



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyllid **The Finance Committee**

Dydd Mercher, 5 Chwefror 2014
Wednesday, 5 February 2014

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Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Peter Black	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour

**Eraill yn bresennol
Others in attendance**

Ceri Breeze	Dirprwy Reolwr, Polisi Tai Deputy Director, Housing Policy
John Davies	Rheolwr Deddfwriaeth ac Ymgynghoriad Sipsiwn a Theithwyr Gypsy and Traveller Legislation and Consultation Manager
Yr Athro/Professor Dylan Jones-Evans	Athro Entrepreneuriaeth a Strategaeth yn Ysgol Fusnes Bryste, Prifysgol Gorllewin Lloegr Professor of Entrepreneurship and Strategy at Bristol Business School, University of the West of England
Geoff Marlow	Uwch Swyddog Polisi Tai â Chymorth, Llywodraeth Cymru Senior Supported Housing Policy Officer, Welsh Government
Carl Sargeant	Aelod Cynulliad, Llafur (Y Gweinidog Tai ac Adfywio) Assembly Member, Labour (Minister for Housing and Regeneration)
Yr Athro/Professor Alan Trench	Athro Gwleidyddiaeth, Prifysgol Ulster Professor of Politics, University of Ulster
Jen Welsby	Swyddog Uwch SCyCRT, Llywodraeth Cymru Senior HRAS Officer, Welsh Government
Alyn Williams	Pennaeth, Tai Sector Preifat, Llywodraeth Cymru Head of Private Sector Housing, Welsh Government

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance**

Bethan Davies	Clerc Clerk
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Cynghorydd Cyfreithiol Legal Adviser
Gareth Thomas	Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 08:59.

The meeting began at 08:59.

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **Jocelyn Davies:** I would like to welcome everybody to this meeting of the Finance Committee. I have had no apologies, so there are no announcements to be made. I remind everybody to check that their electronic devices are switched off, because they do interfere with the broadcasting and translation. We are not expecting a fire drill, so, if you hear the alarm, please follow the directions of the ushers; it may very well be a genuine emergency.

09:00

**Bil Tai (Cymru)
Housing (Wales) Bill**

[2] **Jocelyn Davies:** Our first substantive item is our scrutiny of the financial aspects of the Housing (Wales) Bill. We have with us this morning Carl Sargeant, the Minister. Minister, would you like to introduce yourself and your officials for the record? Then we will go straight to questions, if that is okay.

[3] **The Minister for Housing and Regeneration (Carl Sargeant):** Good morning, Chair. As you are aware, I am Carl Sargeant, Minister for housing.

[4] **Mr Breeze:** I am Ceri Breeze, head of housing policy.

[5] **Mr Williams:** I am Alyn Williams, head of the private sector team.

[6] **Mr Marlow:** I am Geoff Marlow, working on homelessness policy.

[7] **Jocelyn Davies:** Thank you very much. Do you have another official for later on?

[8] **Carl Sargeant:** We have, Chair.

[9] **Jocelyn Davies:** We will go straight to questions, Minister, if that is okay. Obviously, you know that some concerns have been raised by landlord representative bodies that the costs of the proposed registration and licensing scheme for private sector landlords are an underestimation. They have been described as woefully underestimated, with no proper assessment. Can you give us your response to that, and maybe give us an idea as to how you have come to the figures that you have come to?

[10] **Carl Sargeant:** It has been interesting, the debate since the launch of the Bill, and understanding individuals' responses to that, both individual members and professional bodies externally. It became very clear from the outset of the Bill that there were certain organisations that were opposed to the principle of registration in a mandatory form. I do not accept that view, and we have continued with the process of introducing a mandatory registration scheme. On that basis, we believe that we have accurately responded to the explanatory memorandum that has been issued. We believe that those figures are as accurate as they can be. On the figures that have been presented by external bodies that I have seen, I do not accept those either.

[11] **Jocelyn Davies:** Well, they are not here to justify their figures, and we are not testing them on their figures, we are testing you on yours. Can you give us an idea as to how you have come to the figures that you have come to? What was your basis in order to—. We are

not interested in the policy aspects; we understand that there are organisations that might oppose the policy in principle. We are just interested in the financial aspects. So, how did you come to calculate your figures?

[12] **Carl Sargeant:** I am very happy to do that, Chair, and thank you. We worked on the principle of what we believe this scheme will cost at the onset, and then worked back from that. So, there was a bit of reverse engineering.

[13] **Jocelyn Davies:** Okay. Were you able to base it on a scheme that existed elsewhere so that you know that the figures are robust?

[14] **Carl Sargeant:** We know that there are schemes in operation across the country. I visited a few of them and have seen what their fee structures are like, and we have then interpreted that to what we think will fit the Welsh solution.

[15] **Jocelyn Davies:** So this is not a figure that has been thought up, doubled, and then divided by three or something: you actually have evidence to suggest that this would, in reality, be the cost.

[16] **Carl Sargeant:** That is correct. If it is helpful, Chair, what we worked on is the assumption that the costing for the first year would be around £0.5 million, and we worked back on a registration fee, which we have explained in the policy committee, of around £50 per registration, and there being around 10,000 landlords. We know that that is way underestimated in terms of the number of landlords in Wales. The Residential Landlords Association, I think, has suggested that there are around 80,000 landlords in Wales. We believe there are actually more than that. So, 10,000 is a small number, which we believe will be adequate, with the fee structure, to fund the scheme.

[17] **Jocelyn Davies:** You need 10,000 to break even.

[18] **Carl Sargeant:** Yes.

[19] **Jocelyn Davies:** So, are you confident that—? The Residential Landlords Association says that it thinks there are about 70,000, and you think it could be as many as twice that.

[20] **Carl Sargeant:** I am not sure about twice as many, Chair.

[21] **Jocelyn Davies:** It could be, though. Nobody knows.

[22] **Carl Sargeant:** Yes, of course. We believe that there are more than that.

[23] **Jocelyn Davies:** Nobody knows. How did you arrive at the 10,000 figure as a break-even figure?

[24] **Carl Sargeant:** Because we believe that the set-up costs are £0.5 million.

[25] **Jocelyn Davies:** Okay. Are you confident? You have an accreditation scheme at the moment. How many landlords are volunteering for that?

[26] **Mr Breeze:** About 2,500.

[27] **Jocelyn Davies:** About 2,500 so far. So, how are you going to get to this 10,000 for the break-even?

[28] **Carl Sargeant:** Well, of course, we are working on the basis that this will be a

mandatory scheme and therefore people will be required to be registered in the scheme, and therefore 10,000 is not that big a leap in terms of a pot of people that, we believe, is in excess of 70,000.

[29] **Jocelyn Davies:** Who, because it is the law, will automatically volunteer themselves for it, because they will not want to be breaking the law. Okay. So, do you have any contingency in case you do not get to 10,000 and it is not self-financing?

[30] **Carl Sargeant:** We do not believe that will happen, Chair, but, in the event that that was the case, we would have to act on that appropriately, within budget.

[31] **Jocelyn Davies:** So, you have a contingency to allow you to—

[32] **Carl Sargeant:** We would have to find that money.

[33] **Jocelyn Davies:** Okay. Peter, did you want to come in on this?

[34] **Peter Black:** Yes. I have a couple of questions. I am trying to understand the cash flow within the scheme. Obviously, you have the £0.5 million set-up costs, but the money will not be coming in until it is set up. I assume that Cardiff will be spending most of that money, because it will be running the scheme. Will it have money from the Welsh Government to set it up or will it have to put up the money itself and recover it from fees?

[35] **Carl Sargeant:** We are already working with the council in terms of discussions around the setting up of that scheme and the software approach to that, but there will be a process whereby we will support Cardiff to develop the scheme in order to get it off the ground and running. However, it will not be an onerous cost, I do not believe.

[36] **Jocelyn Davies:** Because Cardiff currently hosts the registration scheme.

[37] **Carl Sargeant:** That is correct.

[38] **Jocelyn Davies:** It currently hosts that anyway, so this is an expansion.

[39] **Carl Sargeant:** That is correct, Chair.

[40] **Jocelyn Davies:** What is your publicity budget then? People have not had to register before and suddenly it is going to be law that every landlord will have to register, so how are people going to know? I do not think that every public sector landlord is watching the proceedings here at the National Assembly and will automatically know that they are now required to do something by law—not that ignorance of the law is an excuse, but what is your publicity budget?

[41] **Carl Sargeant:** I do not have the number to hand. I will just ask one of my team to have a look at that, Chair.

[42] **Mr Breeze:** We have allowed £50,000 as an initial budget for the Welsh Government to pay for advertising. Of course, there are a huge number of non-paid-for advertising channels that we will use, such as social media. So, we feel that is enough to buy a set amount of paid advertising to reach the right people, plus additional promotional activities for the first year.

[43] **Jocelyn Davies:** Peter, did you want to come in on this point?

[44] **Peter Black:** Following on with the theme of the flow of money, as I understand it,

Cardiff will take all the fees and run the scheme and local authorities will then enforce the scheme at a local level, using some of that fee money to cover the cost of that. So, what is the mechanism for the disbursement of fees from Cardiff council to those local authorities? Will it be formulaic? How will that work?

[45] **Carl Sargeant:** As I said to the Chair earlier, we are working with Cardiff, other local authorities, and the Welsh Local Government Association to look at how that dispersal of cash will be done around local authorities. There will be greater need in some areas than others due to the amount of landlords that we believe are in place. We need to fully understand the enforcement element and how that will be funded with local authorities in the discharge of their duty.

[46] **Peter Black:** So that is work in progress.

[47] **Carl Sargeant:** Yes, it is.

[48] **Jocelyn Davies:** Of course, the mention of dispersal of money from Cardiff has prompted Mike Hedges to come in with a supplementary question. Have you finished your questions, Peter?

[49] **Peter Black:** If Mike wants to ask something on this, then I will move on to something else.

[50] **Jocelyn Davies:** Is it on this point, Mike?

[51] **Mike Hedges:** It is a point about advertising. Surely, the easiest way of doing it is for the council to send it out with their council tax bills to let everybody know at that stage. They should then get everybody who is paying that.

[52] **Mr Breeze:** That is one channel—lenders of buy-to-let mortgages is another, and there is a whole range of other means of reaching people. All channels need to be used; you are right.

[53] **Jocelyn Davies:** Of course, some of the landlords will not be living in Wales. Peter, did you have another question?

[54] **Peter Black:** I have one last question on this section. In terms of training and the cost of training, will the training be centred around Cardiff and will you expect it of all local authorities? How will the cost of the training be covered and will landlords have to pay additional money to go on these training courses?

[55] **Carl Sargeant:** The fee that the landlord will pay will be part of the training budget. I do not expect that to be Cardiff-centric because of the demographics of Wales. We are looking at many options, but it will be a process where we are looking for easy access to training. We do not believe it is onerous; we believe it adds value to your business and we are even considering online methods of discharge of the training duty.

[56] **Peter Black:** So, you are envisaging that the cost of those training courses will be covered by the fees, and the money that is dispersed to local authorities will cover the costs that they may incur in the running, advertising, et cetera, of those training courses.

[57] **Carl Sargeant:** No, enforcement of the courses—enforcement and training programmes. It will not be part of their advertising function, the fee.

[58] **Peter Black:** Sorry, my point was that local authorities would obviously have to

advertise the training course to the landlords and tell them—

[59] **Carl Sargeant:** Oh, sorry, not advertising the scheme. Sorry, yes.

[60] **Peter Black:** In terms of the cost of training.

[61] **Jocelyn Davies:** Currently, you have the accreditation scheme, which does involve an element of training and that is an all-Wales scheme. So, you have been training up landlords in the last several years, and the training will be similar. So, do you have robust figures in terms of how much it costs to train up landlords at the moment?

[62] **Mr Williams:** To clarify, the registration fee and the fee per property will be collected by the scheme. The training fees will be paid separately by the landlord to the training provider, because we are hoping to have a wide range of training providers. It could be Cardiff city on behalf of the scheme, or it could be the National Landlords Association or the RLA, but they will have to become approved providers first of all.

[63] **Peter Black:** So, that is an additional cost to the landlord. They pay the fee and they have to pay the training fee on top of that, which is part of the registration.

[64] **Mr Williams:** We have allowed a figure of around £100 for the course. However, if we get a wide range of training providers, they may be more competitive. Some, including the RLA and NLA, may build that into their membership fee. We are still working with them on that process.

[65] **Jocelyn Davies:** We are given to understand that, if you are a member of one of the professional bodies that exist for landlords at the moment, it is an automatic passport into the scheme, because you have already passed some training element.

[66] **Mr Williams:** We need to make absolutely sure that they are accredited to the right standard and maintain the minimum standards that we are looking to see. A lot of them are already accredited by Landlord Accreditation Wales anyway, or so they claim, so we will process that.

[67] **Alun Ffred Jones:** Did you say £100? What is that for?

[68] **Mr Williams:** For the training. The fee for attending the training.

[69] **Alun Ffred Jones:** So, each landlord would pay £100.

[70] **Mr Williams:** Yes, that is a rough estimate. It could be cheaper. Currently, I think it is about £70 to £80.

[71] **Jocelyn Davies:** I was going to ask you about finding out where all the landlords are. Are you able to have access to local authority lists of who receives housing benefits, or do you know which houses are rented?

[72] **Carl Sargeant:** We are working—. I recently visited a scheme in Leeds, which has several modes of operation within its local authority. We are looking at different ways of accessing data that are legal, in terms of data sharing, in order for us to do that. That is one route that we are considering.

[73] **Jocelyn Davies:** You do not know yet, however, because that information is being collected for another purpose, whether you are able to use it. Could you send us a note when you have finalised whether you can use those data?

[74] **Carl Sargeant:** Certainly. We would be happy to do that.

[75] **Jocelyn Davies:** We will move on to Mike's question now.

[76] **Mike Hedges:** On the Hemming v. Westminster City Council case, do you believe that it applies to this Bill? If so, how will you fund enforcement against people who are not registered or licensed?

[77] **Carl Sargeant:** Legal cases and lawyers will have a different view on many things, but the law and the case that you refer to is accurate. Therefore, we believe that the fees generated by licensed members cannot be used to enforce licences on individuals who are not licensed. Therefore, there has to be a different route in terms of the financing of that. For the people who are registered, there will be a fee structure to support the operation of that, as we have explained, in terms of the registration. On the element of individuals who do not wish to comply, we will have to look at how local authorities will enforce that. There will have to be a separate fee structure for the development of that. We are currently looking at the opportunity to provide fixed-penalty notices to individuals who seek to dodge the scheme. However, it is a process, Chair. I understand the communications element of this and making sure that people are aware of the scheme. There is a journey to go on before we would consider that to be appropriate, but the ultimate penalty would be fixed-penalty notices and/or other actions a local authority could take.

[78] **Jocelyn Davies:** I see. So, you are not considering banning and saying, 'Sorry, you cannot be a landlord'? It will be a fixed penalty. Would the worst sanction be that you take a licence away?

[79] **Carl Sargeant:** Well, they would not have a licence; that is what I understood the question to be. For the person who seeks to not be a member of the scheme for whatever reason, be that within knowledge or without, we would first be looking to issue letters by the local authority on enforcement, to say, 'Do you realise you should be part of this scheme? You should do this. If you don't do this, then these are consequences'.

[80] **Jocelyn Davies:** So, you are looking for a different route in order to fund that.

[81] **Carl Sargeant:** Of course. We believe that the case stands.

[82] **Mike Hedges:** One of the problems that I have dealt with, both as a councillor and Assembly Member, has been empty buildings owned by people who live in other parts of Europe or, quite often, other parts of the world. Are you confident that local authorities will have sufficient resources to undertake enforcement action against unregistered private landlords, especially those who live in, say, Australia or Canada? I am not sure that a fixed-penalty notice—

09:15

[83] **Jocelyn Davies:** Other foreign countries are available, not just Australia and Canada. [Laughter.]

[84] **Mike Hedges:** They tend to be the most common, along with New Zealand, because it tends to be people who emigrated and have inherited their parents' home. You can issue as many fixed-penalty notices in this country as you like. First, they will take a long time to get there and, secondly, you cannot enforce them. So, will local authorities have sufficient resources to go chasing after the difficult ones? It is okay with the ones where they can knock on the door or visit or ask another local authority in England to help, but, for those abroad,

will local authorities have enough resources or will they go into the too-hard-to-deal-with box, as seems to be the case with dealing with empty buildings owned by people who live abroad?

[85] **Jocelyn Davies:** So, based on experience of how local authorities deal with people who own properties who live a long way away, how are you going to cope?

[86] **Carl Sargeant:** Well, Chair, if you are asking me whether there will be enough money in the scheme for people to go to Australia to serve a fixed-penalty notice, the answer is clearly, 'no'.

[87] **Jocelyn Davies:** You might have some officials who would volunteer for that. [Laughter.]

[88] **Carl Sargeant:** I am sure there would be some. However, Chair—and I will bring Alyn in in a second if I may—there are other options in the suite of tools, such as rent stopping orders and so on, which work irrespective of where the individual lives. The point is where the rent stopping order is being placed, and that is the property. There are two points here. Mike mentioned empty properties, and that is a separate issue altogether in terms of enforcement. However, on the issue of a landlord abroad or a landlord away, I still believe that a local authority can deal with that on a local basis. I do not know whether Alyn wishes to add anything.

[89] **Jocelyn Davies:** The difference with these properties is that they would be occupied. Obviously, there would be an attempt—. Peter, did you want to come in on this point?

[90] **Peter Black:** Yes. On that issue, if you register a property with the Land Registry, you have to register a UK address—

[91] **Jocelyn Davies:** You do.

[92] **Peter Black:** So, I was wondering whether, as part of the licensing requirements, you would also require a UK address to be registered by the licensee to make it easy to enforce.

[93] **Carl Sargeant:** That is something we would consider. I would hate to think that the current system, or possibly a future system, if requiring you to register a UK address, might just create a loophole for individuals who still lived abroad. We would have to consider carefully how it would operate. Actually, it is the functioning of the scheme that is really important to me.

[94] **Peter Black:** Okay. On the cost of enforcement, as far as I can see, there is nothing in the Bill that says that a local authority can recover its costs from taking enforcement action. There is certainly nothing in the Bill about fixed penalties. Are you proposing to bring forward amendments to ensure that local authorities will be able to recover their costs and to include fixed penalties?

[95] **Carl Sargeant:** We have considered this carefully, Chair, and that is why I mentioned it this morning. We have looked at the pathway of delivering the scheme and enforcement, and we have listened carefully to the WLGA evidence. We are considering potential amendments, which may include fixed-penalty notices or other options that would give local authorities the ability to recoup costs. However, we are working with it closely to ensure that there is a workable process.

[96] **Mr Breeze:** I believe it is fair to say that, if a local authority took someone to court, the court could award costs.

- [97] **Peter Black:** Well, yes, but that does not always happen, does it?
- [98] **Mr Breeze:** Well, I think that, in communicating the scheme, one of the targets we have is courts and judges in order to expand their knowledge of the scheme.
- [99] **Jocelyn Davies:** That might very well be, but we cannot be certain that the cost would be recovered.
- [100] **Peter Black:** The point I was making was that, if it is in the Bill, the local authority has certainty in terms of taking someone to court. If they win, they will get their costs.
- [101] **Carl Sargeant:** It is something that we are considering, Chair.
- [102] **Jocelyn Davies:** We might not have an opportunity to have you back so, if you do propose amendments at another stage that change the finance aspect, do you think that you could send us a note on that so that the committee can—
- [103] **Carl Sargeant:** Most definitely.
- [104] **Jocelyn Davies:** Mike, do you have—
- [105] **Mike Hedges:** No, I have asked both.
- [106] **Jocelyn Davies:** You have asked both your questions. Peter, shall we go on to yours now then?
- [107] **Peter Black:** Yes. On the homelessness section of the Bill, are you confident that the planned £1 million savings associated with revising the priority need status of prison leavers in 2015-16 can be achieved, given that some stakeholders have expressed the view that the majority of prison leavers will continue to be in priority need?
- [108] **Carl Sargeant:** Yes. I also understand that this particular element of the section on homelessness has raised interest externally as well. There has been a helpful dialogue with many stakeholders on what we are proposing and how it will operate. Of course, we believe that the financing arrangements within the Bill are accurate, Chair; we would be foolish to present otherwise. We have looked at the numbers around prison leavers, working with local authorities that discharge that duty in terms of costs et cetera. We have worked back on the principle of cost savings around that. We believe internally that we probably underestimated this in that there are further savings to be made in this process, but we are erring on the side of confidence that £1 million can be saved.
- [109] **Peter Black:** I think that the point is that—. We will touch on the issues around vulnerability in the Communities, Equality and Local Government Committee tomorrow, but the view that has been expressed by stakeholders is that the vast majority of prisoners are vulnerable and that, in the assessment that local authorities will be required to make in terms of vulnerability, there will still be a substantial number of ex-prisoners who will be caught by the priority need status.
- [110] **Carl Sargeant:** We accept that and the numbers reflect that appropriately, Chair.
- [111] **Peter Black:** In terms of where the £1 million savings will be found, are you expecting it to be found within your homelessness budget or is that a matter that local authorities will pick up as part of their own implementation of the homelessness agenda?

[112] **Mr Marlow:** Sorry, the savings—

[113] **Peter Black:** The £1 million savings. Will that appear in your homelessness budget or will you expect local authorities to make that saving, so that it is spread across all 22 authorities?

[114] **Mr Marlow:** Well, we will have to work out a calculation in terms of the cost of the funding that we will be giving to local authorities. However, once the amendment is made to the legislation, that saving will automatically occur for local authorities. We will then top that up with additional transitional grant funding and a formula will be developed to take account of all the various factors.

[115] **Peter Black:** What is that transitional grant funding?

[116] **Mr Marlow:** The whole model is based on the assumption that local authorities will be able to break even across the board in terms of the changes that we are making. The package of changes will be cost-neutral after three years, so the funding that is mentioned in the explanatory memorandum is based on that assumption.

[117] **Peter Black:** So, you will be funding local authorities to implement the new provisions.

[118] **Carl Sargeant:** Yes.

[119] **Peter Black:** And you will be expecting them to break even in three years and the £1 million savings will be part of that calculation.

[120] **Mr Breeze:** Yes, and an extra £5 million has been allocated to help the transition. In addition to that, we are reviewing our current homelessness grant programme to redirect it towards prevention. I think that the big issue with this is that there are some very conservative assumptions within the explanatory memorandum about the achievement of prevention rates. We are confident that the estimate of 64% in the first year will be beaten, and for every extra percentage point that you save on prevention, you will reduce the cost accordingly. I think that they are modest costings, actually.

[121] **Peter Black:** What evidence is that based on?

[122] **Mr Breeze:** That is based on local authority evidence of their prevention rates to date and also on discussions with local authorities recently. Flintshire, I think, is now hitting 70% and in 2012-13 Merthyr hit over 90%. The cost savings from that sort of reduced level of homelessness being presented is considerable.

[123] **Peter Black:** Given that a number of local authorities are already taking this approach and already making those savings, how do you expect to make additional savings on top of that?

[124] **Carl Sargeant:** Let me reassure you that they are not all doing it—

[125] **Peter Black:** I know they are not.

[126] **Carl Sargeant:** There are some authorities that have only just started changing the way that they operate, to great effect, Chair. That is what we have based our numbers on.

[127] **Jocelyn Davies:** Mike is next.

[128] **Mike Hedges:** You said that there was an authority that saved 90%—I did not hear which authority that was.

[129] **Mr Breeze:** It was Merthyr in 2012-13. It ended up with 120 or so fewer people presenting as homeless.

[130] **Jocelyn Davies:** Are you happy that that is not because people went somewhere else?

[131] **Mr Breeze:** No, I think that—*[Inaudible.]*

[132] **Jocelyn Davies:** So, in terms of this saving that is identified in your regulatory assessment, even though you expect a substantial number—up to 70%—of ex-prisoners to be vulnerable under another section of the Bill, you still expect to make savings of £1 million.

[133] **Carl Sargeant:** Yes, we do.

[134] **Jocelyn Davies:** Yes?

[135] **Mr Breeze:** May I just say that in addition to the people coming out of prison who are homeless, the big thing about this Bill is prevention, and in the working group that the Minister has set up to look at prevention, there is a commitment to tackle the issue upstream? What we have found is that, in some cases, landlords do not know that someone is on remand, for example, and this has led to them becoming homeless. So, by tackling that upstream, you will actually reduce homelessness and therefore reduce the costs of people coming out.

[136] **Peter Black:** Can I ask a question on that? How is the £1 million broken down? As I see it, you are redirecting existing resources to prevention work, you are still going to get ex-prisoners presenting to the authority, they are still going to have to be assessed, and the only cost that you are saving on is actually giving them a house. Therefore, where is this saving actually coming from?

[137] **Carl Sargeant:** We believe that there will be fewer people going into the system in terms of being homeless. As my colleague said, the working group that we have set up is looking at the whole profile of the ex-offender. Some people were not triggering their homeless status within a prison setting, and they used to wait for the discharge, and then trigger that setting, which put them in a homeless position straight away. We are looking at supporting people—not because they are ex-offenders, but because they are either homeless or they are not homeless. That is the process of making sure that we can take the people who require it on a pathway to accommodation. My views—and this is without trying to broach the policy end of this, Chair—have been clear on prison leavers. We believe that the finance that relates to prison leavers who are vulnerable—and I accept that there are many who are vulnerable—is appropriate. We will make cost savings on the basis that there will be people, ex-offenders, who are not in the vulnerable category—that is a different debate about what vulnerability is. That will give us a cost saving of around £1 million, or a little bit more, actually.

[138] **Peter Black:** So, your cost saving is based on local authorities needing fewer members of staff to assess those prisoners?

[139] **Carl Sargeant:** Yes, and on there being less discharge of duty.

[140] **Peter Black:** Okay.

[141] **Jocelyn Davies:** Ann has the next questions.

[142] **Ann Jones:** You have talked a lot about how you expect fewer people to present as homeless in the future. However, given that there are some huge welfare reforms still to come from the UK Government, economic conditions can never be looked at, and there are some legislative changes as well. If that number is greater than what you are basing your estimates on now, will there be any additional funding for local authorities to cover those additional costs? I am thinking particularly of those areas, such as my own seaside towns, where there is an abundance of cheaper accommodation to start with, which means that those people who, perhaps if you shake the tree, will whittle away somewhere else. I am just wondering whether there will be some additional cash for those authorities that may have to face those extra numbers.

[143] **Carl Sargeant:** There is no additional cash, Chair. We are, as all budgets are, of course, very tight in terms of what our spend profile is. However, I share Ann's concern—and the concern of many others—about the changes in welfare and so on, and the implications of those changes. We do not have a crystal ball, so we do not really know what that may or may not mean. However, we do believe that the whole change to the way that we deal with homeless prevention—and 'prevention' is the key word—does shape the system very differently. We have evidence that that does work. Ceri alluded to my own authority, which, I will declare, a few years ago was absolutely dreadful, and it was costing it a fortune in terms of its discharge duty.

[144] **Jocelyn Davies:** Please do not remind me, Minister. [*Laughter.*]

[145] **Carl Sargeant:** You are absolutely right to say that, Chair. [*Laughter.*] However, you will be very pleased to hear, Chair, that it is now a model authority, which is discharging its duty, and the cost savings are tremendous. We believe that if we can get the 22 to do that—and we believe that, through this package, we will be able to do that—there will be a significant saving. We think that we have erred on the safe side of the numbers, and therefore the discharge change in duty will be different. Hopefully, Ann, although I cannot give you any cast-iron guarantees, because I do not know what the welfare reform will present, that will be another question in terms of discharge and financing, subject to that occurrence happening.

[146] **Ann Jones:** Okay. So, you are saying that there is no additional money. If we can just roll forward three years, because you mentioned being cost-neutral after three years, what happens in 2019? How are we going to secure accommodation for those households, particularly those with children, that present themselves as homeless or unintentionally homeless, or are found to be unintentionally homeless, or whatever you want to call them—that is, those families with children who do not have a home? Would you be in a position to look at ways in which additional funding—if there was to be additional funding, or if there were to be some savings made somewhere else—would mean that those who are homeless with children would get priority over everyone else?

09:30

[147] **Carl Sargeant:** There were two parts to that question. The year 2019 is a long way off, and I probably cannot answer for my actions or anybody else's actions in 2019—

[148] **Ann Jones:** However, the actions that you are taking now may have an effect on future homes and families in 2019.

[149] **Carl Sargeant:** Of course, and you are absolutely right to raise that now. That is why, as part of the policy agenda of legislation, we have looked at this, not just in the current time and place—a snapshot—but at the discharge of this duty in the long term when the

legislation is in place. We do not anticipate any additional costs, Chair, from the homelessness duty in the Housing Bill. In fact, children in need will, we believe, come under the Children Act 2004, and that is where we think that the cost, if there is any, will come. Either way, there will be a cost element of that, which will have to be considered either by the homelessness or by the children's social services element. However, we believe that that is built into the scheme and the effects of the Children Act in terms of dealing with the event of children being presented as homeless. We do not actually think that that figure will increase significantly by the legislation being introduced.

[150] **Ann Jones:** Could I ask you then, if you are going to rely on another section of local authorities to perhaps find additional funding, is it not a little disingenuous not to show that in here? If you are expecting social services or children's services within an authority to pick up a family that is intentionally or unintentionally homeless, should that not be included in the financial impact?

[151] **Carl Sargeant:** Respectfully, we would not expect part of another Bill or another department to pick up a duty that we have created unless we had considered that. We have had discussions with the social services team in terms of its actions and what happens when—. We spent quite a lot of time on this, in terms of the policy review, about what happens to families with children who are unintentionally or intentionally homeless and how that will be dealt with in a legal framework. There are duties that are placed on local authorities through the social services legislation. They have to comply with looking after children and, therefore, that duty would fall to them anyway. So, it would not be a burden that we were creating; it would be something that they were acting upon anyway.

[152] **Jocelyn Davies:** So, we are not going to be in a situation where the Deputy Minister for Social Services says, 'I didn't know that I had to pick up that bill,' blaming you and you blaming her. Even though it is not accounted for here, you are satisfied that that tab is going to be picked up by the Welsh Government.

[153] **Carl Sargeant:** Absolutely. I do not think that it is additionality, actually; I think that it is a process thing that just falls within the remit of social services.

[154] **Julie Morgan:** I was going to ask about the Gypsy and Traveller provision—*[Interruption.]*

[155] **Carl Sargeant:** Can we swap officials? We have lots of staff, Chair. *[Laughter.]*

[156] **Jocelyn Davies:** Perhaps you would like to introduce your officials, just for the record.

[157] **Mr Davies:** John Davies, Gypsy and Traveller policy.

[158] **Ms Welsby:** I am Jen Welsby, from the funding team that deals with rent and service charges.

[159] **Jocelyn Davies:** Thank you. Julie, shall we come to your question?

[160] **Julie Morgan:** Obviously, we are very hopeful that the issue of a lack of sites for Gypsies and Travellers is going to be addressed by this Housing Bill, and I think that it is a very welcome development. In terms of the money available to provide capital funding for any new Gypsy and Traveller sites, would you be able to update the committee on what would be available?

[161] **Carl Sargeant:** We have a budget line for that, Chair. Assuming that it remains at the

current level, it is £1.5 million per annum. I am grateful for the Member's comments, actually, because we drove this very hard, despite significant opposition to introducing a duty to provide for Gypsy and Traveller communities. My strong position is that we should do so, but I live also in the world of the reality of how this operates on the political spectrum, and it is a very difficult challenge for some individuals to move this agenda on. The budget, over many years, has been reduced. That is not because of our not wanting to do something; it is actually because it has not been spent, so we have just reprofiled it. The problem is that, now that we are introducing a duty, there will be a cost involved to delivering that duty. Nevertheless, for the delivery of the duty in the Bill, there will be a timeline in that process around planning opportunities et cetera. We believe that the £1.5 million will be there or thereabouts in terms of being the right amount of money for the development of new sites and the refurbishment of sites included in that. So, we do not see that as being under significant pressure in relation to the demand for new sites.

[162] **Julie Morgan:** If you look around the country and know where the demand is, roughly, and know that we need new sites in Newport, Cardiff and Swansea, for example, I wonder whether £1.5 million will be enough to develop the number of sites that will be needed. Is there a plan as to how it will be done?

[163] **Carl Sargeant:** Once again, looking historically at the way in which this has operated under the legislation that was in place regarding this duty, we have seen failure across our communities to deliver on the needs of our Gypsy and Traveller communities. That is why we have put this in place. We recognise that we need to do something.

[164] With regard to the spend profile, we still believe that £1.5 million is probably the appropriate figure for the delivery of this. Despite there being legislation, we do not believe that the legislation will run away with the finances. There is still a timeline. Once again, I have asked the team to consider—understanding how this might operate within a local authority setting—how we have something in place to ensure that local authorities comply with the duty. I would be concerned if local authorities complied to the point of saying, 'Yes, okay, we recognise our need basis and we need a new site', they came to us but we had no money for them. That would be a problem for us with regard to enforcement for the authority. We would have to consider that very seriously in terms of what the local authority has done in terms of discharging its duty, but it is not prohibitive with regard to it getting to a point of saying, 'The only thing that's stopping us here now, Minister, is cash'. We do not believe that that will be the case, and it might be something that we have to revisit. However, currently, we believe that £1.5 million is the appropriate level for that.

[165] **Julie Morgan:** It is reassuring that you would revisit that if the demand was there.

[166] **Jocelyn Davies:** May I ask you a question? There has not been a new site since devolution, so what historic figures are you using so that you know that £1.5 million can purchase and provide a new site?

[167] **Carl Sargeant:** We have had interest from local authorities in terms of the provision, but it has never got to the point of delivery—generally, because of politics and local people opposing sites. So, we believe that figure to be appropriate in terms of delivery. I can send you a note, Chair, if that would be helpful, regarding 2008 to date and what was available in terms of the funding, what was spent and how we reduce that money in order to—

[168] **Jocelyn Davies:** No money has been spent on new sites, has it? There has been only refurbishment.

[169] **Carl Sargeant:** No, no new sites at all.

[170] **Mr Davies:** Just to clarify that point, during this financial year, money has been spent on a new site in Brecon, which is due to be completed at the end of this month. However, that is the only new site that has been developed.

[171] **Jocelyn Davies:** Right. A couple of Members want to come in—Mike and Ffred—but, Julie, do you want to finish your questions?

[172] **Julie Morgan:** Yes. I just wanted to say—using Cardiff as an example—that there are real problems with the Rover Way site and that will have to be replaced. That will probably be a bigger site than would have been anticipated, because people want to live near where they have lived. So, there could be greater expense in relation to that site. How will you cope with that sort of situation?

[173] **Carl Sargeant:** The issue, once again, is about need, and we have to have a full understanding of need. That is part of this process: councils fully understanding the need assessments for Gypsy and Traveller families. We do not believe that those data are robust, currently. We need to make sure that they are robust in terms of finance profile and finance delivery. There will be some areas that will, of course, need larger sites and I expect—and you have local knowledge—that Cardiff will be one of them, potentially. However, there will be other areas where the need basis is different. I believe that there is probably a need in all local authorities, but some may be much smaller and require transitional sites, et cetera, which will incur a much lower cost. So, we will not be seeking to discharge this finance on a formula basis, but on a need basis. Therefore, the larger sites, we believe, should be provided appropriately through the finance model.

[174] **Mr Davies:** Just to add to that, we have good practice guides at the moment for the design of new Gypsy and Traveller sites, and there is, not a limit, but a recommended level of pitches that should be provided on sites. That says that, unless there are very good circumstances, it should not exceed 20 pitches. We will be consulting on those guidelines again this year, and that will help to guide how we will look at funding new sites in future if they are sites that are significantly larger than what is currently contained in good practice.

[175] **Julie Morgan:** Just one more question. I think, Minister, that you have already referred to the difficulties of getting these sites through. Have you put aside any money for helping with issues of community cohesion or working with the neighbours, so to speak?

[176] **Carl Sargeant:** Not in this element of the Bill. John works within the Gypsy Traveller team, so it could be helpful if he said something.

[177] **Mr Davies:** I work under the Minister for Communities and Tackling Poverty. We have money for community cohesion co-ordinators across Wales. There are nine of those co-ordinators and they work on a regional basis. We are developing their work plans at this moment in time. We fully expect working to try to resolve some community tensions around Gypsy and Traveller sites as part of that.

[178] **Julie Morgan:** That will be one of their priorities.

[179] **Mr Davies:** Yes.

[180] **Jocelyn Davies:** Mike, you wanted to come in, and then Ffred.

[181] **Mike Hedges:** Following my 20-year rule, the duty was abolished approximately 20 years ago and now it is coming back. Will there be any money available for the legal costs, because the last major case in the old west Glamorgan went all the way to the High Court?

[182] **Carl Sargeant:** The duty will be the duty, Mike; local authority discharge of the duty is not my responsibility.

[183] **Mike Hedges:** A local authority picks a site, it takes the political flack—as we did in Penllergaer and Llangyfelach—loses seats on the council, goes all the way through it, and then the High Court says ‘That site is not suitable’ and the council has lost £200,000. You think the councils should take that hit themselves.

[184] **Carl Sargeant:** My view is very strong that a local authority should discharge its duty appropriately. I am not being specific about any case, but sometimes it is easy to pick a site that is inappropriate for a Gypsy/Traveller community because it is easy politically, although in some areas the politics are very tricky. I do not underestimate the problem of taking this legislation through, in terms of discharge, but I am not dodging the fact that I think that there should be a duty to make sure that we comply with this. These are families with children who are in need, and there is the principle of making sure that there are facilities in place to deliver that.

[185] If the politics get in the way of delivering this, maybe we should be thinking of something different on delivery. However, that is not the case at the moment. We work in a democracy, and we should make a choice of whether this is right or wrong. I believe that we should finance this appropriately and give the legislative competence to take this process through. Therefore, it is for the local authority to make the right decisions—politically and professionally—to deliver a site for Gypsy/Traveller communities. I do not shy away from that.

[186] **Jocelyn Davies:** In fairness, the local authority was trying to provide a site. I think that it was an adjacent landowner who—

[187] **Mike Hedges:** It was an adjacent landowner who went to court, and the local authority—

[188] **Carl Sargeant:** Just to clarify, Chair, I was not being site-specific. I was making a general point that the planning system is not helpful either, sometimes, in terms of determination, whether that is Gypsy/Traveller sites or in other areas. The fact of the matter is that it is easy to dodge these issues, but I think that we should all take a part in making sure that we are able to discharge this duty properly.

[189] **Jocelyn Davies:** However, the funding that is available is for infrastructure and so on, and there is nothing in connection with legal fees. That is for the Minister for Local Government and Government Business, and not for you. Julie, you have finished your questions; Mike you have had yours. Ffred, do you want to come in on your supplementary question?

[190] **Alun Ffred Jones:** Regarding the site in Brecon, how big is it and how much will it cost?

[191] **Mr Davies:** The Brecon site has 10 pitches to begin with, and can expand to 14 pitches. It cost the Welsh Government £1.75 million. There are additional costs that Powys County Council incurred, generally to do with the fact that that particular site required extra remedial work around providing a footpath to connect it to the local community. Given its position in a national park, the buildings needed to be of a particular standard, which would not apply if it was not in a national park.

[192] **Jocelyn Davies:** Paul, shall we come to your questions?

09:45

[193] **Paul Davies:** I want to ask you about the financial implications of abolishing the housing revenue account subsidy system and introducing new standards for rents and service charges. As a Government, you make it clear, I think, that there are substantial and quantified benefits from this that are sufficient to justify the additional costs of this option. What evidence is there to demonstrate the benefits and value for money of actually introducing new standards for rents and service charges for local housing authorities to actually justify the additional costs incurred?

[194] **Carl Sargeant:** I will ask Jen, who is our expert on this, to go into the finer detail in a second, if I may, Paul. However, we have had discussions with tenants' associations, registered social landlords and local authorities. Basically, this is about a transparency issue and about making sure that people understand exactly what they are paying for in rents and service charges, but also there is a technical element to this in terms of the future around some of the discharge of DWP duties in terms of understanding exactly what your rent charges are as opposed to service charges. That is unclear to many tenants and landlords at the moment. That is why we believe that there is a significant benefit in terms of making sure that people understand what they are paying for and what they are not paying for, both for the tenant and the landlord. I know that Jen—

[195] **Jocelyn Davies:** That is because it was all up as rent even though it was broken down into a number of elements and DWP payments did not cover all the elements of what the tenants considered to be their rent.

[196] **Carl Sargeant:** That is correct.

[197] **Jocelyn Davies:** Right. Okay. Jen, do you want to expand on the response from the Minister?

[198] **Ms Welsby:** Under universal credit, it is going to be an online application form and tenants will need to justify and have evidence for any claims for their eligible service charges. So, we feel that it is really important that landlords do correctly separate rents and service charges to provide tenants with the appropriate information. There will still be some service charges that will be eligible for benefits and others that will not be eligible for benefit, but that will make things much clearer. All service charges have to be reasonable. 'Reasonable' is difficult to define, and you have to work with your tenants to determine what is reasonable. They also have to consult with the tenants on all aspects of the service charges. Apparently, there is a clear understanding from working with RSLs that when tenants know and understand and clearly pay for their service charges, they are more able to challenge service delivery; so, you have a drive in increasing standards and quality as well.

[199] **Carl Sargeant:** Just to add to that, in terms of evidence, the Essex review is very clear in terms of understanding service charges and rent policy, and that is a weighty document that was well-informed, I believe, by the sector.

[200] **Jocelyn Davies:** Yes, because some service charges would have been for grass-cutting, your television and your heating. There was a whole host of things included in what people considered to be a rent. All of that now has to be transparent because the DWP will cover some of those things in universal benefits and there are some things that it will not cover. Tenants will have to pay for those themselves if they receive that service.

[201] **Ms Welsby:** They will consult on the frequency of grass-cutting and the quality of the services that are provided. So, that transparency for tenants is very important.

[202] **Carl Sargeant:** I do expect, Chair, that people have been paying for grass-cutting who do not even have a lawn in the process of rent policy at the moment. However, it will be clearer in the future.

[203] **Jocelyn Davies:** Also, of course, local authorities could spread those costs among all of their tenants, not just those receiving the service.

[204] **Carl Sargeant:** Yes.

[205] **Jocelyn Davies:** However, this now makes the housing associations and local authority tenants exactly the same.

[206] **Carl Sargeant:** Yes.

[207] **Ms Welsby:** Yes.

[208] **Jocelyn Davies:** Paul, did you have any further questions?

[209] **Paul Davies:** Yes, I had just one on the housing revenue account subsidy with regard to exiting from the system. Are you confident that the additional borrowing that local authorities will be able to undertake, and the savings that they will make from exiting the housing revenue account subsidy system, will actually allow you to achieve your aim of improving existing stock and actually build new homes? The reason why I ask that question is because the regulatory impact assessment states that it is not possible to estimate the impact on each individual local authority at the moment, until detailed consultation with each authority has taken place.

[210] **Carl Sargeant:** Yes. This has been a really interesting question. This has been a long process of trying to get to where we are. The Chair has had a big involvement in exiting the HRAS, and we are now at the point where we are in that consultation process with local authorities in terms of what the capping levels et cetera will be and how they will discharge that. We had a discussion—prior to the formal exit—with the Treasury on what we believed would be the total amount of funding required by local authorities to discharge their duty. We went to the Treasury and got agreement on a number. We have come back since then and had further discussions with local authorities that are exiting. We asked them to reassess the first funding indicator they gave to us. That has come back pretty much the same. Now, we understand better what they intend to do in terms of the WHQS element of that and the new-build element as well.

[211] I have already had some local authorities coming to see me, before we finalised the detailed discussions around what this may be, looking at how they can access funding to start building new properties. The capping level is a different argument. Whether it should be higher or lower is a different debate. On the numbers we understand, which will be discharged through the local authorities that need that, further discussions are ongoing, but we believe that we are in the right place for them to discharge their duty and to build new properties, if they should so wish.

[212] **Jocelyn Davies:** They will eventually be out of debt.

[213] **Carl Sargeant:** Yes.

[214] **Paul Davies:** But, at the moment, you do not know the specific savings that local authorities can actually make.

[215] **Carl Sargeant:** Jen, do we have some numbers around that?

[216] **Ms Welsby:** We know that £33 million is the global figure, but there are technical accounting matters that need to be really opened up for discussion—things like how you deal with depreciation and there is the technical term of ‘minimum revenue provision’. For local authorities, we have set up a governance structure to take forward the reforms. The first meeting is in February. We have technical work streams to deal with all these technical matters. When all the modelling has been done, and the consultation on the distribution of the settlement and the borrowing cap is finished, we will be in a position to see, from individual business plans, what the actual revenue savings are. We cannot do that until we have gone through that really technical process of dealing with these technical accounting issues.

[217] **Paul Davies:** So, it is still ongoing.

[218] **Ms Welsby:** It is ongoing, yes.

[219] **Jocelyn Davies:** So, you had the discussions with Treasury, you were in charge with the Treasury of negotiating the overall figure, and then it is for you to negotiate with local authorities to sort out these technical issues and come up with a regime that operates just within Wales, just with those local authorities, within that global figure that is negotiated with the Treasury.

[220] **Carl Sargeant:** Yes.

[221] **Jocelyn Davies:** Paul, are you happy with that? I see that you are. Peter, did you want to come in?

[222] **Peter Black:** Just so that we can put this £471 million in context, do you have an up-to-date figure for how much it would take to bring all local authority housing stock up to the Welsh housing quality standard?

[223] **Ms Welsby:** What we have done is asked local authorities what borrowing they require to meet their current business plan commitments. The figure they have come back with is £470 million, so it was very close.

[224] **Peter Black:** How convenient. *[Laughter.]*

[225] **Ms Welsby:** That is to meet their current business plan commitments.

[226] **Peter Black:** The current business plans are aiming towards the WHQS.

[227] **Ms Welsby:** The WHQS and some have some elements of new build—those that have met the WHQS.

[228] **Peter Black:** Synchronicity.

[229] **Jocelyn Davies:** Ffred, shall we go on to you? You have finished your questions, Paul, have you not? I see that you have. Ffred is next then.

[230] **Alun Ffred Jones:** Byddaf yn gofyn fy nghwestiwn yn Gymraeg. Rwyf am ofyn cwestiynau ar y dreth gyngor ar gartrefi gwag. Yn gyntaf, sut ydych yn diffinio cartref a fu'n wag ers tro? **Alun Ffred Jones:** I will ask my question in Welsh. I am asking questions on council tax on empty homes. First, how do you define a long-term empty home?

[231] **Carl Sargeant:** Policy-wise, we need to have definitions. Ceri?

[232] **Mr Breeze:** For the council tax provision in the Bill, it is empty for more than 12 months.

[233] **Alun Ffred Jones:** Pwy sy'n mynd i benderfynu os yw cartref wedi bod yn wag ers 12 mis neu fwy? **Alun Ffred Jones:** Who is going to decide whether a house has been empty for 12 months or more?

[234] **Carl Sargeant:** The local authority will make that decision. It will be based on its billing assessments.

[235] **Alun Ffred Jones:** Rydych wedi amcangyfrif y bydd llywodraeth leol yn gallu casglu arian ychwanegol neu dreth gyngor ychwanegol uwch ar y cartrefi hyn, ar yr un raddfa ac y maen nhw'n casglu'r dreth gyngor ar anheddau eraill. Pa dystiolaeth sydd gennych chi y bydd hynny'n digwydd? **Alun Ffred Jones:** You have estimated that local government will be able to collect additional money or additional higher council tax on these empty homes, at the same rate that they collect council tax on other dwellings. What evidence do you have that that will happen?

[236] **Carl Sargeant:** Chair, I expect local authorities to collect council tax on empty properties, should they wish to do so. If we put this process into context, this is an enabling power for local authorities to discharge a duty. It is entirely up to them, if they wish, to introduce an empty homes consequential within their local authority area. That is not a matter for me. This is a provision for them to do that. If we look at that in terms of how it would operate, should a local authority wish to implement this, it would certainly have a cost-benefit and an environmental benefit by discharging that duty. So, it is entirely a matter for authorities as to how they operate the scheme. If they wish to operate it, I would imagine that they would seek to put as much effort as possible into making sure that they could have the highest collection rate possible.

[237] **Alun Ffred Jones:** Iawn, diolch yn fawr. Gyda llaw, rwy'n gwybod bod trafodaeth wedi bod o gwmpas ail gartrefi neu gartrefi gwyliau hefyd. A ydych wedi ystyried eu cynnwys yn y Bil? **Alun Ffred Jones:** Fine, thank you very much. By the way, I know that there has been a discussion about second homes or holiday homes as well. Have you considered including them in the Bill?

[238] **Carl Sargeant:** I am sorry, Chair, but I am not receiving the translation.

[239] **Jocelyn Davies:** Neither am I. Is anybody getting the translation? It is fine now. I am sorry, Ffred.

[240] **Carl Sargeant:** I apologise.

[241] **Alun Ffred Jones:** Y cwestiwn oedd: rwy'n gwybod bod trafodaeth wedi bod ynglŷn ag ail gartrefi neu gartrefi gwyliau, a ydych chi wedi ystyried eu cynnwys yn y ddarpariaeth hon hefyd? **Alun Ffred Jones:** The question was: I know that there has been a discussion about second homes or holiday homes, have you considered including them in this provision too?

[242] **Carl Sargeant:** I have.

[243] **Alun Ffred Jones:** A gaf i symud ymlaen i ofyn cwestiwn pellach? Rydych chi'n sôn am wneud darpariaeth raddol ar gyfer y dreth gyngor ychwanegol hon. A **Alun Ffred Jones:** May I move on to ask a further question? You mention making a staircase provision for this additional council tax. Are you leaving it to local government to

ydych yn ei adael i lywodraeth leol benderfynu beth yw ‘graddol’ neu a ydych yn ystyried gosod rhyw fath o ffin amser i lywodraeth leol? Hefyd, yn y cyfamser, bydd costau ychwanegol i’r awdurdod lleol wrth wneud hynny, ond ni fydd yn cael y refeniw llawn tan rhai blynyddoedd yn ddiweddarach.

decide on what the staircase provision is or are you considering setting some sort of timeline for local government? Also, in the meantime, there will be additional costs for the local authority in doing that, but it will not receive the full revenue until some years later.

[244] **Carl Sargeant:** Two points. On the staircasing element of this, I know that Members on the policy committee have asked me about this. I am sympathetic to that process, but, again, this will enable local authorities to have the powers for that to happen. I think that what I am prepared to do, through guidance, is to give a top limit of what I would expect council tax to be based upon and then give local authorities the ability to have a staircasing process, should they so wish. We will give them guidance around that in terms of timeline and quantum, but I think that, ultimately, that will be a message for local authorities to discharge in their duty.

[245] **Jocelyn Davies:** Peter, did you want to come in on this?

[246] **Peter Black:** You have just said that you are going to do this through guidance, but, of course, on the face of the Bill, it says 150%. So, you are proposing to bring forward an amendment to that effect, namely to enable you to issue that guidance and take that 150% out.

[247] **Carl Sargeant:** That may be the case.

[248] **Peter Black:** Okay, thank you.

[249] **Jocelyn Davies:** On the point of the collection, your estimate is that the collection on empties would have the same success rate as for occupied properties. So, how do you justify that? Is that what it is now, namely that the success rate is the same among the general population as it is for empty properties?

[250] **Carl Sargeant:** This is a really difficult one, Chair. Again, I recognise the fact that what we are doing here is not enabling this power to be a tax-raising power just for the generation of cash. This is fundamentally about community change. We have empty homes in our communities that either could be used as properties or cause blight within the community. So, this is a different principle behind enabling this process. I think that it would be incumbent on a local authority that wishes to discharge this duty—so if a local authority applies it, I would expect it to do it properly. If you are applying that, my view in terms of collection rates would be that if you are not going to challenge the owners of the empty homes or properties, why enable it in the first place? That is why, I believe, the recovery of that would be similar, because of the effort put into doing this. If you are not going to put any effort into recovery, why enable the power in the first place? That is what I would suggest.

[251] **Jocelyn Davies:** However, coming back to Mike’s point, you may very well have owners who live a long way away—Mike, you wanted to come in.

10:00

[252] **Mike Hedges:** Would it not be easier, because, if somebody does not pay it, the local authority would take them to court and get an order, and then, eventually, you can get a sale order on the property, because the debt has built up that they have not paid to the local authority? Surely, at some stage in that, we do not want there to be a sale against me living in the property, but an empty property, as they have, on other occasions, repaired their empty property—

[253] **Jocelyn Davies:** So, you take a charge against the property.

[254] **Mike Hedges:** Yes, you take a charge, and then you get it sold.

[255] **Mr Breeze:** That is available to local authorities now. The first stage is persuasion and information, and it moves all the way through to compulsory purchase. This is another incentive, as part of the package of measures, including Houses into Homes, and other programmes, to actually encourage that.

[256] **Mike Hedges:** The point that I was trying to make was that it will be easier—there will not be any difficulty in enforcing it with any multiplier, because they have those powers.

[257] **Jocelyn Davies:** That was not really a question—it was a point. You do not have to answer things that are not questions; you can just agree with him, if you wish. [*Laughter.*]

[258] Now, an empty property is one in which no-one is living, but does it mean that it is empty of anything? Or is it that no-one lives there? You would have a job to tell from some properties. Is there a legal definition?

[259] **Carl Sargeant:** Yes, there is a legal definition of this, and it is already interpreted by local authorities in their discharge.

[260] **Jocelyn Davies:** We are nearly at the end of this item. We are overrunning a little bit, but we have a few questions left, from Chris Chapman, if you do not mind our holding you up, Minister.

[261] **Carl Sargeant:** That is fine.

[262] **Christine Chapman:** I just wanted to ask you a few questions, Minister, on the impact of subordinate legislation and the post-legislative evaluation. The Bill is going to mean that there will be 28 regulation-making provisions, but no costs have been set out in the regulatory impact assessment. Will there be costs, do you think? What is your view on that?

[263] **Carl Sargeant:** We do not believe that there will be additional costs to the subordinate legislation elements of this, Chair.

[264] **Christine Chapman:** Right, so there will not be any at all.

[265] **Carl Sargeant:** Well, we do not believe that there will be any, but, if there are, then we believe that we will be able to manage that process.

[266] **Christine Chapman:** Right, okay. Secondly, we know that there is a substantial amount of post-legislative evaluation set out in the explanatory memorandum. Have you made an estimate of the total costs that will arise from undertaking this evaluation?

[267] **Carl Sargeant:** The post-evaluation, or the scheme evaluation, was built into the system. One example would be the Gypsy/Traveller element of that, which I think is an allocation of around £40,000 for evaluation, which has been costed in the explanatory memorandum.

[268] **Christine Chapman:** Thank you.

[269] **Jocelyn Davies:** Thank you, Minister. We have run out of questions, and time. You did say that you would send us a note on a couple of things. I think that that was on data

sharing, namely the legality of sharing data. Regarding any relevant amendments that have significant financial implications, could you send us a note on that, if you would?

[270] **Carl Sargeant:** I am happy to do that.

[271] **Jocelyn Davies:** I think that you also agreed to send us a note on spending on Gypsy and Traveller sites in recent years. Obviously, we will send you a copy of the transcript of this meeting, for you to correct for factual accuracy. We thank you very much for your time and efforts this morning.

[272] **Carl Sargeant:** Thank you.

10:03

Ymchwiliad Cyllid Cymru: Sesiwn Dystiolaeth 1 Finance Wales Inquiry: Evidence Session 1

[273] **Jocelyn Davies:** We are taking evidence from Professor Dylan Jones-Evans this morning in relation to our inquiry into Finance Wales. Thank you very much for coming here this morning, Professor. You probably know that we have about an hour to spend with you, although we might not need all that time. Professor, would you like to introduce yourself, and your title, for the record, and then, if it is okay with you, we will go straight into questions?

[274] **Professor Jones-Evans:** Yes, by all means.

[275] **Jocelyn Davies:** If, at the end, we have a little bit of time, and there are any points that we have not covered that you would like to get on the record, then we will devote some time to that.

[276] **Professor Jones-Evans:** Okay. My name is Dylan Jones-Evans. I am Professor of Entrepreneurship and Strategy at Bristol Business School at the University of the West of England. I was asked by the Minister—well she was not the Minister for economy at the time, but she is now the Minister for economy—Mrs Edwina Hart, to undertake a review into access to finance for small and medium-sized enterprises in January 2012. Since then, I have produced two reports on this work. The first was in June, which looked mainly at the situation regarding access to finance, in terms of the statistics that we have. The second report was on the potential options going forward. As part of that, the Minister specifically asked me, because of some of the concerns that were raised by individuals following the first stage, to look at the interest rate policy of Finance Wales as an organisation. That was included in the second report.

[277] **Jocelyn Davies:** Thank you. Obviously, there is a vast amount of experience there from what you have just told us, but how difficult has it been for small and medium-sized enterprises to access funding from banks and private investors?

[278] **Professor Jones-Evans:** If you look at the data in both the reports—I will not bore you with all of the statistics, but all of the data are clearly there. However, what we tended to find, particularly for small firms, was that from the data that we had from the British Bankers Association, there had been a considerable decline in Wales in terms of lending. When we talk about SMEs, what we have to appreciate is that the banks actually look at SMEs very differently to how Government and other organisations do. For the banks, a small firm is a business with a turnover of less than £1 million, and a medium firm is one with a turnover of between £1 million and £25 million, where, as you know, SMEs have less than 250 employees et cetera. Therefore, it is basically on turnover.

[279] When you look at all of the data from the banks, it is quite difficult to translate it over—

[280] **Jocelyn Davies:** Because we are not comparing like with like.

[281] **Professor Jones-Evans:** In many cases, you cannot, because obviously, some capital-intensive businesses might employ three or four people at a turnover of £4 million or £5 million. However, this is how the banks actually look at this, and how the data are also collected by the Bank of England.

[282] What we found was that there was a considerable difference. This has been reflected in other studies, such as the SME monitor. We consulted over the whole period with about 140 individuals, including intermediaries as part of the first stage. If you look at the qualitative data from that interview, what we found was that they were saying that the biggest problem for small firms was in actually getting access to funding. Medium-sized companies were not that much of a problem if they had a good business plan, sufficient collateral and they had plans to move forward. The banks would normally fund that. When we then looked carefully at the data from the banks and from the British Bankers Association, that was reflected very much in that respect. So, we found that bank lending has gone down in Wales and it has gone down in most of the regions, but we found that it has particularly hit small companies—those with a turnover of less than £1 million. It was expected that that would be the case.

[283] I completed this review in November, so I have gone back to my full-time job of writing papers that nobody reads. Therefore, I have gone back and looked at some of these data—maybe we will talk about the third stage of the review later. As you may know, if you read the press, the *Financial Times* reported that the Bank of England, which brings out data every month on lending, reported that net lending to non-financial firms, namely businesses, had fallen by £1.9 billion, but, to SMEs, it had fallen by £1.2 billion again. That had edged up, and it is the twenty-second time in two years—in 24 months—that net lending has fallen. So, whereas we might think that the situation is getting better and we keep getting these stories from the banks in particular, what we find is that the reality on the ground is that many businesses are still struggling to get access to finance.

[284] One of the issues raised at both stages was: what was the gap in Wales? I must tell you that it was enormously difficult to get any data from the banks. In fact, we got no data from the banks directly, despite trying for several months to get actual data on accounts. I know that there has been pressure put on now and that they have to publish postcode data, but I will just mention something strange around this: the BBA publishes sectoral data every month and regional data every quarter, but I could not get, for example, lending to manufacturing companies in Wales from that data, even though it is the same data set. They said that they could not do it. So, that sort of data for the Welsh Government and the National Assembly for Wales is very useful. As you can imagine, the needs of a manufacturing company in terms of finance—being very assets-based organisations—are very different, say, from a software company that has no assets. So, trying to get those data was difficult. What we tried to do was use the data that we had from all of the sources and try to extrapolate from that what the gap was.

[285] What we worked out was that, clearly, if you assume that 70% of loans are funded—so 30% of businesses are turned down—you can work out that, basically, 5,000 businesses in Wales were turned down for loan funding in 2013, plus 7,000 for overdrafts. By looking at that and at some of the other data we have, we worked out that the gap was, potentially, £0.5 billion. The reason I say ‘potentially’ is that Sir Andrew Large, whom I met as part of the review, did a review of RBS and its lending practices. You may have seen that. He was quite

damning about its practices relating to small businesses. He estimated that, actually, the turn-down rate was far higher because many businesses are getting turned down before they actually go into the formal process. So, they were actually being told by their bank manager—

[286] **Jocelyn Davies:** So, they were filtered out—

[287] **Professor Jones-Evans:** They were basically told, ‘Listen, I know your business; there’s no real point you going into the process’. Even if we assume that, and I think that this is probably quite a conservative figure, we estimate there to be a £0.5 billion gap between what is actually needed and what is being supplied. Interestingly enough, at the same time, as if we wanted validation for this, our friends in the National Audit Office came up with an estimate for what the gap was in the UK, and that was about £10 billion to £12 billion. As we assume that we have 4% to 4.5% of all businesses, that works out at about a £0.5 billion gap.

[288] **Jocelyn Davies:** So, you knew that you were around about the right figure.

[289] **Professor Jones-Evans:** Yes. I would really have said that it was a guesstimate on the data we had. I am sure that there are far more serious data we could get from the banks, but, unfortunately, they were not available.

[290] **Jocelyn Davies:** However, based on the data available, that is the best guesstimate.

[291] **Professor Jones-Evans:** Yes, which gives you an idea of the challenge facing both the public and private sectors in Wales. So, those were the data on the banks. I will be very brief on the other data because I know that you have other questions.

[292] **Jocelyn Davies:** I do have another question and I know that others will have other questions.

[293] **Professor Jones-Evans:** Very quickly, the other thing, and this is an issue I raised with the Minister and with other officials, is that when it comes to getting data on Wales, on any aspect of financial data, you cannot get it. What is important now is non-bank lending, asset-based finance, invoice discounting—they do not gather those data at a regional level. We have had nearly 15 years of devolution, and they still do not gather those data, and that is quite important because, if that is an important source, as people are saying, that can actually develop.

[294] The other one is informal and formal investment by individuals and venture capital companies. Again, what we found here is that we had to use the enterprise investment scheme as a proxy. What we found was that, basically, only 1.4%—and, again, this is a difficult thing because it does not count angels, it only counts their investments by region—of all investments came to Wales. As I have suggested, it is 4.2%, so it is only a third of what we would expect. Now, you see that most angel investment tends to be in the south-east of England, the east of England and London. However, that was considerably low, which shows that we were not really doing well. Then we looked to Scotland as a comparator. Xénos, which is the business angel network in Wales, raises £3 million every year. LINC, which is the business angel network in Scotland, which has a very different approach, raises over £30 million every year. Scotland has 1.5 times the business population of Wales but raises more than 10 times the amount of funding.

[295] **Jocelyn Davies:** So, even though there is an absence of data, doing a comparison with other regions gives you a good feel.

[296] **Professor Jones-Evans:** It does. Finally, on venture capital—and I can provide you with all of this afterwards—what we found, again, was that we do get venture capital back at

businesses in Wales, but the average investment per business, which I think is the key, is quite low. It is second only to Northern Ireland, and only 10% of that tends to go towards start-ups and early-stage businesses, which is where the real need is. Most of it goes to what we call 'management buy-outs', where people come in and buy a company. That tends to be the practice. However, again, when you think about that figure, when we talk about Government policy here on encouraging greater innovation and more spin-offs from universities in particular, to have that sort of figure seems exceptionally low.

[297] **Jocelyn Davies:** So, obviously, a lot of the stuff you are talking about, such as the regulation of banking and so on, is not devolved, but are there any actions the Welsh Government could consider undertaking that might improve bank lending practices to that sector in Wales?

[298] **Professor Jones-Evans:** Absolutely. I think that I made about 16 recommendations in the first report. As somebody said, most reports give three and you are lucky to get one done. However, we looked at 16. One of the things we found was that roughly 12,000 businesses get a loan every year in Wales from the banks. Those are the BBA data. That means, if you are talking 70% or 80% being granted, going through that process, about 3,000 are not.

10:15

[299] The question is—and I have been asking the banks—what do you do with those 3,000? The general answer was, 'We look at some again if they appeal', because now there is an official appeal process. However, mainly they write a letter and tell them that they cannot fund them, and give the reasons, such as the business plan not being strong enough, and that is it. One of the things that we suggested was that all the banks, as well as organisations such as Finance Wales and other funders, should pool all of those businesses, working with the Welsh Government. Some of those businesses probably will not get anywhere, but let us assume that a third do, and they start a business based on that, and get the funding; that could be 1,000 jobs created every year. These days, 1,000 jobs created—I know there is a committee on inward investment going on next door—is equivalent to about 30% or 40% of all the inward investment coming into Wales, in terms of new jobs.

[300] So, something like that could be useful. I know that the Welsh Government is looking at that. The other thing—and I could probably have made a business out of this, but there we go—was essentially, if you think about it, that the problem is about information. As a small business you can get access to information, particularly about loans, so one of the things that we suggested was that, if you look at things like confused.com, moneysupermarket.com, gocompare.com, or other good Welsh companies that actually do that for personal loans, you will see that nobody actually does this in the UK for business loans. One of the things I have suggested—and I know introductory talks have started between the Welsh Government and one of those organisations—is to set up a site where a business could ask, 'I want to buy a van—what is the best rate for me to buy a van, as, say, a plumber?', and you could put all of those on there. There is something like 100 different providers of finance for business, but small businesses cannot go through each and every one of those. Those terms may change, once the choice has been made, but at least businesses could say, 'Well, I'll go to these three now, and it will give me a choice'. That choice is not there now.

[301] **Jocelyn Davies:** Yes, because if you are running a business you are busy running a business.

[302] **Professor Jones-Evans:** Yes. Eighty per cent of small businesses go to one source—the bank. They will go to that one bank, and if they are turned down, they will not even go to another bank. They will probably put it on credit cards, or find their own funding, but they

will not actually do anything on that matter.

[303] **Jocelyn Davies:** Mike, shall we come to your question?

[304] **Mike Hedges:** The funding provided by Finance Wales is intended to be different to that provided by banks. We will talk about interest rates a little later on, but if I can talk about the non-interest-rate part of it, Finance Wales—correct any of this if I get it wrong—tends to provide unsecured loans. It does not demand that people take out life insurance in order to protect it, and it does not charge additional fees. It is either flexible on repayments or it just takes equity. So, it does tend to fill a gap, which is different to banks. Is that true? What is your view on that as a way of lending money?

[305] **Professor Jones-Evans:** This is interesting. The context is that you have to think about how things have changed since 2008. That is key in assessing any aspect of what Finance Wales does and any developments going forward. Banks have changed the way they assess risk. They value collateral. They judge your affordability, and whether they want to invest in certain sectors. So, for example, if you had a building to act as collateral, in 2008 they would have valued that building at £1 million. The majority of banks are now valuing those buildings—because of what happened to the property market—at what we call fire sale, which is 40% to 50%. That can reduce not only the opportunity for you to get new funding, but, actually, when you re-bank, they will look at whether you can cover that. They also try now to ensure that you can pay more per month in terms of your loan than you should. Say the repayments on your loan would be £1,000 a month, they would be looking for about £1,200, just to give them flexibility on that. That can change the way businesses act.

[306] In core sectors, a lot of banks have pulled out. If you look at Lloyds Bank, for example, you will see that when it took over HBOS—and HBOS had a very heavy property portfolio—it essentially pulled out of giving loans in that area. One of the concerns for Wales is that some of the high street banks have looked at leisure, which includes tourism, and have withdrawn from that. I am sure that you could find testament to that from the tourism panel, which I spoke to, and which said that had happened to a number of its businesses. So, that has all changed, and that is key to remember as we move forward.

[307] You mentioned Finance Wales being different. You could look at this from the point of view of the customers. They would argue that, if you look at the profile, which I have, you will see that about half of their businesses are high-risk businesses. They have very little or no collateral. As a result, they are also a bad credit risk. Those will be the businesses that, in many cases, banks would not normally look at.

[308] You mentioned the point about security, and there is an impression that Finance Wales did not take security, and I asked this question directly. I will quote what I heard from the investment director. It is right to do this as these are their words. You have asked me about it, but I obviously do not work for Finance Wales. This is the response I had when I asked: I was told that it would expect to take security from all limited company borrowers, who comprise the lion's share of Finance Wales's clients in normal circumstances. I was also told that this usually comprises a second debenture, limited personal unsupported guarantees, to about 15%, and normally that would rank behind the bank as their primary form of security. Finance Wales argued that you would not be able to get that money back if anything went wrong. So, in most cases, it would argue that it is treated as being unsecured or partially secured. However, the reality is that there is some form of security on that particular loan. Of course, it will take any residual security available, if any is available. However, it is difficult in each case.

[309] **Jocelyn Davies:** We had a breakfast event with businesses, and we heard that the owners did not have to put their houses up. They were not at risk, then, of losing their homes

if things did not go well, as they would have been with—

[310] **Professor Jones-Evans:** That is interesting, is it not? It would be interesting to know how many banks are in that position—regarding your suggestion that the banks would ask for that. It has now become exceptionally difficult for banks to foreclose on business customers in that way. However, I am clear that it has happened, having spoken to people. However, in terms of the collateral, it is between having to put your house on the line and being in a position where there is no collateral. There is certainly some collateral involved. There is a charge by Finance Wales on most of the businesses that it has.

[311] In terms of fees—as you wanted to talk about fees—there are fees involved. Arrangement and monitoring fees are charged on top of interest rates. The average monitoring fee is 0.54%; the arrangement fee is about 2%; there are legal fees on top of that; and it sometimes charges for due diligence. So, when you look at the interest rates, you must also factor in some of the other fees that the banks are charging. The argument of Finance Wales is that it does not charge as much as the banks, but there is clearly a charge for arranging that and for monitoring each and every loan, going forward.

[312] **Mike Hedges:** That is something that we need to delve into. We need to consider how the numbers are put together on both sides. What worried me was what you said about collateral. A Welsh Google, Welsh Facebook, Welsh Apple and a Welsh Hewlett-Packard would not take off as they would have no collateral as it would be done in somebody's garage or somewhere similar. Finance Wales would argue that it is probably the only organisation that would put money into such companies starting up.

[313] **Professor Jones-Evans:** If you were to speak to a good Cardiff boy by the name of Sir Michael Moritz—who I met a couple of years ago at his headquarters in San Francisco—the head of Sequoia Capital, he would say—

[314] **Jocelyn Davies:** I think the committee might be interested in going to see him—a good Cardiff boy in San Francisco. [*Laughter.*]

[315] **Professor Jones-Evans:** It is difficult to get him to Wales, to be honest with you, but you might persuade him. What was interesting from that—and we can come to this, because it is about equity, although, at the moment, we are talking in terms of the fact that many of the fees tend to relate to the loans—in terms of equity, we have exceptionally weak equity. Mike Moritz would say that he took a chance on Google because two exceptionally bright kids came to his office and he took a chance on them. They started Google in Sequoia Capital's offices in Menlo Park and then moved out after about six months because they wanted to create something really special. However, the point is that there is an equity issue here. We looked at this in the first report, but as part of the second report, we were not going to look in that much detail at Finance Wales and we did not look at the equity. However, it may be something that you want to look at as a committee, because, clearly, there is an argument to say that, without Finance Wales, there would not be any equity investment in Wales. We did make that point in the first report, but, at the same time, you have to look at the performance of that equity fund over the last five to six years.

[316] **Jocelyn Davies:** Ann, shall we go on to your questions?

[317] **Ann Jones:** During your review, what was the perception of Finance Wales among the businesses and stakeholders that you spoke to?

[318] **Professor Jones-Evans:** I think it is quite fair to say that it was mixed. It depends who you speak to—you could speak to someone who had been turned down for a loan, for example. If you look at the figures, you will see that, since 2012, 34% of applications to

Finance Wales have been turned down. The main reason—

[319] **Jocelyn Davies:** Is that the same as with the banks, where applications have been refused and people filtered out before they even—

[320] **Professor Jones-Evans:** It is not far removed from that. I do not think that anyone has done a proper review. Finance Wales has had 2,500 clients since it began. As far as I know—this is maybe something that the organisation itself or the Welsh Government should be doing—there has never been a review of the considerations that those individual businesses would have. Talking to the intermediaries and the businesses, the response is mixed. Some of the intermediaries would argue that Finance Wales is not commercial enough. One corporate finance person said, ‘In Finance Wales, people and processes are a million miles away from private equity funds in London’. Another one said that Finance Wales is more expensive because of the 15%, to go back to what Mike said, and that it is now asking for personal guarantees and a second debenture. Others are saying that without Finance Wales, Wales would have been in a very difficult position in terms of providing funding. So, there has been a mixed message in terms of that.

[321] What is interesting, and quite concerning, in terms of my impression of things, if you do not mind me saying—and this may be something that you need to pick up on—is that a business in north Wales, which recently sent me an e-mail, was told that Finance Wales would not fund it and that it should go to England to look for money. It was told, ‘There are very active investor pools in the north-west, west Midlands and south-west, and while we would be very disappointed if you were to relocate, Welsh preference should not stand in the way of your fundraising’. Actually, if you are Finance Wales, I think it should.

[322] That is one business, and I am sure that if you asked it about its experiences, you may get a different view. I have spoken to businesses, and I have seen the evidence, that have had an excellent relationship with Finance Wales. That funding has been provided and they have had excellent aftercare in that respect. So, I think that it is a mixed view to an extent.

[323] **Ann Jones:** Should Finance Wales proactively go out to promote itself? Does it do that sufficiently well enough, or is it just prepared to sit there and allow people to drift in and out?

[324] **Professor Jones-Evans:** I do not know. One of the disconnections that we felt from the first report and the second report was a disconnection in the entire community between the banks, Finance Wales, private venture capital funds and business support, particularly the Welsh Government. In one of the reviews we said that it should be brought together. It is interesting that it is only recently in the last six or 12 months, I believe, that Finance Wales has started talking to Business Wales in terms of any businesses that they turn down—the 34% that are turned down. So, there seems to be a disconnection there, which is quite odd, you would think, because, on the one hand, here is a subsidiary of the Welsh Government that is owned 100% by the Welsh Government, and, on the other, here is Business Wales, which is the business support arm. For some reason there has not been that closeness. One of them promotes business development and one provides the funding.

[325] **Ann Jones:** How well does Finance Wales publicise information on its performance and accountability?

[326] **Professor Jones-Evans:** If you wish, I can come to that later when you ask me about—

[327] **Jocelyn Davies:** I know that Chris had a supplementary question as well. Ann, is it okay if Chris comes in? I see that it is.

[328] **Christine Chapman:** Just on that, as Jocelyn said, we had a very good business breakfast where very supportive comments were made about Finance Wales. However, one of the things that bothered me was the people who came forward who were turned down, and the people we spoke to were not convinced that the people who were gatekeeping the process absolutely knew which were the good businesses and which were not so good. What are your views on this? You are talking about somebody sent to England, but I wonder whether there could be innovative ideas and potential companies that could come forward.

10:30

[329] **Professor Jones-Evans:** Yes, you are right. This really concerns this particular case, because I cannot see any reason why. It would be interesting to know whether the individual concerned looking after the case for Finance Wales just thinks 'I do not like this business'. That may be the case. So, where is the comeback, because, as some people may have said to you, there is an expectation of, 'Hold on, we are paying for this bank, so we at least need a fair crack at getting the funding out of it'?

[330] One of the things that we looked at was the micro loan fund, which, initially, was put out to tender. It was judged by Finance Wales that there was not a sufficiently robust group to take that forward, and Finance Wales then took it in-house. However, again, there is disconnectivity, because if you look at start-up loans, which are very similar, they are operated separately to the micro loan fund and at very different rates. So, start-up loans are offered at 6%, and micro loans are over 11%. You have most of the work with microbusinesses done by Business Wales. So, it will take a business or a business plan up to a point where it is ready to launch, but then they are passed over to somebody who probably does not know the business as well. You could argue that is a good thing, but it does not happen in the banking sector. So, there is this disconnectivity. This was one of the real issues. I think it has always been the same in Wales, namely that we have these different silos. One of the real challenges is how you break down those silos so that a business, from a customer point of view, can go in and understand what support it needs. Part of the support may be help with not only the business plan, but getting the finance as well.

[331] **Jocelyn Davies:** Julie, you wanted to come in on this point.

[332] **Julie Morgan:** Yes. Chris referred to the breakfast that we had, and we have had Finance Committee consultations, to which we had lots of responses. Many of the responses were from accountants and private equity advisers. Reading through that and talking to those people at the business breakfast, they seemed to be overwhelmingly saying that Finance Wales was willing to invest where the high-street banks would not, particularly after 2008. They were almost overwhelmingly supportive of Finance Wales's general approach to risk, which, of course, is something that Chris brought up. I spoke to one particular man at this breakfast who said that some of the smaller ICT start-ups would be lost without Finance Wales. I wondered what your comments are on that.

[333] **Professor Jones-Evans:** It is interesting that he mentioned that, because one of the comments to this company in north Wales, which is an ICT company, was that their focus was not on investing equity in start-ups, which I thought it was. Again, that may be one particular case. Clearly, if you look at the profile of most of the companies, very few, I would argue, are innovative start-ups, even in terms of their equity. Probably, the best known relationship that Finance Wales has is with Fusion IP, which is an organisation that partly owns, in partnership with Cardiff University, the intellectual property of Cardiff. So, the idea of Fusion IP is that it spins out IP from Cardiff University. It has just done a deal recently with Swansea. I think it has done about seven or eight deals with those in terms of high-tech. I think that has to be taken in context in terms of identifying—I would say that the average

investment by Finance Wales is £250,000, since 2001. That is not exactly the sort of investment—they do have a lot of deals that are below that figure, and over half of them are below £50,000. I think the point was made about equity. It is where you are investing that and, to an extent, as has been said, that is, potentially, where it has made a difference over the last few years. Although it could be argued that, perhaps, its record on realising that equity is not as strong as it could be.

[334] **Julie Morgan:** This is what I was told.

[335] **Jocelyn Davies:** Yes, that is what you were told by people who came forward. Peter, shall we go on to your question?

[336] **Peter Black:** Yes, sure. Could you summarise the interest rate policy of Finance Wales and how that compares with other banks?

[337] **Professor Jones-Evans:** All right.

[338] **Peter Black:** It is just a short question. [*Laughter.*]

[339] **Professor Jones-Evans:** It is; yes. Do we have a day? To summarise, and I will start with Finance Wales's policy, because this seems to be an evolving statement from Finance Wales to exactly what it is. Of course, when the Minister asked me to do this, I asked specifically what the policy was. It came back and said that Finance Wales loans its various funds under the EC reference rate. I will explain all of this to you afterwards. It further stated that it is set by the Commission and reviewed annually. Essentially, it means that its interest rates are based upon rates that the Commission gives, which are judged according to the credit rating of a business and, basically, the collateral that that business gives. So, each one is judged, and there is a specific table that is produced, which is in the report.

[340] **Jocelyn Davies:** So, you could go to that table yourself and look it up, and then you should be able to—

[341] **Professor Jones-Evans:** Yes, you can, technically. I will come to this in a minute, if that is all right.

[342] **Jocelyn Davies:** Okay.

[343] **Professor Jones-Evans:** It has argued that the reason why its interest rates are high is because it has to have these interest rates set according to what the European Commission sets. If it goes below that, Peter, there is an argument that it is in breach of state aid, although a case could be made against that. So, the interesting thing here is that it would argue that it is usually 2% to 3% higher than the EC reference rates, plus margin, thus allowing some latitude. So, it has the minimum, adds some margin to it and then some latitude, which is why some of the interest rates are perceived as being high.

[344] **Peter Black:** When we had the business breakfast we specifically asked the businesses about the interest rates that they have been charged. Most of them said that they had considered the interest rates to be favourable in terms of what they could get in terms of unsecured loans from the banks. Do you think that the policy is preventing viable businesses from accessing finance? The impression that we are getting from businesses generally is one that I think is justified by the evidence.

[345] **Professor Jones-Evans:** In terms of the evidence that we gathered, the issue is that a business that cannot get funding elsewhere is hardly likely to turn around and say, 'That interest rate was unfair because it was the only offer on the table'. The question that the

committee and, to an extent, the Welsh Government, have to decide upon is the role of Finance Wales going forward. Looking at other banks and other publicly owned funds across Europe and elsewhere, we found that the interest rates were lower for those particular organisations. As a result, of course, you could argue that their small businesses were at a competitive advantage compared with Wales. Again, when you compare with the banks, you will find that it is really difficult to do this because each company and business case has its own merits. So, when you say—as I have been told—that these are comparable with the banks, what can we fall back upon? We can only fall back on the Bank of England data, which some respondents said was not realistic. I have looked at this, and if you look at what the Federation of Small Businesses has said through its particular surveys, you will see that the majority of its business interest rates are below 5%.

[346] I take the point about security. That is a point. As I said, the point now is that, in many cases, if the loan had security from a bank, that business would have to have secured that loan normally. If it then went to Finance Wales, Finance Wales would take a second charge on that, but it would not mean that it would not be taking security. Certainly, what we have been told is that, in the case where there is no lending from the bank, Finance Wales will take security on that. Therefore when you say ‘unsecured loans’, I think that that is an interesting observation because, in many cases, they are not.

[347] **Jocelyn Davies:** Shall we come to your question, Chris?

[348] **Christine Chapman:** Further to Peter’s question about the issues around state aid, what do you think would be the risks or the restrictions faced by Finance Wales if it did use the state aid exemptions to offer lower interest rates?

[349] **Professor Jones-Evans:** This is obviously the crux of the part of the review that has been of interest to most people. If you go back to look at this, you will find that you could be offering interest rates as low as 1.5%, according to the EU reference rates, for a business with exceptional collateral and exceptional credit. I went through every single investment, which amounted to nearly 500 investments, for the JEREMIE fund, and what I found was that, over the range—and I still fail to understand this, because Finance Wales says that it set these according to EU rates—from 2001, when Finance Wales was started, to about 2008, the actual margin between the reference rate and the average rate it was lending at was about 4%. Then, all of a sudden, in 2008—and remember that this is when everything fell off a cliff in the world of finance—interest rates dropped, and the reference rate dropped to about 0.99%. Yet, during that time, Finance Wales’s interest rates went up. So, the margin it was making on the loans it was giving to businesses actually went up over that time.

[350] We did not mention this in the report—there were some things that I was requested to not put into the original report, and this was going to clearance with the EU at the time—but, to give you an idea, the JEREMIE loan fund, the main fund that Finance Wales has, is made up of £75 million borrowed from the European investment bank and has to be repaid. There is another £75 million; £40 million comes from European structural funding, from the European regional development fund, and £15 million from Welsh Government, or Finance Wales—however you want to describe it. Essentially, what you have to do is pay back that £75 million. It borrowed that money at 1.6%—it is 3.2%, but, across the £150 million, it comes to 1.6%. The average interest rate on that is 10%. So, what Finance Wales has been doing is borrowing at 1.6% and lending at 10%. It is very similar with the new SME fund that the Minister has set up. It is borrowing at 2% from Barclays and lending at 10.4%. There is an issue there. I know the case has been made that it is lending at different risk ratios, but, if you look at this very closely, you will see that it is lending at something like 8% above the rate at which it has borrowed from the investor. The question is: is that fair to businesses?

[351] We will come back to the issue of state aid now. You have to forgive me, but, for

some reason nobody bothered to send me Finance Wales's response to the review until earlier this week, so I have had to squeeze it in among my other stuff. You have to look at this in two ways. You have to look at what the rate is, and I have seen the responses from people such as North West Fund that say, 'We do the same, we charge 10%; this is the market rate'. The question is: do we want to give Welsh businesses a competitive advantage through a fund that is 100% owned by the Welsh Government? That is real question. If Finance Wales was a privately owned fund, it could charge what it liked in terms of the market rate. The question is: what do we want to do in terms of giving businesses a competitive advantage?

[352] I spoke with two leading overseas banks on this. When I told them that the average rates being charged to Welsh businesses was 10%, there was an audible intake of breath. One was done by Skype to America, so I do not know if it was the satellite that caused the pause, but there was certainly a pause. The other discussion was with the chief executive of Finnvera, which is the Finnish state-owned bank, and which I will come back to Finnvera later.

[353] The chief executive of Finnvera said that it offers interest rates between 1.5% and 4% to businesses, and, by the way, it makes a surplus every year on its lending. It was fascinating. He said that if you offer 10% interest rates you will 'drown' businesses—he used that term. I had not thought about it that way before. Basically, what he was suggesting, when I asked him to elaborate, was if all you are working towards is paying back that interest rate, rather than investing that money in your business, then that will drown the business in terms of how it actually moves forward.

10:45

[354] The Bank of North Dakota is the only publicly owned bank in America. I talked to one of its executives and he said, 'Are you actually telling me that 10p in the pound is going back to the Government and you're not investing it in small businesses?' When you look at it in that sort of context, it becomes an issue. Certainly, the argument we make is that we can do this. I will come back to this. I am sorry for being long-winded about this, but it is quite important—

[355] **Jocelyn Davies:** We are going to come back to a lot of things.

[356] **Professor Jones-Evans:** But, can I—

[357] **Jocelyn Davies:** We have got about a quarter of an hour left. We have one or two questions left and I know that there are some things that you want to mop up at the end.

[358] **Professor Jones-Evans:** Do you mind if I just elaborate on state aid?

[359] **Jocelyn Davies:** No, not at all.

[360] **Professor Jones-Evans:** I will elaborate very quickly because I think that this is the crux of some of the arguments that have been made. Like you said, I saw Finance Wales's review, and its response to my report in relation to state aid was,

[361] 'This is a complex area but the comments within the review regarding GBER and De Minimis are misleading and inaccurate. We have instructed Eversheds to prepare an overview of these aspects'.

[362] I have seen the Eversheds report. Again, it was only sent to me earlier this week. I have gone through it. Just let me make these points, which are quite important. I discussed this whole report in terms of state aid with two of the leading academics in this field who

specialise in financial instruments for the EU, one of which is used by WEFO and other European funding offices around Europe. In fact, I sent him the actual section and he sent it back and said, ‘Actually, you’re not being strong enough’ and made a couple of corrections. So, that has been validated by two leading people. Not only that, but I can absolutely assure you that I would never have been a hostage to fortune and put anything out on state aid without checking it with the Welsh Government itself, and the Welsh Government basically said that this can be used. I also checked it in terms of de minimis with the UK Government, because it uses this on its start-up loan programme and, again, it said it can be used. So, the term ‘misleading and inaccurate’ is actually not true. When you go through the advice, there are issues again. It is saying that Finance Wales cannot,

[363] ‘unilaterally start providing subsidised loans because by doing so it would be in breach of various obligations’.

[364] I have looked very carefully at it. This is what it says in the response. So, the question is: if it cannot reduce rates, how come it actually reduced rates within the enterprise zones last October? It made a clear statement that it could not do it and yet, now, it has gone ahead and done it. It has said, for example, that it regularly reviews the rates. It has not done so. Those rates have not fallen at all. In fact, rates have increased over the last five years compared to—. The reference rate has gone down by about 4% or 5%; Finance Wales’s rate has gone up by 0.5%. So, really, the questions you may want to think about—because I have been thinking very hard about this over the last few days—. It seems to me from the evidence I have had that that Eversheds report is probably the first report that Finance Wales has done looking at general block exemption regulation and de minimis. I cannot prove that. I have asked it for reports; it told me that it has not done this and it has stuck to the old state aid issues. So the question you need to ask, not only going forward but also looking back, is: why did it not take advice on this in 2008? Why did it not actually ask the question: can we apply GBER and de minimis to reduce interest rates? Then it is a decision for politicians. If politicians want to say, ‘Fine, this is going to cost us £10 million, £15 million, £20 million’, you make a decision, as the Welsh Government, to say, ‘Do you know what? £20 million to get low interest rates to businesses during the worst recession in living memory—that’s actually a political decision that’s worth it’, but that option was never given.

[365] Secondly, you know, why did it drop interest rates in enterprise zones when it has said all along that it could not do it? If you can do it there—

[366] **Jocelyn Davies:** Well, we thought it was because we did an inquiry into enterprise zones—[*Laughter.*]—and were a bit disappointed that Finance Wales had nothing to—

[367] **Professor Jones-Evans:** I must say that, reading some of the responses from the intermediaries, I feel like Herod sometimes as though I had said that every first-born should be murdered when I have suggested a development bank for Wales. If you look at that, it is obviously with regard to the review as well. We were looking at this—

[368] **Jocelyn Davies:** They probably did—

[369] **Professor Jones-Evans:** Secondly, right—. The final point, which I think is the most important, is that, if you do get the chance, please ask to see this evidence. I do not know whether you have received it—

[370] **Jocelyn Davies:** No. No.

[371] **Professor Jones-Evans:** It said it was part of the appendix. What is clear about that—

[372] **Jocelyn Davies:** But this is its response to your review—

[373] **Professor Jones-Evans:** No, no, it is actually included in your response as well. It says it is in that. That is where I got it from. I got it off the website.

[374] **Jocelyn Davies:** Oh right, okay.

[375] **Professor Jones-Evans:** I do not think it is in there. May I make this point; I think that it is very important? Finance Wales is a body that is 100% owned by the Welsh Government. Its role, it says, is to help develop Welsh businesses, so why on earth would it ask for advice to try to show why these things cannot be done, rather than asking, ‘Actually, how far can we push that?’ I picked up my *Western Mail* this morning and there is an interview in it with Sir Chris Evans about the development bank. He is managing one of the funds for Finance Wales. What Sir Chris says is quite interesting. He asks should not Finance Wales and any future organisation ‘go down to the wire’ to ensure that Welsh businesses get the best deal out of any arrangement in terms of loans—mezzanine and equity? I think that is quite important.

[376] **Jocelyn Davies:** Yes, and I am sure that we will want to progress that during our review. Chris, did you have a question? I know that we have a few questions left and we have only about 10 minutes.

[377] **Professor Jones-Evans:** My apologies.

[378] **Jocelyn Davies:** Ffred, do you want to come in?

[379] **Alun Ffred Jones:** Iawn. Diolch yn fawr. Rydych chi wedi bod trwy hyn, rwyf yn meddwl, ond rwyf am ofyn y cwestiwn. Beth yw Cyllid Cymru? Ai benthyciwr masnachol ydyw, neu arf ar gyfer datblygu economaidd?

Alun Ffred Jones: Thank you very much. You have been through this, I think, but I am going to ask the question. What is Finance Wales? Is it a commercial lender or a tool for economic development?

[380] **Yr Athro Jones-Evans:** A bod yn onest, mae’n anodd dweud yn sicr oherwydd beth yr oeddem wedi ei ddweud yn y darn cyntaf o’r gwaith oedd bod rhaid i’r Llywodraeth wneud ei meddwl i fyny beth yr oedd hi eisiau gan Gyllid Cymru. A oedd hi eisiau i Gyllid Cymru fod yn fanc neu yn asiantaeth i ddatblygu’r economi? A bod yn onest, rwy’n meddwl mai’r broblem yw bod Cyllid Cymru wedi disgyn rhwng y ddau beth. Wrth edrych yn ôl ar hyn, edrychon ni’n fanwl ar strategaeth Cyllid Cymru dros y ddwy neu dair blynedd ddiwethaf ac ar sut yr oedd pethau wedi newid. Esgusodwch fi, gwnaf newid i’r Saesneg oherwydd rwyf eisiau cymryd hwn yn syth.

Professor Jones-Evans: To be honest, it is difficult to say with certainty because what we said in the first part of this work was that the Government had to make its mind up what it wanted out of Finance Wales. Does it want it to be a bank or an agency to develop the economy? To be honest, I think that the problem is that Finance Wales falls between two stools. Looking back on this, we looked in detail at the strategy of Finance Wales over the last two or three years and at how things have changed. Excuse me, but I will take the next part in English because I want to deal with it straight away.

[381] This is what Finance Wales said in its 2010-11 annual report. Remember that this is a body that says that it is there to support economic development. What was its mission statement? It was,

[382] ‘to become the UK’s leading SME Investment Company’.

[383] Then it says,

[384] The Finance Wales group is a leading UK investor. We invest in small and medium sized businesses. We are headquartered in Cardiff, have £335 million of funds, and we operate regionally.

[385] There is no mention of Wales, apart from the fact that they are headquartered in Cardiff. Wales is looked at as another region under its remit. Then, interestingly enough, guess what happens in 2012-13? There is a new Minister, there are new members of the board and it says,

[386] ‘to maintain our position as the UK’s leading SME fund manager, delivering commercial investment from public and private funds to support and encourage SME growth and create sustainable businesses in Wales, fully aligned with Welsh Government policies’.

[387] Now, that sounds amazing. It has gone from being an investment bank to considering SMEs.

[388] Felly, yr oedd hynny’n ddiddorol So, that was very interesting.
iawn.

[389] I had a meeting with two members of the board and the Welsh Government representative. I asked this question, because there had been rumours going around about whether Finance Wales was going to spin off. I could not get any sense out of that and we agreed a statement regarding that. What I find difficult to understand is that it would seem that the board certainly seems to consider that the role of Finance Wales is to be a strong finance partner, but also to have economic development aims. I would argue that the same is not true of the executive. This is what the Welsh Government official told me about how this came about—he said that he had a meeting with the executive team as part of the annual approval process; they have a discussion:

[390] In 2011 we asked Finance Wales to set up the micro-finance fund and SME investment fund, which came on stream. In March 2012, I challenged the mission statement as it was not Wales or SME centric and asked Finance Wales to consider changing it. They were reluctant to do so immediately. The board of Finance Wales undertook a strategic review in September 2012. This led to a revised mission statement and it was accepted in 2013.

[391] That was the board pressing for that.

[392] Mae gwahaniaeth, rwyf yn meddwl I think that there is a difference between—
rhwng—

[393] **Alun Ffred Jones:** A gaf i ofyn un cwestiwn byr arall? A ydych yn credu bod goruchwyliaeth y Llywodraeth o Gyllid Cymru wedi bod yn ddigonol? Sut gellid ei wella?

Alun Ffred Jones: May I just ask one other brief question? Do you believe that the Government’s oversight of Finance Wales has been adequate? How could it be improved?

[394] **Yr Athro Jones-Evans:** Nac ydy, ddim yn fy marn i. Er enghraifft, roedd safle we Wales Eye y bore yma wedi dod i fyny efo faint mae Cyllid Cymru yn talu cyfarwyddwr. Mae’n ymddangos ei fod wedi talu £210,000 i un cyfarwyddwr flwyddyn

Professor Jones-Evans: No, it has not, in my opinion. For example, the website Wales Eye this morning came up with the amount that Finance Wales pays a director. It appears that it paid £210,000 to one of its directors last year, which is far higher than any

ddiwethaf, sydd llawer yn uwch nag unrhyw swyddog. Felly, mae cwestiwn o ran sut y mae'n medru gadael i swyddog yng Nghyllid Cymru, sy'n rhan o Lywodraeth Cymru, gael y math hwnnw o dâl sydd llawer yn uwch na thâl Derek Jones a James Price, pennaeth yr adran, ac yn llawer yn uwch na thâl y Gweinidog a'r Prif Weinidog. Mae'n rhaid gofyn pam mae hwn wedi digwydd. Mae lot o hwn wedi digwydd, i ryw raddau, rhwng 2008 a 2012. Mae'n edrych fel bod Cyllid Cymru wedi cael rhyw fath o *licence* i fynd i ffwrdd a gwneud beth bynnag yr oedd eisiau ei wneud. Y pwynt yw: os yw'r Llywodraeth neu'r Cynulliad eisiau i Gyllid Cymru fod yn rhan bwysig o'r gwaith o ddatblygu'r economi, mae'n rhaid iddynt gael rhyw fath o *control* drosto. Yn y Ffindir—

official. So, there is a question with regard to how it can allow an official in Finance Wales, which is a part of the Welsh Government, to receive a salary that is much higher than that of Derek Jones and James Price, the head of the department, and much higher than that of the Minister and the First Minister. We must ask why this has happened. A lot of this happened, to a certain extent, between 2008 and 2012. It looks like Finance Wales had some kind of licence to go away and do whatever it wanted to do. The point is: if the Government or the Assembly wants Finance Wales to be an important part of the economic development work, they have to have some kind of control over it. In Finland—

[395] **Jocelyn Davies:** I am sorry, but what website was that?

[396] **Professor Jones-Evans:** It is what you would call an investigative website.

[397] **Jocelyn Davies:** It is a blog.

[398] **Professor Jones-Evans:** Yes.

[399] **Jocelyn Davies:** So, we do not know whether it is true.

[400] **Professor Jones-Evans:** You will have to check it.

[401] **Jocelyn Davies:** No, you will have to check it, because you have come here and said it. So—

[402] **Professor Jones-Evans:** At 6 a.m. I did check the last accounts of Finance Wales and the most senior executive director was paid £210,000 last year.

[403] **Jocelyn Davies:** Okay.

[404] **Professor Jones-Evans:** You will have to check that. I am sure that Finance Wales will give you that information if you ask it.

[405] Coming back to the point about Finnvera, which I mentioned, it is very successful, it works very well, it has 30,000 clients, makes a surplus every year, and has interest rates of between 1% and 4%. It has two types of governance: the top governance is in terms of ensuring that Finnvera is strictly aligned with the Finnish Government's economic development policies, and that board is made up of senior civil servants and a representative of the Minister; you then have a strategic board below it, which runs Finnvera. So, the real issue here is governance and, if you develop something new, who controls that governance. Either it is part of the Welsh Government, or it is not. It is certainly not working at the moment in the middle.

[406] **Jocelyn Davies:** Julie, do you have a question?

[407] **Julie Morgan:** Yes; really, it follows along the same lines as the previous questions.

Do you think that there is a conflict between Finance Wales having a remit to promote economic development and an aim to be self-funding?

[408] **Professor Jones-Evans:** No, I do not think that there is. The point that I made, Julie, was about Finnvera, but you see the same in many other publicly owned banks. It is really about aligning that economic development role with, essentially, the role it plays. I mentioned Finnvera, but there is also the Small Business Administration in the US. I know that Chuka Umunna has been looking at bringing a version of the SBA here to the UK as part of the next manifesto of the Labour Party at a UK level. You will see that it offers loans, it is owned by the US Government, and it offers advice at the same time. So, you can have this.

[409] **Julie Morgan:** So, you do not think that there is a conflict.

[410] **Professor Jones-Evans:** No, I do not think that there is a conflict at all. [*Interruption.*] I believe that it works well. I think that one of my colleagues said that it was the dead hand of the civil service—that you would not put a civil servant in charge of a bank—but the same arguments were made very strongly on both sides when the Welsh Development Agency was integrated into the Welsh Government. Some people would still say that that should not have happened, while others would say that it has become more effective and more focused. There are these arguments about this.

[411] The next step, as we mentioned, is about the development bank and how we take that forward. However, that will be a debate about feasibility. I do not see that there is a conflict at all in this, but if you go to the performance, you will see having looked at the performance of Finance Wales that that is where the problem is. I remember speaking to the Minister and the previous Minister about economic development and it was about jobs, jobs and jobs, and the way in which we create jobs to come out of the recession. Once again, I could not include this in the report, because I was told strictly by officials that I could not put these data in because it was going through you, but I think the BBC has picked up some of it when it did a review of Finance Wales: what has happened is that its targets have been revised downwards considerably. It was supposed to create 15,000 jobs when the JEREMIE fund was approved; that figure has gone down to 10,000.

11:00

[412] It was supposed to generate something like £340 million of additional investment; that has gone down to £205 million. So, the number of businesses has gone down from 800 to 679. Remember, what we keep hearing is that Finance Wales was the only game in town, the only organisation lending to businesses between 2008 and 2010, but you have to ask: with all these businesses out there, how come it has had to revise its figures down in terms of businesses getting funding? The argument is that it was the wrong economic climate, banks were not lending, et cetera, but Finance Wales was. Again, the question is: were those high interest rates a disincentive to some businesses that would say, ‘Well, actually, I don’t want to pay 10% or 11% when I think that I should be paying 3% or 4%. I’ll shelve my project’? That may be some explanation for that.

[413] I looked at the Royal Bank of Scotland. We were talking to it about its involvement in the regional growth fund. The regional growth fund is a grant scheme in England; it does not operate in Wales. What the UK Government did was to give RBS control over the regional growth fund, which was £70 million. It leveraged £300 million of investment on that £70 million that it was given by the Government. Basically, Finance Wales has put £48 million into loans and has generated only £31 million. Again, you have to ask the question: if I were a bank, would I really care how many jobs were created as long as I got my investment back? If I were an economic development agency, my first priority for my Minister would be to create jobs, because that is what politicians, basically, fall or rise on. If you are somewhere in the

middle, you end up being neither one nor the other and you fail to reach both targets.

[414] **Jocelyn Davies:** Okay. Julie, did you have any more questions?

[415] **Julie Morgan:** Going back to your original answer, you think that it is possible for both things to work together, but you are saying that you do not think that Finance Wales has done that.

[416] **Professor Jones-Evans:** You could argue that, to an extent, that is what is happening now. If you look at the grant scheme, for example, the economic growth fund et cetera, you are putting funding into that, but, at the same time, you are putting—. It is the jobs element, but it also has—. The Welsh Government will not put £2 million or £3 million into a business unless that business is going to be viable and create those jobs. That decision is made every day by civil servants when investing public money. The argument that some people have made is that civil servants cannot make that decision. Well, they are. It is just that the criteria are quite different, so it is about how you merge the two to make it work.

[417] **Jocelyn Davies:** Paul, shall we come to your questions?

[418] **Paul Davies:** Diolch yn fawr iawn, Gadeirydd. Rwyf eisiau gofyn cwestiynau eithaf cyflym i chi ynglŷn â dyfodol Cyllid Cymru a'ch cynnig chi ar gyfer banc datblygu. Rydych chi wedi dod i'r casgliad yn eich adolygiad nad yw Cyllid Cymru yn addas i'r diben. A allwch chi ddweud wrthym ni mewn rhai brawddegau beth yw prif wendidau Cyllid Cymru? Rwy'n gwybod eich bod wedi cyfeirio'n barod at gyfraddau llog, er enghraifft. A allwch chi, mewn rhai brawddegau, ddweud wrthym beth yw prif wendidau Cyllid Cymru ar hyn o bryd?

Paul Davies: Thank you very much, Chair. I want to ask you some quite quick questions about the future of Finance Wales and your proposal for a development bank. You have come to the conclusion in your review that Finance Wales is not fit for purpose. Could you tell us in a few sentences what the main weaknesses of Finance Wales are? I know that you have already referred to interest rates, for example. Could you, in a few sentences, tell us what the main weaknesses of Finance Wales are at the moment?

[419] **Jocelyn Davies:** It would be very dangerous, at this point, to say, 'We'll come back to that later.'

[420] **Professor Jones-Evans:** That is okay, I will not.

[421] Gwnaf ateb yn weddol gyflym. Yr hyn sy'n ddi-ddorol, i fynd yn ôl at yr hyn roedd Julie yn ei ddweud, yw beth yw rôl Cyllid Cymru. Pan oeddwn yn defnyddio'r disgrifiad '*not fit for purpose*,' roedd hynny'n berthnasol os ydy Llywodraeth Cymru yn disgwyl i Cyllid Cymru fod yn asiantaeth datblygu'r economi sydd yn creu swyddi. Ar y funud, nid yw'n ffit ar gyfer y pwrpas hwnnw. Dyna'r rheswm yr oeddwn i wedi ddweud hynny.

I will just answer quite briefly. What is interesting, to go back to what Julie said, is what the role of Finance Wales is. When I used the description 'not fit for purpose,' that was relevant if the Welsh Government looks to Finance Wales to be an economic development agency that creates jobs. At the moment, it is not fit for that purpose. That is the reason that I used that phrase.

[422] Y cwestiwn roeddwn i'n ei ofyn, a gwneuthum hyn yn rhan gyntaf ac ail ran yr ymchwiliad, oedd, 'Beth mae Llywodraeth Cymru eisiau allan o Cyllid Cymru?' oherwydd nid wyf yn siŵr o hyd. Nid wyf yn

The question that I asked, and I did this in the first part and the second part of the inquiry, was, 'What does the Welsh Government want out of Finance Wales?' because I am still not sure. I do not think that Finance Wales would

meddwl y byddai Cyllid Cymru yn siŵr ac nid wyf yn siŵr hyd yn oed fod y Llywodraeth yn siŵr beth yw rôl Cyllid Cymru wrth symud ymlaen. Dyna'r pwynt, rwy'n meddwl.

[423] Mae modelau gwahanol, Paul, ar gyfer sut byddem ni'n medru gwneud hyn. Buasem yn medru cau Cyllid Cymru a dod ag ef i mewn i'r Llywodraeth, fel digwyddodd efo'r awdurdod datblygu. Buasem yn medru edrych ar fodelau eraill sydd wedi gweithio dros y byd ac edrych a fyddai'r rheini yn berthnasol i'r hyn sy'n digwydd yng Nghymru. Fodd bynnag, yr hyn roeddem ni'n ei weld, o edrych ar y gwendidau, oedd nad gwendidau Cyllid Cymru oeddent yn unig, i fod yn deg iddo.

[424] Pe bawn yn edrych ar Gyllid Cymru fel banc, byddwn yn ei ddweud, 'Wel, i ryw raddau yr ydych wedi bod yn fanc weddol llwyddiannus—dyma beth yr oeddech yn ei ddisgwyl, ac yr ydych wedi dod ag arian yn ôl i mewn ac yn y blaen'. Fodd bynnag, pe baech yn edrych arno fel corff datblygu'r economi, nid yw wedi gwneud yr un fath o rôl. Felly, yr hyn yr oeddem yn edrych arno'n ofalus oedd beth oedd y system yn gyffredinol yng Nghymru. Gwnaethom weld, er enghraifft, bod Llywodraeth Cymru yn gwario £70 miliwn y flwyddyn ar grantiau. Mae Cyllid Cymru yn gwario £30 miliwn y flwyddyn ar fenthyciadau i fusnesau. Ar ben hynny, mae gennym Fusnes Cymru, sef corff sydd yn darparu cymorth busnes, ac mae *disconnect* llwyr rhwng Busnes Cymru a'r hyn sydd yn mynd ymlaen. Os edrychwn ar lefel uwch, ar y funud nid oes perthynas cryf rhwng y banc busnes yn Llundain a Llywodraeth Cymru. Sut yr ydym yn mynd i gael yr arian hwnnw i mewn?

[425] Felly, yr hyn yr oeddem yn ei weld oedd *silos* ymhob man. Yn y diwedd, mae'n rhaid meddwl am y cwsmer, rhaid meddwl am y busnes bach sydd eisiau creu swyddi, buddsoddi ei arian ei hunan, ac sydd eisiau benthyg arian i'w helpu i dyfu'r busnes a thyfu'r economi. Dyna pam nad yw'r system yn gweithio ar y funud. Fel yr wyt ti ac fel mae Alun Ffred yn gwybod, mae modelau gwahanol wedi eu crybwyll, fel *Invest Wales* a *bank of Wales*, ac mae modelau eraill ar gael. Yr hyn yr ydym eisiau ei wneud yw

be sure and I am not even sure that the Government is sure what the role of Finance Wales is, moving forward. That is the point, I think.

There are different models, Paul, for how we could do this. We could close down Finance Wales and bring it into the Government, as happened with the development agency. We could look at other models that have worked across the world and see whether they would be relevant to what is happening in Wales. However, what we saw, in looking at what the weaknesses were, was that they were not only weaknesses of Finance Wales, to be fair to it.

If I were to look at Finance Wales as a bank, I would say, 'Well, to a certain extent you have been quite a successful bank—this is what you expected, and you have brought money back in and so forth'. If you look at it as an economic development agency, it has not fulfilled the same kind of role. So, what we looked at carefully was what the system in Wales was in general. We saw, for example, that the Welsh Government spends £70 million per year on grants. Finance Wales spends £30 million a year on loans to businesses. On top of that, we have Business Wales, which is a body that provides business support, and there is a complete disconnect between Business Wales and what is going on. If we look at a higher level, at present there is no strong relationship between the business bank in London and the Welsh Government. How are we going to get that money in?

So, what we saw was silos everywhere. In the end, we have to think about the customer, we have to think about the small business that wants to create jobs, to invest its own money, and that wants to borrow money to help it to grow the business and the economy. That is why the system is not working at the moment. As you know, and as Alun Ffred knows, different models have been proposed, such as *Invest Wales* and a *bank of Wales*, and there are other models available. What we want to do is to move forward, to look at

symud ymlaen, edrych ar y gwahanol fodelau, ac edrych ar y math o *feasibility study* yr ydym am ei wneud er mwyn edrych yn fanwl ar y ffordd ymlaen, a dyna'r hyn y mae'r Gweinidog wedi gofyn i mi ei wneud.

[426] **Paul Davies:** Rydych wedi argymhell banc datblygu. Pam yr ydych chi wedi dod i'r casgliad hwnnw a ffafrio hynny'n fwy na rhai o'r modelau eraill yr ydych wedi cyfeirio atynt y bore yma? Pam y banc datblygu?

[427] **Yr Athro Jones-Evans:** Wel, yr hyn yr oeddem yn edrych arno oedd y gwendidau, a gwnaethom edrych ar rai o'r modelau eraill. Er enghraifft, gwnaethom edrych ar y *micro loan funds* yr oeddwn wedi sôn amdanynt yn gynharach. Ar y funud, mae hynny'n hollol ar wahân i'r cymorth busnes sydd yn cael ei roi i'r cwmnïau lleiaf. Yr hyn yr oeddem eisiau gweld, felly, oedd rheiny yn gweithio gyda'i gilydd. Os ydym yn edrych ar y math o fenthyg sydd yn mynd at gwmnïau bach sydd yn llawer mwy, yr 'S' a'r 'M', gwnaethom edrych ar yr hyn y mae Banc Datblygu Busnes Canada yn ei wneud: mae'n cynnig arian, ond hefyd *consultancy* i roi cymorth i'r busnesau—nid yn unig o ran datblygu busnes, ond hefyd rheolaeth, sgiliau a phethau eraill. Dyna un o'r pethau rwyf yn gobeithio—. Rwyf wedi cael sgwrs yn barod efo Syr Terry Matthews am hyn, ac mae Terry yn adnabod y bobl ym Manc Datblygu Busnes Canada. Yr hyn yr ydym yn gobeithio ei wneud yw edrych yn fanwl ar sut y mae pethau wedi gweithio'n dda yno, ac wedyn sut y gallwn drosglwyddo rhai o'r modelau gorau o Ganada i'r model yma. Fodd bynnag, yn y diwedd, yr hyn y byddem yn ei wneud yw dod i fyny â gwahanol opsiynau ar gyfer y ffordd ymlaen. Wedyn, bydd i'r Gweinidog, y Llywodraeth a'r Cynulliad edrych yn fanwl ar yr opsiynau hynny.

[428] **Paul Davies:** Sut y byddech chi eisiau gweld y banc datblygu yn cael ei sefydlu a'i ariannu? A fydddech chi eisiau gweld corff hyd fraich o Lywodraeth Cymru?

[429] **Yr Athro Jones-Evans:** Mae hynny'n bwynt da iawn. Mae rhai pobl wedi meddwl yn awtomatig y bydd hyn yn dod yn rhan o Lywodraeth Cymru. Nid ydym wedi

the different models, and to look at the kind of feasibility study that we want to do in order to look in detail at the way ahead, and that is what the Minister has asked me to do.

Paul Davies: You have recommended a development bank. Why have you come to that conclusion and favoured that more than some of the other models that you have referred to this morning? Why the development bank?

Professor Jones-Evans: Well, what we looked at was the weaknesses, and we looked at some of the other models. For example, we looked at the micro loan funds that I mentioned earlier. At present, that is totally separate to the business support given to the smallest companies. What we wanted to see, therefore, was those things working together. If we look at the kind of lending that is going to small businesses that are much larger—the 'S's and the 'M's, we looked at what the Business Development Bank of Canada does: it offers money, but also consultancy to give support to those businesses—not just in terms of business development, but also governance, skills and so forth. That is one of the things we hope—. I have already had a conversation with Sir Terry Matthews about this, and Terry knows the people in the Business Development Bank of Canada. What we are hoping to do is to look in detail at how things have worked well there, and how we may be able to transfer some of the best models from Canada to the model here. However, in the end, what we will be doing is to come up with different options for the way forward. It will then be up to the Minister, the Government and the Assembly to look in detail at those options.

Paul Davies: How would you want to see the development bank being established and funded? Would you want to see it at arm's length from Welsh Government?

Professor Jones-Evans: That is a very good point. Some people have automatically assumed that this will become a part of Welsh Government. We have not said that.

dweud hynny. Fel y dywedais, un o'r opsiynau fyddai i'r Gweinidog ddod â Chyllid Cymru i mewn, ond gallai'r banc fod yn hollol ar wahân a hollol annibynnol. Ar y funud, nid ydym wedi dod i benderfyniad. Ysgrifennais 25,000 o eiriau i ddod i fyny â'r casgliad hwn, ac, wrth gwrs, rydym am ail-edrych ar sut yr ydym yn symud ymlaen. Un o'r pethau sydd yn ddiddorol yw efallai bydd pwerau benthyg newydd yn dod i mewn, gan roi mantais i unrhyw fath o fanc newydd a ddatblygir gan y Llywodraeth. Dyna sut y mae Finnvera, banc y Ffindir, yn gweithio. Nid yw'n cael arian o Ewrop i ryw raddau. Yr hyn y mae yn ei wneud yw defnyddio'r ffaith bod Llywodraeth y Ffindir mor gryf yn ariannol—rwyf yn meddwl mai hi yw'r unig Lywodraeth AAA yn Ewrop—felly, mae'n cael benthyg ar log o ryw 0.6% neu 0.7%. Dyna pam, wrth gwrs y mae'r banc yn gallu benthyg ar log mor isel. Mae hynny'n sialens i'r Llywodraeth i siarad â Llywodraeth San Steffan i edrych ar sut y gall y pwerau hynny ddod i Gymru.

As I said, one of the options might be to bring Finance Wales in, but the bank could be completely separate and completely independent. At present, we have not come to a decision. I wrote 25,000 words to come to this conclusion, and, of course, we want to look again at how we move forward. One of the things that is interesting is that perhaps new borrowing powers will come in, giving an advantage to any kind of new bank developed by the Government. That is how Finnvera the Finnish bank, works. It does not get European money to an extent. What it does is use the fact that the Finnish Government is so strong financially—I think that it is the only AAA-rated Government in Europe—so, it can borrow at 0.6% or 0.7%. That is why, of course, the bank can borrow at such a low rate. That is a challenge for the Government to speak to the Westminster Government to see how those powers could come to Wales.

[430] **Jocelyn Davies:** Okay. I thought that we were going to run out of questions before we ran out of time, but I am afraid that the clock is against us.

[431] **Professor Jones-Evans:** That is what you get for talking to someone who is from the Llŷn Peninsula. [*Laughter.*]

[432] **Jocelyn Davies:** We have thoroughly enjoyed your performance today. Thank you very much for coming along. We will send you a transcript for you to check for factual accuracy.

[433] **Professor Jones-Evans:** I will deny everything. [*Laughter.*]

[434] **Jocelyn Davies:** We have you on tape now. Thank you very much for making that contribution to our review.

[435] **Professor Jones-Evans:** If you require anything else, I am seeing the Minister this afternoon, so we intend to start the third stage of this review, which is developing a feasibility study. Obviously, part of that will be looking at different models and what currently exists. If there is anything else you need in terms of clarification or correction, please do not hesitate to ask and I can supply that.

[436] **Jocelyn Davies:** Okay. Thank you very much.

11:10

Papurau i'w Nodi Papers to Note

[437] **Jocelyn Davies:** We have a couple of papers to note. Did Members see that we have had a response from the chief scientific adviser, and, of course, we have the minutes of our

previous meeting? Is everybody content with that? I see that you are.

11:11

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r
Cyfarfod**
**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the
Meeting**

[438] **Jocelyn Davies:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

[439] I see that Members are content.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:11.
The public part of the meeting ended at 11:11.*