

Andrew Slade
Director General – Economy, Skills and
Natural Resources Group
Welsh Government

10 January 2020

Dear Andrew,

Welsh Government financial support for business

Thank you for the additional written evidence that you have provided to the Committee following our evidence sessions on financial support to business during summer 2019. Rather than reporting formally at this stage, I am writing to set out some of the key areas of concern to the Committee. I am not expecting a detailed response at this stage but would welcome an update in summer 2020 to inform a follow-up evidence session. The clerking team will be in touch to make the necessary arrangements and to discuss the information that would be helpful to obtain to inform that session. For ease of reference, the Committee's inquiry page is available [here](#).

I recognise too that some of the evidence received and issues raised during our inquiry is relevant to the work of the Economy, Infrastructure and Skills Committee. I am therefore copying this letter to Russell George AM, Chair of that Committee.

In broad terms, the Committee echoes some of the issues emphasised by the Auditor General in his November 2018 report. It is clear that the Welsh Government still has work to do to assess and demonstrate transparently the overall value for money of its financial support to business and against a broader ranges of measures. While there were subsequent changes in the overall strategic policy direction it is concerning, and unacceptable, that the Welsh Government did not fulfil its own commitment to report publicly on its progress in delivering 'Economic renewal: a new direction'. This lack of reporting hinders accountability and effective scrutiny by the Assembly. We look to the Welsh Government to rectify this in the context of the new Economic Action Plan (EAP) and the commitments put in place for more comprehensive reporting capability from 2020–21 in response to the Auditor General's recommendations.



Members noted the direction of travel envisaged under the EAP and the aim of being clearer about what the Welsh Government expects from businesses in return for financial support. In time, we would welcome further details about just how demanding the Welsh Government is being in this context. For example, we are aware that the de-carbonisation agenda already features clearly in the design of the operating model for the EAP, but we will be looking specifically to see practical examples of how the expectations have been strengthened in the wake of the declaration of a climate emergency.

While we acknowledge some of the wider uncertainty that has been associated with Brexit to date, we were concerned about the pace of progress in embedding the new arrangements under the EAP. This includes considering how these expectations might play out across the full range of financial support provided by the Welsh Government and the Development Bank even if, as suggested to us, the Development Bank's primary focus is on generating an economic return. We also noted the view from the Federation of Small Businesses that the Welsh Government still has work to do to ensure that the business community understands and embraces the new landscape of the EAP. It is important that there is a coherent and coordinated approach to financial support to business that is understood by key stakeholders, including the links through to the support available through the British Business Bank.

I have set out below some observations on other specific matters:

Lender of last resort: as discussed in our evidence session, while this phrase has been used previously by the Welsh Government to describe its approach to financial support to business, it can be difficult to square this with some of the financial support interventions that the Welsh Government has made. We encourage the Welsh Government to reflect on how it can better articulate to businesses how it sees its role and the difference between Welsh Government financial support and the support available through the Development Bank.

Budgeting for business support and the relative value for money of different activity: We discussed the practical challenges in budgeting for financial support for business, although the Welsh Government had nevertheless accepted the Auditor General's recommendation in this regard.

More broadly, the evidence we received emphasised that direct financial support, repayable or otherwise, was only one part of what the business community is looking for from the Welsh Government, with witnesses referencing spending on general business advice services, entrepreneurship support, development of the skills base or



improved infrastructure. We recognise that there is no perfect balance and that there may be multiple interventions that all contribute to certain outcomes. However, we consider that there is an opportunity to reflect – internally through dialogue between Ministers and Officials as well as externally with stakeholders – on whether the current allocation of resources across different areas of activity is maximising the impact of that spending on the Welsh Government’s wider objectives. This includes looking again at the balance between grant and loan finance where, as you noted, the latter can be recycled.

In addition, we were struck by some of the [evidence](#) we received from the Federation of Small Businesses about the relative returns from support for businesses of different sizes. In his report, the Auditor General encouraged the Welsh Government to adopt more of an investment portfolio approach to manage its overall risk exposure in a coherent way. In a similar way, we see portfolio management and reporting as a way of helping the Welsh Government identify whether it could secure better value for money by shifting the overall balance in its distribution of financial support, whether by sector or by business size.

Awareness of Business Wales and the Development Bank: We welcome the evidence we heard about efforts that had been made to strengthen links between Business Wales and the Development Bank. We also heard about improved satisfaction with the Business Wales service and how the Development Bank may be seen as more effective than Finance Wales, including evidence of greater cross-government engagement. Nevertheless, the evidence we received suggested there is scope to further raise awareness of the organisations and their functions across the business community. We would also encourage the Welsh Government to keep under review the merits of any further integration of these functions.

Ministerial Advisory Board: You explained that there were some potential advantages in continuity of membership on a temporary basis following the difficulty you had faced recruiting to the Board. Nevertheless, we will be looking for an update on the progress that has since been made to improve the diversity of the Board. We consider diversity of membership within the Advisory Board to be important in advising on how support for business (financial or otherwise) can be better targeted to support under-represented groups than appears to have been the case to date, despite certain activities such as the Female Entrepreneurship Plan.

Financial support to Dawnus: We recognise the potential commercial sensitivity when considering whether the Welsh Government could/should have shared information about the financial support provided to Dawnus with other contracting authorities. We



have also noted the emphasis that you have placed on those organisations' own due diligence arrangements.

Nonetheless, we were also interested in communication within the Welsh Government itself in the context of the 21st Century schools programme projects which the Welsh Government co-funds. Your responses to date have left us with the impression that there was no cross-government communication with colleagues in your education department about the financial support package to Dawnus. We find that surprising and assume that your own due diligence around the financial support package and monitoring of Dawnus's recovery plan might have considered the contribution of existing and prospective public sector contracts to its financial position.

Before our evidence sessions on financial support to business, we had already explored with you issues relating to the sharing of business intelligence as part of work on public procurement. Again, you emphasised at that time the responsibility of individual organisations for relevant due diligence during contract award and ongoing contract management and that care needed to be taken in how business intelligence information is used. However, your responses left us with the impression that the work undertaken to strengthen business intelligence arrangements was in support of wider public sector procurement activity and to support communication across government. By way of reminder, you stated previously that:

“Work on due diligence has included the identification and establishment of portfolios of key suppliers which are then regularly monitored. Through these portfolios, the BI team communicate changes to the reported financial results of key suppliers to the relevant business area and senior managers for further analysis and action as necessary. This process covers suppliers across National Procurement Service, Welsh Government and wider Welsh Public Sector procurement activity.

The BI team has formed links with Commercial Intelligence colleagues at Crown Commercial Service and UK Cabinet Office. BI officials receive weekly updates on Cabinet Office strategic suppliers. This intelligence is reviewed, and where appropriate, escalated to senior officials for consideration and/or action.

To strengthen relations further, a monthly meeting is being established between BI officials and UK Cabinet Office senior procurement colleagues. This meeting will be used to discuss and share supplier due diligence



intelligence on a regular basis, with the first meeting taking place on 29 April.”

If, as suggested above, there is sharing of due diligence intelligence between the UK government and Welsh Government, this raises the question of why a similar principle cannot hold across Welsh public services, and perhaps even more so in the context of the First Minister’s emphasis on creating a ‘one public service’ culture. We would therefore be keen in any further scrutiny to clarify the scope of the business intelligence sharing arrangements that you described previously. At the very least, the concerns that have been raised locally in the case of Dawnus-related projects in Powys suggest that the Welsh Government may need to explain clearly to other public authorities its position on this matter (in the event that similar issues arise in future).

Finally, the Committee remains concerned about the general lack of transparency regarding its financial support packages and grants. This issue remains a reoccurring theme in our work with us having previously raised concerns on this in our reports on [Pinewood](#) and [Scrutiny of Accounts 2017 – 18](#).

During the course of our work on Business Finance we have revisited our longstanding concerns about the withholding of financial information on grounds of commercial sensitivity. We feel that this is too freely used by the Welsh Government as the reason for non-disclosure in all cases – given information is published on all transactions over £25K.

Our report on the Scrutiny of the Accounts 2017 – 18 highlighted that there needed to be a wider discussion of what information can be published to fulfil a legitimate desire for transparency about how public money is being spent. We ask that the Welsh Government undertake more work to review its approach to releasing financial information to ensure it is as transparent as possible.

Yours sincerely,

A handwritten signature in black ink that reads "Nick Ramsay". The signature is fluid and cursive, with a long horizontal flourish at the end.

Nick Ramsay AM
Chair

cc. Russell George AM, Chair – Economy, Infrastructure and Skills Committee

