

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](#).

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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

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.

Questions on impact assessments of any new multipliers and the budget

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 multipliers⁷ 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.**

- **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>

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 consequential 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.