

Finance Wales

28 November 2016

Dear Finance Wales,

Thank you for attending the committee on 9 November 2016 to allow us to scrutinise your annual report.

During the meeting Mr Thorley offered to provide the committee with a note on the overall return on investment on the four exits which (overall) made a loss.

The session raised a number of questions on which we would welcome further clarity, and we have also taken the liberty of making some recommendations to Finance Wales, which we will also share with the Cabinet Secretary for the Economy and Infrastructure.



Questions

Capital funding

Mr Thorley described Welsh Government funding as “the anchor” in terms of future capital funding sources.

We would welcome greater clarity, in due course, on what this will mean.

Risk Management

Given the greater capacity to lending envisaged for the Development Bank, there would also be a greater exposure to risk for the Welsh Government.

While normal prudential requirements do not apply to Finance Wales, we would welcome further information on what consideration is being given to managing the exposure to risk.

E.g. would bad debt be underwritten by the Welsh Government, or would some form of capital requirement to foster enhanced risk management be applied?

Help to Buy scheme

This scheme is underpinned by a repayable loan (to HM Treasury). A loan, we assume, that is ultimately underwritten by the Welsh Government. We would welcome a note on the terms of this loan, and an annual update on progress to repay it.

Pensions

We noted that the rise in the remuneration of the highest paid director in 2015–16 were inflated by pension contributions; and that 30% of the current Finance Wales staff are in the same scheme. Can you assure us that the business case for the Development Bank has considered this actuarial risk?



Recommendations

Reporting process

In response to our questions about the losses reported for 2014–15, you were able to assure us that this was not a fair reflection of the financial health of the organisation.

Kevin O’Leary said: “I don’t believe the committee should be concerned by that loss... Our accounts are not a good entry in to understanding Finance Wales’ performance.”

Given that the current method of reporting is not giving a clear picture, we recommend that Finance Wales considers – while acknowledging its statutory reporting obligations – how it can present its annual accounts in a way which gives a clearer picture of the organisation’s performance and allows the Welsh taxpayer to see whether their money has been invested in a way that produces benefits. This might be part of, or in addition to, the annual accounts.

Self-financing

The committee posed a series of questions around the ability of Finance Wales to move to a self-financing model without Welsh Government grant-in-aid. You told us that this was dependent on raising the level of funds being invested, so that the associated fees were then sufficient to cover the organisation’s costs.

We note that there are risks in moving to a self-funding model and will raise this with the Cabinet Secretary.

Relocation risk

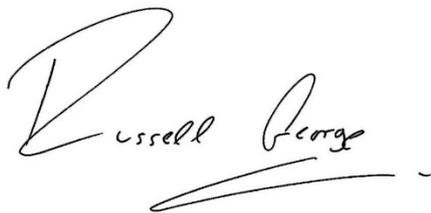
The transition from Finance Wales’ Cardiff HQ, to a Development Bank for Wales headquartered in North East Wales seems to present a risk – common with all relocation enterprises – that staff would not wish to move. We appreciate that the business case is not yet public, but we are clear that the risk of losing staff, and



the costs involved in recruitment and/or relocation packages need to be factored in to the business plan.

In due course, we would appreciate greater information on how the relocation risk is being assessed; what the costs might be; and the options chosen to mitigate these.

Yours Sincerely,

A handwritten signature in black ink that reads "Russell George". The signature is written in a cursive style with a large initial 'R' and a long horizontal flourish at the end.

Russell George

Chair, Economy, Infrastructure and Skills Committee

