

Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date:

Wednesday, 30 April 2014

Meeting time:

09.00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

Bethan Davies

Committee Clerk

029 2089 8120

FinanceCommittee@wales.gov.uk

Agenda

**THE COMMITTEE AGREED AT ITS MEETING ON 26 MARCH 2014 THAT ITEMS 1, 2 & 3
WILL BE HELD IN PRIVATE**

1 Holiday Caravan Sites (Wales) Bill: Financial Implications of the Bill

(09:00–09:15) (Pages 1 – 7)

Research Brief

2 Higher Education Funding: Consideration of the draft report (09:15–

09:45) (Pages 8 – 41)

FIN(4)–07–14(paper 1)

3 Wales Audit Office: Briefing on new arrangements arising from the Public Audit (Wales) Act 2013 (09:45–10:45)

Huw Vaughan Thomas – Auditor General for Wales

Kevin Thomas – Director of Corporate Services, Wales Audit Office

Terry Jones – Technical Manager, Wales Audit Office

Nicola Evans – Finance Manager, Wales Audit Office

(Break 10:45–11:00)

PUBLIC MEETING

4 Introductions, apologies and substitutions (11:00)

5 Papers to note (11:00) (Pages 42 – 43)

Wales Bill: Letter from the Secretary of State for Wales (20 March 2014) (Pages 44 – 45)

Welsh Government Supplementary Budget 2013–2014: Letter from the Minister for Finance (14 April 2014) (Pages 46 – 48)

Finance Wales Inquiry: Additional information from Finance Wales (April 2014) (Page 49)

Finance Wales Inquiry: Finance Wales Stakeholder Breakfast Event (Pages 50 – 55)

6 Finance Wales Inquiry: Evidence Session 5 (11:05–12:00) (Pages 56 – 66)

FIN(4)–07–14(paper 2)

Research Brief

Edwina Hart AM – Minister for Economy, Science and Transport

Rob Hunter – Director Finance and Performance, Welsh Government

7 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (12:00)

Item 8

8 Finance Wales Inquiry: Consideration of evidence received (12:05–12:30)

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Agenda Item 2

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

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Agenda Item 5

Finance Committee

Meeting Venue: **Committee Room 2 – Senedd**

Meeting date: **Wednesday, 26 March 2014**

Meeting time: **09.30 – 11.32**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_300000_26_03_2014&t=0&l=en

Cynulliad
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National
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Wales



Concise Minutes:

Assembly Members:

Jocelyn Davies AM (Chair)
Peter Black AM
Christine Chapman AM
Paul Davies AM
Mike Hedges AM
Ann Jones AM
Julie Morgan AM

Witnesses:

Ian Johnson, Finance Wales
Sian Lloyd Jones, Finance Wales
Chris Rowlands, Finance Wales
Peter Wright, Finance Wales

Committee Staff:

Meriel Singleton (Second Clerk)
Claire Griffiths (Deputy Clerk)
Richard Bettley (Researcher)

TRANSCRIPT

View the [meeting transcript](#).

1 Introductions, apologies and substitutions

1.1 The Chair welcomed Members and members of the public to the meeting.

1.2 Apologies were received from Alun Ffred Jones. There was no substitute.

2 Papers to note

2.1 The papers were noted.

2.1 Finance Wales Inquiry: Additional information from Federation of Small Businesses Wales

3 Finance Wales Inquiry: Evidence Session 4

3.1 The Committee took evidence from Sian Lloyd Jones – Chief Executive, Peter Wright – Strategic Investment Director, Ian Johnson – Chairman of the Finance Wales plc Board and Chris Rowlands – Finance Wales Board Member and Chairman of the Investment Committee on the Finance Wales inquiry.

3.2 Finance Wales agreed to send a note advising on the amount of loan write-offs they have had for the last three financial years.

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

4.1 The motion was agreed and extended to the first item of business for the next meeting.

5 Finance Wales Inquiry: Consideration of evidence received

5.1 The Committee discussed the evidence received.

6 Forward Work Programme

6.1 The Committee noted the forward work programme.

Agenda Item 5.1



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Swyddfa Cymru

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Jocelyn Davies AM
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Ref: 117SUB 14

20 March 2014

Dear Jocelyn,

I am writing in response to your letter of 3 March.


I am pleased to inform you that I have today introduced the Wales Bill in the House of Commons. I enclose a copy of the Bill, and you will wish to note, in particular, that clause 21 of the Bill provides the Assembly with the power to legislate in relation to its budget procedures.

The Government has given careful consideration to the recommendations made by the Welsh Affairs Committee resulting from its pre-legislative scrutiny of the draft Wales Bill, and has accepted the majority of the Committee's recommendations.

The Chief Secretary to the Treasury and I have also published a Command Paper, *Wales Bill: Financial Empowerment and Accountability*, which sets out in more detail the effects of the Finance elements in Part 2 of the Bill. I enclose a copy of the Command paper with this letter.

I note your Committee's intention to scrutinise the Command Paper alongside the Bill. I have considered carefully your request that I attend Committee to discuss the paper and the Bill, but think that this may be a matter more suited to an HM Treasury Minister given the Committee's remit. I understand you have written separately to Treasury Ministers and that they will be responding shortly.

I look forward to reading the Committee's deliberations and will keep you informed of the Bill's progress during its passage through the House.

Yes over,


Rt Hon / Y Gwir Anrh David Jones MP / AS
Secretary of State for Wales
Ysgrifennydd Gwladol Cymru

Agenda Item 5.2

Jane Hutt AC / AM
Y Gweinidog Cyllid
Minister for Finance



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref:

Jocelyn Davies AM,
Chair, Finance Committee,
The National Assembly for Wales,
Cardiff Bay,
Cardiff
CF99 1NA

16 April 2014

Dear Jocelyn,

Finance Committee's Report: Scrutiny of Welsh Government's Supplementary Budget Motion 2013-14 (February 2014)

Thank you for your scrutiny report of the Welsh Government's Second Supplementary Budget 2013-14.

I enclose a note at Annex A, which responds to the specific recommendations set out in the Committee's report. In line with our usual practice, I will also provide a written report to the Committee on final outturn for 2013-14 in due course.

Best wishes,

Jane

Jane Hutt AC / AM

Y Gweinidog Cyllid
Minister for Finance

Recommendation 1: The Committee recommends the Minister provide written details of the arrangements for paying back financial transactions funding to the Treasury when an agreement is reached. (Page 13)

Response: The Minister for Finance confirmed during her attendance at Finance Committee on 19 February that she would be happy to provide the Committee with full details of the arrangements for paying back financial transactions, once an agreement is reached with HM Treasury.

Recommendation 2: The Committee is concerned that the Discretionary Assistance Fund is costing over £2 million, in administration costs for Northgate Public Services. The Committee recommends that further work is undertaken to monitor and review how the fund is administered, whether administration costs are proportionate and why initial uptake for the scheme was slow considering the scheme effectively replaced a scheme that was already in existence. (Page 16)

Response: The Minister for Finance was pleased to confirm to the Committee in her letter on 5 March that in awarding the contract for the administration of the Welsh Government's Discretionary Assistance Fund, which is the replacement scheme for the discretionary Social Fund, the Welsh Government has delivered significant cost savings and reduced the administration costs in this financial year to just over £1.3m.

In terms of the take-up of grant payments, as discussed in Committee and as set out in the letter from the Minister for Finance, the under-spend this year was the result of the initial slow take up of the grant. The Discretionary Assistance Fund is a new scheme and whilst similar in focus to the previous discretionary Social Fund, it operates differently and places a greater emphasis on the importance of partners across Wales, such as advice agencies, raising awareness of the scheme and supporting people in putting together their applications. The initial development of the partner network took time, which impacted on demand but there are now over 400 partners to the Fund, and it continues to grow. The demand for the Fund is now reaching expected levels and we do not anticipate underspends in future years.

As the Fund is now coming to the end of its first year, an independent evaluation will take place to look at how it is operating. This evaluation will inform any changes or improvements to the Fund going forward.

Recommendation 3: The Committee supports the Minister's aim to improve the link between allocations and outcomes and would recommend that the Welsh Government takes the opportunity of including information in terms of resource input as well as outputs and outcomes in the next Programme For Government annual report. (Page 18)

Response: As the Committee has acknowledged, the Welsh Government is committed to publishing a greater level of information on the links between outcomes and allocations.

The Minister for Finance confirmed in Finance Committee on 19 February that officials are undertaking further work to explore the links between budgets and outcomes, and that this will contribute to work on the publication of this year's Programme for Government Annual Report. The Welsh Government will also reflect on this in terms of its preparations for the Draft Budget 2015-16.

Recommendation 4: The Committee notes the allocation from, and repayments to, the Invest-to-Save fund, and is content with this. However, the Committee recommends that the Minister commit to producing an annual report which details the money being transferred from and repayments to *Invest-to-Save*. The report should identify the actual and projected savings to be made from the *Invest-to-Save* projects. (Page 22)

Response: As the Minister for Finance set out in her letter to the Finance Committee on 5 March, budget information about the Fund is already published. This information includes individual project investments and their associated benefits, together with budget details showing the origin of funding, including repayments. With the publication of the Whole Government Accounts for 2013-14 this summer, corresponding expenditure information will also become available.

The Minister's Invest-to-Save Annual Report currently includes project investment details and their associated, projected savings, with details of actual savings achieved being shown in project case studies. Details of savings achieved by completed Invest-to-Save supported projects will be available later this year, when the findings of the latest evaluation of the fund are published.

The Minister for Finance will consider the scope to include further financial information in the next Invest-to-Save Annual Report, planned for publication in the autumn.

Agenda Item 5.3

Finance Committee – Inquiry into Finance Wales

Additional information from Finance Wales

Following a request by the Committee, Finance Wales have supplied a summary of the loan amounts written off by Finance Wales in each of the past three financial years across the funds under management that are actively investing. To put the figures in context, Finance Wales also included details of the total amounts of loan provisions, and the total amount of loan investments made by Finance Wales over the same period.

By way of explanation, when FW considers the repayment of a loan to be in doubt a provision for bad debt is raised against the loan in question. The write off of debt follows some time thereafter, once any action that FW may take to recover the outstanding loan amount have been concluded. Accordingly, write offs in a particular year typically relate to loans made in previous years.

Increasing trends can be seen across the three year period in respect of loans advanced, provisions and write offs. This reflects increased FW investment activity due to additional funds under management. Moreover, as funds mature, we would expect to see a greater proportion of loan recipients showing signs of distress and hence a corresponding increase firstly in provisions and then write offs against such loans.

FINANCE WALES - Loan write-off Data for the 3 Financial Years ended 31st March 2014

	FINANCIAL YEAR ENDED 31st MARCH		
	2012	2013	2014
Loan Balances Written Off in Year (£000)	26	573	2,056
Loan Provisions in Year (£000)	1,001	1,301	2,298
Total Loan Investment in Year (£000)	9,776	10,962	12,792

04.04.14

Agenda Item 5.4

Finance Committee – Inquiry into Finance Wales Finance Wales Stakeholder Breakfast event

22 January 2014
Pierhead, Cardiff Bay

Background

- 01.** As part of their inquiry into Finance Wales, the Finance Committee held a breakfast event with SMEs on 22 January 2014 to discuss their experiences with Finance Wales. A full list of attendees can be found at annex A.
- 02.** The session was run as four discussion groups. Participants were provided with some proposed areas for discussion, attached at annex B.

Key Issues

- 03.** There was a lot of support for Finance Wales at the session, and many commented that they disagreed with the findings in the Access to Finance review. SMEs told the Members that they value the approach taken by Finance Wales, such as being flexible in funding arrangements and the stability it offers in comparison to high street banks. It was suggested that Finance Wales is an asset and could have done with more support, and that the attitude of wanting to get rid of Finance Wales was an example of 'Wales shooting itself in its foot' again.
- 04.** The majority of concerns expressed by the SMEs to Committee Members were around customer care and communication. There was a suggestion that Finance Wales could be more proactive in promoting itself to SMEs, as there were a lot of referrals through intermediaries such as accountants.
- 05.** The SMEs did raise a number of questions about how Finance Wales innovates or spots a new/good idea and whether there is sufficient specialist knowledge within the organisation.
- 06.** The following key themes emerged from the discussions, which are explored in more detail below:
 - There is a need for Finance Wales
 - There is a need to define the remit of Finance Wales
 - Finance Wales' interest rates
 - Communication and Marketing
 - Funding for different types of business
 - Length of process



– The wider Welsh Government business support needs to be reviewed

The need for Finance Wales

In general, the SME representatives felt that there was a need for Finance Wales. They felt that a lot of businesses would not have come to fruition, or be based in Wales, without Finance Wales. They were willing to lend when the risk would be unacceptable to mainstream lenders. Attendees felt that Finance Wales had lent to businesses; and that as there was no private equity in Wales Finance Wales has helped to bridge this gap. It was considered that Finance Wales is not a replacement for private investments, but instead it is an accompaniment to it. They also felt they were receptive and flexible and can fill a gap due to the wide range of products they offer.

Remit of Finance Wales

Members were told that the remit and purpose of Finance Wales needed to be clarified. The SME representatives felt that it needed to be clear whether it was a quasi-grant provider, economic development agency or an autonomous lender/commercial entity. Some representatives felt that its key function was as an investment house, and others felt that FW goes through venture capital processes to make a decision. The SMEs felt it was unclear as to whether Finance Wales should focus on start-up funding or growth facilitation or job development. Some of the SMEs suggested that Finance Wales should provide seed funds, particularly given the low land prices and start-up costs in Wales. There were a number of concerns expressed about the difficulties of Finance Wales being a corporate structure in a political remit and the need to establish if they should be an organisation who balance risk and security in investing in business, or just an arm of Welsh Government business development. The SMEs suggested that this was an issue, as to be successful Finance Wales needs people who know the business/commercial world and that 'you can't do finance on the process'.

Finance Wales' interest rates

There has been much discussion about whether Finance Wales' interest rates are too high at 10% on average. The general consensus was that the rates were not unreasonable given the level of risk involved, as most of the loans are unsecured. It was suggested that the criticism of the interest rates was particularly unwarranted given the fact that banks were not lending to businesses in the main. It was suggested that while commercial loans have a lower APR, if you add in other things such as life insurance then it adds up to a comparable level to FW's APR. Furthermore the difference between a 5% APR and a 10% APR is around £100 a month, which should not be enough to make a business unviable. It was suggested that there was a misconception in the high rates being offered, with participants highlighting that the levels are not comparable to WONGA or such companies, or indeed London based private equity firms, and that if they were too high they would not have any business. There was surprise expressed at criticism of Finance



Wales' drive to self-sustain. There is a question of whether people would want the WG want to subsidise interest rates at a cost to the taxpayer.

Communication and Marketing

One of the major areas of concern about Finance Wales, was around the need for better communication and marketing of the services required. Participants told us, prior to involvement that they had little awareness of what Finance Wales did, and where they fitted into the funding mechanism, although others felt they were visible in the Business community. The difficulties of communicating to all small businesses, and the positive relationship Finance Wales had with accountancy firms, who tend to act as brokers in funding arrangements, were highlighted to members. It was suggested that a lot of Finance Wales' business came from referrals. Some participants were critical of the marketing material which was produced, suggesting that it was dated and unclear with regards to the areas they support. The SMEs stressed that if you are a start-up you need to know easily what is available to you, and that signposts to the relevant bodies were really important.

Funding for different types of business

Some participants raised concerns about the areas financed by Finance Wales, and suggested that this may need to be reviewed. Concern was expressed that Finance Wales were not flexible enough to deal with modern business models. SMEs raised concerns about Finance Wales's definition of retail, and that it had not been reviewed given the development of e-commerce. Participants felt Finance Wales was not upfront about what they will invest in, either in the details provided or in planning discussions. Moving forward, it was suggested that Finance Wales should get involved with seed funds for small technology businesses.

Length of process

There were some concerns about the process for getting a loan from Finance Wales. SMEs told us that the process can be off-putting and Finance Wales should consider offering some help with the application process. Finance Wales had taken longer to make a decision than other investors, such as private equity, in hybrid deals. Not everyone felt this was a problem, with some recognising the need for due diligence in allocating public money. It was suggested that innovative approaches such as recording video applications could be considered, as in a scheme being run by TSB and the UK Government, which could reduce the time spent on filling in forms. We were told that it would be useful to have an early indication whether you will be allowed to borrow, to save producing the detailed information and then being declined. It was felt that using accountancy firms often smoothed the process as they were able to advise on the information provided.



The wider Welsh Government business support needs to be reviewed

There was a general consensus that there was a need for a wider review of the business support provided by the Welsh Government. It was felt that there was a need for a strategic approach to business support, and that this was not Finance Wales's job.



Annex A

- Simon Buckley- Evan Evans Brewery
- Neil Cocker- Cardiff Start/Dizzyjam
- Warren Oscar Fauvel- Nudjed
- David Anthony- Chevler
- James Roberts- Grant Thornton LLP
- Anthony Bird- The Komodo Group
- Malcolm Duncan- Superod
- Dr Chris Tackaberry – Clinithink Ltd
- Clarissa Chambers
- Lindsay Hogg- Watts Gregory LLP
- David Jones- ICT Sector Panel
- Barry Pappin- Vita
- Dr Meirion Morgan- Meirion Morgan Limited
- Peter McGuinness- Chromogenics
- Gareth Kempson- Biomonde



Annex B

Themes for questioning

- How has the demand for finance by SMEs changed since the credit crunch in 2008?
- What has been your experience of Finance Wales?
- How well does the financial support and advice on offer from Finance Wales compare to other providers (e.g. banks)?
- What support would you like from Finance Wales and Welsh Government in the future?
- How well does Finance Wales promote itself and the range of funding options?



Agenda Item 6

Finance Committee

FIN(4)-07-14(paper 2): 30 April 2014

Welsh Government Written Evidence: Finance Committee Inquiry - Finance Wales

Finance Wales Structure

- I. Finance Wales is an arm's length subsidiary of Welsh Government and has a broad level of delegation in terms of its day to day decision-making. For example the Welsh Government cannot influence individual investment decisions made by the Company. This is an important aspect as Finance Wales has private sector investors who would not wish to see the funds being subject to political influence.
- II. The Welsh Government exercises its observer rights at Finance Wales' Board meetings and Audit Committee meetings and the EST Director General has final approval over Finance Wales' annual business plan. The Minister for Economy, Science & Transport meets regularly with the Chair of Finance Wales.
- III. As a public limited company Finance Wales is subject to a strict corporate governance framework. The organisation is subject to both internal and external audit and the Finance Wales Board has also set up a number of sub-committees including an audit committee, a remuneration committee, a nominations committee and a risk committee.

Funds operated through Finance Wales

- I. Current active funds managed by Finance Wales include: JEREMIE Fund (£150m), Wales SME Investment Fund (£40m), Life Sciences Fund (£50m), Property Fund (£10m), Wales Micro Business Loan Fund (£6m), and the recently announced Wales Capital Growth Fund (£20m). Welsh Government provides Finance Wales with both capital and grant in aid support. These funds have been created using a combination of European Structural Funds, Welsh Government and Private Sector Funds. Finance Wales also manages the £170m Help to Buy Wales scheme on behalf of the Welsh Government.

Access to Finance Review

- I. Since the start of the financial crisis, there has been much debate amongst finance providers, SMEs and Governments on the availability of business funding. The continued difficult economic conditions and approaching new round of European structural funds presented an opportune time to review Welsh Government's access to finance strategy including the role of Finance Wales.

- II. Given this backdrop I appointed Professor Dylan Jones Evans to examine how effectively the SMEs of Wales are served by the existing sources of funding and to provide recommendations for action.
- III. Professor Jones Evans made several recommendations including the creation of a Development Bank for Wales. This is a major proposal and requires serious and thorough consideration. I have commissioned the Professor to undertake a feasibility study to explore the idea further.
- IV. I have also commissioned Robert Lloyd Griffiths to examine how non financial and financial support in Welsh Government and Finance Wales can be aligned to provide a more joined up approach for SMEs in Wales.
- V. I welcome the additional challenge from the Finance Committee and look forward to their views to help shape Welsh Government policy development in this area.
- VI. Whilst I await the outcome of this inquiry I have asked my officials to review Finance Wales' remit to ensure that it aligns to my priorities of sustainable jobs and growth.

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