



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

## **Y Pwyllgor Cyllid** **The Finance Committee**

**Dydd Mercher, 30 Ebrill 2014**  
**Wednesday, 30 April 2014**

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Motion under Standing Order 17.42 to Resolve to Exclude the Public

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Mae hon yn fersiwn ddrafft o'r cofnod. Cyhoeddir fersiwn derfynol ymhen pum diwrnod gwaith.

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. This is a draft version of the record. The final version will be published within five working days.

### **Aelodau'r pwyllgor yn bresennol** **Committee members in attendance**

Peter Black

Democratiaid Rhyddfrydol Cymru  
Welsh Liberal Democrats

|                   |  |
|-------------------|--|
| Christine Chapman | Llafur<br>Labour   |
| Jocelyn Davies    | Plaid Cymru (Cadeirydd y Pwyllgor)<br>The Party of Wales (Committee Chair) |
| Paul Davies       | Ceidwadwyr Cymreig<br>Welsh Conservatives                                  |
| Mike Hedges       | Llafur<br>Labour   |
| Alun Ffred Jones  | Plaid Cymru<br>The Party of Wales  |
| Ann Jones         | Llafur<br>Labour   |
| Julie Morgan      | Llafur<br>Labour   |

**Eraill yn bresennol  
Others in attendance**

|             |   |
|-------------|---|
| Edwina Hart | Aelod Cynulliad, Llafur (Gweinidog yr Economi,<br>Gwyddoniaeth a Thrafnidiaeth)<br>Assembly Member, Labour (the Minister for Economy, Science<br>and Transport) |
| Rob Hunter  | Cyfarwyddwr Cyllid a Pherfformiad, Llywodraeth Cymru<br>Director Finance and Performance, Welsh Government  |

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

|                  |   |
|------------------|---|
| Richard Bettley  | Y Gwasanaeth Ymchwil<br>Research Service            |
| Bethan Davies    | Clerc<br>Clerk                                      |
| Claire Griffiths | Dirprwy Glerc<br>Deputy Clerk                       |
| Joanest Jackson  | Uwch-gynghorydd Cyfreithiol<br>Senior Legal Adviser |
| Meriel Singleton | Ail Glerc<br>Second Clerk                           |

*Dechreuodd y cyfarfod am 11:01.*

*The meeting began at 11:01.*

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

**Jocelyn Davies:** Welcome, everybody, to this meeting of the Finance Committee. May I remind you to turn off any mobile phones because they do interfere with the broadcasting equipment? I have had not any apologies today. I also remind you that we are not scheduled to have a fire drill, so, if you hear the alarm, please follow the directions of the ushers.

11:02

**Papurau i'w Nodi**  
**Papers to Note**

[1] **Jocelyn Davies:** Before we move to the first substantive item on the agenda we have a number of papers to note. Are Members content to note those? You are.

**Ymchwiliad i Cyllid Cymru: Sesiwn Dystiolaeth 5**  
**Finance Wales Inquiry: Evidence Session 5**

[2] **Jocelyn Davies:** We move on to the first substantive item, which is our inquiry into Finance Wales. I am very pleased that the Minister is able to join us today. We are scheduled to finish this part of the meeting at 12 p.m., and, Minister, we have about 15 questions to cover in that time. Would you like to introduce yourself and your official for the record and then I will go straight into the first question, if that is okay?

[3] **The Minister for Economy, Science and Transport (Edwina Hart):** Thank you very much, indeed, Chair. I am Edwina Hart, Minister for the economy.

[4] **Mr Hunter:** I am Rob Hunter and I am the finance director for the department.

[5] **Jocelyn Davies:** Thank you. I will go to the first question then, Minister. In your statement in Plenary in November on the access to finance review, you expressed your confidence in the chair and the board of Finance Wales. Does that mean that the future of Finance Wales is assured?

[6] **Edwina Hart:** Yes, it is. We will obviously be taking into account what happens in terms of your inquiry. We have also looked at some of the issues that have been raised with us in Finance Wales, but we do think that Finance Wales is a useful vehicle for us and we think that it will evolve further. We have to recognise that, in many ways, it is a relatively new institution in terms of its lifespan. There are always mixed views from everybody about what it should do as an organisation, and you see that in some of the evidence that you have heard in terms of what people feel about it. We recognise that everything in the garden is not rosy, but, as far as we are concerned, it is there to fill a gap in the market.

[7] **Jocelyn Davies:** Thank you. I think, from that answer, that you would agree that there seemed to be some confusion around what Finance Wales was going to be when it was first created and I think that has led to some people claiming that it is not fulfilling its role. So, do you think it would be useful if there was more information publicly available without people having to resort to freedom of information requests and so on, on amounts awarded, the sectors supported, and that sort of thing?

[8] **Edwina Hart:** Yes. We have actually been discussing it because we have concerns about its existing website. Its existing website looks quite nice but actually tells you very little. So, as far as we are concerned, we would like more openness and transparency, and, whatever comes out of your recommendations, we will be looking at that issue anyway. I would welcome that type of look into Finance Wales, but, of course, I think people have to accept as well that there are commercially confidential issues that we could not go into; we can only really look at the general trends and what it may or may not be doing.

[9] **Jocelyn Davies:** So, direct scrutiny of Finance Wales by a committee, perhaps this committee, looking at its activities perhaps on its equity investment strategy and so on, so long as it was on strategies rather than anything commercially confidential, you would be content with.

[10] **Edwina Hart:** I would have no objections to this committee looking at those particular issues.

[11] **Jocelyn Davies:** Do you think maybe that the current uncertainty around Finance Wales has probably damaged its reputation a little bit? Has that had a negative impact on small businesses—not on Finance Wales, but on small businesses?

[12] **Edwina Hart:** I think that there is a real issue about small businesses in relation to Finance Wales. There are a lot of organisations that are aware of the work of Finance Wales and we have asked Robert Lloyd Griffiths to look more at how small businesses can access Finance Wales. If you are involved in the sector, are a business adviser, a solicitor or whatever, you know about Finance Wales and you know how to refer your client to it. We have to get outside of that, I think, and do more work to make it more attractive so that people understand it more. I think that we have done that with the microbusiness fund, which has been very successful in terms of its lending profile now with small businesses, but that is an area where there is a lot of work to do.

[13] I think that Finance Wales itself felt that its reputation was being damaged, but, on the other hand, it has to accept that, when I set up the inquiries for Dylan Jones-Evans, the basis of the first inquiry was to look at what were the banks doing. Well, I could not look at the commercial banks without looking at my own institution, because, unless you put your own house in order, how can you then ask the banks, ‘Can you please put your institutions in order?’ I think there has been a concern in Finance Wales about that, but, at the end of the day, I think the fact that we have had a light shone into Finance Wales, through the Dylan Jones-Evans reports and his recommendations—and I am awaiting your report before I respond formally to all of those—has been very welcome for most people.

[14] **Jocelyn Davies:** I was going to ask you about responding to those recommendations, but you have put that on the record now. We did find, Minister, and Finance Wales told us, that most of its referrals are from banks and it seemed, from the evidence of other people whom we took evidence from, that it also has referrals from other professionals, as you have just mentioned. I do not suppose that you could tell us it now, but could you send us a note on the sort of percentage of business that it does that is referred to it from banks and other professionals?

[15] **Edwina Hart:** We would be delighted to do so. My director of finance also did a note for me, on the back of Dylan Jones-Evans’s report, about who was actually corresponding with us in terms of when we did the review and who came in, did he not?

[16] **Mr Hunter:** Yes.

[17] **Edwina Hart:** That makes pretty interesting reading, because you can actually correlate those that might have a personal relationship with Finance Wales to what type of evidence they gave to us. I would be more than happy to share that with the committee.

[18] **Jocelyn Davies:** Thank you. Peter, shall we come to your questions?

[19] **Peter Black:** Yes. Thank you, Chair. Minister, you have established two ongoing reviews this year on the feasibility of creating a development bank and on business advice. Can you give us an update on the terms of reference and progress made by these latest reviews?

[20] **Edwina Hart:** Yes. The business advisory group with Robert Lloyd Griffiths will report in September. There has been slower progress on the development bank issues, because we have been looking for the right team to assist Professor Dylan Jones-Evans, but I very

much hope, next week or the week after, to make a formal announcement about the membership of that team and outline the first stage of his particular report. You would not believe how difficult it has been to get people who understand investment banking and also understand the needs of communities in respect of banking. Twenty or 30 years ago, you would have a bank manager, I would say, who was quite well-rounded in terms of their community—they understood the issues, they knew what to do and took a risk on a business. They are not like that now; they are streamlined into these different areas, so to get somebody appropriate we have had to actually ask the banks themselves to look for people that they could recommend who we utilise. There are some names in the frame and the group is together, so I hope over the next two weeks, maximum, you will have the announcement.

[21] However, I would be more than happy to provide a further note to you updating you on the progress of Robert Lloyd Griffiths, because that will be much quicker. That report will be done by September and I am more than happy to share both terms of reference with the committee after this meeting and any other points that come out as they are issued.

[22] **Peter Black:** Do you think that the decline of this sort of community bank manager—my father was one, so I understand what you are talking about—has actually created this market for Finance Wales? Is Finance Wales able to operate in that way?

[23] **Edwina Hart:** I think that it is able to operate in that way, but I think that there is a whole big issue that arises about how we work with the banks and about how Finance Wales works with the banks. After we had Dylan Jones-Evans's report, I took the opportunity to meet representatives of the banks to discuss how we could bring our work more closely together. For example, if somebody is looking for a £10 million loan, and the banks are quite happy with £8 million, but the risk area is with the further £2 million, I have been discussing with the banks that then Finance Wales, because of the risk, charges a large amount of interest, but if the £10 million project is worth it in terms of jobs, the company is chasing an order, or it is for an investment in machinery, should I have a mechanism and an agreement with the banks that Finance Wales would not charge more than the banks are charging and the risk will come to Government? So we are now, as a result of these reports, shining a light on these issues and starting to have quite useful discussions.

[24] Arising from the discussions about money, we have also had useful discussions with the banks about when they go on trade missions, when they do business, and whether we want to be interlinked with all of that work with them. So, although it has been quite difficult and people have been unhappy with some of the comments and things in the report, I think that, actually, in terms of the end game, because things have been said, whether things are right or wrong, we will actually start to see an improvement.

[25] **Peter Black:** The interesting thing about the feasibility of having a development bank is that Finance Wales actually sets those—. It thought that it was a development bank in that regard. I am wondering whether that is also your understanding of its role. That seems to be what it thinks that it does.

[26] **Edwina Hart:** I do not necessarily think that it fully understood what a development bank means, hence why we are going to have the work done on the development bank. Really, it is an investment bank, is it not, when you look at it, consisting of investment bankers making decisions on what is going to happen with companies and how they can help and assist? A development bank takes us a stage further, which is why I want the work done on it. I think that we have to understand that Finance Wales must evolve from what it is to be something that is required to be useful for the Government to utilise. There is also another big discussion for Finance Wales. The support that we give it has gone down in budgetary terms. It is very pleasing from my point of view, but, at the end of the day, do I want it to be Wales-only focused, which I think is a discussion we need to have, or do we still want it to manage

funds outside Wales? So, we have been looking at its remit, have we not? We have tinkered a little with it, but I am waiting for your report to have a full look at its remit because we are going to have to make up our minds as to where we want Finance Wales to be in the market. It has been successful in managing other funds. It has been good from the point of view of the income that is coming in, but do we want it to be something that we harness wholly in Wales or not, or do we want something more commercial? Years ago, before I had ministerial responsibility for this, Chair, people were thinking about whether Finance Wales should be floated off. It is not an issue that I have looked at in terms of Finance Wales, because I think that it is useful for the Government to actually have an investment bank model that it can actually call upon to work jointly with us sometimes on projects. Sometimes, we do things; we will refer companies that come to us to Finance Wales, and commercial—. We are all involved, actually, in the financial packages that are sometimes used for companies.

[27] **Peter Black:** So, presumably, one of the things that this feasibility review might look at is whether Finance Wales might develop into the development bank that it thinks that it is.

[28] **Edwina Hart:** Yes. I think more so in real terms. I think that we are all comfortable with the concept of a fully-fledged development bank. However, this also leads you into another discussion about whether there should be a discussion about whether we should actually be looking at whether we should have a community bank.

[29] **Peter Black:** You have referred already to looking at whether the Government should effectively underwrite loans to reduce the interest rate; however, the access to finance review suggests that you may have a view on bringing Finance Wales directly into the Welsh Government. I am just wondering whether you have been able to consider that proposal.

[30] **Edwina Hart:** Yes. I think that, at the moment, we feel that Finance Wales is correct where it is, because, if you look at it, it is regulated properly in how it is regulated. It is compliant with every rule and regulation under the sun. I think that that distance is quite helpful with Finance Wales. I think that it is my role and function to give it a remit. We do not deal with it on a daily basis about what interest rate it is going to give to someone, or what it is going to do. Rob obviously has oversight and can attend Finance Wales board meetings, but we have generally left it to the expertise of the board. There is no doubt in my mind that there is a good board membership within it in terms of expertise on business, et cetera. The board has been excellent, I think, in taking on the chin, really, the criticism of it, and wanting to change it to make it a suitable organisation. However, we cannot ignore the fact of, and I have letters from Members all of the time about it, what Finance Wales is doing on the ground. This is the problem. I can see all of the good statistics; I can see all of the lending, but there are definitely companies that feel that Finance Wales does not really seem to want to have anything to do with them. It has to overcome that. That will be the challenge for it: that people in business know that it is Finance Wales, know that they can go there and, just because they have not been referred by someone's accountant or anything, they can actually go there and have the information. That has been the level of complaints that we have had about Finance Wales, that there has been that type of interface with business. Some businesses are not confident. They are not even confident about going to their bank, let alone going to a Government investment bank, and that is what we have to try to bridge, I think.

[31] **Jocelyn Davies:** Did anybody want to come in on this?

[32] **Julie Morgan:** Yes. Just following up on the question that Peter raised about bringing Finance Wales into the Welsh Government, would that in any case be impossible because of European rules?

[33] **Mr Hunter:** Bringing—

[34] **Edwina Hart:** Bringing Finance Wales in.

[35] **Mr Hunter:** Well, in effect, one of the big issues is finding the match funding for this stuff. So, in terms of bringing it in, where it would be difficult is, at the moment, the relationship with the European Investment Bank, which put half the money in for the JEREMIE fund, for example, and Barclays Bank, which has put money into the SME investment fund and other funds. The fact that it is, if you like, at arm's length and commercial is really attractive to them because they know that it is going to be run on a professional arm's-length basis and that the investments that are going to be made are going to be made in a professional manner in accordance with all of the rules and regulations that sit around that sector.

11:15

[36] Therefore, I think that, if they were in-house, we would have quite a big job in trying to attract the match funding to match any future JEREMIE funding. At the moment, the European Investment Bank's view is that Finance Wales is actually one of the best JEREMIE fund managers operating in the UK. It has also said that it is possibly one of the best in Europe. So, we have got people lining up at the moment because of that structure to lend money to future projects. So, I think that that would jeopardise it.

[37] **Julie Morgan:** So, it is an advantage not to bring it into the Government.

[38] **Mr Hunter:** Yes.

[39] **Edwina Hart:** Oh, yes.

[40] **Jocelyn Davies:** And I think it would be difficult, would it not, Minister, for you to be responsible for decisions made on a commercial basis because you are a politician?

[41] **Edwina Hart:** Yes, exactly. That is a great difficulty. Finance Wales is currently a public limited company managed under very strict corporate governance arrangements. Of course, the board is credible and there are people on it who have made money themselves and who understand how money is made. However, there is an issue about how we monitor Finance Wales, which we are going to look more closely at; we have Rob as an observer. On the other hand, we would want to be directly involved in the commercial investment strategy. That is an issue. We want to know what is going on with it, but, on the other hand, you could not have that sort of hands-on approach.

[42] **Jocelyn Davies:** Peter is next.

[43] **Peter Black:** I just want to pick up on one of the things that you said about those companies that have come to you that have complaints about Finance Wales, presumably because they have been less successful in accessing finance through it. The evidence we have been receiving over the course of this inquiry indicates that Finance Wales is making these decisions on a commercial basis and that it will often turn down companies that do not have sound business plans. It may well go back and say, 'Go back and produce a more sound business plan'. So, I am just trying to marry up that approach with the idea that a development bank or a reformed Finance Wales might then start picking up those companies that might then have a higher failure rate as a result of that.

[44] **Edwina Hart:** We have actually been talking to the banks about the groups of companies that get turned down. We have strategically spoken to the banks about where Finance Wales has turned people down and where they have turned people down. We think that, with all the ones that the loans go through, everybody is happy—that is fine. However,

there is a group of companies underneath that, if more work was undertaken with them and we could help via Business Wales or if the banks could help, would be fit for purpose for lending. We have also been, and are, discussing with the banks, whether we should have an agreement that we need to be more open and honest about the ones that are not in that group, but are further down that group, and that whatever they do, their business proposals will not stack up in terms of some of the work they are undertaking. So, as a result of all this discussion and all these reports, we are trying to get somewhere in terms of having more transparency on that agenda. I do not know whether you want to come in on that, Rob, because it is an issue that has worried us.

[45] **Mr Hunter:** Yes. I think that in terms of the—

[46] **Edwina Hart:** Yes—

[47] **Mr Hunter:** Sorry, Minister—

[48] **Edwina Hart:** I know what you were going to say—

[49] **Mr Hunter:** Sorry, I lost my train of thought.

[50] **Edwina Hart:** In terms of the point that Peter is making, if it takes on more of a development bank role, will we be taking more risk by taking people in. I think that if you are taking a structured risk with a big project, where there are a couple of hundred jobs involved, I think it is only right that I might be prepared to say to Finance Wales, 'I will allow you to take the risk on this. The Government is taking the risk because it is worth it. If the banks are giving £8 million and you're giving £2 million and I'm protecting 200 jobs and they're having new equipment, it's worth it'. On those high-level ones, we are certainly having discussions, but, at a lower level, it would be much more difficult to deal with it.

[51] **Peter Black:** There used to be a service where Government agencies and local council agencies used to pick up that sort of thing. Have they all disappeared now completely?

[52] **Edwina Hart:** There is a little bit in local government, I think, that does help and assist. Historically, the Welsh Development Agency did work in this area, but we do not want to talk about that. [*Laughter.*]

[53] **Mr Hunter:** The key with this, for those elements of those businesses that have been unsuccessful because they have just not had enough to get over the line, is to offer full support for that through the Government support schemes that we have and also working with the banks, so that we can work with the businesses to bring their business plans up to a level where they could get funding, either from Finance Wales or from the commercial sector.

[54] **Edwina Hart:** Robert Lloyd Griffiths, in his review, will look at the alignment of non-financial and financial support available from the Welsh Government to these types of companies. When he reports on that, he will be making recommendations on it. After all, it was his report that set up the original microbusiness fund, so it is good that we have got some continuity in there. So, it will look at a joint approach from Finance Wales with SMEs within that particular area. However, I think that it is very difficult, you know, because these decisions—. Would it not be wonderful if you could just logically tick down why you should do something, because, sometimes, there must be a gut reaction like there used to be years ago, in terms of whether you take a risk? I feel that, because that gut reaction has been taken out, some businesses that might really have flown have not flown because they have not had the finance. I am not sure that I can square this circle.

[55] **Jocelyn Davies:** Okay. Mike, shall we come to your questions?

[56] **Mike Hedges:** Thank you, Chair. Minister, the access to finance review noted in 2011 that you had asked Finance Wales for a clearer alignment between the activities of Finance Wales and the priorities of the Welsh Government. How closely aligned are the current activities of Finance Wales with Welsh Government priorities?

[57] **Edwina Hart:** I think that it is fair to say that there is a reasonable alignment, but I would go as far as to say that I have made it quite clear that it needs to be more focused on jobs and growth at the heart of its strategy and operations. So, as far as we are concerned, when we produce its new remit—we will see your report and we will look at the reports—it has to be far more clearly focused. So, it has to show what it is doing in terms of jobs and growth much more explicitly than it does currently. I think that, historically, Finance Wales has grown organically as an organisation. We have all looked at it as Ministers and we have all said that we have done our little bits, but I think that the time is ripe now to put in the whole thing that we want to do as a Government, and which I think that the Assembly wants, across all the parties, and that is jobs and growth, and for that to be at the heart of how it should operate.

[58] **Mike Hedges:** So, jobs and growth are the objectives for Finance Wales, as you set them out. Something that I do not quite understand is how Finance Wales fits into the world sector. You have the commercial banks, you have Finance Wales, but in between those, you have small venture capital companies and you have business angels. Why would I, if I wanted to start a business, go to Finance Wales rather than a business angel or a venture capital company if the bank would give me only £8 million and I needed an extra £2 million? Why would I be choosing Finance Wales rather than the other two?

[59] **Edwina Hart:** A lot of people choose Finance Wales. They do not want to, sometimes, go to other places. They choose Finance Wales because they can have a repayment strategy. They do not, therefore, have to have another partner that they do not want in the business. You have genuine angels, but you also have people who want to become a partner with small companies and gradually grab the company because they have put the equity in. There are a lot of reasons like that, and that is why people go to Finance Wales.

[60] **Mr Hunter:** I think that not least of the reasons is going to be the potential interest rates that are going to be charged by those other organisations.

[61] **Edwina Hart:** They would be higher—much higher.

[62] **Mr Hunter:** If they are going to a venture capitalist, it is the amount of equity that they would want to take.

[63] **Edwina Hart:** That is a big issue for them.

[64] **Mr Hunter:** I think that it is an issue for Wales, in terms of the lack of confidence of businesses to give up equity as part of raising finance. So, I think that they are very nervous about equity and also the externals are probably going to be charging very high interest rates.

[65] **Edwina Hart:** We have had a lot of companies come in and speak to me about how they want to expand and where they want to go, and one of their concerns has been, 'Who is taking an equity share in the business that I have built up and what are they going to do with it eventually?' They actually feel much safer going to the bank, sometimes, and to Finance Wales than looking elsewhere. Of course, in terms of business angels, we have business angels within Wales, but I do not think that we are highly enough developed in that sector at all in terms of getting business angels in, like they do across our border. I think that there is a

lot more work for us as a department to be doing in that context.

[66] **Jocelyn Davies:** Okay. Ann, shall we come to your question?

[67] **Ann Jones:** Yes, thanks, Chair. Have you as a Welsh Government set a target to reduce the grant in aid that you provide to Finance Wales?

[68] **Edwina Hart:** No, we have not set a target. I think that it is very pleasing, as I indicated to the Chair, that the amount is on a downward spiral, because it helps me in these tight budgetary times with my own departmental budget, but we have not set a target, Rob, have we?

[69] **Mr Hunter:** No.

[70] **Edwina Hart:** You always want it to be cost-effective, mind.

[71] **Ann Jones:** Okay. Has it ever been indicated to Finance Wales that it should be spun off as a totally self-funding body?

[72] **Edwina Hart:** I think that there have been discussions historically, but not with me, because I take a slightly different view about Finance Wales. Sometimes, you think that it is a good idea to spin things off, but then you recognise that perhaps it is not. It is not something that the board has raised with me at all recently, and I do not believe that there have been any discussions in the board about it. So, as far as I am aware, the answer is 'no' and it is certainly not something that I am contemplating at all in the short or medium term.

[73] **Ann Jones:** Okay, thanks. During taking evidence for this inquiry, we have had concerns expressed to us that, unlike most public bodies, Finance Wales does not have to publish a full annual report and accounts or performance information. I just wondered why the Government has not required this of Finance Wales.

[74] **Edwina Hart:** To be frank, I have had a concern about the matter, and about the transparency issues with Finance Wales. That is why we had the report on Finance Wales. I can assure the committee that a number of these issues, once you have reported, and I have looked at some things, will be rectified in the most appropriate manner.

[75] **Ann Jones:** I think you have already said that you are happy for there to be scrutiny, so I will leave that there.

[76] **Jocelyn Davies:** By this committee or another appropriate committee. Paul, shall we come to you?

[77] **Paul Davies:** Thanks, Chair. I just want to ask some questions regarding Finance Wales's interest rates. Before I do that, I just want to clarify your role as Minister and your direct responsibilities regarding Finance Wales. I think you mentioned earlier that you could become involved in high-value projects in order to protect jobs, but of course Finance Wales does actually operate at arm's length from Government. Can you just clarify this: do you actually get involved with some of Finance Wales's decision-making process at all?

[78] **Edwina Hart:** No, I do not, but what I am envisaging in the future—if we can get an agreement and understanding with the banks—is whether, if it is that last bit of a loan that is required for a business to survive, Finance Wales could have the equivalent rate that the banks are asking and not put the rates where the risk is. The risk would then come to Government. However, that will be a subject of discussion and agreement with Finance Wales.

[79] No, I do not have daily—. I am obviously aware of companies that are going to Finance Wales; they come and tell me what they are doing and they tell me all about it. I have regular meetings with the chair of Finance Wales, sometimes with the chief executive present, sometimes not, to get a general feel of events. However, it is very much an arm's-length body, and the point is that Rob Hunter goes there to see what goes on in terms of the board. If he had any major concerns, he would report them to me. However, I have always indicated that I have had confidence in the chair and the board, because it is our duty to look at their remit and to tidy it up. They are currently operating within what they understand as their remit, but now that we have had all this discussion and everything, it is an opportunity for us to re-look at what they are doing. On the other hand, in the main, we have been satisfied. We have obviously had to put up with all the flak about what they are doing on interest rates and all this type of stuff, and why they are doing this, that and the other, but sometimes, some of the conversations on this, outside this room and elsewhere, are on the basis of people who probably do not understand the role and function of Finance Wales and what it does. When you have the Commission complimenting it on something like JEREMIE, saying that it is probably the best in Europe, you realise it is doing a good job, and when I see my figures on the microbusinesses, and the amount of lending it has been able to do, it has done a good job. However, if you are going to question me on interest rates, I have brought my finance director. *[Laughter.]*

[80] **Paul Davies:** As a committee we have received evidence that the interest rates charged by Finance Wales were significantly higher than EU reference rates. However, other evidence has told us that the rates charged were reasonable for a commercial lender. I appreciate that, as a Government, you do not set interest rates, and it is right that you do not, but what are your views on the interest rates actually charged by Finance Wales?

[81] **Edwina Hart:** If I could talk about where we have intervened, we have done subsidised loans in the enterprise zones—2% below—because I thought that that was important to generate interest within the enterprise zones. Of course, that means that I would take a hit on anything I had to do because we have to recognise that subsidised loans come at a cost, and we have to look at the value for money in terms of the impact on retaining jobs, growth and everything, which I am happy to do. However, some rates are above the reference rate because of the risk it is taking. That is what we understand to be the position, but Rob understands this very well.

[82] **Mr Hunter:** There are two bits to the question, really. The first one is around the reference rate and the way it is set. Europe sets the reference rate primarily for state-aid reasons, so you have got the credit scoring of the business on one axis, and on the other axis how much collateral is going to go into each of the loans. Quite often, the amount of security in the loans that Finance Wales undertakes is very low, so they are very high risk. What you basically do is you have that reference rate, and then on top of that you add a risk premium, and then you come up with your rate. The access to finance review is absolutely right. Finance Wales's rates, when it has set them, including the risk premium, are higher than the European reference rate. So, from the state-aid point of view, Finance Wales could charge lower rates and, in fact, that was evidenced because of the 2% reduction in enterprise zones, for example. So, within the law, we can adjust the rates. Going on to interest rates and whether, actually, that means that it has been overcharging businesses, if you like, when the stage 2 review came out, the Minister asked me to commission another report, a separate report. We got a commercial broker in and basically picked at random a sample of loans going back a number of years, and we asked, 'How much would you charge if you placed these in the market?' Actually, he did the exercise, but for some of those, you would not have been able to get finance in the market, so, you know, that is the unique nature of Finance Wales.

11:30

[83] From that, something very interesting came out: about 77% of the loans were either at, or below, rates that would be charged by commercial lenders. The percentage was actually quite large; it was up to 5% lower, on average, across all of those loans, and that is very good. What it highlighted is that it kind of goes counter to the idea that they have been overcharging, because, in reality, if you base it on what the market would have done, they have actually been undercharging, in that respect, for those loans.

[84] When we looked at it, we found that about 23% were being charged above what they would have got, had they been placed in the private sector—that is, with commercial lenders. That is a really interesting point for us. We analysed those loans, and they were almost exclusively at the very low end of the risk spectrum. We are talking about 6% that could have been charged had it been placed in the market, compared to a rate of around, say, 8% that was being charged in Finance Wales. For us, that is a really important issue, because we want the money—Government money and the money that we are putting into these funds—to go where the market gap genuinely is. If we can free up 23% of funding by working more closely with commercial providers, signposting those loans out to them, it is good for the customer, because they are going to get a lower rate, and it also frees up more money to invest in the higher risk businesses, which is good for us as well. It is worth saying that that does not take into account the fee structure, because Finance Wales does charge lower fees—on average, about half the amount that would be charged by a commercial lender. When you take that into account, the difference is very small on those that, potentially, could have got lower rates. It was a really interesting review, and, actually, strangely, ‘Access to Finance’ is correct in what it proposes, and I think that this interest rate review supports that as well.

[85] **Edwina Hart:** I do not think that there is anything in that report that, if we anonymise it, we could not share, if the committee would like that particular report.

[86] **Jocelyn Davies:** So, what you are saying is that, rather than Finance Wales charging lower interest rates, those people should have gone somewhere else for their loan. They should have gone to the market.

[87] **Mr Hunter:** Absolutely, if we are talking about using public money, and, actually, it is about encouraging the private sector to come into Wales and to bring more money into Wales.

[88] **Edwina Hart:** That is why the discussions with the banks have been so important on some of the things we have done about having an understanding and an arrangement. Also, Rob, perhaps we should comment briefly on the state aid issue. A lot has been made of rates around the state aid issue, but I do not know whether you want to take that up, because it is not the main reason we do things. Obviously, the state aid issue comes into place with JEREMIE, and there are other mechanisms that we can use on funds and de minimus and all that.

[89] **Mr Hunter:** That is right.

[90] **Edwina Hart:** So, there are issues around this that we need to clarify, I think.

[91] **Mr Hunter:** Yes, certainly. It goes back to that point. I think that state aid has been used, or mentioned, as one of the main reasons driving interest rates in Finance Wales, and I do not think that that is the case. I think that we have a huge amount of flexibility under the existing arrangements.

[92] **Paul Davies:** Do you think that they give you enough flexibility, then, these EU state

aid interventions?

[93] **Mr Hunter:** Yes.

[94] **Edwina Hart:** With all the new funds, we are going to incorporate the maximum flexibility that is allowable under state aid rules with the money involved.

[95] **Paul Davies:** So, you are looking at other options in terms of finance.

[96] **Edwina Hart:** Yes.

[97] **Mr Hunter:** Absolutely. To give you a level of where the flexibility is, if you take a sort of midpoint reference, the bulk of the loans—and this is the minimum amount that needs to be charged, to which the risk premium is then added—we are at about 3.44% or 3.94%. We are at that sort of level as the base rate and, of course, Finance Wales is charging higher than that. So, the flexibility is between them, and an awful lot of that risk premium is subjective. So, there is a lot of flexibility in what we have currently got.

[98] **Jocelyn Davies:** Julie, shall we come to your questions?

[99] **Julie Morgan:** Yes. We have covered this a bit already, but do you feel that there is a sufficient balance in the funds operated by Finance Wales, between funding start-ups and supporting large companies?

[100] **Edwina Hart:** Yes, I do think that there is a good balance. Some of the large loans that would be required for some companies are outside the parameters of Finance Wales—we have been having a look at some of the support that we give to quite large companies. However, we do think that the balance is correct. We think that we have improved the balance by using the microbusiness fund. We have improved the balance enormously in terms of what it has done, as it has supported some 80-odd businesses with that fund. It has invested directly almost £2 million and has levered in nearly £2 million of private sector money. So, we are just about getting it right. However, I think that there is more room for work within that particular area.

[101] **Jocelyn Davies:** Ffred, do you want to come in on this particular point?

[102] **Alun Ffred Jones:** Ydy Cyllid **Alun Ffred Jones:** Does Finance Wales lend Cymru yn benthg arian i fusnesau money to retail businesses? Is there a type of manwerthu? A oes math o fusnes nad yw business that Finance Wales does not invest in? Cyllid Cymru yn buddsoddi ynddo?

[103] **Edwina Hart:** If I am absolutely honest, we would have to check the list of what it has invested in.

[104] **Mr Hunter:** Yes; I could not absolutely give the answer to that.

[105] **Edwina Hart:** I could not say 'no'.

[106] **Mr Hunter:** However, in terms of retail, over the last three or four years, Finance Wales had JEREMIE and it had two small funds, which I think were the rescue and restructure fund and the small loans fund, which were about £5 million or £6 million each. The funds that we have introduced since then, such as the SME investment fund, the microfinance fund and the property fund, have all been aimed at ensuring that a much wider net can be cast in terms of types of businesses—both in terms of geographical location, which is restricted under EU rules, but also the types of business. So, JEREMIE is highly restricted,

because it is business-to-business. When you get business-to-consumer, so we are talking about the main retail businesses, the new funds that we have launched were really addressing the market gap that was evident in a vast number of businesses in Wales, which could not go to JEREMIE. A number of other funds are being considered, which we are working through at the moment, which will continue to address that gap and push those boundaries.

[107] **Edwina Hart:** If we can provide something statistical easily, we will do so.

[108] **Julie Morgan:** In terms of job creation, Jobs Growth Wales publishes the number of jobs created. Do you think that there is a case for Finance Wales to do that sort of exercise?

[109] **Edwina Hart:** We have been discussing this with Finance Wales, have we not, Rob? The nature of the discussion has been that we would like to improve the information on it.

[110] **Mr Hunter:** Yes, right across the board. You mentioned earlier the annual report and accounts, and we would like to see at least a link to those on the web page and, the same actually, really promoting the good work that it is doing.

[111] **Edwina Hart:** Yes, and also information about jobs and so on, and the benefits. We provide good information on the Wales economic growth fund, and I think that it can do it. There is a question as to how it might choose to do it, because of the commercial nature of some stuff, but if we could have a broad picture in the public domain, I think that would be helpful.

[112] **Mr Hunter:** One thing that is quite difficult is the comparison. So, if you look at the cost per job, potentially, through Finance Wales and then compare it to other parts, the figures can be published, but when you make those direct comparisons, because— Around half of the money in Finance Wales is not public sector money; it has been borrowed in and will be repaid. There is also a legacy, so this money is used time and again. Therefore, obviously, the more times you recycle it, the smaller the cost per job.

[113] **Edwina Hart:** On the other hand, Rob, the committee is probably considering making a recommendation about the scrutiny of Finance Wales, and that is probably the appropriate format for these discussions to be taking place, because they can be taken in the round with the appropriate narrative, rather than just in statistics that will not mean very much. If we were to publish, we would have to publish them with quite a lot of dialogue around them and quite a lot of caveats. However, if the committee is looking towards more open engagement between Assembly committees and Finance Wales for scrutiny, those are the areas that could really come out in terms of an annual scrutiny arrangement, perhaps.

[114] **Jocelyn Davies:** Okay. Alun Ffred, shall we come to your questions?

[115] **Alun Ffred Jones:** Rydych wedi mynegi hyder yng Nghyllid Cymru a'ch bwriad chi yn y dyfodol agos, yn sicr, yw parhau gyda Chyllid Cymru, er y gall hynny newid. Hoffwn ofyn cwestiwn eithaf syml. Ydy Cyllid Cymru, ar hyn o bryd, yn gwneud elw ar ei fuddsoddiadau?

**Alun Ffred Jones:** You have conveyed confidence in Finance Wales and your intention in the near future, at least, is to continue with Finance Wales, although that could change. I would like to ask a simple question. Is Finance Wales, at present, making a profit on its investments?

[116] **Mr Hunter:** In essence, what it is doing is maximising the return within what was agreed at the beginning of each fund. It is something that has come through several of the reviews; in fact, this term, it is working on a commercial basis, which would make you think that profit maximisation is its main modus operandi. When you look at the initial models that were created for the SME investment fund and the JEREMIE fund, you will see that there was

always recognition in those early models that they would not recoup the whole amount of the fund. So, £150 million was initially going into JEREMIE, and the expectation was that between 10% and 20% of that would not be recouped because of the type of businesses that it was going for. It is on track to deliver to that to the original target. So, if you were a commercial investor or a commercial bank, this would not be something that you would want to put your own money into, if you were looking purely to generate a return. However, of course, you have all the economic benefits that come through this.

[117] The other thing is that Finance Wales needs to hit those targets because, on JEREMIE, the models were produced for the European Investment Bank, and they were worst case, best case and medium case models to show the European Investment Bank that it was a credible lender and that it would pay back the borrowings when they were due. Finance Wales is ahead on paying back the EIB's loan at the moment. That is probably a long answer, but its aim to maximise returns is strictly limited within what it set out to do at the beginning. So, these are, in effect, subsidised programmes.

[118] **Alun Ffred Jones:** A gaf i ofyn cwestiwn pellach i hwnnw? Rydych chi'n dweud felly nad yw'n mynd i adennill yr holl o'i fuddsoddiadau mewn un gronfa arbennig. A yw hynny'n wir am y cronfeydd eraill hefyd, sef bod rhyw elfen o golled—neu beth bynnag y galwch ef—yn y rheini hefyd?

**Alun Ffred Jones:** May I ask a further question to that? You say therefore that it is not going to recoup all its investments in one particular fund. Is that also true about the other funds as well, namely that there is an element of loss—or whichever term you want to use—in those as well?

[119] **Mr Hunter:** Once again, that will depend on the type of fund. Taking two funds as an example, on the microfinance fund, which is doing exceptionally well in terms of the number of jobs produced, the cost per job and the investment rate, we anticipate quite high losses for that one because of the area that it is dealing with. We are not expecting that to be an evergreen fund. We are expecting that to have quite significant attrition through each of those phases.

[120] If you compare that with the £10 million property fund, that is funding businesses to build quite often small domestic sort of properties. The turnaround on that money is incredibly rapid; you might put the money out and get it back within eight months, 12 months or 18 months, and Finance Wales is charging an interest rate. At the moment, the banks are not lending into that sector at all, so it is filling a market gap and it is creating work and jobs. We would expect that fund to create quite a reasonable profit, and we anticipate that that will be a true evergreen fund that will be able to keep on being reinvested in those businesses.

[121] **Edwina Hart:** Chair, if it would help, we will do a list of the funds for the committee and Rob can make comments like he has made today against each of the funds to give you an idea for your final report.

[122] **Jocelyn Davies:** Yes, we could put that as an annex to the report; I think that might be quite useful.

[123] **Alun Ffred Jones:** A gaf i ofyn un cwestiwn arall? Rydych yn nodi bod Cyllid Cymru yn gweinyddu cronfa Cymorth i Brynu-Cymru. Oni ddylai Cyllid Cymru ganolbwyntio ar gefnogi busnesau yn hytrach na gweinyddu cronfa sydd, mewn gwirionedd, mewn maes arall?

**Alun Ffred Jones:** May I ask one further question? You note that Finance Wales administers the Help to Buy-Wales scheme. Should Finance Wales not focus on supporting businesses rather than administering a fund that is, in truth, in another field?

[124] **Edwina Hart:** We all recognise that Finance Wales is not necessarily sometimes the

best place to support things. However, we felt on this—there was quite a lot of discussion about this—that it would be best placed to administer this fund. We had confidence that it could undertake it, and we were quite happy. However, we do look at these things on an individual basis, especially if it is a further Government fund. We would not want you to think that these decisions are taken lightly in terms of the discussion. Do you want to come in on that, Rob, because you are aware of the dialogues that we had?

[125] **Mr Hunter:** We had extensive discussions with Finance Wales on whether this was something that it felt that it could administer.

[126] **Edwina Hart:** Capability.

11:45

[127] **Mr Hunter:** Exactly. In essence, some of the benefits of this are that Finance Wales quite quickly recruited eight people to manage this scheme. Those people are specifically picked and are specialists, so they do understand this type of scheme and how it operates. So, that creates that kind of employment. In addition to that, we are, to use the term, ‘sweating the asset’ because you have the asset there, and, if you take all of the fixed cost of that asset that we are funding each year through the block grant, the more we do with that, the more we can actually get out of that asset and the lower the unit cost is, if you like. Therefore, it made sense; we are only paying for that scheme the marginal cost for the eight staff, plus a few other bits and pieces, whereas, if we had actually gone out to tender on that and got a fund manager in, it would have been a significant amount of money that we would have been paying.

[128] **Edwina Hart:** So, we are operating commercially in the department as well.

[129] **Jocelyn Davies:** So, if there is a new Government initiative, you would look to see whether Finance Wales had the capability—.

[130] **Edwina Hart:** Oh, yes. The departments do approach us occasionally about things that they do.

[131] **Jocelyn Davies:** It is one of the things that you consider when you decide how to—.

[132] **Edwina Hart:** Yes.

[133] **Jocelyn Davies:** Ffred, have you finished with your questions?

[134] **Alun Ffred Jones:** Yes.

[135] **Jocelyn Davies:** Chris, we will finish with yours, then.

[136] **Christine Chapman:** Minister, if you look at the UK Government initiatives, do you believe that any, or some them, will be of most benefit? Which ones do you think will be of most benefit to Welsh SMEs, and are you engaging with these at the moment?

[137] **Edwina Hart:** Yes, we have engaged in discussions with the UK Government, and Finance Wales and my officials are now working out how we might secure business bank funds from the UK Government initiative. It is an ongoing dialogue and it has not been an unhelpful dialogue; it has actually been a very helpful dialogue that we have been having on these issues because I think that we are all on the same wavelength in terms of wanting to get more support into businesses for loans. So, I have written to Vince Cable. We have also asked for more financial information, which we require, because we have a dearth sometimes of

information required to make good decisions on lending. He has agreed that we will look at more work being done. We are talking to the British Bankers' Association about more statistics and things, which are required. It is a productive engagement, but it is not at an end, as it were.

[138] **Christine Chapman:** Do you think that there is a case for administering some of these UK business initiatives within Wales?

[139] **Mr Hunter:** It is a difficult one. If you take things like initiatives that are coming through the British Business Bank, we have had discussions with it—well, in fact, we, and the Minister, have very frequent discussions with it. In terms of siting some of those in Wales, the main aim is that we are trying at every stage to get as much money into Wales as we possibly can. Sometimes, it might be worth pursuing administering those in Wales, but, quite often, if it is happy to administer it and the money comes into Wales, we would get the same benefits.

[140] **Edwina Hart:** Interestingly enough, we had a very good discussion after we did the first report on access to finance and I wrote to Vince Cable and we managed to get the commitment that we had not before for the banks to publish postcode-level lending data by institution, which is very helpful for us in getting a picture of what is going on. The data are very complex in some of these areas, so we are working directly to try to sort out these particular issues. However, we generally have a good relationship. We would love it if there was a Government initiative that said, 'There's billions to be administered; could we get Finance Wales to bid to do that?' I would certainly be the first one there to try to create jobs in Wales, and not just jobs in Cardiff on some of these issues with Finance Wales as well. That is also an issue about Finance Wales, in terms of where it is in Wales and whether it has a presence and is easily accessible to people who just want to go in for a chat. So, there are quite wide issues on this.

[141] **Christine Chapman:** Are you clear as well about duplicating Welsh initiatives and UK initiatives?

[142] **Edwina Hart:** We dovetail. We dovetail everything that we possibly can. If the UK Government has money available, we want people to use that before using my money, and if we have stuff that is available—. It is about maximum benefit to those who want to apply for money and we do try to dovetail. Finance Wales is a very professional organisation and is very well regarded outside Wales. People are quite envious about the fact that we have an organisation that can undertake this type of work.

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

[144] **Julie Morgan:** Just picking up really on that work outside Wales because I know that we did not pick it up earlier on when you said that you were considering—. We did not have anyone express any concern about that, and, in fact, people did see it as a bit of coup for Finance Wales and as bringing in money, and that it was, on the whole, an advantage in terms of contacts and that sort of thing.

[145] **Edwina Hart:** It is also an advantage that, with the funds we have administered, like the one in the north of England, the profits come back directly to us in terms of administration, so it is good. However, you may not have had it raised with you, but I have had it raised with me, that it should be an institution that just provides for Wales, and does not go outside Wales. I will have a little look at it, but, at the moment, I am minded to say that, if I am getting the benefit of investments that are managed outside Wales and money is coming back to me, then, looking at purely commercially, perhaps I will not change anything. Do you want to come in on that, Rob?

[146] **Mr Hunter:** Yes. There is another side issue with this, which is quite interesting, and that is, because it is employing people in the north of England on these various funds, it broadens the expertise range for Finance Wales, which actually benefits us. One of the things that I noticed when it took these funds on was that there was a much bigger push from the Finance Wales board on managing its equity portfolio in Wales and it had access to additional expertise that it had taken on. So, the business itself has become broader and bigger and can call on more resources, which, actually, I think has benefitted Wales indirectly as well.

[147] **Jocelyn Davies:** Well, I think that we have talked ourselves into a certain position on that point. Chris, I think that that has covered your points, has it not?

[148] **Christine Chapman:** Yes.

[149] **Jocelyn Davies:** We have finished all of our questions, Minister. Thank you very much. I think that you said that you would supply us with one or two documents—

[150] **Edwina Hart:** Yes, we will. We will do that this week.

[151] **Jocelyn Davies:** If you could do that pretty soon that would be good, because this is our last evidence session on Finance Wales, and we are hoping to finalise our report very quickly. As usual, we will send you a transcript of today's meeting so that you can correct it.

[152] **Edwina Hart:** That is lovely. Thank you very much indeed, Chair. We look forward to the report, because then we can finalise what we might be doing with Finance Wales. It might be very helpful for us.

[153] **Jocelyn Davies:** Thank you very much.

11:51

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

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

*the committee resolves to exclude the public from the remainder of the meeting and the first item of the next meeting in accordance with Standing Order No. 17.42(vi).*

[155] I see that everybody is content.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:51.  
The public part of the meeting ended at 11:51.*