the case in the current financial year, the Senedd Reform and Ways of Working Programme budgets will be managed as separately identifiable ringfenced areas of spend.

I welcome the opportunity to provide further information on some of the key areas within the Commission's Draft Budget, including our use of AI, how we are planning for and will manage the potential financial pressures in the Seventh Senedd and how we intend to evidence value for money and drive efficiencies.

I would like to thank the Committee for its scrutiny. I look forward to the debate on the Commission Budget motion on the 19 November. If there is any further information your Committee would like to have, please do not hesitate to let me know.

Yours sincerely

Elin Jones

Elin Jones MS
cc Manon Antoniazzi, Ed Williams

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English

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Annex A – Finance Committee Conclusion and Recommendations

Recommendation 1. The Committee notes the 'Senedd Commission Draft Budget 2026-27' and, by majority, recommends the Senedd supports this budget, subject to the comments and recommendations in this report.

Noted.

Recommendation 2. The Committee recommends that the Senedd Commission provides further detail on its efficiency planning processes and explains how this will demonstrate ongoing efficiency and value for money

Accepted.

The Commission welcomes the Committee's recommendation and is pleased to provide further detail on its approach to efficiency planning. At each stage of our financial and operational planning cycles, we have embedded systematic measures to identify and realise efficiencies. This ensures that resources are directed towards areas where they will have the most significant impact, all while upholding the high standards of service expected by Members and stakeholders.

Our Medium Term Resourcing Framework serves as an early indicator of potential financial pressures and establishes the principle that funding for 'manageable growth' will not be assumed. In line with the Committee's expectations, we are committed to managing emerging cost pressures within the existing funding envelope wherever possible. This approach reinforces an efficiency-driven culture and aligns with the Finance Committee's emphasis on prudent financial management.

The Commission remains dedicated to a process of continuous improvement, encouraging staff to seek innovative ways of working and to make use of digital solutions where appropriate. Efficiency is viewed as an ongoing objective, underpinned by clear lines of accountability and regular reporting to monitor progress. These arrangements enable the Commission to demonstrate value for money and provide assurance to the Committee that robust mechanisms are in place to manage public funds responsibly during a period of heightened demand and financial constraint.

Recommendation 3. The Committee recommends that the Senedd Commission engages in discussions with the Business Committee to consider ways in which the costs of supporting additional parliamentary business in the Seventh Senedd, beyond that costed in the Draft Budget, is estimated before decisions are taken.

Accepted.

Commission officials routinely provide comprehensive advice to the Business Committee at the start of each Senedd term to inform decisions around the organisation of parliamentary business, such as the development of the business timetable and committee structures. This process is iterative, with further advice offered as the Business Committee's preferred options are identified. However, to date the Business Committee is not routinely advised of the cost implications to the Commission budget of undertaking additional work. The Commission is responsible for providing the resource required by the Senedd to operate.

The Commission will ensure that where possible, the resource implications of such decisions are made explicit, particularly in cases where the demand on resources may exceed the allocations set out in the 2026-27 Commission budget.

A similar approach will be followed in relation to ongoing work by the Business Committee and other relevant groups, including the Chairs' Forum. For example, the Business Committee's review of procedural matters may result in additional demands on Commission resources in the Seventh Senedd, and these will be clearly communicated as part of our ongoing engagement and advice.

Recommendation 4. The Committee recommends that the Senedd Commission develops robust contingency plans to ensure financial and organisational resilience for the Seventh Senedd should it receive a smaller percentage of funding in the event of its Final Budget not being agreed, either as a standalone budget under Standing Order 20.16 or as part of the Annual Budget Motion under Standing Order 20.26.

Accepted.

The Commission acknowledges the Committee's recommendation regarding the need for robust contingency planning in the event that the required budget is not secured through the motions under Standing Order 20.16 or Standing Order 20.26. Should either motion not be approved, the funding available to the Commission would be reduced accordingly.

In anticipation of such an outcome, the Commission has begun to assess the potential implications of not receiving the full requested funding. As discussed during the scrutiny session, if the Commission were required to operate on 75% and subsequently 95% of the 2025-26 budget total for 2026-27, this would present a significant financial challenge, particularly in delivering services to Members in the first year of the Seventh Senedd.

The anticipated increase in the number of Members is estimated to result in an additional cost of approximately £13 million in pay and allowances. This represents the principal factor behind a potential funding gap of around £22 million. Such a shortfall could not be managed by simply reallocating resources, as the majority of the Commission's budget is committed to staff costs and contractual payments. Any reduction in these areas would likely incur further costs, such as redundancy payments or early termination penalties, thus intensifying budgetary pressures and significantly limiting the resources available to support the Parliament at the outset of the new Senedd.

If the Senedd were in this position, the budget would run out after month 9. This would mean an inability to pay staff, contractors, Members and their Support Staff from this point.

There are areas of the budget which are non-contractual against which expenditure could be stopped from 1 April 2026, however, as well as having a significantly detrimental effect on the experience of

Members and the services the Commission is able to provide, such changes would also make little impact on the retrieving the shortfall.

The primary method of recourse would be to attempt to secure the funding via supplementary budget motions following the election to close or remove the gap.

Recommendation 5. The Committee recommends that the Senedd Commission provides an update on the Bay 32 project in early 2026, including any budgetary impacts and continues to attend public evidence sessions on the project, as requested.

Accepted.

Recommendation 6. The Committee recommends that the Senedd Commission:

- **clarifies the impact that changes in assumptions regarding the lease for Tŷ Hywel would have on its 2025-26 and 2026-27 budgets by budget line and in total in resource and cash terms;**
- **explains how changing the assumption would result in a capital receipt to the Welsh Consolidated Fund; and**
- **engages the Welsh Government about the impact of this potential change.**

IFRS16 requires most leases to be shown on the Balance Sheet. The Lease Liability is 'valued' using known future cash flows i.e. rent, discounted to today's value. The Right of Use asset is usually the same value as the liability representing the benefit the organisation will have.

When IFRS16 was first introduced in the Commission accounts, although the lease on Ty Hywel ends in 2032, due to the proximity requirement of the Commission in regard to the Senedd building, it was originally anticipated that the Ty Hywel lease would be rolled-over; it was therefore valued on a 30 year basis.

Since then, the Bay 32 project has, in the current financial year, delivered a competitive process to secure accommodation for the Commission post-2032. This process has demonstrated that simply rolling-over the existing lease would not necessarily satisfy the accommodation requirements of the Commission nor provide best value for money to the taxpayer; there are, it is now clear, alternative options that may provide better value.

As long as the Bay 32 procurement process successfully concludes with a new Development Agreement, the existing lease will come to an end in 2032. The Right of Use Asset and Lease Liability will therefore need to be re-valued to recognise this change. It is considered a capital gain because it's conceptually like changing the purchase price of the asset.

For 2026-27 the overall resource requirement would reduce to recognise the capital receipt, but the revenue requirement within that total would remain the same. There would need to be corresponding adjustments to the amounts included for Depreciation and Interest charges as well reflecting the updated lease term. The Commission has already set out its expectations in terms of capital expenditure for the year so would not anticipate utilising any of this receipt.

There are regular Joint Assurance Board meetings with officials from both the Commission and Welsh Government to discuss the progress of the project as well as the funding and financial implications. Welsh Government are aware of the potential capital adjustment for 2026-27 and will include it in their financial planning for the year such that the resource can be reallocated appropriately. Although in the short term, there will be a benefit to the public purse from this revaluation, the start of a new lease will create capital expenditure and a corresponding request for capital funding in the relevant financial year (likely to be 2032-2033 but subject to confirmation)

Recommendation 7. The Committee recommends that the Senedd Commission provides an update as soon as pay negotiations for 2026–27 are concluded, including details of how this will be funded and its budgetary impact on the organisation as a whole.

The pay offer outlined in the Explanatory Memorandum represents the final position from the Management Side. Accordingly, no further negotiations are anticipated, and the budget as presented has been prepared to fund the pay award as proposed.

Recommendation 8. The Committee recommends that the Senedd Commission continues to explore the use of emerging technologies, such as Artificial Intelligence, while ensuring strong governance, data security, and responsiveness to the evolving needs and expectations of Members in the next Senedd, and provides details of the progress being taken in these areas prior to dissolution.

Accepted.

The Commission is progressing a structured, risk-managed approach to its use of AI. Governance is led by an AI Governance Group and supported by a draft AI Policy, a Data Protection Impact Assessment (DPIA) for Copilot and Teams Premium, and alignment with the National Cyber Security Centre's Cyber Assessment Framework. Controls include retention limits, transparency measures for AI-assisted content, and regular risk reviews.

To meet Members' needs, we are piloting Microsoft Copilot and Teams Premium with Members and their support staff, issuing practical guidance, and gathering feedback against productivity, accessibility and wellbeing goals. Before dissolution, the Commission will provide an update covering the finalised AI Policy, pilot outcomes, data protection and security assurances, refreshed Member guidance, and next-step options for the Seventh Senedd.

Recommendation 9. The Committee supports continued investment in cybersecurity and recommends that the Senedd Commission provides further details to the Committee on contingency arrangements in this area

Accepted.

The Commission operates a layered resilience model to detect, respond and recover from cyber incidents. Key features include 24/7 monitoring and incident response; resilient infrastructure and recovery; risk-based controls aligned to recognised frameworks; user and supplier safeguards; and ongoing assurance through the Commissions Audit and Risk Assurance Committee (ARAC).

A dedicated Security Operations Centre operates 24/7 providing constant monitoring and a rapid response to threats. Resilience is further reinforced through a secondary data centre at Ty Hywel, ensuring critical services can fail over in the event of disruption.

All controls are risk-based and where possible aligned with the UK National Cyber Strategy and Cyber Essentials, supported by business continuity plans that include clear escalation routes, isolation protocols, and secure backup strategies.

User safeguards are strengthened through updated ICT security conditions and training, while procurement processes embed security requirements to help to protect the supply chain.

Assurance is maintained through quarterly reporting to ARAC, tracking blocked threats and recovery readiness, with recent data showing significant volumes of malicious activity successfully intercepted.

These measures collectively ensure that the Senedd remains resilient, responsive, and prepared to sustain core operations despite evolving cyber risks.

Recommendation 10. The Committee recommends that the Senedd Commission evaluates the outcomes of its social media monitoring pilot and consider options for mainstreaming support for Members, their staff and Commission officials, including relevant training, subject to the findings of the pilot and its effectiveness in addressing online harms, and provides an update to the Committee in early 2026.

Accepted.

A progress update can be provided to the Committee in early 2026, noting that the pilot will not have concluded at that point. The full evaluation is expected to take place in Spring / Summer 2026, once the pilot has concluded. The Commission will consider the outcomes of that evaluation at that time, and agree next steps, including in relation to engagement with all relevant stakeholders as is deemed necessary.

The primary aim of the social media monitoring pilot is to enhance the safety and wellbeing of Members, their staff, and Senedd Commission officials by proactively identifying and addressing incidents of online harm. By leveraging advanced monitoring tools, the pilot seeks to provide timely alerts and intelligence on emerging threats, abusive content, or coordinated disinformation campaigns that could impact the parliamentary community. This approach is grounded in supporting the Commission’s commitment to safeguarding its people, ensuring they are equipped to respond appropriately to digital risks, and maintaining a secure environment for public service.

Recommendation 11. The Committee recommends that the Senedd Commission provides further information on any assessments it has conducted in relation to the benefits or otherwise of insourcing services before in early 2026.

Accepted.

The Commission gave detailed consideration, earlier this year, to a Stage 1 Scoping report relating to issues arising (cost, risk, governance, benefits etc.) from a scenario under which the Commission's catering, cleaning, broadcast/AV and facilities management services, currently provided through external contracts, are brought in-house.

The Commission noted both the current capacity pressures arising from the delivery of two major change programmes (Senedd Reform and Ways of Working) and the significant complexity of the insourcing work, and gave in-principle approval to the outline insourcing strategy. The procurement timeline for these existing contracts has been adjusted to ensure that the Commission will be able, if it so chooses, to progress this work, as quickly as practicable, from the start of the 7th Senedd.

Recommendation 12. The Committee recommends that the Senedd Commission notifies the Committee as soon as plans regarding the Pierhead building are published

Accepted.

The Commission will liaise proactively with the Committee further once it has considered and agreed a plan for the longer-term future use of the Pierhead building. A market engagement exercise will be undertaken in the interim period, to assess the opportunities for commercial interest (within the framework of the Senedd's requirements for the use of the building), to help shape the development of that longer-term plan.

Cyflwynwyd yr ymateb i ymgynghoriad y Pwyllgor Cyllid ar Cyllideb Ddrafft Llywodraeth Cymru 2025-26.

This response was submitted to the Finance Committee consultation on the Welsh Government Draft Budget 2025-26.

WGDB_26-27 14: Ymateb gan: Fforwm Cynhyrchiant Cymru | Response from: Wales Productivity Forum

The Finance Committee, Welsh Government's Draft Budget 2026-27, September 2025

Written evidence submitted by:
Professor Melanie Jones, Cardiff University [redacted]

I am providing a response on behalf of the Wales Productivity Forum of the Economic and Social Research Council (ESRC) funded Productivity Institute (TPI).[1] I am a Professor of Economics at Cardiff Business School, and I write in my capacity as academic lead for the Wales Forum, which is one of eight regional forums of TPI. The Wales Forum is led by Cardiff University, but members bring expertise from academic, policy, business and public sector backgrounds. Our aim is to support the implementation of research insights, including those developed by the TPI, into the design of practical interventions for policy and business practice to raise productivity in Wales. More information is available at: Wales Productivity Forum - The Productivity Institute.

In January 2025 the forum released an insights paper Wales' Productivity Challenge: A Focus on the Future which sets out the scale and nature of Wales' productivity challenge, its importance for future wellbeing of the population and the practical steps that need to be taken to address it. This evidence draws on the findings of the paper which are most pertinent to the Call for Evidence, particularly relating to the fiscal consequences of low productivity in Wales.[2] It is, however, important to recognise the critical importance of the wider context. The Welsh Economy is not only deeply embedded within the broader UK economy, but the majority of Welsh Government funding comes from a block grant from the UK Government based on UK taxation revenue. Wales' fiscal position has therefore been heavily influenced by the UK productivity puzzle, that is, the slow down in productivity growth in the UK since the start of the 2008 financial crisis. This has constrained UK economic growth and worsened the UK fiscal position.

We argue that productivity growth provides a route to improve long-term fiscal sustainability and that policy attention and short-term public investment is required to support this.

1. What is Wales' productivity challenge?

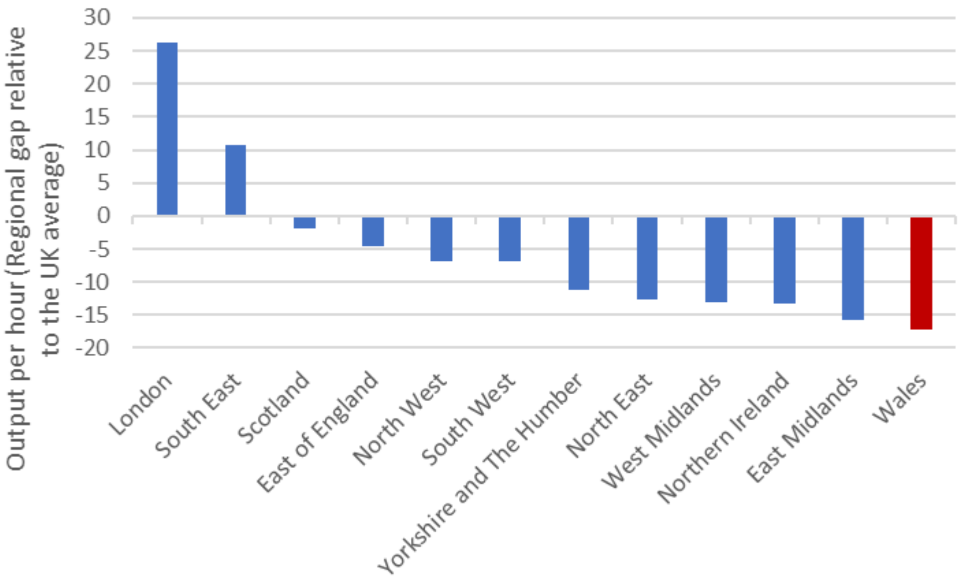
Economic growth is driven either by increasing the quantity of inputs, for example, in terms of employment rates or hours worked, or raising productivity of given inputs. The latter can be thought of as increasing the value of goods and services produced with existing inputs. At a national level, productivity is typically measured in terms of Gross Value Added (GVA) per worker or per hour worked, where GVA is the additional value of goods and services produced relative to the value of materials. At least until the pandemic the employment rate in Wales converged towards the UK average. Despite this, Wales' relatively low economic output persisted. An important part of the explanation lies in Wales' weak productivity growth.

Wales' productivity challenge can be separated into three elements. First, Wales shares the UK's 'productivity puzzle', the slowdown in productivity growth since the 2008 financial crisis. Second, Wales' productivity is significantly below the UK average (about 17% below) and has shown little signs of convergence over time.[3] Indeed, productivity in Wales is currently the lowest of all UK regions

[1] See The Productivity Institute (grant number ES/V002740/1).
[2] The paper, and therefore this evidence, develops ideas discussed at the Wales Productivity Forum and I am grateful to all members for sharing their expertise. I am also grateful to Professor Max Munday and Dr Fari Aftab for comments on an earlier version of this submission.
[3] Indeed, between 2019 and 2022, productivity in Wales actually fell while the rest of the UK grew slightly.

(see Figure 1 below). Third, there is variation in productivity *within* Wales, with productivity in areas such as Powys, Gwynedd and Conwy and Denbighshire among the lowest in the UK.[4]

Figure 1. Regional Productivity Gaps in 2022



Notes: Source: Replicated from Jones (2024) (Figure 1). Relative output per hour by UK region. Source: ONS (2024a): Regional and subregional labour productivity, UK - Office for National Statistics.

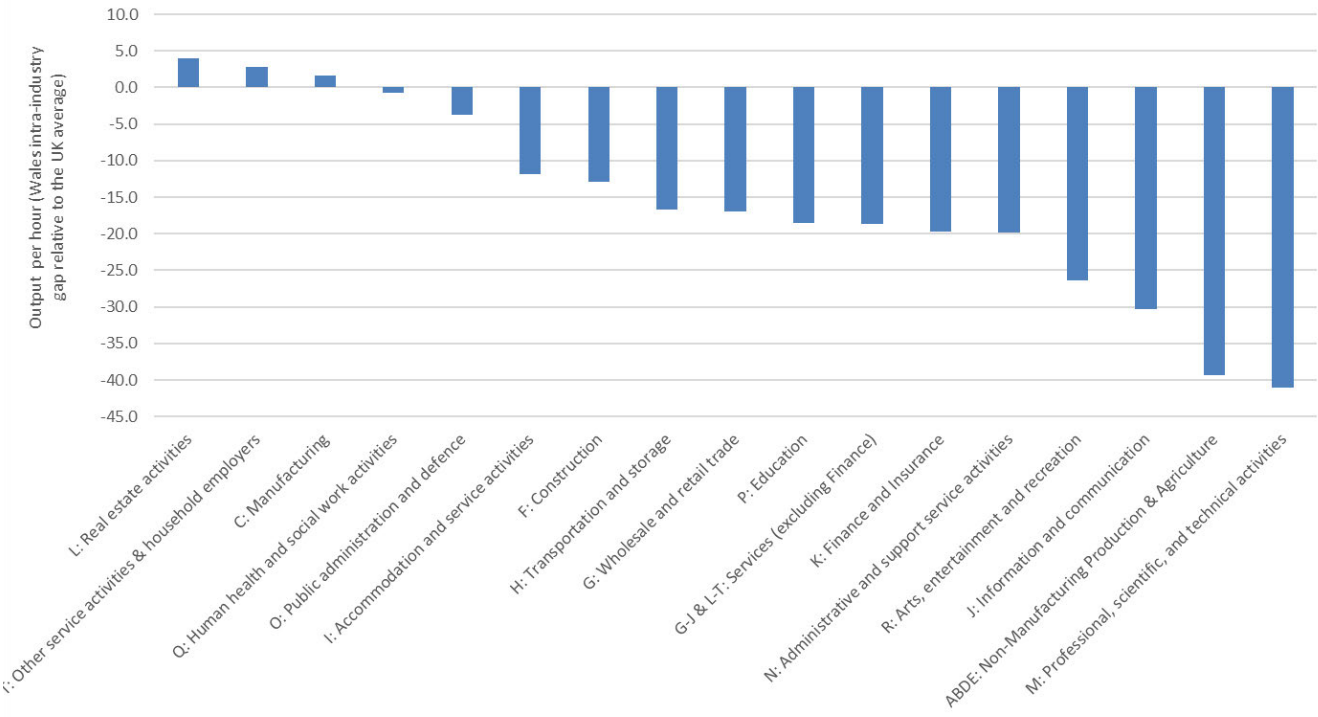
2. What explains Wales' productivity gap?

Wales' productivity challenge is not simply a consequence of its current industrial structure given there is evidence of productivity gaps between Wales and the UK average *within* most broad industry sectors (see Figure 2 below). Albeit these broad groupings might conceal important differences in composition within industries, Wales' productivity gap is not driven by its greater reliance on the manufacturing sector, since manufacturing productivity is higher in Wales than the UK average. Wales' intra-industry productivity gaps are most pronounced in non-manufacturing production, information and communication industries and professional, scientific, and technical activities, where productivity is

[4] There is an East-West or urban-rural differential (see Jones, 2024, Figure 3). Productivity is less than 95% of the Welsh average in Powys, Gwynedd, Conwy and Denbighshire and, South West Wales (Ceredigion, Carmarthenshire, Pembrokeshire). Productivity in Powys (at only 63% of the UK average) is the lowest in the UK and, Powys, Gwynedd and Conwy and Denbighshire are among the five least productive local areas in the UK.

more than 30% below the UK average. In summary, aligning Wales' industrial structure to the rest of the UK would not eliminate Wales' productivity challenge.

Figure 2. Wales-UK Productivity Gaps by Industry in 2019



Source: Replicated from Jones (2024) (Figure 4). ONS (2021): Region by industry labour productivity - Office for National Statistics.
Notes: Experimental statistics. Output per hour by industry section. Gap measured as a comparison between Wales and the UK industry average.

Instead, as we set out in the paper, Wales' productivity gap with the rest of the UK is likely to be explained by gaps in a range of known drivers of productivity relating to individuals, businesses, and the external environment, which includes Welsh government policy and physical infrastructure. Our analysis of contemporary data shows that, relative to the UK average:

- Business spending on Research and Development (R&D) per job is lower in Wales.
- Small and Medium Sized Enterprises (SMEs) in Wales report greater barriers to accessing finance.
- A relatively high proportion of the working-age population in Wales possess low levels of education attainment (NVQ1 or lower).
- There is a higher prevalence of long-term limiting health problems among workers in Wales.
- Wales has lower levels of capital formation (which capture both public and private sector investment into tangible and intangible assets).
- The digital infrastructure, at least based on measures such as gigabit-capable internet services, is less well-developed in Wales.
- The peripheral location, relatively sparsely distributed nature of population and lack of large cities means that Wales does not benefit from agglomeration economies.

3. Why is productivity important to a Government Budget?

The importance of productivity to living standards and economic wellbeing is often neglected in the public and policy debate. Yet, productivity growth is the main determinant of long-run growth in real wages, directly affecting household incomes and living standards. Productivity growth is also important for business, affecting profitability, investment and growth. For these reasons it is a key determinant of taxation revenue and the government budget, and therefore the resources available for public service delivery.

The UK productivity puzzle has been a key constraint on the UK budget. By way of example, recent analysis by the Office for Budget Responsibility showed that a 1 percentage point difference in UK productivity growth would have a dramatic impact on levels of public sector debt.[5] If long-term earnings growth matches productivity growth, improving productivity directly increases tax revenue and will reduce public sector debt assuming public spending remains constant.

As a sizeable sector, public sector productivity plays a direct role in driving national productivity. However, productivity of the public sector plays an additional role since it is also an important determinant of the efficiency of a given level of public spending. By producing more output with the same resources, public sector productivity growth offers a way to increase capacity and reduce overcrowding and waiting lists, and/or enhance the quality of public sector services or reduce spending. It becomes increasingly important given the current fiscal constraints and the growing demands on public services through, for example, an ageing population. In this respect, it is particularly concerning that the evidence suggests UK public sector productivity has failed to return to pre-pandemic levels.[6]

National productivity growth and higher real wages also reduce the demands on government spending, meaning the government has more opportunities to invest in long-term and social objectives. In this respect productivity growth in Wales is key to achieving many of the aims of the Well-being of Future Generations (Wales) Act 2015 and, carefully managed, can support both broader environmental and social agendas.

As set out in Ifan *et al*. (2022), the inferior economic performance of Wales relative to the UK means Wales faces a notional fiscal deficit, whereby government spending exceeds tax revenues.[7] Indeed, the gap in living standards between Wales and the rest of the UK is narrower than the productivity gap due to this fiscal transfer, particularly greater receipt of welfare payments in Wales. This means that Wales' independent fiscal position would be substantially worse than the current situation. Wales' productivity gap with the rest of the UK is a key contributor of this.

4. How can Wales address its productivity challenge?

Our paper makes clear that addressing Wales' productivity challenge requires a long-term commitment, coordinated action and investment in people and infrastructure. The scale of the challenge should not be underestimated. Even if productivity in Wales grew 1% faster than the UK average each year, it would still take nearly 20 years to catchup.

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[5] Office for Budget Responsibility (2024) Fiscal risks and sustainability, September 2024.

[6] The devolved nature of government provides an opportunity to evaluate the relative productivity of the public sector in Wales. While there has been considerable investment in data collection on productivity in the public sector, which is particularly hard to measure given the absence of explicit prices for services, to our knowledge, such data is not yet available for Wales separately from the rest of the UK.

[7] Ifan, G., Siôn, C. and Wincott, D. (2022) Devolution, independence and Wales' fiscal deficit, *National Institute Economic Review,* 261(1): 16-33.

We repeat the core recommendations from the report below in italics. Policy should focus on the gaps identified in Section 2 above which include core areas of devolved policy, including improving levels of basic educational attainment and, transport and digital infrastructure. We argue the Welsh Government has an important leadership role, but that success will depend on support from the UK government as well as other stakeholders including businesses, public service delivery providers and citizens more broadly. For productivity growth in Wales to improve relative to the UK average requires that UK growth policies do not disadvantage Wales relative to other UK regions. To engage necessary stakeholders, we recommend a national conversation on productivity, including improving understanding of what it is, why it is important, and the proactive steps stakeholders can play. In relation to this, we argue there is a need to promote productivity growth both among businesses and within the public sector. In terms of enhancing public sector productivity, it can be useful to distinguish budget efficiency (reducing input costs) from organisational productivity (how inputs translate into outputs within organisations) and overall public sector effectiveness (achieving the outcomes desired).[8]

This policy agenda requires leadership by the Welsh Government, with clear accountability and ownership and an explicit ministerial responsibility for productivity. This would be supported by establishing a Welsh Productivity Commission comprised of independent experts who could provide external scrutiny and guidance in relation to informing, and evaluating, policy and progress. This would also serve as a long-term public commitment to improving productivity in Wales.

Our Core Recommendations

• *The Welsh Government needs to establish a long-term commitment to improving productivity, with independent guidance and assessment of performance.*

• *A national productivity growth plan should identify short, medium, and long-run priorities to support productivity growth.*

• *Wales needs a national conversation on productivity. Collaboration between policymakers, businesses, public sector service delivery providers, and individuals is essential to address the scale of the challenge.*

• *Business support should include advice, guidance, and best practice on how to achieve productivity growth, and the benefits of this.*

• *There should be a focus on public sector productivity growth as a means of supporting future public service delivery.*

• *Addressing Wales' productivity challenge is a long-term and intergenerational project. It will require significant government investment in people and infrastructure.*

5. Why is the Welsh Government Budget important in addressing Wales' productivity challenge?

Public spending and taxation policy have a key role to play as a determinant of many of the drivers of productivity identified in Section 2 above. While many of these decisions depend on the UK budget,

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[8] Discussion within the public sector has focused on the role for measurement, innovation, workforce agility, collaboration, data and technology see: B. van Ark (2022) Making Public Sector Productivity Practical, TPI and Capita.

devolved public services like health and education provide the foundation for investment in human capital, a key determinant of individual and national productivity. Spending within the Welsh Budget also influences business support and advice, as well as the broader transport and digital infrastructure in which businesses operate, all known determinants of productivity.

Low levels of public and private investment have been identified as a key determinant of the poor UK productivity performance and investment is lower in Wales than in the rest of the UK. The Welsh Budget has both a direct and indirect role in this. It determines the balance between investment and day-to-day spending, as well as generating confidence and incentives for business innovation and investment. Productivity growth requires policymakers to consider the long-term and prioritise support for investment over short-term consumption.[9] The focus and design of public sector investment is also key. To maximise its impact, it needs to crowd-in (encourage) rather than crowd-out (displace) private investment.[10] The spatial distribution of investment has a further potential role in narrowing productivity gaps between local areas in Wales. Indeed, more generally, investment can be targeted towards achieving multiple objectives, for example, green productivity investment.

In summary, investment in the future productive potential of Wales will not only improve future economic wellbeing but is self-reinforcing and will increase future taxation revenue, generating resources for future investment in Wales.

[9] The Wales Forum of the Productivity Institute welcomed the emphasis on economic growth and long-term investment in the Welsh Government Budget 2024-2025.
[10] See: Insights on productivity growth and fiscal policy from the Welsh Government Tax Conference 2025 - The Productivity Institute

NIESR submission on Welsh Budget 2025-26 and beyond

Key points

* In the 2025-26 budget, we welcome the Welsh government pledge to invest additional money in transport and social housing. The NIESR Regional Regeneration Dashboard and Index 2024 (https://regional-dashboard.niesr.ac.uk/) noted large areas of Wales as lagging behind comparator regions in other parts of the UK in both transport and housing, hence this focus is well placed.

* However, notwithstanding pledges towards building a greener economy, we think that progress in this direction have been limited. In particular, we encourage greater momentum towards the proposed "green hub" in north Wales, harnessing tidal power in the Severn Estuary, and careful transition away from environmentally harmful production processes in a fair way that protects livelihoods and communities and enhances productivity. A greater focus on nature emergency is also becoming urgent in light of climate events and increasingly volatile meteorological conditions.

* The Welsh economy has been ailing for some time now, but the situation has been exacerbated following the sequence of shocks – the Covid-19 pandemic, Brexit and the cost-of-living crisis. In our most recent economic outlook for Wales (February 2025, https://niesr.ac.uk/publications/tale-two-halves?type=uk-economic-outlook), we found that

- Wales' Gross Value Added grew relative to the fourth quarter of 2021 and is expected to see further growth over the next few years

- The revisions to the regional labour market data see Wales' employment relative to the fourth quarter of 2021 exhibit a much more volatile path than what was evident in previous ONS data (notwithstanding uncertainty surrounding labour market data). This is especially apparent between the second quarter of 2022 and the second quarter of 2024.

- In addition, employment in Wales sees a notable downward shift relative to levels in the fourth quarter of 2021 and is unlikely to return to previous levels in the coming years.

- Despite some employment growth, inactivity rates in Wales are expected to remain stable over the next two years. Wales continues to experience the highest inactivity rates of all the devolved nations and the English regions too.

- Productivity in Wales remains well below the UK average, though a small increase is projected by the fourth quarter of 2026. Relative to the other UK regions and devolved nations, Wales is expected to see somewhat more robust productivity gains, although upon a lower base.

* NIESR has highlighted significant overlap of lower economic growth, stagnating employment and human capital, and low capital investment across much of Wales (Box D, in NIESR UK Economic Outlook, Summer 2025, August 2025, https://niesr.ac.uk/publications/uk-economic-outlook-chancellors-trilemma?type=uk-economic-outlook). Investment on skills must go hand in hand with public and private investments, both of which are stagnating.

* Substantial recent revisions to ONS data on the labour market (including historical data) have cast new light upon Welsh productivity. Wales has been experiencing somewhat stronger growth in output (GVA) post-pandemic but also substantially weaker and flat employment trends well below post-pandemic levels together with higher and rising inactivity. However, this implies somewhat more stronger productivity trends relative to most English regions, comparable to Scotland and London, even if productivity levels are still lagging far behind. This presents a mixed picture that the Welsh budget should look to address. It is not entirely clear how budgetary allocations are targeting low economic participation and stagnant productivity.

* Beyond economic performance, we would also like to encourage greater focus on well-being, as initiated in the historic Well-being of Future Generations (Wales) Act 2015. Despite substantial budgetary allocations, including schemes designed to replace economic aid previously provided by the European Union, it is unclear as to how this is aligned with improving both economic growth and well-being.

* Most importantly, we find lack of data and evaluation mechanisms to verify not only whether the allocations are spent on the areas that are specifically targeted, but what impacts they have on the desired outcomes. We suggest greater attention to this area. This includes not only the efficiency in delivery of public services in relation to allocations, but also targeted investments in specific sectors such as health and AI which are critical for Wales.

Document is Restricted

Rt Hon Rachel Reeves MP

Chancellor of the Exchequer

HM Treasury

1 Horse Guards Road

London SW1A 2HQ

15 October 2025

IoD Autumn Budget Submission 2025

About the IoD

The IoD is an independent, non-party political organisation representing 20,000 company directors, senior business leaders, and entrepreneurs. It is the UK's longest-running organisation for professional leaders, having been founded in 1903 and incorporated by Royal Charter in 1906. Its aim is to promote good governance and ensure high levels of skills and integrity among directors of organisations. It campaigns on issues of importance to its members and to the wider business community with the aim of fostering a climate favourable to entrepreneurial activity in the UK.

The economic context

Since last year's Budget, the UK's economic performance has been mixed. The UK once again had the strongest growth in the G7 in the first half of 2025 – as it did in 2024. Despite a significant rise in the tax burden on business, growth in 2024 came in as expected in July 2024, and 2025 growth is set to exceed forecasts made at the same time[i], despite the crystallisation of global risks from tariffs. And yet, despite this resilience, business confidence hit a new record low in September, according to the IoD's decision-maker confidence index.[ii]

The 2024 Budget brought welcome certainty to the public sector, confirming departmental current and capital budgets. Over the year, this has been supplemented by the Infrastructure Strategy in particular, which has added further welcome clarity to the government's plans for enhancing the UK's infrastructure. Particularly welcome has been the priority placed on regional projects outside London and the South East. These are fundamental to driving stronger growth in activity in other parts of the UK, helping to address the UK's significant regional disparities in standards of living. And greater stability in departmental current budgets – particularly for the NHS – along with commitments to efficiency enhancements, should help support the provision of vital public services.

We are grateful to the government for listening to our requests to deliver a more-growth focussed narrative on the economy. Along with other strategic wins for business, such as the three trade deals and the Industrial Strategy, this has been met favourably by business leaders. The refreshment of growth teams at both the Treasury and No10, brought together by a jointly-chaired "Budget Board", is an important signal of the seriousness with which the growth mission is being taken.

However, growth signals are only part of what is needed to deliver a credible growth strategy for the UK. They can support confidence, but only where they are credible. The reality is that in prioritising public sector budgets at the expense of businesses, sticking with manifesto commitments to not touch personal taxation and VAT, maintaining too slim a margin against the fiscal rules, and difficulties addressing the unsustainable trajectory for benefit spending, all the public finance risk has been left sitting on the business and investment sectors of the economy. It is arguably also contributing to the rise in longer term gilt yields in the UK, which has been greater than our G7 counterparts.

The manifesto commitments are proving increasingly in conflict with the government's growth agenda, as they push policy towards other tax measures which are more damaging for growth, and therefore for living standards. Speculation over the future direction of taxation in areas such as housing and pensions, including potential wealth taxes, risks capital flight from the UK and is highly damaging to the very environment for investment that we are seeking to improve in the UK. The government is right to prioritise the living standards of working people. But this is best served through going for growth, rather than preserving today at the expense of tomorrow.

Our recommendations for a growth-focussed Budget cover the following themes:

- A strategic Budget for growth
- Addressing a new fiscal rules miss
- Public spending management
- Tax strategy
- Removing regulatory blockers to growth
- Skills
- Employment
- Energy and net zero
- Trade
- Devolved nations
- Innovation and technology

A strategic Budget for growth

UK business confidence reached a new record low in September, cost pressures rose to a new high, driven by employment costs (both wages and taxes) and investment intentions remained subdued. Particular issues that members cite include tax and regulatory burdens, policy volatility and depressed demand. Concerns are particularly high that this Budget will heap further pressures on business, with members talking of being in survival mode with planning paralysis. It is clear that many businesses feel on the edge.

In September, we asked IoD members what their priorities were for this Budget. This is how they answered:

Table 1:
Which of the following, if any, would you most want to see government do to address business challenges?

Set out a coherent and credible growth strategy	79%
Publish a roadmap to reducing the tax burden on business	63%
Reduce the burden of employment regulation	59%
Simplify the business tax system	49%
Reduce the administrative burden of regulation	41%
Commit to a plan for lowering business energy costs	34%
Improve UK road infrastructure	25%
Improve the availability of finance for SMEs	22%
Improve UK rail infrastructure	19%
Improve support for digital adoption for SMEs	12%
Improve the availability and cost of childcare	10%
Reform the apprenticeship levy	10%
Digitalise customs and trade processes	9%
Expand the UK's aviation capacity	7%
Provide better financial support for exporters	6%
Other	21%

Source: IoD Policy Voice September 2025

Amongst those who provided alternative options, a wide range of ideas were proposed, including a more coherent strategy for the net zero transition, closer trade ties with the EU and innovation and digital priorities – we will delve into these areas in more detail later in our submission. But it is very clear what business leaders are looking for from this Budget.

Addressing a new fiscal rules miss

The UK's public finances are precarious and to a greater degree than many of our competitors. The IMF's April 2025 Fiscal Monitor show that the UK's borrowing is the fifth highest among 36 advanced economics and net debt is the sixth highest.[iii] And as of the 3rd October, UK gilt yields (both 10 and 30 year) were the highest in the G7.[iv] Although the UK's debt is not as high as France, and UK borrowing is lower than in the States, France benefits from the EU backstop, while the US remains a global reserve currency. The UK benefits from neither support. Meanwhile, the OBR is expected to report a fiscal rules miss in the tens of billions as it updates its growth forecasts and productivity assessments.

In addition to the above, other factors have contributed to a renewed deterioration in the UK's public finance outlook. Past data revisions have created a less favourable starting point, sticky inflation in the UK is leading to higher expectations for interest rates and global factors have driven up government borrowing costs. But a further driver of UK government borrowing costs is likely to be the overall coherence and credibility of the UK's fiscal strategy. Manifesto commitments to working people today that, as well as posing risks to their living standards in the longer term, concentrate fiscal risk in growth-generating sections of the economy (namely businesses and investors), are driving down broader risk appetite in those sectors, and risking future growth. The cancellation of benefit reform exacerbates fiscal risk concentration on business and investment sectors. And the historically slim margin by which the fiscal rules are being met amplifies risk still further.

There are a number of options for plugging the fiscal gap in the short-term across spending, taxation and borrowing. But the harder question is what combination of policies will best deliver fiscal credibility and stability over the longer term.
There are areas of the fiscal framework that can be improved, areas of unsustainable public spending that can and should be addressed, and areas of the tax system to lean on that are the least detrimental to growth. Our recommendations centre on the strategic policy choices that are best suited to maximise the UK's growth to the benefit of all.

The fundamentals needed for fiscal stability

Given where UK borrowing costs are now, particularly by international comparison, additional borrowing would be high risk. With trend growth weak, the UK will already head towards unfavourable debt dynamics as inflation returns to target, raising the risk that we will need to run primary surpluses just to stabilise debt.[v]
The IMF in 2021 stated that credible rules and institutions are the fundamental underpins to sound public finance management. They have largely welcomed the reforms to the UK's **fiscal framework** over the past year: in particular they note that aligning the fiscal rules with the budget horizons for departments should support credibility, while enabling borrowing to support investment recognises the payoff horizons for that investment.

However, the UK's fiscal rules have been changed more frequently than any other country over the last 15 years. The current **fiscal rules** are the loosest since 1997, and set to loosen a little further in 2026. But they still remain a vital component of well-designed strategies for fiscal stability. They are intended to indicate a recognition by government that decisions are subject to constraints. But their formation and application is the choice of the government, not of the OBR, and suggestions that the OBR is running UK fiscal policy are false.

Also crucial for fiscal credibility is that the **forecasts** underpinning the fiscal outlook should sit outside the Treasury. This reduces the risk that the Treasury will "game" both the forecasts and the rules. However, it has been surprising that the OBR's forecasts for growth have been so far away from the average independent forecast for such a prolonged period. The OBR's own analysis of its forecast performance finds that since 2010, it has tended to be optimistic in the medium-term, although not significantly more so that other UK forecasters.[vi]

There has been significant debate over how best to enact the government's commitment to **one fiscal event a year**, so it achieves the best balance between transparency and stability. The IMF's Article IV consultation on the UK[vii] provided a number of options for consideration. Their first one is that higher fiscal buffers should be maintained against the rules, to ensure small changes in the outlook do not necessitate a policy response. This continues to be our recommendation. We note that the fiscal rules are due to shift in 2026, as follows:

- The "current budget" rule becomes "the current budget must [then] remain in balance or in surplus from the third year of the rolling forecast period, where balance is defined as a range: in surplus, or in deficit of no more than 0.5% of GDP. […] If the range is used between fiscal events, the current budget must return to surplus from the third year at the following fiscal event."[viii]

- Instead of targeting a fixed year – currently 2029-30 – the target will be measured at a rolling three-year horizon.

We have several reflections on this. Firstly, the wording above is a little unclear. Because budget balance is defined as + or -0.5% of GDP, there is technically nothing to prevent the Chancellor immediately targeting -0.5% of GDP, thus meeting the set definition for balance, but also increasing borrowing. The second part of that rule is quite tough however. In stating that use of the range requires a surplus to be in place at the next fiscal event, it means that even where a surplus of up to 0.5% of GDP has been achieved, a surplus of greater than 0.5% of GDP must be achieved at the target year in the next fiscal event. But there is no statement made regarding what the response would be where the current budget is below -0.5% of GDP. Also, as ever, the challenge with a rolling three year horizon is that the target date never arrives, enabling fiscal rectitude to forever sit in the future.

Recommendations

1. **Clarify the date at which the new fiscal rules come into effect.**
2. **The language of the rules needs tightening to ensure that it actually delivers its intent to reduce the need for fiscal tinkering and achieves meaningful fiscal credibility. The target for current budget balance should be specified as zero. An acceptable range for the current budget can then be set as a fiscal buffer, movements within which will not require a fiscal response. As it has already been announced, the range -0.5 to +0.5% should be utilised as on balance, it could be counterproductive to change the rules yet again at this late stage. However, we note the OBR's remark that "The average absolute final-year revision to pre-measures borrowing over the past ten forecasts has been £19.4 billion",[ix] which equates to 0.7% of GDP.**
3. **The rolling targets remain a source of fiscal risk. In combination with the potential for the 2026 iteration of the fiscal rules to be interpreted as another loosening in fiscal policy, the risk is that markets apply an even higher risk premium to UK debt. Consideration should be given to setting a level target for PSNFL, to act as a credible anchor for fiscal policy and to support lower government borrowing costs.**

The IMF further recommend some changes to the presentation of headroom estimates in the OBR's analysis. While the provision of further information to enable a better understanding of fiscal risk seems sensible, it should not be used to obfuscate the presentation of the government's headroom against target. Meanwhile it does not make sense to assess the fiscal rules only once per year, while producing two forecasts from which fiscal rule compliance could be deduced. Both recommendations seem tilted towards reducing **transparency** at a time when markets are highly sensitive to UK-focussed news. This risk could crystallise as yet higher borrowing costs for the government. The solution would seem to be baked into the new iteration of the UK's fiscal rules, provided they are clarified in line with our recommendations. This would enable the UK to maintain the same level of transparency with respect to public finance performance as key international counterparts while reducing the need for short-term response.

Recommendation

4. **The UK should not change the frequency with which the OBR is mandated to provide forecast updates and fiscal rule compliance assessments. This would represent an unwelcome and risky reduction in the transparency surrounding the UK's public finances at a time when they are under significant scrutiny. Instead, the focus should be on better specifying the next iteration of the fiscal rules, including the clear communication of how the government will respond to indications of fiscal rule misses by the OBR outside of annual fiscal events.**

Public spending management

It was right to deliver budget certainty to departments in the last Budget. This was necessary to support the provision of vital public services which themselves support the health and effectiveness of the UK population. Capital investment makes sense to prioritise too, as it can crowd-in broader private sector investment, as well as contribute directly to better productivity. Meanwhile departments have also been set efficiency targets whose delivery are crucial for the UK's growth outlook. When we asked IoD members earlier in the year, public sector efficiency was a clear priority:

Table 2:
January 2025: What do you think should be the top priority for the public sector Spending Review?

Increase public sector productivity	38%
A greater focus on long-termism	20%
Alignment of government spending with the government's stated priorities/missions	11%
Other	9%
Investment in technology	8%
Investment in health	5%
Planning reform	4%
Net zero transition	3%
Devolution of spending	1%
Total	100%

Source: Institute of Directors, Policy Voice, January 2025

However businesses and investors also need certainty in order to drive the UK's economic growth forward. Because borrowing was increased to such a significant degree in last year's Budget, because of manifesto commitments that severely limit the choices for tax increases, because key areas of public spending outside departmental budgets are on unsustainable trajectories, and because the margin against the fiscal rules is historically slim, the whole of the UK's public finance risk sits on the business and investment sectors – those sectors which are most fundamental to the UK's growth. These issues are driving down confidence to record lows according to our own data, undermining investment spend in the UK which is already at an advanced economy low. These risks needs to be spread more evenly across the economy. Attempts to ameliorate risk through the government's growth narrative and through long-term strategy are part of the solution to addressing risk and uncertainty for business and investors. But as long as they shoulder all the UK's public finance risk, they will not prove sufficient.

There are unsustainable areas of public spending which need to be addressed as part of the work needed to ensure a more equitable sharing of public finance risk across the economy. Departmental budgets – known as DEL and set at Spending Reviews – are less than 50% of Total Managed Expenditure.[x] The remainder – AME – is made up of spending areas including social security and welfare, and debt interest payments.

The trajectory for pensions spending has been found to be unsustainable by the OBR and the government has launched the Pensions Commission to look at the long-term future of the pensions system, including outcomes for future cohorts, improving retirement outcomes, and the role of private pension provision. But the affordability of public pension provision needs also to be assessed and wrapped into the remit of the Pensions Commission.

The government's Welfare Reform Green Paper[xi] draws attention to trends in the incidence and nature of ill health vs trends in the number of incapacity and disability, noting that claims have risen at roughly double the pace of increase in disabled workers. It further notes that the trend in incapacity and benefit spend is not financially stable. Work by the IFS[xii] has looked at flows onto and off benefits, to understand what's driving the overall rise in caseload, suggesting that changes in the application process may have impacted claims. Meanwhile outflows from disability benefit have also declined. Citizens Advice look at how the structure of the benefits system interacts with incentives to work.[xiii]

We will not seek to propose the exact mechanisms by which benefit and public pensions spend should be rendered more sustainable. But doing so is a necessary component of a strategic growth plan for the UK, which has sustainable public finances at its heart, and is laser focussed on maximising growth.

Recommendations

5. **We recommend that benefit and pension reform play an enhanced role in the UK's fiscal strategy. A 10 year strategy for benefit reform would sit logically alongside the government's other strategies. This should incorporate success metrics which include bringing down the trajectory for benefit spend. A strategy for pensions affordability needs to dock into the work of the Pensions Commission into the overall pensions landscape.**

Tax strategy: balancing short-term tensions and long-term priorities

Uncertainty, instability and burden in the tax system for business is damaging incentives to hire and invest and having a negative impact on organisations. In our August Policy Voice survey, employment taxes and business taxes were the second and third most cited factors having a negative impact on organisations respectively. Feedback from IoD members indicates that this is both because of tax increases implemented at the last Budget, and also because of fears for this Budget.

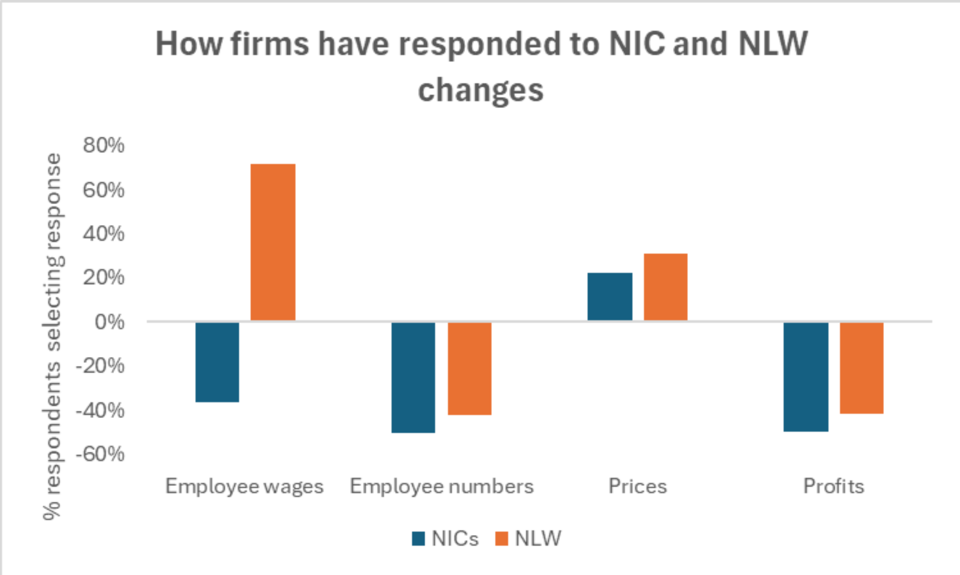
Table 3:
Which of the following, if any, are having a negative impact on your organisation?

UK economic conditions	75.7%
Employment taxes	59.4%
Business taxes	46.9%
Compliance with government regulation	32.0%
Global economic conditions	31.8%
Skills shortages and/or labour shortages	30.8%
Cost of energy	29.6%
Cost/availability of finance	17.1%
Difficulty or delays obtaining payment from customers	17.1%
Trading relationship with the EU	16.6%
Transport cost/speed/reliability	12.3%
Supply chain disruption	8.9%
Broadband cost/speed/reliability	8.8%
None	1.2%

Source: IoD Policy Voice August 2025

The response of IoD members to the changes in NICs and the NLW which came into effect in April 2025 has been in line with the OBR's predictions. Overall, the costs are being absorbed via lower profits, lower numbers of employees and higher prices – wage effects are more mixed:

Figure 1



Source: IoD Policy Voice September 2025
Note: Responses for NIC impacts relate to those firms for whom bills increased (81% of overall survey response). Responses for NLW impacts relate to those companies who hire those on the NLW (26% of overall survey response). The NLW impact on wages reflects the impact on both those on the NLW and other employees.

IoD members favour a tax roadmap which targets a lower tax burden and a simpler business tax system (table 1 above). While the corporate tax roadmap has some welcome elements, its exclusion of significant portions of the tax landscape affecting business significantly compromises its effectiveness as a tool for supporting business planning, while many other areas lack detail.

There has been significant consideration given by analysts to how better to design the tax system to support growth while also delivering revenue. Delivering both higher revenue and better growth in the short-term has been found to be particularly challenging as many of the tax options left when you exclude income tax, VAT and employee NI entail further damage to investment incentives. The reality is that preserving the incomes of working people today risks damaging them tomorrow. The choice must be made to maximise tomorrow's living standards. Therefore, where there is a need to raise significant amounts of tax revenue to deliver public finance stability, the priority must be to raise tax in those areas which are least damaging to growth. Simulations by NIESR indicate that of the main taxes, income tax is the one which is least damaging to growth.[xiv] Raising corporation tax would damage the supply side of the economy by hitting investment while VAT hits both demand and supply and risks entrenching higher inflation as well as hitting investment. Higher income tax reduces consumption, but its considerably wider base means much smaller changes can be made to raise similar amounts of revenue to much larger changes in either corporation tax or VAT.

Recommendations

6. **Income tax should be part of the tax mix where significant revenue needs to be raised in the short-term.**
7. **The corporate tax roadmap should be improved:**

a) **In keeping with the government's other strategies, it would make sense to treat the corporate tax roadmap as a live document which can be fleshed out over time.**
b) **As consultations are undertaken and implemented, it would be useful to have their conclusions and the associated actions melded into the overall roadmap to aid interpretation of how they contribute to the overall direction of travel for the tax system.**
c) **The actions in the HMRC transformation roadmap into the overall business tax roadmap. This would cement HMRC's ambition to become more customer-focussed.**
d) **The inclusion of language which frames the fiscal risk exposure of the business community via the tax system would be helpful in supporting the analysis by business of their overall risk exposure, enabling more effective decision-making. Impact assessments for business**

Recent work by the IFS makes a number of important points about incentives in the tax system and the need for systemic reform.[xv] If we are focussed on growth, then by definition the incentives that individuals and businesses face as they grow through the tax system matter. These incentives include:

a) to save and invest
b) to hire
c) to choose work over leisure

There are multiple imperfections in the system which compromise individual incentives to work. The marginal rate of corporation tax in the company size bracket £50-250k is 26.5%, above that for both smaller companies (19%) and larger companies (26.5%). Another significant one is the high effective marginal rates of tax experienced by those in the £100-125k wage bracket, particularly those with children. Anecdotal evidence[xvi] that this distorts choices over hours worked, pension savings and even effort is growing. As we prioritise growth, it makes sense to look at how taxes and reliefs interact to influence incentives to undertake those activities most beneficial to the economy. Similarly, raising capital taxes or introducing new ones – such as wealth taxes (either regular or one-off) – reduce the returns to investment and will act as a disincentive to it, bearing down on future growth.

Recommendation

8. **As part of the UK's tax strategy, efforts should be made to smooth out particularly significant distortions in the tax system that compromise economic choices by individuals and companies, to the detriment of economic growth.**
9. **Any changes to the taxation of assets held in the UK must be considered carefully. HMRC ready reckoners illustrate the risk that increases in taxes in these areas lead to lower revenues due to behavioural responses.**

Different policy choices will have different impacts on different parts of the business community. For example, large retailers who employ significant numbers on the minimum wage and have large premises will experience greater impacts from changes in the minimum wage and business rates than the average UK business.

Recommendation

10. **The government should publish impact analysis for different parts of the business community for fiscal events – including SMEs – to enable better transparency over impacts.**

Removing regulatory blockers to growth

The priority being placed on reducing regulatory barriers to growth is welcome. We have particularly welcomed the adoption of a target to reduce by 25% the regulatory burden on business and look forward to further progress in setting the baseline against which this target is to be assessed. Regulation consistently scores as one of the top factors having a negative impact on organisations according to our member surveys:

Table: 4
Which of the following, if any, are having a negative impact on your organisation?

UK economic conditions	75.7%
Employment taxes	59.4%
Business taxes	46.9%
Compliance with government regulation	32.0%
Global economic conditions	31.8%
Skills shortages and/or labour shortages	30.8%
Cost of energy	29.6%
Cost/availability of finance	17.1%
Difficulty or delays obtaining payment from customers	17.1%
Trading relationship with the EU	16.6%
Transport cost/speed/reliability	12.3%
Supply chain disruption	8.9%
Broadband cost/speed/reliability	8.8%
None	1.2%

Source: IoD Policy Voice August 2025

We additionally asked members what the top regulatory blockers to growth were:

Employment and workplace regulation (e.g. working time, health and safety)	45.4%
N/A: our organisation's growth is not impacted by administrative barriers	24.7%
Trade and customs requirements	16.9%
Financial regulation (e.g. FCA, PRA, AML)	13.7%
Environmental and sustainability	13.7%
Consumer protection and data protection (e.g. GDPR)	12.6%
Competition	11.9%

Planning and building	11.9%
Other	10.8%
Sector-specific licencing (e.g. food safety, operator licences)	10.8%

Source: Institute of Directors Policy Voice Survey August 2025

Employment and workplace regulation came top of the list regardless of firm size, followed by trade and customs requirements. We will pick up on these in later sections.

Although planning and building regulations fall relatively low down the regulatory burdens listed by companies, they are widely recognised by economists as being part of the impediment to infrastructure delivery in the UK – itself a key priority for business and fundamental to the UK's future growth prospects. The Chancellor's decision to back the expansion of Heathrow airport acts as a bold and welcome signal of ambition in this area. Ambitious housing targets are also a positive signal of intent. Meanwhile we welcome progress made to date via the Planning Bill which is making its way through parliament, with the government's proposed amendments intended to further accelerate progress. There is clearly a great deal of work needed to improve the functioning of the Building Safety Regulator so that it instils the right standards in an efficient and effective manner. Moving the regulator into DCLG may help improve alignment between the strategic direction of the regulator and broader housebuilding ambitions. And the appointment of an Interim Chief Construction Advisor makes sense as the government moves toward a single construction regulator. A single regulator should help accelerate progress towards "systems thinking" in construction regulation.

Skills

While labour shortages are less acute than at their peak after the pandemic, largely due to policy decisions including the increase in employer's National Insurance contributions, the Employment Rights Bill, and above-inflation increases to the National Living Wage, skills shortages remain an issue for employers. IoD research in August 2025 found that 31% of business leaders cited skills and/or labour shortages as having a negative effect on their organisation.[xvii]

The government's commitment to reforming the Apprenticeship Levy is welcome. The Levy has failed to meet its most basic policy aims; apprenticeship starts have declined since its introduction, with a particularly steep decline in SMEs. At the same time, the lack of flexibility in the Levy is frustrating for Levy payers; apprenticeships are essential to tackling skills gaps but are not the right training answer for every skills need.

Recommendations:

11. Allocate the entirety of the funds raised by the Apprenticeship Levy and Immigration Skills Charge to apprenticeships and other forms of training approved by Skills England as addressing skills shortages. The lack of transparency around how both of these taxes on employers – ostensibly levied in the name of increasing investment in domestic skills – are spent is undermining employer confidence and buy-in to the skills system. This policy should be fully implemented before other approaches to balancing the Levy budget – such as reducing the payroll threshold, increasing the rate at which the Levy is paid, or further limiting the qualifications fundable via the Levy – are considered.
12. Increase the funding bands for apprenticeships in line with inflation. The failure of funding bands to keep pace with inflation leads to either providers having to reduce the quality of the training provided or charge employers top up fees to cover the actual costs of provision.

Employment

The increase in employer's National Insurance contributions, and above-inflation increases to the National Living Wage have combined to make employing staff a fundamentally costlier proposition for employers. The result has been a decline in employer demand for labour, with the ONS estimating that there were 100 thousand fewer payrolled employees in September 2025 compared to a year earlier.[xviii] Findings from our own survey data (see figure 1) reinforce findings from the Bank of England's decision-maker panel[xix] that the employer response to these changes has been to lower the level of employment.

There has been some debate regarding the scope for enhanced employment rights to improve UK productivity, particularly referencing analysis using the Labour Regulation Index.[xx] However, more recent research using this index suggests that while the possibility of probability improvement holds, "productivity is inversely related to employment in some systems, mostly liberal market and common law countries".[xxi] It specifically finds for the UK an inverse relationship between productivity improvements and employment, reinforcing fears that higher employment rights in the UK will be associated with higher unemployment. This combines with findings from our own research with IoD members in 2024, which found evidence that a majority of business leaders would be less likely to hire were the Employment Rights Bill to be implemented as planned.[xxii] We remain concerned that the scope and nature of the Employment Rights Bill as currently formed will have a deleterious effect on UK employment.

If the government is to meet its stated aim of achieving an 80% employment rate by the end of the Parliament, it must fundamentally rethink its approach to employment policy.

Recommendations

13. **Make sensible changes to the Employment Rights Bill: introduce additional protections against unfair dismissal at nine months of employment rather than day one; maintain existing thresholds for trade union recognition and industrial action; increase the planned reference period for the entitlement to guaranteed hours to 52 weeks, and make it a right for employees to request, rather than to be proactively offered, a contract reflecting hours regularly worked; and retain one waiting day before employees can access Statutory Sick Pay.**

14. Reintroduce the Statutory Sick Pay rebate for SMEs.
15. Avoid increasing the National Living Wage beyond two-thirds of median income, in order to protect entry-level jobs, particularly in low-margin sectors with high fixed labour costs like hospitality.
16. Increase investment in the tribunal system and Acas to minimise the significant risk that the changes resulting from the ERB will overwhelm both systems. Acas' recent proposal to extend the time limit for early conciliation from 6 weeks to 12 weeks, on account of a recent surge in demand and increasingly complex cases, should serve as a clear warning sign that existing systems will be unable to cope with the additional pressure.
17. Reverse the 2021 IR35 rule changes to enable contractors to self-classify their employment status. Current off-payroll rules are providing a strong deterrent to the engagement of contractors – as hiring companies are liable for any misclassifications that might occur. IoD research from August 2024 found that the 2021 change has increased bureaucracy for a third (34%) of businesses and led to a fifth (21%) of employers reducing their use of contractors.[xxiii]

Since 2021, responsibility for determining the IR35 status of contractors has rested with end clients (other than small businesses and those based wholly overseas). What effect, if any, has this had on your organisation? Please select all that apply.

Increased bureaucracy due to compliance checks	33.7%
No impact	28.3%
N/A	22.1%
Increased difficulty in recruiting contractors	21.3%
Reduced our use of contractors	20.7%
Increased contractors' pay to compensate for higher taxes	13.4%
Other	3.3%

Source: Institute of Directors Policy Voice August 2024

Energy and net zero

UK electricity prices remain well above the IEA average and discourage investment in the UK.[xxiv] The recent announcement[xxv] of the British Industrial Competitiveness Scheme is a welcome recognition of the problem, but the scheme does not tackle the structural causes of high energy costs and will not help the vast majority of UK businesses struggling with energy costs.

Recommendations

18. Decouple UK electricity prices from volatile gas markets and prioritise the development of alternative energy sources capable of providing baseload power, particularly nuclear fission.
19. Tackle wind curtailment by increasing investment in upgrading the national grid infrastructure, particularly in Scotland, to increase transmission capacity and enable more renewable energy to be delivered where it is needed.

Government support and leadership is also needed to support SMEs to reduce their carbon emissions if the UK is to meet its commitment to achieve net zero by 2050.

Recommendations

20. Launch a 'Help to Green' campaign, as proposed by the Independent Review of Net Zero (the Skidmore Review). This should include information resources and vouchers for SMEs to plan and invest in the net zero transition. For example, green vouchers could be used to commission energy audits which would enable SMEs to determine their energy use or emissions profile and obtain expert advice on how to improve energy efficiency.
21. Introduce a requirement for commercial landlords to provide tenants with information about the carbon footprint of the premises they lease. Requiring commercial landlords to share energy, water, and waste data with tenants would remove a key barrier to business' ability to calculate their emissions and create decarbonisation plans.

Trade

Improving the exporting landscape

The government recognises that exporting businesses are important in driving economic growth.[xxvi] Yet data from the Office for National Statistics (ONS) suggests that only around 11% of UK businesses export.[xxvii]

At the same time, according to the Office for Budget Responsibility (OBR), UK trade intensity (exports plus imports as a share of GDP) has not recovered in line with other G7 countries since the pandemic. However, they note there has been a significant difference between goods and services trade: whilst at the end of 2023, goods trade was around 10% below pre-pandemic levels, compared to a 5% increase on average in G7 counterparts, UK services growth was actually the strongest of the G7. UK services growth ended 2023 at around 12% above pre-pandemic levels, where the remaining G7, at the end of the third-quarter of 2023, reached around 9% on average.[xxviii]

Digging deeper into the services trend, it was the sector 'other business services', including consulting, research and development and R&D that performed the best, whilst financial services and transport, services the most likely to have been impacted by Brexit, performed less strongly. Meanwhile, goods trade – being predominantly with the EU – has been significantly impacted by changes in the terms of trade with the EU following Brexit.

IoD data from January 2025 shows just over half of members export, 33% regularly and 19% on an ad hoc basis. Of those which have never exported, the primary reasons cited relate to resource constraints:

You said your organisation has never exported, but sells an exportable good or service. Which of the following have contributed to why your organisation has never exported?

Insufficient management time to explore opportunities	47.8%
Lack of business connections in overseas markets	39.1%
Regulatory or tax compliance burdens	26.1%
Sufficient business in the UK	26.1%
Lack of knowledge about export markets	21.7%
Uncertainty about economic conditions in target markets	17.4%
Concerns about payment and financial risks	17.4%

Cultural/language barriers	13.0%
Insufficient returns relative to costs	13.0%
Customs procedures	8.7%

Source: Institute of Directors Policy Voice January 2025

Of those members that used to export but do not anymore, the overwhelming reason is the UK's trading relationship with the EU:

You said your organisation used to export but do not do so currently. Which of the following, if any, have contributed to why you stopped exporting?

The UK's trading relationship with the EU	54.8%
Regulatory changes	25.8%
Decline in international demand	25.8%
Customs procedures	22.6%
Lack of international business support or partnerships	16.1%
Exchange rate fluctuations	16.1%
High costs of maintaining export operations relative to returns	16.1%
Strategic shift to focus on domestic market	9.7%
Payment and financial risks	6.5%
Logistical challenges and shipping delays	6.5%

Source: Institute of Directors Policy Voice January 2025

IoD data from January 2025 also shows that, on balance, members are expecting a net increase in exports over the next 12 months compared to the previous. However, with the largest proportion expecting no change, there looks to be a certain lack of growth prospects:

Comparing the next 12 months with the last 12 months, what do you believe the outlook for your organisation will be in terms of exports:

Much higher	4.3%
Somewhat higher	24.9%
No change	48.6%
Somewhat lower	13.5%
Much lower	6.3%
Don't know	2.4%
Total	414 respondents

Source: Institute of Directors Policy Voice January 2025

* This data set removed all those who selected N/A, i.e. those organisations that do not export

When asked what they think would do most to boost growth for their organisation in 2025, 35% responded with ‘an improved trade deal with the EU’, the third most selected option behind ‘a significant scaling-back of the government's employment law reforms’ (42%) and ‘reduction of the tax burden on business’ (58%).

The evidence above shows how the UK’s trading relationship with the EU remains one of the biggest barriers to business growth. The UK-EU reset must therefore be the government’s priority for trade moving forwards. Being the UK’s closest and biggest trading partner, easing trade frictions, including mobility challenges and the customs burden, with the EU will go a long way in encouraging firms to export.

Recommendation

22. Negotiate an improved Trade and Cooperation agreement with the EU in 2026.

The TCA is due to be reviewed by the UK and EU in 2026. Its scope should complement new areas of UK-EU cooperation, such as such as a veterinary agreement and mutual recognition of professional qualifications. Business mobility should be improved by seeking an extension of the current 90-day visit limit. The government should negotiate a Youth Experience Scheme to allow 18-30 year olds to work and study in each jurisdiction, as supported by our members[xxix].

Recommendation

23. Restart the development of the Single Trade Window

Last year, the Government announced that it would be halting the development of the Single Trade Window (STW) due to financial constraints following the Budget. This is frustrating, particularly given extensive industry engagement and the project’s proximity to completion. We urge the government to restart the implementation of the STW to facilitate trade for all UK companies.

According to IoD data, paperwork remains the largest obstacle for organisations involved in international exports[xxx]. The Single Trade Window, designed to streamline border processes through a unified platform, has the potential to significantly ease this administrative burden on firms, making importing and exporting more efficient.

Additionally, it could enhance data collection to better monitor and understand UK trade flows.

Measuring success

To be able to judge when UK export levels are truly improving, there must be a measure of what success looks like.
The Institute of Directors urges the government to aim higher on its strategy for export growth – the previous target set by the Conservative Government of £1 trillion exports in current prices by 2030 is not sufficiently stretching.

In our policy paper, Setting a Meaningful Export Target for Britain, we assessed whether the £1 trillion headline target is appropriate and consider whether there are alternative measures that better capture what government export policy is trying to achieve. We concluded that because the £1 trillion target is affected not only by inflation, but also by longer-term global economic trends, a preferable measure would be linked to the volume of trade and set at a level that takes account of trend growth rates.

In addition, we also urge a second target: to increase the proportion of UK businesses that are exporters. Meaningful targets would enable Parliament to better judge the success of government policy designed to support exporters, as well as providing government itself with a framework around which it can judge the effectiveness of different policy interventions.

Moreover, it would be useful to monitor disaggregate data to assess growth in specific demographics. For example, understanding trends in different regions across the UK, as well as sizes of business – small, medium and large – could help to identify where further policy interventions might spur increased export growth.

Recommendations

24. A chained-volume target of £950bn of exports in 2023 prices by 2030
25. A second target of 15% of all businesses exporting either goods or services by 2030

Export support

IoD data shows there are a significant number of members who feel they lack the relevant tools needed to export internationally. In response to an IoD poll in December 2023, of those businesses which do not currently export, 11% responded this is due to a lack of availability to finance and 16% said they do not have the relevant knowledge and skills.
An IoD survey in January 2025 found that the majority of members have not benefited from export support offerings. However, of those which have, government trade advisors, events and webinars and local embassies have been the most used:

Has your organisation ever benefited from any of the following support offerings to help with exporting challenges?

None of the above	52.8%
Government trade advisors	19.8%
Events and webinars	18.3%
Local embassies	18.3%
Guidance and advice from trade associations	14.9%
Private consulting support	14.2%
Government factsheets and explainers	7.7%
Translation services	6.7%
UK Export Finance	5.7%
The UK Export Academy	4.6%
Government Export Champion programme	3.1%

Source: Institute of Directors Policy Voice January 2025

Anecdotally, members tell us guidance tends to be ad hoc and important communications often do not reach them. At the same time, GOV.UK guidance is seen to be overcomplicated, and often sends the reader into a maze of links to new pages and documents.

Meanwhile, some members have had said trade advisors do not necessarily offer better advice than what is available online. Businesses consistently tell us they value tailored, in person advice over generic guidance fact sheets and have therefore welcomed services like the Export Support Service helpline.

Additionally, funding options are limited, especially as a first-time exporter. The Internationalisation Fund, which offered finance for SMEs looking to expand into new markets, was discontinued in January 2023. UK Export Finance, which provides government backed insurance and guarantees for UK exports, is primarily aimed at more experienced exporters.

Many members also feel that the government should offer better services which connect businesses to international opportunities. For example, they have not been able to successfully use government sources to find suppliers or connect with international buyers or partners.

Overall, despite the 2021 strategy, practical export support seems rather haphazard and could be much better organised to ensure it is accessible and comprehensible for all types of business.

Recommendations

26. **Create a one-stop-shop style portal for all export guidance and funding initiatives. This would include contact information for local trade advisors, simplified, step by step guidance sheets for processes throughout the export journey, and details for customs helplines.**
27. **Better facilitate business to business connections by publishing a database where firms can find buyers and partners across the globe, attend trade shows and access UK embassies in international markets.**
28. **Provide training for International Trade Advisors to ensure advice is consistent and dependable across all regions.**
29. **Reopen an equivalent of the Internationalisation Fund to provide grants to SMEs and first-time exporters, which can be used for travelling to new markets, attending trade shows, using translation services and employing consulting services.**
30. **Monitor and publish the impact of government assistance for exporters - teams both at overseas missions and those UK-based trade advisors - to assess their effectiveness and ensure all businesses have the right support for their exporting needs.**

Devolved Nations

Each of the UK's devolved nations faces distinct challenges that have an impact on the type of budgetary support they require. Although the Autumn Budget looks at the full United Kingdom, it is vital that consideration is given to the potential implications that the Devolved Nations may face. The economic contexts in each nation, growing tax powers, and political mandates mean that any UK budget must account for the distinct needs and contributions of Scotland, Wales and Northern Ireland.

Below we set out a range of recommendations applicable to each/all of the Nations that would help to foster sustainable economic growth and create greater certainty for the respective budget holders in Scotland, Wales and Northern Ireland.

Recommendations

31. A clearer breakdown picture of how UK-wide spending decisions (e.g. NHS, education, apprenticeship levy) translate into devolved funding via the Barnett formula. A review of the formula to better reflect demographic and regional needs across the nations.
32. Look towards a multi-year block grant settlements to improve planning and delivery, especially for capital projects and public service reform in the devolved nations.
33. Tailored and dedicated support packages for rural regions across the nations, who face acute challenges in physical and digital infrastructure. A "rural support fund" would allow these regions to unlock vital funds to address some of the key blockers to economic growth.
34. Improve coordination between HM Treasury and the Scottish Government on income tax policy and administration, especially around the UK-wide Personal Allowance and reliefs.
35. Establish a joint UK devolved tax policy forum to improve transparency, stakeholder engagement, and evidence-based policymaking for future devolved tax policy decisions.

Innovation and Technology Policy

The government has identified digitalisation and AI adoption as foundational to growth, underpinning ambitions for a more productive, competitive and resilient economy. However, policy remains fragmented, with limited coordination across finance, skills, and regulation. Support mechanisms for businesses, especially SMEs, are often hard to navigate and insufficient to offset the risks and costs of adoption. While pro-innovation announcements and the Technology Adoption Review have set the right direction, these must now translate into detailed, evidence-backed and measurable implementation plans. The focus should shift from vision-setting to accelerating meaningful and responsible diffusion, supported by clear governance frameworks, regional delivery, and targeted tax and skills incentives. Government should lead on direction-setting, coherence and enabling conditions, including cybersecurity, standards, interoperable data, and alignment between technology, energy and fiscal policy. Industry, in turn, should lead on execution, with targeted public support where barriers are systemic such as for skills, assurance, guidance and access to finance.

Recommendations

36. Create a single digital front door for innovation finance. Streamline Innovate UK, UKRI and British Business Bank support into one platform with common onboarding and guidance, reducing search costs and duplicative journeys for adopters and scale-ups. Government must also publish further details on the proposed AI Adoption Fund to clarify scope, eligibility and funding mechanisms.
37. Introduce time-limited, digital adoption-focused tax relief for SMEs. Replace fragmented voucher schemes with tiered, outcome-linked support combining upfront subsidies with enhanced tax relief on qualifying digital and AI investments. This must address recurring costs (such as licensing and cloud costs) as well as training to prioritise sustainable capacity-building.
38. Centralise trusted guidance and AI assurance for businesses. Establish a dynamic information portal on AI deployment for business, modelled on the AI Playbook for government, and complement this with a private-sector-led accelerator service offering tailored advice on use cases, vendor selection and governance. In line with recommendations from the SME Digital Adoption Taskforce, the Business Growth Service should be updated to reflect digital and AI priorities, including information on the government's work on AI

assurance. Effort should focus on providing clearer context and specificity around the types of generative AI tools, technologies, and systems available, rather than presenting AI as a universal solution to productivity challenges.

39. Launch a practical AI guidance programme with regional and sectoral delivery. Develop sector-specific sandboxes to encourage SMEs to adopt AI in a safe, experimental environment; and appoint regional AI champions (potentially aligned with AIGZs) to provide hands-on support alongside digitally-advanced firms. These initiatives may draw on international best practice such as from Germany and Singapore, charting a path for businesses in lower-productivity sectors. With the Made Smarter programme being expanded, this programme provides a proven model.
40. Develop, scale and support business digital and AI skills and competency frameworks across sectors. DSIT, DBT and DWP should collaborate to establish agile generative AI skills taxonomies. Building on BridgeAI and existing government-industry commitments to upskill 7.5M workers by 2030, the government should deploy underspent Growth and Skills Levy funds to support reskilling aligned with IS-8, closing the gap between generic AI training and industry-specific competencies.
41. Improve data, transparency and adoption metrics. Upgrade business digital and AI adoption statistics (drawing on existing data from Help to Grow, trade associations and private-sector sales); consider a voluntary Taskforce for AI-Related Workplace Disclosures to share best practices for use and governance; and update classifications where needed to reflect the evolving digital economy (e.g. SIC).
42. Advance digital governance and guardrails in the form of standards and codes of practice: Building on the Cybersecurity Code of Practice, develop cross-cutting governance standards for emerging technologies, particularly new forms of AI.

We hope you find this helpful.

Yours sincerely,

Jonathan Geldart, Director General

Anna Leach, Chief Economist

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Cyflwynwyd yr ymateb i ymgynghoriad y Pwyllgor Cyllid ar Cyllideb Ddrafft Llywodraeth Cymru 2025-26.

This response was submitted to the Finance Committee consultation on the Welsh Government Draft Budget 2025-26.

WGDB_26-27 23: Ymateb gan: Ffederasiwn y Busnesau Bach (FSB) Cymru |Response from: FSB ð Federation of Small Businesses

Senedd Finance Committee

Evidence ahead of Welsh Government Draft Budget

Federation of Small Businesses Wales

September 2025

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales. It campaigns for a better social, political, and economic environment in which to work and do business. With a strong grassroots structure, a Members Advisory Council, 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.

Introduction

FSB Wales welcomes the opportunity to set out our priorities for the upcoming draft budget, although we do note the high level of uncertainty given the unknown impacts and policies that will be undertaken in the UK Autumn Statement. As such we will outline key priority areas, but this may require some amendments as the position becomes clearer.

This submission will:

1. **Provide the wider context**
2. **Set out FSB's key short-term priorities for this draft budget**
3. **Identify longer-term issues for future attention**

We would note that the data provided at this stage are primarily drawn from UK-level FSB Small Business research, which we expect to be broadly applicable to Wales. **FSB Wales is currently running the Big Small Business Survey for Wales,** open until the end of September 2025, capturing SME views across a wide range of policy areas. The findings will help shape our final budget proposals and inform priorities for the next election. We will share any relevant results with the committee once analysis is complete and the data is available.

This budget arrives at a key moment economically for small businesses and politically arrives at a moment of transition in the run up to the 2026 election and a new larger Senedd.

An adopted budget in the Senedd is critical for SMEs across Wales for the next budget year, providing the clarity and stability needed for effective planning and to make informed decisions on investments, hiring, and expansion, reducing the uncertainty that currently undermines business confidence.

This budget lands at a time of flux, and the politics of passing the budget may become more complicated depending on the result of the upcoming by-election and whether the Welsh Government retains or loses its technical majority. Collaboration and constructive engagement will be crucial across all political parties in the Senedd to provide the best opportunity to pass an effective budget.

SMEs need reassurance that their priorities are addressed consistently, regardless of any political changes. A budget that delivers immediate relief while setting a strategic direction of travel for the future will empower SMEs to plan confidently and drive job creation. In general, the earlier there is clarity on what to expect for the budget year from April 2026, the better it is for business planning, including for intermediaries who support many businesses, such as accountants.

In the medium-term there is more clarity on UK Government allocation of additional money for the next year with the move to multi-year budgets. Consequently, there should be sufficient headroom to support SMEs, including through the methods outlined in this paper.

This support is vital to our small businesses to provide the necessary foundation for growth in local communities across Wales.

FSB expect to see continued action on business rates with on-going support for Retail Leisure and Hospitality through continued reliefs or multipliers to offset any reductions or cancellations of those reliefs. Additionally, the FSB expects actions to sustain support for the planning system, address transport needs, and enhance capacity for growth.

How this budget aligns to long-term economic strategy remains important and needs to be illustrated – including how measures taken in the budget align to indicators and milestones over the longer term, to fit the wider performance targets in the Future Generations agenda. How it impacts over the long-term towards a prosperous economy, including aims at building growth and productivity, are areas where we would like to see better alignments between short-term measures and long-term aims. This is something that all parties should consider when looking at approaches for the next Welsh Government and in their election calls.

Moreover, passing a budget is essential for ensuring a smooth transition to the next Welsh Government, post May 2026. SMEs require good governance and long-term policy consistency to navigate challenges they are experiencing. An approved budget can lay the groundwork for clarity on SME support over an election period and ensuring that the incoming government inherits a stable economic foundation.

Key Asks

- Short term: Deliver measures that will support and promote SME growth and prosperity, including:

1. **Business Rates Reform**
    - Ensure that differential multipliers apply to Retail, Leisure, and Hospitality, not just Retail. Where this is not enacted, maintain reliefs to bridge the gap.
    - Undertake impact analysis of any new differential multipliers on businesses currently receiving reliefs in Retail, Leisure, and Hospitality. Safeguards should be in place, so these firms do not lose out in the next budget year, and that changes remain balanced to avoid leaving eligible businesses worse off.
2. **Skills & Apprenticeships**
    - Restore Apprenticeship funding in Wales to the levels before the cuts in the 2023-24 budget.
3. **Business Support & Investment**
    - Work toward restoring business support funding in Wales to pre-EU exit levels in real terms. Commit to multi-year budgets, and ensure support is tailored to Welsh needs while maximising alignment with the UK Industrial Strategy and Small Business Plan.
    - Introduce a voucher scheme to enable smaller businesses to access private sector business support.
4. **Planning & Local Authority Capacity**
    - Continue additional funding for local government to build capacity and expertise within planning authorities. Introduce incentives to speed up decision-making and provide compensation to firms facing delays.

In the longer term, Welsh Government, and future Welsh Governments should address:

1. **Budget Process & Fiscal Framework**

- Improve the budget cycle and process, including the timing of information shared on Barnett consequentials. We welcome the UK's multi-year budget which gives better medium-term clarity. The earlier there is clarity the better for business planning.
- Deliver a full review of the Fiscal Framework at pace and provide clarity on discussions and actions taken between Welsh Government and HM Treasury to strengthen financial planning.

2. Strategic Alignment & Transparency

- Strengthen the alignment between the annual budget and long-term economic aims, ensuring transparency on how budget decisions support the Well-being of Future Generations performance framework.
- Strengthen the capacity of the Development Bank of Wales to take on more strategic investment opportunities by working more closely with the Wales Pension Partnership. This would expand access to finance for SMEs while delivering strong returns through diversified investments, enabling the Bank to reinvest more capital into supporting small and medium-sized firms across Wales.

3. Replacement of EU Funds

- Provide clarity on the quantum and design of future funding to replace the Shared Prosperity Fund (SPF). Use the restoration of devolved decision-making on replacement funds to implement a comprehensive economic strategy, delivered in partnership with local authorities and Corporate Joint Committees, and underpinned by the OECD's recommendations in its *Regional Governance and Public Investment in Wales* report.

Current Context and Business Environment

The Draft Wales Budget, set to be released before a key UK Budget but finalised afterward, comes as many small businesses face numerous challenges and are struggling to make ends meet.

The pressures facing small businesses are the result of a cumulative rise in costs over recent years. Firms have been hit by higher bills for utilities and fuel, alongside reduced consumer discretionary spending. At the same time, they have absorbed tax increases through Employers' NICs, corporation tax, and rising wages. Many sectors are also still repaying debts taken on during the pandemic and continue to recover from its long-term impacts.

This has had an impact on business confidence and will continue to do so unless government takes strategic action to mitigate impact. For the first time, including during the COVID-19 pandemic, the FSB's UK Small Business Index (Q2 2025, April-June) shows more small firms are anticipating contraction than expansion. This unprecedented finding underlines the urgent need for the UK Government's forthcoming Small Business Strategy to take decisive action to help small firms grow, and to get the economy moving.

Key FSB UK statistics include:

- Growth: 27% predict shrinkage, sale, or closure over the next 12 months (vs. 25% expecting growth), a reversal from Q1's 48% growth optimism and 18% contraction fears;
- Stagnation: 49% (up from 34%) foresee no change in business size, reflecting increased caution;
- Confidence: Reduced to -44 points (from -41 in Q1);
- Revenue: 42% expect Q3 declines (vs. 27% growth);
- Employment: 20% cut staff in Q2 (vs. 9% hiring); 19% plan Q3 reductions (vs. 8% additions);
- Top Barriers: Domestic economy (64%), tax burdens (39%), driven by National Insurance increases, and labour costs (37%).
- Additionally, 90% of small employers express concerns over the impending Employment Rights Bill, which according to UK Government's estimates, could add £5 billion in annual UK-wide costs.

Other recent ONS figures also pertain to illustrating the challenges in Wales on the economy. Headline labour market indicators from the Labour Force survey, 3-months to July 2025 are as follows:[1]

Employment Rate:

- Wales - The employment rate in Wales was 70.8%. This is down 1.4 percentage points on the quarter and up 1.0 percentage points on the year.
- UK - The UK employment rate was 75.2%. This is up 0.1 percentage points on the quarter and up 0.5 percentage points on the year.

Unemployment rate:

[1] Welsh Government Statistics, 'Labour market overview: September 2025 (headline results), available at: https://www.gov.wales/labour-market-overview-september-2025-headline-results-html#:~:text=Employment%20rate,Image

- Wales - The unemployment rate in Wales was 4.7%. This is unchanged on the quarter and up 0.7 percentage points on the year.
- UK - The UK unemployment rate was 4.7%. This is up 0.1 percentage points on the quarter and up 0.4 percentage points on the year.

Economic inactivity rate:

- Wales - The economic inactivity rate in Wales was 25.6%. This is up 1.4 percentage points on the quarter and down 1.5 percentage points on the year.
- UK - The UK economic inactivity rate was 21.1%. This is down 0.2 percentage points on the quarter and down 0.8 percentage points on the year.

The concerning 1.4% decline in Wales's employment rate this quarter, coupled with a stubbornly high economic inactivity rate of 25.6%, illustrate that small businesses across Wales face continuing challenges. These latest statistics reveal a continuing disparity with the wider UK, despite employment figures worsening across the UK. FSB Wales urges Welsh Government to take concerted efforts in its draft budget to signal support small businesses to protect jobs, increase employment levels, and mitigate these broader economic challenges for the benefit of businesses and communities across Wales.

With a danger of it being seen as 'last year's news' amid the issues noted above, it is important to note the impact this year of the UK Government's increase in the rate of employer National Insurance contributions (NICs) from 13.8% to 15% and the decision to reduce the per-employee threshold at which employers become liable to pay National Insurance (the Secondary Threshold) from 6 April 2025 to £5,000.

At the UK level this was the HMRC estimate of impact:

> "HMRC estimates that these measures combined will impact around 1.2 million employers from April 2025, with 250,000 employers gaining from the package, 940,000 losing out in net terms, and a further 820,000 employers seeing no change. This results in an average annual tax increase more than £800 per employee. The average employer who loses out will see their liabilities increase by around £26,000."[2]

FSB Wales asked UK Treasury for equivalent information for Wales but as they're based on HMRC data, it is UK only and the UK Minister said the figures were not available. It would be useful to know if any update has been made in this regard on impact in Wales.

[2] Office of Budgetary Responsibility, 'Economic and fiscal outlook' (OBR: October 2024), available at: https://obr.uk/efo/economic-and-fiscal-outlook-october-2024/#chapter-3

- **The committee may want to ask if Welsh Government have made – or have discussed with UK Government - an equivalent impact assessment for Employers NICs changes this year in Wales.**

In this straitened context and with difficult times for SMEs and employees, it is vital that Welsh Government makes full use of any opportunities through that strategy and the new UK Industrial Strategy to ensure that they are shaped and implemented for maximum support for SMEs and communities across Wales, ensuring that we have confidence in growth for small businesses as the key backbone of the Welsh economy.

FSB Wales calls for bold, coordinated measures ahead of the Welsh Government's final pre-2026 Senedd election budget:

1. **Use Welsh Government Levers: Prioritise SME support via business rates policy as mitigation of wider economic impacts, and bolster skills development plus finance access to dismantle growth barriers.**
2. **Leverage UK Strategies for Wales: Tailor the forthcoming UK Small Business Strategy and Industrial Strategy to Welsh SME needs for maximised support.**

By addressing these imperatives, policymakers can work towards restoring SME confidence, foster expansion, and secure Wales's economic resilience.

FSB Key Priorities in the Draft Budget

NDR Multiplier & Rates Relief

Non-Domestic Rates are a devolved competency, and so it is a matter for Welsh Government to decide policy opportunities and mitigations for issues arising from wider UK policy.

The business rates system is imperfect and does not work well for small businesses. The system is complex and difficult to understand, and businesses pay rates before making a penny of profit. The valuation process is long and technical, with many businesses saying they find the results often difficult to understand, and variations across different properties being surprising. The rates don't easily correlate with a business's ability to pay, an issue which affects sectors disproportionately due to how the system values the business property rather than activity.

The Welsh Government can reform the system. Until they do, or while they take piecemeal steps towards that goal, reliefs are an important lever to alleviate the impacts of an imperfect system. Moreover, it is a lever that the Welsh Government holds to alleviate some of the impacts of the NICs rises and wider loss of confidence in growth at a UK level and one they should use.

FSB Wales agree with the introduction of a lower retail multiplier and welcome it in supporting a retail sector that is struggling. However, FSB Wales would caveat that in our view the rationale for the change has been framed in too narrow a way and we would wish for a more ambitious approach that supports a wider range of businesses and which aligns a business rates policy that provides a more holistic approach to align with wider policy goals (such as more diversified and thriving high street).

Given that across most other areas of policy they are assigned together as they face similar challenges, we do not see why this policy should be treated differently and extricate Retail from Hospitality and Leisure in terms of support. There is a rationale given in that Retailers face competition from online retail. However, this rationale - given Retail, Leisure and Hospitality are broadly addressed together across NDR policy generally - raises questions whether this is an ex post facto rationalisation that allows for the exclusion of hospitality.

They are also important for high street regeneration, or to address empty units and run-down high streets. In Quarter 1 of this year business closures in the UK surged to their highest level since 2021.[3] The Centre for Retail Research showed that in 2024 UK retail store closures jumped by more than a quarter on the previous year. The centre's analysis found that 13,479 stores, the equivalent of 37 each day, shut their doors for good over the calendar year.[4] They forecasts that 17,349 shops in UK could close in 2025 In England and Wales. Approximately six pubs closed their doors each week in 2024, according to the British Beer and Pub Association.[5]

Within this context, Hospitality also faces significant challenges and require ongoing support in terms of business rates, and we have been made aware of many places where a significant number of businesses that provide for a healthy towns and high streets have had to close over the last few years. The 'brick and mortar' aspect of hospitality (which is a rationale given for introducing a differential multiplier for the retail sector) of hospitality also faces challenges and

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[3] Anthony Batty Insolvency Practitioners, 'Business closures surge in Q1 2025: A sector snapshot for company directors and how Insolvency Practitioners can help' (April 2025), https://www.antonybatty.com/business-closures-surge-in-q1-2025-how-insolvency-practitioners-can-help/#:~:text=The%20retail%20sector%20has%20been,an%20estimate%20of%2017%2C350%20closures.

[4] Centre for Retail Research, 'The Crisis in Retailing: Closures and Job Losses' (January 2025) https://www.retailresearch.org/retail-crisis.html

[5] Beer Brewers and Pub Association, 'Six pubs a week shutting their doors for good as BBPA says urgent Government action needed to halt "completely avoidable" closures' (February 2025) https://beerandpub.com/news/six-pubs-a-week-shutting-their-doors-for-good/

disincentives to adding to a healthy high street due to the cost of business rates. One hospitality business noted to us that while they remain an open 'restaurant' as well as takeaway service, in terms of costs of business rates the incentive would be for them to rely wholly on delivery services and work only from a kitchen. It should be noted that this would then have an impact on areas of fair work, with such platforms providing for less work, more insecure work, and less potential for skills development. The bricks and mortar element is currently a disincentive, but is vital to support for healthy diverse high streets.

The Retail, Leisure and Hospitality, sectors are vital pillars of the Welsh economy, as well as being important to social well-being, especially in rural communities, providing essential services and opportunities for entertainment, socialising and physical activity. These sectors have experienced a prolonged period of difficult economic conditions. With low consumer spending and disproportionately high costs still affecting some businesses' viability, they still need support to recover.

Whether that support comes through ongoing reliefs or through a more stable long-term use of differential multipliers (or a mix of both in the short term) is a fair question.

- **A question the committee may want to ask is how this new multiplier aligns with ongoing shorter-term support, especially for hospitality businesses who currently will not be covered under the new proposed multiplier:**
    - **If the Retail Leisure and Hospitality Relief of 40% were to be withdrawn, would the new differential multiplier rate offset that change for the business?**
    - **To what degree would hospitality and leisure lose out in that situation?**

It is important that different strands of NDR policy not be treated in isolation. Given the wider policy aims to renew high streets and towns and the wider policy impacts that providing incentives would have (e.g. on local economy, growing a tax base, ensuring empty units are filled, the diversification of the high street offer, community cohesion etc.), our view is that a rational aim at this time would be for businesses to have a stable system that looks to ensure the costs faced by smaller business with the current reliefs in place be similar but set through policy for the long term, without the uncertainty of whether the reliefs will be retained in the draft budget year on year.

- **For the current budget we would urge and that any change to Retail, Leisure and/or Hospitality be offset by changes to the multiplier and that small businesses in these sectors do not find themselves worse off.**

We would also urge the committee to question the Welsh Government on the impact on changing this relief to a discretionary relief, which means that in this year SMEs have needed to request the relief, making it less transparent and accessible, especially given this was previously automatically applied. We would urge that any budgetary shortfall is not taken as meaning businesses do not need this relief, but rather that they are time poor and were not made sufficiently aware of its existence and that it applied to them. As Welsh Government's recent report by Alma Economics notes of this change has negatively impacted its simplicity and compliance, alongside the ongoing uncertainty as to its continuation.[6]

- **The Committee may wish to ask Welsh Government what steps were taken to let eligible businesses know about the 40% relief being changed to a discretionary relief (and so they had to apply)**

In the last budget FSB said the following in anticipation of these new powers:

> *'Looking beyond this Draft Budget to the next, the Welsh Government must deliver a business rates framework that aligns with a forward-looking mission to drive prosperity by the 2026-27 Budget. It is crucial that the next few months are used to identify how the new powers to vary the multiplier can be used to meet the government's economic objectives. This includes revitalising our town centres by addressing the imbalance between our small-town centre retailers and large out-of-town developments and creating a system that encourages micro and small businesses to grow into medium businesses. By the 2026-27 Budget, the Welsh Government will be able to use the powers granted via the Local Government Finance (Wales) Act 2024 to use variable multipliers to support small businesses.*

While the proposals are limited in scope, we welcome the use of these powers they have suggested in consultation, but believe there is room to be more ambitious and to ensure differential multipliers are used by location (such as high streets). This can be only a first step to a sustainable solution on fairer evaluations. We would also wish the differential multiplier for retail also include leisure and hospitality, to fit with the rationale of the reliefs. Only with this lower multiplier and an assessment to understand the impact on eligible small businesses so that they do not lose out should there be any reduction to the 40% LHR relief.

<u>Questions on impact assessments of any new multipliers and the budget</u>

[6] Alma Economics, Review of non-domestic rates reliefs: final report (Welsh Government: 2024), p 33, available at https://www.gov.wales/sites/default/files/statistics-and-research/2025-05/review-of-non-domestic-rates-reliefs-final-report-156.pdf

The Welsh Government's consultation document on proposals for non-domestic rates differential multipliers[7] suggests that the use of the new higher multiplier will allow for both a lower small retail multiplier AND the standard multiplier to be less and to lower the tax burden for those businesses:

> *'A higher multiplier would levy a modest amount of additional revenue from the (by value) properties in the tax-base (local and central rating lists). This would ensure the standard multiplier, applicable to all properties which were not subject to the retail or higher multipliers, could be set at the lowest possible level (while also ensuring there is no change to the overall amount of non-domestic rates revenue).'*

It would be useful if Welsh Government could provide more detailed modelling and detail for how much different this could make for the SMEs in those lower bands.

- **The Committee may wish to ask Welsh Government about its impact assessments in this regard, for example with different scenarios looking at**
  - **if the higher multiplier were increased by X, how much savings would businesses see under the other two multiplier rates?**
  - **Would it make any difference for the standard rate in practice?**

The details will make a difference to the impact of the policy, and how much support it provides for smaller businesses in retail and on standard rate in practice. It also would be of material importance in understanding budget allocations and the rationale that underpin them.

Another question the committee may want to ask is:

- **Does the £100,000 threshold for higher multipliers capture businesses it shouldn't?**

FSB have not made an analysis across sectors of the impact this new higher threshold would have on SMEs in different sectors, but certain sectors are captured by property costs (rather than say turnover or profits) more than others – it may be that SMEs with a need for more floor space (such as in manufacturing, SME defence contractors) are captured as the threshold will apply to businesses for whom higher value properties are essential – while more likely to be big businesses, this may not be true in every instance. So, while the focus may (understandably) be on capturing value from big supermarkets and lowering the tax burden on smaller retailers, it is important that there is a cross-sectoral analysis of impact, and ongoing evaluation of any perverse outcomes

[7] Welsh Government, Consultation on proposals for non-domestic rates differential multipliers (May 2025), available at: https://www.gov.wales/consultation-proposals-non-domestic-rates-differential-multipliers-html

that could damage key sectors. It is also important to understand how these different changes balance out in budgetary terms.

It is important too that the system supports businesses, with a view to growing the local Tax base over longer term as against a narrow understanding of the use of tax as revenues in an annual budget cycle.

Longer term NDR reform

Over the longer term we would urge consideration of the following, with a view to better reflecting the value of businesses (and not only in terms of raising revenue):

- **Raise Small Business Rate Relief threshold from £6,000 to £12,000 (and tapering to £15,000), to match those in England**
- **digitise processes to make things more transparent and more seamless (following models such as in Denmark and Estonia)**
- **Consider rates holidays for startups in their first year**

Skills & Apprenticeships Funding

In its Draft Budget for 2023/24, Welsh Government outlined significantly cuts of around 24% in apprenticeship funding in Wales (including losses due to loss of eU funding programmes). FSB joined a number of other organisations to outline our serious concern about the impact of these cuts. While the subsequent restoration by Welsh Government of £5.25million funding was welcome, the remaining funding shortfall has had significant consequence in the past year.

This impact is outlined in research undertaken by CEBR for NTfW and Colegau Cymru which points to 6000 fewer apprenticeship starts in the past year and a £50.3million 'short run' impact on the Welsh economy. Building up funding for skills is key to future growth, including building SMEs capacity and capabilities to take full advantage of opportunities in the future (such as in transition to net zero projects).

The challenges of skills gaps and a lack of technically qualified individuals in key areas of our economy are already well articulated by several partners and these were highlighted for SMEs in our report 'A Skills-Led Economy for Wales'[8]

We would also note that while targets for new apprenticeships are necessary, they are insufficient to fulfil SME needs and need a more granular approach, and

[8] Ll ap Gareth, E Crowley, K Marshall, B Willmott, 'A Skills-Led Economy for Wales: Growing SMEs through Skills Development' (FSB Wales/CIPD: 2023), https://www.fsb.org.uk/resource-report/a-skills-led-economy-for-wales.html#:~:text=Focusing%20on%20growing%20the%20SME,to%20have%20new%20skills%20opportunities%2C

we would also urge a further need for key targets to achieve apprenticeships being taken on by businesses at different sizes. Smaller businesses are less likely to take on apprentice for a variety of reasons and this needs targeting – the danger in a headline figure of apprenticeships created is that the incentive is largely to target businesses who already have capacity to achieve the target rather than build capacity for businesses to take on an apprentice. In simple terms, it is easier to create 50 apprenticeships in one large business than looking to create 1 apprenticeship in 50 small businesses. Both are welcome, but the latter also supports businesses across Wales to raise capacity and builds capacity for embedded small businesses to grow.

However, such shortages and their corresponding impact on the economy must be addressed, not only if we are to grow the Welsh economy more broadly, but if we are to realise the huge opportunities of projects such as Floating Offshore Wind (FLOW). A lack of appropriate skillsets at volume represents a significant threat to capturing the best of this opportunity and others like it and the development of resilient SME-focussed supply chains.

Welsh Government should therefore use this Draft Budget to restore funding for apprenticeships in Wales to the levels afforded prior to the withdrawal of European funding and ensure SME access to such funding is a priority.

The Welsh Government could help restore confidence amongst business owners that they can work together to deliver a successful partnership for growth by **reviewing, developing and growing business support funding in areas which could drive up productivity**. This includes management and leadership support, innovation support, skills development and commercial expertise.

Planning

A significant barrier to growth remains the complexity, cost and time for decisions in the planning system.

The First Minister has emphasised the importance of the planning system as a key growth lever available to the Welsh Government and we welcome the commitment to unlocking the planning system and the recently launched consultation on how the Welsh Government can bring capacity into a speedier planning system. Too often, FSB members complain of a system which is limited in capacity and expertise and where decision making is slow. These challenges impact all development from the largest infrastructure project to the smallest commercial premises extension.

- **FSB would like to see continuation of additional funding allocated to local government specifically to create capacity and expertise within planning authorities.**

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- **This could provide capacity to ensure that local projects have a single point of contact who links across the planning process, and in doing so makes it easier for developers to navigate what can be a complex system.**

We have welcomed the Welsh Government's commitment to addressing delays within the planning system and commitment to delivering a resilient and high performing service. FSB Wales has long called for reform of the planning system due to complaints from our members of a system which is limited in capacity and expertise and where decision making is slow. This inhibits growth and serves as a disincentive to possible developments that support transition to net zero and retrofitting properties and premises, as well as change of uses to support future high street needs.

We have welcomed recent moves to speed up the system for projects of national significance. However, it is vital that the system is reformed to better serve projects at all levels, local to national, and empowers SMEs to develop new opportunities. FSB welcomed and responded to the consultation on **Promoting a resilient and high performing planning service.** Welsh Government's work has started with a focus on planning fees, but also acknowledged it as only one part of the reforms needed, and it requires several reforms to work in tandem for these proposals to be seen as fair to those affected.

However, key to this – and to this budget - will be an ongoing commitment to better resourcing planning authorities to deal with these areas quicker. In 2024-25 budget, a commitment of an additional £3.7m to help accelerate planning decisions, increase capacity in the planning system and support a programme of digital transformation of planning services, was made to this end this year. **We expect to see an ongoing commitment to this to reduce barriers to growth.**

We would note this needs also be aligned to other ways to ensure efficiency and that it is money that is well spent. Strong conditions should be placed on raising fees including that fee increases should only apply within statutory period or a set period so that the cost of delays is not borne by the private sector impacted and that some payment of fees may be back-ended for developers to end of process and would not apply if delayed. This would provide an incentive to decision-makers to improve the efficiency of the system as the cost of delays would fall on the Local Authority and not the SME developer and so any additional spend is used in a way that improves efficiency and supports businesses in their growth aims.

Certainly, in the short to medium term, this means that there will need to be central government support for building capacity and resources for hollowed out planning authorities, and this should remain to support any ongoing reform agendas. The principle of additionality – that the revenue raised adds value to the service and is not merely displaced elsewhere in the wider Welsh

Government or Local Authority budgets - is important here, and without it the underlying aims of the agenda on planning will not be reflected in the policy implementation.

Transport

From Roads to freight to public transport, Transport is a priority issue for SMEs.

In FSB reports and research over the last few years from Skills to Manufacturing, from Creative Industries to Tourism, improving public transport has repeatedly been noted as a priority by small businesses across Wales, but particularly so in more rural areas. It has been noticeable that public transport has been put forward as a priority even when the focus of those research projects was elsewhere, and we did not actively ask questions on public transport. This shows that it is raised unprompted in roundtables across the piece.

FSB UK data shows that 30 per cent of rural SMEs found that a lack of a public transport network was a barrier to hiring skilled staff as well as a barrier to their business growth, compared to 4 per cent of urban SMEs.[9] Clearly this has implications for Welsh needs from transport, given the geography of many parts of Wales.

TfW’s ongoing reform of rail and expansion into addressing and implementing bus reform and wider multi-modal views provides a welcome response to fragmentation of decision-making within the system and has the potential to provide more stability and clarity in a better integrated system.

FSB gave evidence broadly in support of reforming the Bus system and view it as an opportunity to have better central coordination to get a better integrated system that has the potential to provide better access to employment. This will require ongoing iterative engagement with small businesses on the challenges on skills access they need to address at the local level and a commitment to ensuring the economic and business engagement shape the needs of local areas.

It should be noted that changing to a franchising system – while having advantages in strategic planning - does not in itself change the economics of bus travel, and for the draft budget there is a need to understand the risks and opportunities accordingly, as it will require a strong public subsidy and also place more risk on TfW, who have already received substantial public support in taking over rail responsibilities and in upgrading the service.

[9] R Hyrslova & E Quist, The Growth Belt: Supporting Rural Small Businesses (FSB: 2023) https://www.fsb.org.uk/resources/policy-reports/the-growth-belt-MCCDX77LDVOJGHXMHV7KD2SC5AXI#:~:text=After%20decades%20of%20promises%2C%20poor,and%20prosperity%20for%20generations%20ahead.

The revenue risk will sit with Welsh Government and TfW, as they will set the fare structure and retain all revenue. It is important that reforms are commercially viable, or there is a danger that ongoing high levels of investment to TfW become too high relative to other budgetary needs. This needs to be consistently scrutinised, and the role of the Welsh Government and Senedd's scrutiny will be key to ensuring that we understand whether the changes are successful and value for money, that the investment is proportionate relative to the wider Welsh budget, and whether any course corrections or mitigation are needed. With public revenues tight it is important that transport does not become a fiscal black hole.

- **The committee may wish to check the budget on the measures taken to ensure value for money and ensure Transport for Wales's expanding responsibilities succeed while remaining affordable to the public purse, as well as any mitigations of risk outlined here.**

UK Budget and transport consequential funding

FSB are concerned that the ongoing impact of HS2 on the comparability factor used by the UK Government to calculate Barnett consequential funding for the Welsh Government from Department for Transport spending in England has limited the Welsh Government's ability to go further in this area.

As an example, during the Autumn Budget 2024, the Chancellor of the Exchequer announced an increase of £500 million to the 24-25 roads maintenance fund in England, taking the total to £1.6 billion. As HS2's classification as an England and Wales project has reduced the comparability factor used to calculate the Welsh Government's consequential funding from Department for Transport spending to 33.5%.

In this year's budget is that Wales also receives less funding from projects such as road maintenance in England than is the case in Scotland or Northern Ireland, whose comparability factor remains at 95%.[4] This shortfall is due to the impact of the HS2 designation and its spend on the formula for Wales's transport consequential funding, which appears to be a perverse outcome as Wales's funding shortfall from HS2 is then made a long-standing part of the wider transport budget process, purely down to the designation of HS2 as an England and Wales project.

- **We would ask the Committee to ask Cabinet Secretary and Officials as to what discussions have been taken to address the shortfall to Wales of HS2 spending impacting as a norm on the funding to transport as compared to Scotland and NI, which given the relative underspend in this policy area and on this infrastructure in Wales, seems perverse. Will this continue in this budget round?**

Supporting Business Support

Cultivating Growth

Our recent report 'Cultivating Small Business Growth'[10] views at Business Wales, Development Bank for Wales and the business support ecosystem are a competitive advantage for Wales and should be retained and developed for the future. While not perfect, they have been a force for good for SMEs and to support and develop the entrepreneurial ecosystem in Wales.

With the UK Government's Industrial Strategy, Small Business Plan and mission-led approach to economic development released, these publicly funded and controlled steering agencies for economic growth and support for SME growth will become yet more important under this economic model of the 'entrepreneurial state', and in particular in ensuring that these strategies have an impact on the ground in Wales.

As such, it is vital that these institutions are fully resourced and capable to work toward those missions for growth and economic development.

Our recent report had many recommendations, but ones of relevant to the budget would include:

- **Restore funding levels for business support in Wales in real terms to those in place before leaving the EU, commit to multi-year budgets, and ensure support for Welsh needs to be shaped to align and ensure impact from the UK Industrial Strategy and Small Business Plan.**
- **Develop a voucher system to encourage smaller businesses to access private sector business support.**
- **Direct additional resource at a targeted account management function which would provide specialised and intensive support – such as tailored mentorship, access to growth finance, and innovation and technology adaptation support – to SMEs with a clear ambition and potential to scale up their business in order to address Wales's 'missing middle'.**

The future of SPF

[10] Ll ap Gareth & F Milbank, Cultivating Small Business Growth The Future of Business Support in Wales (FSB Wales: 2025), available at https://www.fsb.org.uk/resources/policy-reports/cultivating-small-business-growth-MCSULYGGWY7JGEHNAZG27JRWEKNQ

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Intrinsically linked to the support for business support is the future of SPF, or any replacement funding. As an indicator of how the economic mission will better serve intergovernmental working (and vice versa), how SPF is shaped for the future will be key and will be important to see developments on this between now and the UK and Welsh Spring Budgets.

We have welcomed the extension of the SPF for another year but are concerned at the seeming lack of detail on the development of future funds strategically, to learn the lessons, and to align the funding with wider growth strategy and mission.

We would have expected further clarity on the quantum of future funding , and how decision making on future funds (such as SPF and Levelling Up or whatever their replacements may be) will be undertaken, as well as how they align with UK and Welsh economic mission(s) for Wales, and therefore what budgetary spend may be needed in support and to deliver on these funding opportunities.

- **The committee may wish to ask what discussions and clarity there is on the funding, and how this will be delivered, and so how this relates to the budget for delivery bodies and business support bodies tasked with any implementation and support.**
- **Welsh Government should use the restoration of decision-making on EU replacement funds to implement a comprehensive economic strategy, delivered in partnership with local governments and Corporate Joint Committees, and underpinned by recommendations put forward by the OECD in their Regional Governance and Public Investment in Wales Report.**

Longer Term Issues, Fiscal Framework and Budgetary processes

Addressing Wales's economic challenges on growth and productivity is a long-term strategy and will not be addressed by this budget alone. However, it is important that the link between the annual budgets and the contribution to the longer-term goals is clear. How to address these short-term pressures with long term needs is also something we expect all parties to look to address in the run up to the forthcoming election.

In terms of the wider approach, as well as alignment with the Future Generations agenda and ensuring a strong economic foundation for those wider benefits, there is a clear need to look to address Wales's longstanding growth and productivity. FSB Wales sit on the 'Wales Productivity Forum' and would note the Productivity Institute's key recommendations on increasing productivity in Wales:

- The Welsh Government needs to establish a long-term commitment to improving productivity, with independent guidance and assessment of performance.
- A national productivity growth plan should identify short, medium, and long-run priorities to support productivity growth.
- Wales needs a national conversation on productivity. Collaboration between policymakers, businesses, public sector service delivery providers, and individuals is essential to address the scale of the challenge.
- Business support should include advice, guidance, and best practice on how to achieve productivity growth, and the benefits of this.
- There should be a focus on public sector productivity growth as a means of supporting future public service delivery.
- Addressing Wales' productivity challenge is a long-term and intergenerational project. It will require significant government investment in people and infrastructure.

These needs should be front and centre of every budget and should clearly align to long term strategy.

A further concern has always been how the annual budget reflects the wider economic strategy in a way that is material and measurable, and links together the long-term ambitions with clear milestones, aims and objectives for the budget itself. An example FSB has previously noted as showing this was how Welsh Government in 2023 released its economic mission at the end of November, but there was little read across or evidence that it influenced the draft budget released subsequently in December.

While budgets are of course required to be responsive to immediate needs, there also needs to be clear read across and clarity on what it's achieving aligned to the wider economic strategy, but also needs to be better aligned to future generations framework as a measuring and performance for the economy. In practical terms this also needs to look at how such aims are best served by multiyear budgets across many strategic areas.

One budget will not address all the concerns and challenges, and with a new Senedd term from May 2026 we urge that all parties look at the framework for budgeting over the long term.

UK led processes and budget timings

The multi-year devolved budgets outlined in the 2025 UK Spending Review provides welcome clarity on the medium-term outlook for the Welsh Government budget, with this set to be a rolling multi-year allocation announcement.

As such we know that UK increases include an additional £1.6 billion each year on average from 2025-29 through the Barnett formula, comprising £1.4 billion of revenue for the next three years and £200 million of capital for the next four years.

The UK Government says the Welsh Government's revenue budget (which funds 'day to day' departmental spending) will increase by an **annual average of 0.9% in real terms over 2025-26 to 2028-29**.We therefore expect that there is ample headroom to ensure businesses are supported as recommended in this evidence.

As noted by the Wales Governance Centre, the 2025 Spending Review has provided a clearer picture for public spending in Wales over coming years.

"The block grant for day-to-day spending will grow by around 1.2% per year in real terms on average from this year to 2028-29.[2] After accounting for faster growth in devolved taxes – relative to the corresponding Block Grant Adjustments – we estimate that day-to-day spending will grow by approximately 1.4% per year in real terms on average. Meanwhile, the capital block grant will grow again in real terms next year, before falling quite significantly over subsequent years. Overall, the capital block grant will be approximately 3.6% lower in 2029-30 than in 2025-26."

This does help mitigate some of the uncertainty from changes through the UK's Autumn Statement being especially late in November this year. It also provides better context for parties' spending plans in their manifestos.

There remain concerns about the UK budget cycle and historically lack of clarity on what level of consequentials Wales will receive until very late. This continues therefore to mitigate against strategic use of funds available, with government scrambling to add any funds available to discrete projects, rather than able to use the strategically. It appears that this year's UK budget will be very late – most likely towards the end of November.

- **We suggest that the committee ask Cabinet Secretaries and Officials on engagement with HM Treasury**
    - **how early Welsh Government is made aware of all spending decisions**
    - **how Welsh Government will react to the late UK budget in terms of its own timeline?**
    - **What improvements are in place following the previous experiences of these issues?**

There are also further UK Government led barriers here that need addressing, with a need to revisit and reform Wales's Fiscal Framework, which currently provides little scope for Welsh Government to use borrowing as an effective tool to fulfil its aims in terms of infrastructure for example, and also has limits on use of the Welsh reserve. It is disappointing to note that this has recently been reviewed in Scotland, but as far as FSB are aware there are no plans to look at this in Wales.

- **The committee may wish to ask what conversations have taken place between Welsh Government and UK Treasury to undertake to review and reform Wales's Fiscal Framework.**

Conclusion and Summary

This budget arrives at a key moment economically for small businesses and politically arrives at a moment of transition in the run up to an election and a new larger Senedd.

With some clarity on additional money for the next year allocated on multi-year basis from the UK, there should be headroom to provide support for SMEs including in the ways identified in this document. This support vital to our small businesses to provide the necessary foundation for growth across our local communities.

As such FSB expect to see action in terms of business rates to continue support for Retail Leisure and Hospitality either through ongoing reliefs, or through multipliers making up for any shortfall in reducing or cancelling those reliefs. FSB also expect to see action to continue support the planning system and to transport needs, and to build the capacity towards growth.

How this budget aligns to long-term strategy remains important – including measures and targets to fit the wider performance targets. and how it looks to impact over the long term towards a prosperous economy, including aims at building growth and productivity, as well as understanding how local economies and wealth building are key to the wider future generation agenda.

We expect the Welsh Government and all MSs and parties to look to work constructively toward passing a successful budget that gives support to SMEs, provides a view to build confidence for the economy in the long term, and insofar as is possible with Welsh Government levers, provides clarity to businesses for their planning for the next year.

Cyllideb Ddrafft Llywodraeth Cymru 2026-27 - Tystiolaeth ysgrifenedig: CBI Wales/ Welsh Government Draft Budget 2026-27 - Written evidence: CBI Wales

Businesses that are continuing to bear the burden of high costs and other inflationary pressures were desperate for a draft Budget aimed at kick-starting investment in Wales's lacklustre economy.

Despite limited fiscal headroom, firms and investors will be pleased to see that the Welsh Government remains committed to breaking down critical barriers to growth

Raising long-term infrastructure spend from £2.8bn to £3.5bn is particularly welcome given the tight fiscal settlement and can act as a key catalyst of growth. Publication of the Infrastructure Finance Plan will also bring much needed certainty to businesses and can be instrumental in helping attract world-class firms and highly skilled people to Wales – particularly as the country forges ahead in key areas like clean energy, advanced manufacturing, semi-conductors, life sciences, and digital innovation. A multi-year pipeline of projects will crowd-in private investment and lock-in benefits for local businesses.

But to maximise these opportunities, business needs a local planning system that is fit-for-purpose and calibrated towards boosting growth. New funding for planning departments will support the faster delivery of applications, ensuring the Welsh Government both reaches housing targets and improves vital infrastructure such as road and rail. Business also needs to see the government urgently press ahead with plans for five new railway stations between Cardiff and the Severn Tunnel to alleviate congestion on the M4 around Newport

On skills, businesses remain concerned that a lack of additional funding for training providers and education institutions will hamstring efforts to future-proof Wales's labour market with a skilled, productive, and healthy workforce.

Firms will question why Budget announcements on decarbonisation appear to prioritise support for small-scale, low-carbon energy initiatives, with comparatively less emphasis on helping major emitters - our anchor companies. However, the Welsh Government's climate and energy spending encompasses a wide range of schemes, and further analysis is needed to fully understand their scope and impact.

Government and business must work closely together to unlock further investment and build a strong, modern, and sustainable Welsh economy that delivers meaningful growth and can compete with the world's best.

Russell Greenslade , CBI Wales Director

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Agenda Item 8

By virtue of paragraph(s) vi of Standing Order 17.42

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Agenda Item 9

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