



William Graham, AM
Chair, Enterprise & Business Committee

11 May 2015

Dear William

At the Committee meeting of 23 April, I agreed to write to you with further information on the implications of and vehicles for accessing European Investment Bank (EIB) funding; and further information on discussion with the UK Government about devolving a Barnett share of the funding from the British Business Bank (BBB) to Wales.

We explained the risks in applying for EIB funding. This goes back to 2009, when HM Treasury raised the issue of treatment of borrowings by Finance Wales, which were scored outside the Welsh Government's budget.

The Office of National Statistics (ONS) had classified Finance Wales as a public corporation, and with such status under IFRS accounting regulations, the overall borrowings of Finance Wales should be scored to the Welsh Government's DEL.

This effectively means that any amounts borrowed by Finance Wales plc would be taken off the Welsh Government capital DEL in the year that the money is borrowed. Then in future years the Welsh Government capital DEL is credited as the principal sum of the loan is repaid.

Officials have investigated different legal structures, for example special purpose vehicles which would be deemed off-balance sheet. However, the recent accounting advice is not conclusive and we would only progress on this matter when all legal and accounting aspects of the specific proposal have been fully considered.

In regard to the BBB, and Wales receiving a Barnett share (or fair share) of the funding for the bank. This is something I both wrote to and discussed with the Business Secretary in 2013, during the setting up of the bank.

The UK Government originally allocated additional capital of £1bn to the BBB - since increased to £1.25bn. Dr Cable advised that it was not his intention to allocate the BBB's budget geographically. Therefore, I was not able to ask for a Barnett specific Welsh allocation. However, I made the key point that it was vital to see that Wales was well served by the bank.

A measure of this being achieved would be if Wales were to receive roughly 5% of the BBB's additional £1.25bn, which would equate to £62.5m. By the end of 2014, £23m of this new capital had flowed to Welsh SMEs.

My officials maintain regular contact with their BBB counterparts, and are actively considering how we can increase the flow of funds to Wales for the benefit of our businesses. This also includes working with Finance Wales to investigate the potential of securing funds to deliver BBB's new *Help to Grow* programme (loans for fast growth firms), in Wales.

I trust this letter is helpful in clarifying these two particular issues, and I look forward to receiving the Committee's report in due course.

Edwina Hart