

National Assembly for Wales
Finance Committee

Finance Wales

May 2014



Cynulliad
Cenedlaethol
Cymru

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Information on the Committee, its membership, its remit and previous publications can be found at: **www.senedd.assemblywales.org/mgCommitteeDetails.aspx?ID=229**

A list of witnesses and oral and written evidence of relevance to this report is available at: **<http://www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=5722>**

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The Committee was established on 22 June 2011. The Finance Committee's role is to carry out the functions set out in Standing Order 19. This includes consideration of the use of resources by the Assembly Commission or Welsh Ministers, and in particular reporting during the annual budget round. The Committee may also consider any other matter relating to expenditure from the Welsh Consolidated Fund.

Their remit also includes specific statutory powers under the Public Audit Act 2013 relating to new responsibilities for governance oversight of the Wales Audit Office.

Current Committee membership



Jocelyn Davies (Chair)
Plaid Cymru
South Wales East



Peter Black
Welsh Liberal Democrats
South Wales West



Christine Chapman
Welsh Labour
Cynon Valley



Paul Davies
Welsh Conservatives
Preseli Pembrokeshire



Mike Hedges
Welsh Labour
Swansea East



Alun Ffred Jones
Plaid Cymru
Arfon



Ann Jones
Welsh Labour
Vale of Clwyd



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Chair's foreword

Finance Wales has been subject to much media speculation recently following the publication of the Access to Finance reviews. Through this inquiry, the Committee was reassured to find that Finance Wales was well regarded across much of the business sector, as well as across the UK and further afield. We found that Finance Wales, on the whole, was making a positive contribution to the Welsh economy, and that what was needed was a clarification of their role and remit rather than a full scale overhaul.

The Committee found that there was a lack of information on the funding gap for businesses in Wales, which impacts on what people think Finance Wales should do. To this end, we have made a number of recommendations around defining the problems of accessing finance facing businesses. This is essential to put in place appropriate solutions.

We also found that there were a myriad of expectations placed on Finance Wales from its inception, which were not necessarily within its remit to deliver. We have therefore recommended that the Minister clarify the role and remit of Finance Wales.

Much of the evidence received about Finance Wales was in relation to their interest rates, which led the Committee to predominately focus on its loan, rather than its equity investments. We found that although higher than the market average, Finance Wales interest rates were assessed against a number of factors including risk, and that for the types of investment made they appear to be mainly in line with, or better than, the market. However, a significant proportion of its loans could have, potentially, been available commercially at a more competitive rate.

We did find that there was more that Finance Wales could do in terms of communicating and marketing their services, and have recommended that more is done in this area. The Committee were also concerned about the level of external scrutiny of Finance Wales,

and the transparency of their monitoring information. Again, we have made a number of recommendations to address these concerns including the publishing of their annual report, and routine scrutiny by the National Assembly for Wales.

This was a positive inquiry which showed that, although not perfect, there is a lot to commend in the work of Finance Wales. I would like to thank all those that took time to provide us with evidence either written or oral, and hope that this report helps to inform the discussion around access finance for SMEs

The Committee's Recommendations

The Committee's recommendations to the Welsh Government are listed below, in the order that they appear in this Report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

Recommendation 1. The Committee recommends that Welsh Government takes the lead in establishing the size of the funding gap between banks and small businesses in Wales. Welsh Government should build on the estimates made by Dylan Jones-Evans by working with bodies such as the British Bankers Association and the Department of Business Innovation and Skills to improve Welsh specific data on financial support to businesses. This information should then be used to plan Welsh Government's response to any funding gap. However, it needs to be recognised by all stakeholders that Finance Wales can only ever make a small contribution to addressing the funding gap. (Page 18)

Recommendation 2. The Committee recommends that all branches of Welsh Government with responsibility for business operate in a co-ordinated way to support smaller businesses. This should include joint working with banks to improve application documents and business plans. There should also be a clear system for referrals of those businesses turned down for funding by banks or Finance Wales. Clear, early indications should be provided to businesses over their eligibility for support from individual government programmes. (Page 21)

Recommendation 3. The Committee recommends that any changes to Finance Wales build on its existing skills and infrastructure, and do not damage the reputation it has developed. (Page 25)

Recommendation 4. The Committee recommends that Welsh Government should clarify the aims and remit of Finance Wales. These should set out the balance between its dual roles of achieving a commercial return and contributing to economic development. Objectives should not be overly prescriptive, but should allow Finance Wales to maintain a flexible structure that can be tailored to managing

new funds. This should also be seen as an opportunity to refresh the purpose of Finance Wales, and to communicate this to all stakeholders. (Page 29)

Recommendation 5. The Committee recommends that Finance Wales is subject to similar levels of scrutiny as other public bodies in receipt of public funds. This should not impact on the independence of Finance Wales when making investment decisions. Finance Wales should present its annual report and accounts to a relevant committee of the Assembly for scrutiny each year. (Page 30)

Recommendation 6. The Committee recommends that Finance Wales undertakes a review of its working practices to ensure that it is delivering for SMEs. We recommend that, to inform this, an independent poll of SMEs is commissioned to establish market awareness of and areas of concern about Finance Wales. (Page 31)

Recommendation 7. The Committee recommends that Finance Wales provides further explanation to businesses on the strategies for each of its funds. This should clarify that while Finance Wales is attempting to bridge a market failure in bank lending, it must also seek a commercial return for the risks it is taking in its lending. The typical interest rates and fees it charges on loans, along with its other lending policies, should be made transparent and provided to businesses before they consider making an application. (Page 36)

Recommendation 8. The Committee recommends that, when designing future funds, both Welsh Government and Finance Wales ensure that there is sufficient flexibility to adjust interest rates and to take advantage of state aid exemptions. The costs of potentially reducing interest rates should then be planned for with Welsh Government to ensure that sufficient financial support is available. (Page 40)

Recommendation 9. The Committee recommends that Welsh Government and Finance Wales review their strategy for communicating with businesses. Partnerships should be developed with banks, intermediaries and groups representing business to allow effective marketing of new funds. (Page 43)

Recommendation 10. However, these networks should not be seen as ‘gatekeepers’ of access to Finance Wales. It is therefore recommended that Finance Wales improves its capacity to communicate directly with potential borrowers, particularly small businesses. (Page 43)

Recommendation 11. The Committee recommends that Finance Wales adopts the same levels of transparency on its performance as that shown by other public bodies. The monitoring and evaluation reports which it provides to Welsh Government and other stakeholders should become publicly available. Information should also be available through its website on investment performance, job creation, finances and award criteria. Performance information should also be at the core of a new, more detailed annual report and accounts. The Committee strongly believes that while this transparency will inevitably lead to some criticism at times, it will also provide an excellent means of demonstrating the successes that Finance Wales has achieved. (Page 45)

1. Introduction and Background

1. The Finance Committee agreed to conduct an inquiry into the current operation and future role of Finance Wales at its meeting on 7 November 2013.
2. The Committee's terms of reference were to consider:
 - the current performance and past achievements of Finance Wales;
 - how the activities of Finance Wales contribute to the Welsh Government's overall approach to economic development in Wales;
 - the options available to the Welsh Government in setting the future strategic direction of Finance Wales.
3. The Committee held a consultation as part of their inquiry and a list of respondents is at Annex B. The Committee also held an outreach event with Small and Medium Enterprises (SMEs) on 22 January 2014, a note of which is attached at Annex C.
4. The Committee took evidence from a range of witnesses over four evidence sessions (Annex A). This report outlines the Committee's findings and makes a number of recommendations to the Welsh Government.

Background

Finance Wales

5. Finance Wales is a publicly owned company that was created in 2001 to provide finance to SMEs in Wales. Finance Wales originally reported to the Welsh Development Agency until that body's functions were transferred to the Welsh Government in April 2006. Following that, Finance Wales has reported to the Minister for Economy, Science and Transport, and the Welsh Government is the sole shareholder.
6. Finance Wales manages £200 million of investments in Wales over four live funds:

- £150 million Wales JEREMIE¹ Fund – an SME fund, launched in 2009, financed by the European Regional Development Fund, the European Investment Bank and the Welsh Government;
- £40 million Wales SME Investment Fund – a micro-business and SME fund financed by Barclays and the Welsh Government;
- £6 million Wales Micro-business Loan Fund - financed by the Welsh Government (£1 million of this is managed by Wales Council for Voluntary Action to support social enterprises);
- £10 million Wales Property Development Fund – financed by the Welsh Government.

7. The Finance Wales Group includes two subsidiaries – ‘FW Capital’ and ‘Xenos’. FW Capital operates as a fund manager from offices in northern England and has managed local funds in the North-West and North-East of England since 2010. Xenos is the Wales Business Angel network which was formed in 1997, and links businesses with potential sources of advice and finance.

The Access to Finance review

8. The Minister for Economy, Science and Transport (‘the Minister’) announced an independent review of the availability of funding for SMEs in Wales on 16 January 2013 to consider:

“Access to external finance for business start-ups and investment for growth in Welsh businesses is fundamental to sustainable economic growth. The Welsh Government is particularly keen to ensure that SMEs in Wales can access the finance they need to sustain their current operations and support their growth ambitions.”²

9. The Minister appointed Professor Dylan Jones-Evans from the University of the West of England to lead the *Access to Finance Review* (‘the Review’). The Committee was surprised to learn during this inquiry that Professor Jones-Evans was a former Board Member of Finance Wales.

10. The aim of the review was to examine how effectively SMEs in Wales are served by existing sources of funding, identify areas of

¹ Joint European Resources for Micro to Medium Enterprises

² Welsh Government, [Minister launches review into access to business finance for SMEs](#), 16 January 2013

particular challenge and provide recommendations for action. Finance Wales was not initially planned to be the subject of a specific review as its lending to SMEs represents only around 5 per cent of that provided by the high street banks.³

11. The review was carried out in two stages. The first examined the extent that high street banks meet the funding needs of Welsh businesses, focusing primarily on the requirements of SMEs. The second stage considered alternative sources of funding and the role that the Welsh Government can play in facilitating their development.

12. The Stage One report made two recommendations that related specifically to Finance Wales:⁴

- Finance Wales has had a positive impact on formal equity investment within the Welsh business community. However, the Welsh Government needed to consider how it builds on this success, especially in terms of having a specific vehicle for equity funding in the future. It also needed to develop programmes that created demand for venture capital not only for new start-up businesses but also growth firms where equity investment is key for further development.
- As the sole shareholder, Welsh Government needed to determine the future strategic direction of Finance Wales and, more importantly, the role it should play in the future financial landscape for Welsh business alongside other providers.

13. Given the findings in the Stage One report, the Minister requested that Stage two of the review examined the strategy of Finance Wales in terms of supporting SMEs in Wales, focusing specifically on the cost of borrowing.⁵

14. The Stage Two Review report was published on 12 November 2013. It made recommendations concerning bank funding, alternative sources of funding and proposed an alternative model for public sector support called the Development Bank for Wales.

15. The report also included some specific findings regarding Finance Wales:

³ Professor Dylan Jones-Evans, [Access To Finance Review – Stage 1 Report](#), June 2013

⁴ Professor Dylan Jones-Evans, [Access To Finance Review – Stage 1 Report](#), June 2013

⁵ Professor Dylan Jones-Evans, [Access To Finance Review – Stage 2 review](#), November 2013

- According to data submitted to the review, Finance Wales is offering higher rates of interest on borrowing to SMEs within Wales than it needs to under European Commission (EC) State Aid guidelines.
- The evidence gathered also suggests that Finance Wales has not utilised the full range of financial instruments available under EC regulations. For example, with two thirds of Wales classified as qualifying for the highest level of aid, General Block Exemption Regulation (GBER) could have been used to subsidise the interest rates on loans to hundreds of SMEs and been a significant policy tool for Welsh Government. In addition, there is no state aid impediment to Finance Wales offering cheaper loans to the vast majority of micro-businesses under de minimis regulations if it so wished.
- It remains unclear as to whether Finance Wales is still essentially operating as a commercially oriented fund manager in all but name.

16. In a statement to Plenary, the Minister welcomed the report and launched a short consultation on the implementation of the range of the recommendations⁶ (which ran until 6 December 2013).

⁶ National Assembly for Wales, [Statement: Review of the Availability of Funding for SMEs: Second Report](#), 12 November 2013

2. The Need for Finance Wales

17. In order to help SMEs access finance, it is essential to first establish the nature of the problems facing businesses in Wales. Therefore, in considering the functions and performance of Finance Wales, the Committee sought to establish whether there was a market failure in terms of finance for SMEs and any other issues facing these organisations. This chapter explores these issues.

Establishing the level of the funding gap

18. Finance Wales was initially set up in 1999, partly to address the funding gap for SMEs. Sian Lloyd Jones, Chief Executive of Finance Wales, explained to the Committee that Finance Wales:

“...was a joint policy initiative between the Welsh Government of the day, the Confederation of British Industry and the Federation of Small Businesses, partly in response to the withdrawal of people like 3i from Wales and the fact that there was a gap in the market in terms of funding for SMEs.”⁷

19. There was little dispute amongst witnesses that there is still a funding gap for businesses in Wales, which became more profound after the banking crisis in 2008. When asked if there was a market failure, Peter Wright, Strategic Investment Director from Finance Wales told the Committee that:

“I would say, ‘absolutely’, Chair, and it is much more noticeable, obviously, since 2008, when what is now called the banking crisis came about. Prior to that time, there was some supply, and probably some parties would say that there was an excess of supply and that the banks did too much, particularly in certain sectors of the economy, with property being one example.”⁸

20. Although, it was highlighted to the Committee that access to finance was not a consistent picture across the board. Alistair Wardell a Partner/Advisory from Grant Thornton UK LLP, argued that:

⁷ RoP, Finance Committee, 26 March 2014, paragraph 21

⁸ RoP, Finance Committee, 26 March 2014, paragraph 37

“... my opinion would be that, across the board, businesses have found it difficult at the smaller end. It is more difficult to access finance than at the bigger end, but that is my opinion.”⁹

21. This reflects the evidence the Committee heard throughout the inquiry. At the SME outreach event, we heard that small businesses which only need a small amount of finance, are struggling to find an appropriate lender.

22. Alistair Wardell also told the Committee that:

“On expansions, my view would be that, if you had a good business with a good business plan, there is decent access to finance.”¹⁰

23. This is a sentiment that the Committee hopes is borne out in reality. We believe that there should be access to finance for all those businesses with a good, viable business plan.

24. Although the existence of a gap was widely accepted by our witnesses, there has been much discussion about the size of the funding gap. The Access to Finance Stage Two review estimated that in Wales there was a total funding gap for businesses:

“...of around £500 million per annum for those businesses who want to get access to funding but have been refused support by the banks in Wales.”¹¹

25. The Committee questioned witnesses about whether they recognised this figure. Iestyn Davies, from the Federation of Small Businesses Wales (FSB) told the Committee that he thought:

“... it would seem consistent. If you think about the fact that there are around 214,000 SMEs in Wales and you think, ‘Well, okay, what kind of finance, across the board, are they looking for?’, it would not take a lot of requirement for lending, borrowing or some sort of capital injection to reach that kind of figure. Ultimately, we have to rely on Dylan Jones-Evans’s work—we are not experts in this field—but it would seem consistent with reports that we have heard from other

⁹ RoP, Finance Committee, 12 March 2014, paragraph 217

¹⁰ RoP, Finance Committee, 12 March 2014, paragraph 235

¹¹ [Access to Finance Review Stage 2 Review](#), Professor Dylan Jones-Evans, November 2013

academics. Most recently, we worked with Professor Kent Matthews from Cardiff Business School. So, whether or not it is £500 million exactly, there does seem to be a considerable shortfall.”¹²

26. However, Alistair Wardell was not convinced by the findings in the review about the level of the gap. He told the Committee that:

“The reality is that I would have to do a lot of work and analysis to justify that, or to understand that number. It sounds very high to me, but without doing detailed analysis and looking at it, I could not comment further.”¹³

27. He also argued that:

“I guess that it depends on what problem you are trying to solve. I am not utterly convinced that there is a problem of the scale that you seem to be trying to solve.”¹⁴

28. One of the major problems in establishing the size of the gap is the lack of Wales specific financial information. Dylan Jones-Evans told the Committee 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.”¹⁵

29. This is a matter of concern for the Committee, as it is essential for Wales to have accurate data to establish and address any specific concerns.

¹² RoP, Finance Committee, 12 March 2014, paragraph 40

¹³ RoP, Finance Committee, 12 March 2014, paragraph 249

¹⁴ RoP, Finance Committee, 12 March 2014, paragraph 256

¹⁵ RoP, Finance Committee, 5 February 2014, paragraph 284

30. The Committee also recognises that the nature of the financial sector means gaps are continually changing. For example, Sian Lloyd Jones told us that:

“Also, the gaps change, in terms of the nature of the financial provision. So, based on our experiences elsewhere—and we have seen it in Wales as well—there is a gap for what we have described as a working capital fund, which was not something that was in evidence in 2007-08, when we secured the JEREMIE fund.”¹⁶

31. Furthermore, the Committee heard a number of suggestions that there was a significant number of SMEs, particularly start ups that would not want to access finance. This group is classified as permanent or contented non-borrowers. The 2013 SME Finance Monitor Annual report¹⁷ found that from the SMEs interviewed 37% were permanent non-borrowers, while 75% could be classified as ‘happy non seekers of finance’¹⁸. It is important to note these in trying to establish the true nature of the gap.

32. Although the Committee has not been convinced that the figure of £500 million is an accurate representation of the funding gap, it is a good initial starting point and we do believe there is an issue with the availability of finance.

33. The Committee believes that the first step in addressing any problems with support for SMEs is to establish whether there actually is a market failure and exactly what the gap is. Without this clarification, it is difficult to ascertain what the exact functions of Finance Wales need to be. In doing this steps must also be taken to address the lack of comparative data in Wales.

34. Furthermore, the state of the market needs to be subject to regular review, and needs to evolve and adapt as the different problems and practices in the finance sector emerge. This is important to ensure that the Welsh economy can adapt and react.

¹⁶ RoP, Finance Committee, 26 March 2014, paragraph 42

¹⁷ www.sme-finance-monitor.co.uk/

¹⁸ Definition of ‘happy non seeker of finance’ - those saying they neither applied, nor wanted to apply, for a facility in the 12 months prior to interview with SME Finance Monitor.

35. The Committee feels strongly that Finance Wales is not responsible for filling the entire SME funding gap, although it has a role closing it. We believe that the Minister should have clear strategy for how to address this gap.

The Committee recommends that Welsh Government takes the lead in establishing the size of the funding gap between banks and small businesses in Wales. Welsh Government should build on the estimates made by Dylan Jones-Evans by working with bodies such as the British Bankers Association and the Department of Business Innovation and Skills to improve Welsh specific data on financial support to businesses. This information should then be used to plan Welsh Government's response to any funding gap. However, it needs to be recognised by all stakeholders that Finance Wales can only ever make a small contribution to addressing the funding gap.

Wider Consideration of Business Support from Welsh Government

36. The Committee heard, that in addition to obtaining finance, another major challenge facing businesses in Wales was accessing and utilising wider business advice and support to help with things like developing business plans. We heard a number of examples about businesses needing '*just a little bit*' of extra support in terms of their business plans and documents to secure funding either from commercial lenders or Finance Wales.

37. Peter Umbleja from the Institute of Chartered Accountants in England and Wales (ICAEW) told the Committee that:

“I also think that a challenge is access to finance, which is one of the reasons why we are here today. However, the development of the individual businesses and the business owners themselves, and building up their skills so that they can run their own business, I think, is also quite important.”

38. The Access to Finance Stage One review report found that there needed to be a better link up between high street banks and Welsh Government business support. Dylan Jones-Evans told the Committee that when dealing with those turned down for funding, the banks:

“...mainly -... 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.”¹⁹

39. Iestyn Davies argued that a one stop shop for businesses was needed:

“Again, we would be supportive, as we were back some two-and-a-half years ago, of the principle of the one-stop shop. That does not mean that that is always going to work effectively, but let us bring this together and make a very clear offer to individuals. ... Clearly, many of our members do not need a complicated range of services. What they need is what is often referred to as ‘vanilla products’, the basic, standard services that you need in order to address financial exclusion. ... It is a bit of a jump to go from having no banking experience, or no access to banking, to trying to be economically active.”²⁰

40. The Committee did not take direct evidence on Business Wales and does not believe there needs to be a complete overhaul of Business Wales, not least because we recognise that it is a relatively new entity (launched January 2013)²¹ and that this is an area which has been subject to significant amounts of change in recent years.²² However, the Committee does believe that more needs to be done to ensure the connections between Business Wales, the banking sector and Finance Wales are strong enough to provide a seamless service to Welsh businesses.

41. The Minister commissioned Robert Lloyd Griffiths, director of the Institute of Directors in Wales and Chair of the Business Wales Strategic Board to lead a review into how Welsh Government non-financial support can best align and assist the financial support for businesses in Wales. The areas which will be addressed by the review are:

¹⁹ RoP, Finance Committee, 5 February 2014, paragraph 299

²⁰ RoP, Finance Committee, 12 March 2014 paragraph 145

²¹ Written Response, FIN(4) FW070a

²² Written Response, FIN(4) FW073

- Examine the nature and type of financial and non-financial support available through Welsh Government and Finance Wales to identify any gaps in services for SMEs;
- Examine if Business Wales should deliver finance tools on behalf of Finance Wales or a Development Bank for Wales;
- Establish where opportunities exist to work more effectively with Finance Wales, other Welsh Government financial support initiatives and the private sector to remove duplication, improve services, outcomes and offer a joined up approach for SMEs;
- Investigate what services are available outside of the Welsh Government that could add value to the Welsh Government's non-financial support offer and how the Welsh Government might maximise the benefit of these for Welsh businesses;
- Provide suggestions for new support services which would sit alongside Welsh Government and Finance Wales' support, helping to increase the success of these investments, and how they might most effectively be delivered to ensure maximum economic impact;
- Work with the Financial and Professional Service Sector team to consider how some of the specific recommendations in the access to finance review could be incorporated into the financial and non-financial support available for SMEs in Wales;
- Consider the particular issues of supporting working capital and company valuation, including intangible assets and employee buy-outs;
- Seek advice and engage with the business community, Welsh Government Priority Sectors and key stakeholders to ensure the review is evidence based and business led.²³

42. The Minister indicated to the Committee that this review will report in September 2014, with an action plan setting out how to address these issues. The Committee hopes that the resulting action plan addresses the concerns raised as part of our inquiry. The Committee believes there may be some value in this being considered by Enterprise and Business Committee before the end of the fourth Assembly.

²³ Written Evidence, FIN(4) FW081

The Committee recommends that all branches of Welsh Government with responsibility for business operate in a co-ordinated way to support smaller businesses. This should include joint working with banks to improve application documents and business plans. There should also be a clear system for referrals of those businesses turned down for funding by banks or Finance Wales. Clear, early indications should be provided to businesses over their eligibility for support from individual government programmes.

The Need for Finance Wales

43. Despite some issues in defining fully the problems facing SMEs, there was a broad agreement from all the witnesses that there was a need for Finance Wales or a similar organisation. Iestyn Davies told the Committee that “...it clearly has a role to play”.²⁴

44. There has been much discussion in the media about Finance Wales, and whether it is achieving its objectives. The Committee notes that much of the negativity appears to have been generated, from confusion when Finance Wales was created, with different people placing different expectations on it. The Committee received a wide range of evidence in support of Finance Wales and the functions it carries out.

45. Alistair Wardell told the Committee that:

“My personal view is that we are fortunate to have an organisation like Finance Wales in Wales. I spoke to one of my colleagues in Birmingham yesterday to find out what the perception was from outside Wales, and he said, ‘We would love to have an organisation like Finance Wales here, because we don’t have that. We have the lenders, the asset-based lenders, the angel investors, but we don’t have an organisation like Finance Wales’.”²⁵

46. While Peter Umbleja, said that:

“The reality is that, for a number of years, while the banks were effectively closed for business, I suppose, to the SME sector, because they were repairing their own balance sheets—I think

²⁴ RoP, Finance Committee, 12 March 2014, paragraph 47

²⁵ RoP, Finance Committee, 12 March 2014, paragraph 249

that is the way in which it has been said—Finance Wales was the white knight that carried on lending to businesses. It has learned a lot over that period and has matured, and I just think that it is doing a good job.”²⁶

47. During the Committee’s SME outreach event, the Committee heard about some negative experiences with Finance Wales, however there was considerable support for, and frustration with the negative coverage of Finance Wales. One participant told us that the speculation over Finance Wales seemed like *‘Wales was shooting itself in the foot again’* while others felt strongly that the organisation should have received more support.

48. This was a viewpoint echoed by a number of respondents to the Committee’s written consultation. Many of whom stated that they felt their businesses would not be in existence without Finance Wales. Andrew Michelman from the MiE Group stated that:

“I do not believe that this company would have achieved the success it has, or be located in Wales, had it not been for the investment provided by Finance Wales.”²⁷

49. While John Geraint, the Creative Director from Green Bay Media said:

“Finance Wales, because of its unique constitution and nature, has brought us a number of ‘added values’ (such as advice, expertise, intelligence and experience of the broader financial, regulatory and governmental landscape within which we operate) which it is unlikely we could have sourced without considerable cost from any other commercial partner.”²⁸

50. As a condition of finance, Finance Wales require a business to be located in Wales, which has a positive impact on the Welsh economy and jobs. Dr Chris Tackaberry from Clinithink told the Committee that:

“...were it not for the opportunity to secure investment funding from Finance Wales, it is most unlikely that the company would have established its R&D [Research and Development]

²⁶ RoP, Finance Committee, 12 March, paragraph 295

²⁷ Written Evidence, FIN(4) FW003

²⁸ Written Evidence, FIN(4) FW006

operation in Wales. The investment funding contributed by Finance Wales enabled us to raise over three times that amount in inward investment in Wales, creating high value technology jobs.”²⁹

51. Christopher Rowlands, Finance Wales Board member and Chair of the Finance Wales Investment Committee, told the Committee that:

“We reviewed, just yesterday, a fantastic array of start-up businesses in, particularly, the technology area. Twelve of those businesses were not in Wales, and as a direct consequence of Finance Wales’s intervention, those 12 business have been moved—lock, stock and proverbial—to Wales, from Oxford, Cambridge, south-east England and all over the place, which I think is a great demonstration of our raison d’être...”³⁰

52. Furthermore, the Committee received positive evidence about how the organisation is perceived both within the UK and further afield. John Handley, the Chief Investment Officer of Finance Birmingham, stated that:

“Our model was very much based on the approach adopted by Finance Wales who have used the benefit of scale, experienced professionals and blended return to ensure that considered lending and investment decisions are made to suitable qualifying companies and where the risk is priced accordingly. This to my view is a highly sensible and professional approach recognising the huge inherent risks of lending and investing in the SME space.”³¹

53. Robert Hunter, Director of Finance in the Department for Economy, Science and Transport, said that:

“...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.”³²

²⁹ Written Evidence, FIN(4) FW049

³⁰ RoP, Finance Committee, 26 March 2014, paragraph 63

³¹ Written Evidence, FIN(4) FW001

³² RoP, Finance Committee, 30 April, paragraph 36

54. While Christopher Rowlands, an independent director on the Board of Finance Wales advised us that:

“Finance Wales is held in very high regard by quite a number of organisations outside of Wales, such as the Scottish Government and the UK Government. I know that for a fact, because I have been told so directly to my face, given some of the reviews that I have been engaged in for the UK Government.”³³

55. Although much of the evidence we received was positive in support of Finance Wales, we do acknowledge that some people have had negative experiences with Finance Wales, and that there are always opportunities to review and improve how it functions. For example, at the SME outreach event the Committee heard how some companies had experienced long delays in getting a response from Finance Wales, and in one instance the decision could have been made at the outset as Finance Wales did not fund that type of business. Eddie Hall from EBA consulting Ltd suggested that there were a number of issues with Finance Wales such as:

“In evaluating a proposal for finance, FW [Finance Wales] do not appear to take a commercial approach compared with the normal funders i.e. banks;

- Decision making process is slow and bureaucratic;
- Costs are high (rates);
- Access to experienced, knowledgeable and commercial individuals is difficult;
- There is now a lack of visibility of Finance Wales;
- I do not consider Finance Wales as an obvious source of lending.”³⁴

56. Reporting his findings with stakeholders, Dylan Jones-Evans told the Committee that the perception of Finance Wales was:

“... mixed. It depends who you speak to—you could speak to someone who had been turned down for a loan, for example.”³⁵

³³ RoP, Finance Committee, 26 March, paragraph 102

³⁴ Written Evidence, FIN(4) FW057

³⁵ RoP, Finance Committee, 5 February 2014, paragraph 318

57. The Committee believes that the recent media coverage could have had a potentially negative impact on Finance Wales, and the confidence of businesses in the Welsh economy. To that end, we were pleased to receive assurances from the Minister about the future of, and her confidence in, Finance Wales.³⁶

58. The Committee believes that Finance Wales has a valuable role to play and is making a positive contribution to the Welsh Economy.

The Committee recommends that any changes to Finance Wales build on its existing skills and infrastructure, and do not damage the reputation it has developed.

³⁶ RoP, Finance Committee, 30 April 2014, paragraph 7

3. Defining the Role of Finance Wales

59. Having established a need for Finance Wales, the Committee sought to establish areas of potential improvement for Finance Wales. Alongside changes to the working practices of Finance Wales, which are discussed in chapter four of this report, the Committee found that there was need for more direction to be given to Finance Wales in terms of defining their role, and scrutinising whether it is delivering its objectives.

Finance Wales' remit - the need for definition

60. The evidence gathered as part of this inquiry highlighted to the Committee that the role and remit of Finance Wales needs to be clarified. We heard a range of views about what Finance Wales was from a bank to a fund manager to an economic development agency or a mixture of all these elements.

61. Ian Johnson, Chairman of Finance Wales plc Board, set out the role and remit of Finance Wales as embodied in the management arrangement that has been in place since the transfer from the Welsh Development Agency in 2006:

“The company shall be managed as a group of commercial development funds to provide businesses in Wales with flexible and sustainable finance for their development. Its activities seek to address market failure in this area and stimulate new investment by the private sector.”³⁷

62. Representatives at the Committee's SME outreach event felt clarity was needed about whether Finance Wales was a quasi-grant provider, economic development agency or an autonomous lender/commercial entity.

63. The FSB raised concerns with the Committee around the development function in Finance Wales and its ability to deliver this. Iestyn Davies told the Committee that:

“Clearly, it has a number of roles, but the one that we are most concerned with is the bit that is to do with start-up and development and addressing the structural failure of the

³⁷ RoP, Finance Committee, 26 March paragraph 16

market, particularly around support for SMEs and microbusinesses. ...However, that area, that development function—the key here is this ‘D’ word, the development bank function—is the area where we have concerns. Not only is it poor in communicating that role and what individual businesses can expect, but in forming that relationship. Our experience has been that, sometimes, it can be quite fraught and it can be difficult for individual businesses to navigate its systems.”³⁸

64. He suggested the failure to deliver this function was a result of Finance Wales developing and growing into something that is largely about equity investment, and that therefore, “we should not be surprised that it does not have the capacity currently to engage in the kind of work that we would like to see it do”.³⁹

65. Finance Wales highlighted to the Committee that the range of expectations makes it difficult for Finance Wales to satisfy all stakeholders. Sian Lloyd Jones explained that:

“The underlying remit has not changed at all in its provision of commercial finance to small and medium-sized enterprises. Even in the early days—again, before my time—it was viewed as a development bank, and that was one of the challenges that it faced in terms of the expectations that were placed upon it by the different stakeholders. So, on the one hand, you had the commercial investors, Barclays, expecting us to return the borrowings to them; and, on the other hand, you had businesses and communities that thought that, as this was a publicly owned and partly publicly financed operation, it should be providing subsidised finance. So, when I arrived in 2004, it was failing on every metric; it was not satisfying any of the stakeholders; it was not performing from an investment point of view; and it was in breach of its bank covenant. So, it was a very difficult birth for the organisation, if I can put it like that, with that weight of expectation and that breadth of expectation.”⁴⁰

³⁸ RoP, Finance Committee, 12 March 2014, paragraph 63

³⁹ RoP, Finance Committee, 12 March 2014, paragraph 65

⁴⁰ RoP, Finance Committee, 26 March 2014, paragraph 25

66. In written evidence to the Committee, HWB Cymru suggested that some of the criticism of Finance Wales, may be attributable to a misunderstanding of their remit:

“Much of the criticism laid at the door of Finance Wales is often based on finance, which may well be needed, but they haven’t traditionally had the remit to provide. For example, until very recently, Finance Wales was unable to help with loans in the Business to Consumer market, yet they came under fire for something they could not achieve. Much of the Access to Finance report and criticisms from others could be viewed as a reason to expand the role of Finance Wales, rather than alter the structure.”⁴¹

67. It was clear from the evidence received that the role of Finance Wales is not fully understood. In part, this misunderstanding has arisen from existing preconceptions held by different organisations about what Finance Wales was going to be when it was established.

68. In addition to a number of different perceptions of Finance Wales, the Committee recognises the number of funds (eg Wales Micro-Business fund, JERMIE, Wales Property Fund) which Finance Wales undertakes on behalf of the Welsh Government. The Committee believes that the diverse nature of funds administered by Finance Wales inevitably means that it has a number of different functions and objectives. The Committee welcomes this flexibility and would not want any defining of the role for Finance Wales to be too prescriptive and potentially limit Finance Wales’s ability to administer different funds.

69. The Committee feels that much of the negativity surrounding Finance Wales can be attributed to varying expectations placed on the organisation across the sector. We believe that, at present, Finance Wales is successfully balancing the aim of becoming more commercially sustainable and its role in developing the economy, which should help to ensure the longevity of their funds.

70. The Committee would like the Minister to clearly set out the objective and aims for Finance Wales. In doing this, we believe the multifaceted nature of the organisation needs to be recognised. This should help to reduce the confusion which exists at present.

⁴¹ Written Evidence, FIN(4) FW073

The Committee recommends that Welsh Government should clarify the aims and remit of Finance Wales. These should set out the balance between its dual roles of achieving a commercial return and contributing to economic development. Objectives should not be overly prescriptive, but should allow Finance Wales to maintain a flexible structure that can be tailored to managing new funds. This should also be seen as an opportunity to refresh the purpose of Finance Wales, and to communicate this to all stakeholders.

Accountability and the Need for Greater Scrutiny

71. Finance Wales has not been subject to routine scrutiny from the National Assembly for Wales ('the Assembly'), following the merger of the Welsh Development Agency into the Welsh Government, and the establishment of Finance Wales as an arm's length subsidiary of Welsh Government.

72. The FSB suggested that increased scrutiny of Finance Wales may help to address some of the recent concerns about the organisation. Josh Miles, from the FSB, told the Committee that the Welsh Government:

“... could ask Finance Wales to report annually to a committee such as the Finance Committee, and I think that we could scrutinise performance and, hopefully, have an encouraging debate about the way to improve things if things are going wrong in future, so that we do not get that mission creep that lestyn mentioned earlier on.”⁴²

73. The Committee believes there are a number of areas which would benefit from greater scrutiny. In particular, we think a greater consideration of Finance Wales' equity investments is needed as this area was not considered as part of this inquiry, and their performance against the targets set for each fund.

74. There has been much discussion in the media about Finance Wales' performance against the JERMIE targets, with suggestions that Finance Wales were significantly behind. During the evidence session, the Committee was able to usefully clarify Finance Wales's position on this. The Minister also suggested that greater scrutiny by a Committee of the Assembly may be an appropriate forum to consider aspects of Finance Wales' performance such as job creation targets. The

⁴² RoP, Finance Committee, 12 March 2014, paragraph 134

Committee believes that a benefit of such scrutiny would be the ability to enter into a discussion on elements such as the targets and the ability to build up a knowledge base.

75. When the Committee questioned Finance Wales on the potential for enhanced scrutiny of their strategy and performance in the future by the Assembly, they confirmed that there would be no barriers to such scrutiny and indeed that they would 'welcome it'.⁴³ This was a view echoed by the Minister who told us that she:

“...would have no objections to this committee looking at those particular issues.”⁴⁴

76. The Committee was surprised and concerned to find that Finance Wales had not been subject to scrutiny from the Assembly. Given the responsibility of Finance Wales in administering significant sums of public money, we believe that a relevant Assembly Committee must scrutinise the work of Finance Wales on an annual basis.

The Committee recommends that Finance Wales is subject to similar levels of scrutiny as other public bodies in receipt of public funds. This should not impact on the independence of Finance Wales when making investment decisions. Finance Wales should present its annual report and accounts to a relevant committee of the Assembly for scrutiny each year.

⁴³ RoP, Finance Committee, 26 March 2014, paragraph 122

⁴⁴ RoP, Finance Committee, 30 April 2014, paragraph 10

4. Finance Wales' Ways of Working

77. Based on the evidence received, the Committee believes that Finance Wales could benefit from reviewing its working practices and procedures. We would like to see an organisation which focuses on helping a range of businesses, and provides clear and consistent advice. This chapter explores some of the more frequent concerns raised with the Committee, which could be addressed through the review.

78. As a general observation, the Committee found that there needs to be more information available for SMEs about Finance Wales and their different policies. The Committee considers that establishing exactly what the main areas of concerns are for SMEs in terms of the services provided by Finance Wales would be a good starting point for a general review of their working practices. We would hope that the concerns raised in this chapter would also form part of this review.

The Committee recommends that Finance Wales undertakes a review of its working practices to ensure that it is delivering for SMEs. We recommend that, to inform this, an independent poll of SMEs is commissioned to establish market awareness of and areas of concern about Finance Wales.

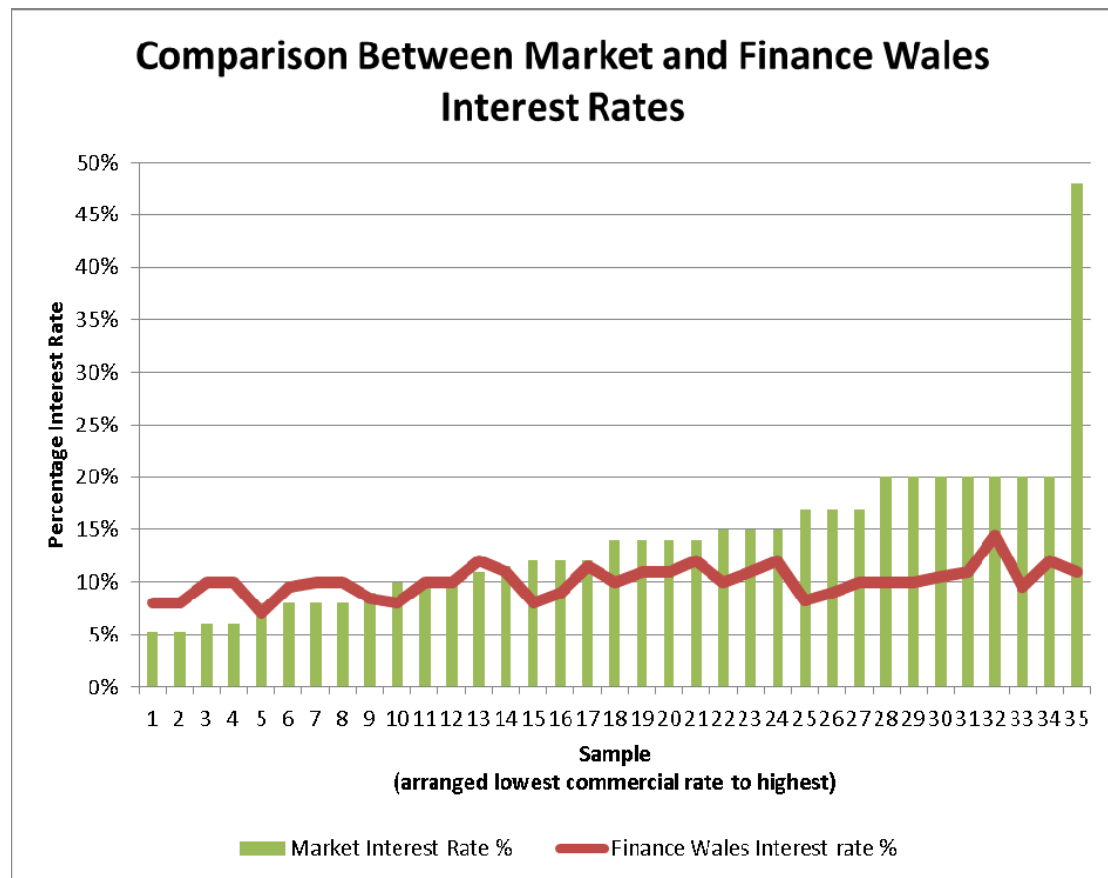
Interest Rates

79. There has been a great deal of focus on the level of interest rates charged by Finance Wales.

80. Finance Wales interest rates are based on a number of factors such as the European Commission's reference rate over time, an assessment of the company's credit rating, available security and the risk associated with the particular deal. According to the Access to Finance review the average interest rates charged by Finance Wales are between 8-12%.

81. The Welsh Government commissioned an independent review into Finance Wales interest rates ('the review'), from Paul Goodman, Managing Director of Goodman Corporate Consultancy Limited and Vice Chairman of the National Association of Commercial Finance Brokers, which reported in December 2013. This review found that in

the majority of instances (77%) Finance Wales charged either at or under the market rate⁴⁵ as illustrated in the following graph.



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82. The review found that 23% of loans from Finance Wales were being charged at above the market rate. The Minister suggested that these companies should not necessarily be receiving finance from Finance Wales as they should have been able to secure a better deal from commercial sources. She suggested that they may benefit from additional support in the development of key documents like business plans which would ensure these companies get best possible rate. Robert Hunter told the Committee that:

“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

⁴⁵ Written Evidence, FIN(4) FW081

⁴⁶ Written Evidence, FIN(4) FW081

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.”⁴⁷

83. The Committee agrees with the Minister that further work needs to be done to support those businesses, who could potentially have secured a better rate in the commercial market. Although, we appreciate that those receiving finance from Finance Wales have to indicate that they have not been able to secure funds from a bank first, we would like to see consideration being given to how these businesses could be helped to develop their businesses to be more attractive to commercial lenders. This would help to ensure maximum efficiency for the public purse. We hope that this will be taken forward by the Minister, as part of her on-going work in this area.

84. Dylan Jones-Evans argued to the Committee that although 10% (the average interest rate of Finance Wales) was the market rate, what should be considered is whether ‘we want to give Welsh business a competitive advantage through a fund that is 100% owned by the Welsh Government’.⁴⁸ He went on to say that:

“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.”⁴⁹

85. This was a view echoed by the FSB, who raised the concerns of their members about the interest rate levels, Iestyn Davies told us that:

⁴⁷ RoP, Finance Committee, 30 April 2014, paragraph 84

⁴⁸ RoP, Finance Committee, 5 February 2014, paragraph 351

⁴⁹ RoP, Finance Committee, 5 February 2014, paragraph 353

“... my concern is that, in some instances, in pursuing those interest rates, that is taking businesses into liquidation or closure. In the amount of time that we had available to us—. I accept the fact that, when we ask for an opinion on Finance Wales, it is a bit like when your constituents ring up, in that they ring when they have a problem, they hardly ever ring up to give praise but rather to complain, and so, it is a self-selecting sample, and we accept that, but there are instances where individual businesses are saying, ‘This rate, or this policy, actually pushed me over the edge’. Whether or not that was the case, that is the perception.”⁵⁰

86. Peter Wright explained to the Committee that the rates were in line with the rest of the UK and that Finance Wales’ rationale behind interest rate levels was:

“... the European guidelines state that the financial intermediary, which is ourselves, the fund manager, should pass on the advantage that it receives from the state to the final beneficiary, that is, the SME—going back to this issue of costing—in the form of either lower interest rates, or reduced collateral requirements, or a combination of the two, so that the business, that is, the final beneficiary, would be in a risk class where the intermediary would not invest, that is, it is deemed too high risk. So, this is where we go back—. We operate at a 10% acceptance of a default. That goes back to the point that you have a choice, in a way: do you bring the interest rates down, and then have a lower risk profile, or—. Our approach has always been that we would much rather widen the funnel and deal with the businesses that have been turned down elsewhere. It goes back to the point that Ian made about there is, therefore, money that is recycled, as it were, for future SMEs as well.”⁵¹

87. Representatives of SMEs at the Committee outreach event, on the whole, felt the rate charged by Finance Wales was appropriate given the risk involved in, and the minimal amounts of collateral available to Finance Wales for the investments it made. This was a view supported by representatives from accountancy firms, who made the further

⁵⁰ RoP, Finance Committee, 12 March 2014, paragraph 71

⁵¹ RoP, Finance Committee, 26 March 2014, paragraph 204

point that the margins of interest rates should not have a significant impact on the viability of businesses. Peter Umbleja suggested that:

“If you are talking about, say, a £100,000 loan where the interest rate is 10% as opposed to 6%, I do not think that a business decision will be made on the back of a £5,000 or £6,000 annual cost on £100,000-worth of borrowing. I just do not see that that is going to—. If that is going to change a business decision as to whether a business goes forward or not, then I would worry about that business, because it was marginal to start with.”⁵²

88. In addition to the level of interest rates charged, there has been some discussion about the additional fees charged as part of the loan. The Committee heard a number of arguments suggesting that once the additional charges from banks are added onto payments the difference in the amount charged would be minimal.

89. Dylan Jones-Evans highlighted that Finance Wales do charge fees on every loan:

“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.”⁵³

90. However, the review found that:

“The arrangement fees charged by Finance Wales are significantly lower than comparable market fees. The security and monitoring fees are at the lower end of the scale of those charged by ‘the market’”⁵⁴

⁵² RoP, Finance Committee, 12 March 2014, paragraph 312

⁵³ RoP, Finance Committee, 5 March 2014, paragraph 311

⁵⁴ Written Evidence, FIN(4) FW081

91. The evidence received highlighted the dichotomy of views about Finance Wales interest rates, between those who felt Finance Wales was doing a good job, and acting commercially and those who felt that Finance Wales was too expensive, and not helping SMEs. The Committee believes that given the strength of negative views, Finance Wales should do more to explain its strategy to businesses.

92. The Committee believes that the greater clarity of Finance Wales' remit which we called for in chapter three, will go some way to addressing this, as will addressing the communication and marketing issues discussed later in this chapter.

The Committee recommends that Finance Wales provides further explanation to businesses on the strategies for each of its funds. This should clarify that while Finance Wales is attempting to bridge a market failure in bank lending, it must also seek a commercial return for the risks it is taking in its lending. The typical interest rates and fees it charges on loans, along with its other lending policies, should be made transparent and provided to businesses before they consider making an application.

State Aid

93. Finance Wales is responsible for administering a number of key European funds. The Committee heard a range of legal opinions around Finance Wales's flexibility around interest rate levels given the obligations placed on them through the receipt of State Aid.

94. Dylan Jones-Evans raised concerns about State Aid in his Access to Finance Review Stage one report, which were disputed by Finance Wales, and legal advice they received from the law firm Eversheds. He told the Committee that:

“...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,.... 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 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.”⁵⁵

95. When the Committee questioned Finance Wales about the possibility of utilising more flexibility around interest rates, Peter Wright explained that:

“The rationale for the rates relate to the EIB, particularly, and the other backers in the funds, because all of the models were set up on a specific basis. If you were to vary the interest rate—. One of the things we did with the JEREMIE fund, to make sure that it had the maximum flexibility, was a formal state aid notification. You have choices. You can operate state aid under what is called the general block exemption regulations, which are, basically, an off-the-shelf set of regulations. However, they are quite limiting, because they are, by their nature, off the shelf. Therefore, as Sian said earlier, we would have not been able to invest higher than £1 million, and there would be a number of restrictions. So, we did a formal state aid notification, which linked our rates. We were asked, ‘What rates are you going to charge?’, and we replied that we would align them with the reference rate et cetera. We had a discussion earlier around that. So, if we were to move away to do, as was suggested, subsidised interest rates, we would be contravening that state aid notification, and we would have to go back to the Commission to do a variation. Unfortunately, the commission typically takes six to 12 months to respond to these things.”⁵⁶

⁵⁵ RoP, Finance Committee, 5 March 2014, paragraph 362

⁵⁶ RoP, Finance Committee, 25 March 2014, paragraph 241

96. Finance Wales went on to explain that there is some flexibility within this, as long as the average rate remains on track. Sian Lloyd Jones said:

“The other point to note is that when we model the funds at the outset, before we have an investor, we make an assumption about the average interest rate that we will lever from the investments. It is on that basis, when they can see that they will get their return, that they make the offer of commercial finance. So, we have scope to vary within that, because it is an average, rather than an absolute, and that means that we can operate a range of interest rates within that fund model.”⁵⁷

97. The number and variety of funds managed by Finance Wales, means that different rules will apply in each instance. The Committee believes that it is vital for all avenues for flexibility to be explored fully to make sure Welsh businesses are getting the most out of any funding arrangements. To achieve this, the Welsh Government should work with Finance Wales to explore the options for flexibility in state aid.

98. The Committee believes that there needs to be some political direction to the decision, and that this again could be achieved through refining the remit and setting out clearly what the purpose of Finance Wales.

Enterprise Zones

99. The decision to lower interest rates in enterprise zones, illustrates how flexibility with State Aid can be utilised.

100. Finance Wales announced in 21 October 2013⁵⁸ that it would be offering 2% lower interest rates in the enterprise zones. Finance Wales explained that this decision was taken due to an assessment of lower risk given the additional support available to them. Peter Wright told us that:

“Yes it is, largely. I think that members of the committee were at Milford Haven at the same time as when I was there. My conversations earlier that day with Nick Bourne as the chair of

⁵⁷ RoP, Finance Committee, 25 March 2014, paragraph 242

⁵⁸ Finance Wales, [Interest rate savings for SMEs in Welsh Enterprise Zones](#), 21 October 2013

the Haven Waterway enterprise zone were about what Finance Wales could do to support the enterprise zone initiative. That was when the decision was made—on that day, in fact. I said, ‘Actually, you are getting rate relief and capital allowance relief. There is not a massive arrangement. Perhaps there is something we can do about interest rates’. I went away and we came up with the 2% reduction.”⁵⁹

101. However, the Minister suggested that this variation in policy was due more to government intervention:

“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.”⁶⁰

102. This policy decision does raise a number of questions regarding the level of flexibility in State Aid rules. Dylan Jones-Evans asked:

“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”⁶¹

103. During the evidence session with the Minister, her official Robert Hunter confirmed that the decision in the enterprise zones, evidenced that Finance Wales did indeed have flexibility around setting interest rates:

“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.”⁶²

⁵⁹ RoP, Finance Committee, 26 March 2014, paragraph 217

⁶⁰ RoP, Finance Committee, 30 April 2014, paragraph 81

⁶¹ RoP, Finance Committee, 5 March 2014, paragraph 364

⁶² RoP, Finance Committee, 30 April 2014, paragraph 82

104. The Committee welcomes the initiative from Finance Wales to offer lower rates in Enterprise Zones. However, given that not everybody in the Enterprise Zones may decide to apply for this rate relief and it comes in the form of a grant rebate with conditions attached we are not convinced by the reasoning offered by Finance Wales that businesses in these zones are lower risk because of lower business rates. The Committee believes that in consultation with the Welsh Government, Finance Wales should consider more ways of offering flexibility on their interest rates.

The Committee recommends that, when designing future funds, both Welsh Government and Finance Wales ensure that there is sufficient flexibility to adjust interest rates and to take advantage of state aid exemptions. The costs of potentially reducing interest rates should then be planned for with Welsh Government to ensure that sufficient financial support is available.

Communication/marketing

105. One of the most frequent complaints raised with the Committee at the SME outreach event, was that Finance Wales needed to do more in terms of communication and marketing the services it provided. This echoed the findings of Dylan Jones-Evans in the Access to Finance review.

106. A number of businesses told us that the information provided by Finance Wales was unclear as to which areas they provided support for, which as a consequence meant that they either did not apply, or waste valuable time/resources applying when they did not meet the eligibility criteria. This was a particular issue in terms of retail businesses which are difficult to define, and are only eligible for some of Finance Wales's funds. Other complaints included the information available on their website, and the quality of their printed information.

107. This was a view echoed by the FSB. Iestyn Davies told the Committee that:

“One of the problems we have found is that, until quite recently, its ability to engage and to disseminate information has been quite poor. We have raised that with it directly,

outside the public spotlight and, indeed, outside the current context.”⁶³

108. The FSB also raised their frustration at the way Finance Wales handled the microbusiness fund communications. Iestyn Davies told us that:

“...Alarm bells rang for us as a fairly new team when we were engaging with Finance Wales after the very positive announcement that your colleague Edwina Hart made around the SME investment fund and the micro investment fund. We tried to elicit information in order to push that to our members. You can imagine the situation: we have lobbied and campaigned for a solution, that solution was delivered by Government, and then we felt that it was our responsibility to push that to our members, so why would we not champion what we feel we have been partly involved in bringing about as a relief to them? Our concern started when we tried to get the basic information, particularly on the £40 million SME investment fund, and we found it very difficult in what is a very opaque organisation to have the information to be able to broadcast to our members.”⁶⁴

109. The Committee raised these concerns with Finance Wales, who recognised this as an area of concern. Ian Johnson explained that:

“ I think that the short answer is that, clearly, we recognise that we need to do more in terms of stakeholder communications. There is clearly a gap in knowledge out there in some quarters, which we are addressing, but, as we said earlier, the publications are there and are available as public documents for everyone to see.”⁶⁵

110. In written evidence to the Committee, HWB Cymru stated that they did not think that the visibility of Finance Wales was an issue of great concern:

“We disagree with the Report [Access to Finance Stage One report} and the FSB in Wales’ conclusions regarding the visibility of Finance Wales. In our Welsh SME Finance Survey,

⁶³ RoP, Finance Committee, 12 March 2014, paragraph 61

⁶⁴ RoP, Finance Committee, 12 March 2014, paragraph 95

⁶⁵ RoP, Finance Committee, 26 March 2014, paragraph 92

August 2013, even though Finance Wales only dealt with Business to Business finance until recently (and hasn't been in the micro business market) awareness of Finance Wales is high.

“Almost 50% of businesses surveyed were aware of Finance Wales, which is a high penetration level into the sector. Other business services have a much lower awareness level.”⁶⁶

111. Furthermore, the evidence received from accountancy firms, and other intermediaries suggested that Finance Wales had a good reputation and level of visibility within the business community.

112. The table below, provided by the Minister, highlights that only 28% of Finance Wales referrals were direct from SMEs. The Committee are concerned that this is indicative of a problem in Finance Wales. We heard a number of concerns about micro and nano businesses not being able to access finance and we believe that these types of business are unlikely to engage intermediaries.

Percentage of businesses referred to Finance Wales from the banking and other professional sectors

Banks	Public Sector	Direct from SME ⁶⁷	Other Private Sector	Incomplete record
35	59	65	55	21
15%	25%	28%	23%	9%

TOTAL: 235⁶⁸

113. The Committee welcomes the recognition from Finance Wales that more could be done in the field of stakeholder communication. While we recognise that Finance Wales has developed good working relationships with intermediaries such as accountants, and directly with banks it is important that businesses feel able to approach Finance Wales directly. Finance Wales has a responsibility to help those businesses which may sit just outside of the traditional set up and as such must be as accessible and approachable as possible.

114. To help address these issues, we would like to see Finance Wales produce clear information which sets out what services it provides, and which funds are relevant to different types of business (eg clearly

⁶⁶ Written Evidence, FIN(4) FW073

⁶⁷ This would include referrals from portfolio companies for follow on investment, i.e. repeat business

⁶⁸ Written Evidence, FIN(4)FW081

set out that JERMIE is not applicable to business to consumer businesses).

115. Furthermore, the Committee believes that there needs to be better signposting to Finance Wales for all businesses. We believe that the responsibility for communication the role of Finance Wales, lies not only with the organisation itself but also with the Welsh Government – particularly with services such as Business Wales, and further afield with organisations such as FSB. We believe that all those supporting SMEs should work together to make sure that as many organisations are aware of and able to access this important source of funding.

The Committee recommends that Welsh Government and Finance Wales review their strategy for communicating with businesses. Partnerships should be developed with banks, intermediaries and groups representing business to allow effective marketing of new funds.

However, these networks should not be seen as ‘gatekeepers’ of access to Finance Wales. It is therefore recommended that Finance Wales improves its capacity to communicate directly with potential borrowers, particularly small businesses.

Performance /transparency

116. In addition to the wider concerns about communication and marketing the Committee had a number of concerns about the performance and transparency of Finance Wales.

117. Finance Wales set out their monitoring arrangements to Committee. Ian Johnson explained that:

“Well, initially, the board holds the management to account for the budget. We set a budget for the year and we monitor the management’s performance against that budget. Externally—or sort of externally—the Minister and I sit down and look at the overall performance of the business and decide what the priorities might be for the coming year. Broadly speaking, that is how Finance Wales is monitored.”⁶⁹

118. Chris Rowlands went onto clarify that:

⁶⁹ RoP, Finance Committee, 26 March 2014, paragraph 274

“The monthly management information that we get as board members would include a range of key performance indicators, including investment activity against our budget for the year across the various funds and across the various types of investing that we do. It would also include things like default rates, arrears rates, and other detailed indicators of the underlying portfolio performance. It would include job creation and job retention levels against our forecasts for the year and so on. There is quite a detailed suite of KPIs that the business adopts each year, which we sign off and then monitor against.”⁷⁰

119. Key performance indicators play an important part in monitoring Finance Wales. The indicators are set at the outset of each fund, and then monitored and reported to relevant stakeholders.⁷¹ Sian Lloyd Jones told the Committee that:

“I am sorry to harp on, but for each of the individual funds, the key performance indicators are set at the outset. So, using the microloan fund as an example, we make a proposal and say, ‘From £6 million, we expect to make x number of investments, create x number of jobs and help x number of SMEs’. For some of the other funds, the indicators might relate to the number of patents filed, for example, in the technology side of the business. Those are set at the outset and are then projected over a five-year period, usually.”⁷²

120. The Committee heard from a number of witnesses about the difficulties in accessing information on Finance Wales’s performance. The Committee was told that although the annual accounts are filed at Companies’ House, this information is not easy to access, or interpret by those not directly involved in the financial sector.

121. The Committee questioned witnesses about Finance Wales’ performance monitoring. We heard some conflicting views about the annual report. The FSB told the Committee that the last annual report they were aware of was in 2010,⁷³ while Peter Umbleja told the Committee he had a copy of the 2012-13 annual report⁷⁴. Prior to

⁷⁰ RoP, Finance Committee, 26 March 2014, paragraph 275

⁷¹ RoP, Finance Committee, 26 March 2014, paragraph 278

⁷² RoP, Finance Committee, 26 March 2014, Paragraph 276

⁷³ RoP, Finance Committee, 12 March 2014, Paragraph 105

⁷⁴ RoP, Finance Committee, 12 March 2014, Paragraph 330

their evidence session, Finance Wales provided the Committee with a copy of the 2012-13 annual report⁷⁵ alongside their accounts. However, this does not appear to be available in the public domain.

122. Another area of criticism was around the staff pay at Finance Wales. When questioned about this in Committee, Finance Wales explained that they had moved to a system of performance related pay in 2007-08. The Committee believes this is a further example of how Finance Wales could have avoided some criticism by being more transparent and open.

123. The Committee believes Finance Wales needs to be more transparent, and it would be enhanced via greater scrutiny from the National Assembly Wales as per recommendation five. However, we also believe this would be enhanced by making the information clearly accessible where practical – for example if an annual report exists why not include a link to it on the website, why not share the reports on the key indicators more widely as this is a matter of wider interest.

The Committee recommends that Finance Wales adopts the same levels of transparency on its performance as that shown by other public bodies. The monitoring and evaluation reports which it provides to Welsh Government and other stakeholders should become publicly available. Information should also be available through its website on investment performance, job creation, finances and award criteria. Performance information should also be at the core of a new, more detailed annual report and accounts. The Committee strongly believes that while this transparency will inevitably lead to some criticism at times, it will also provide an excellent means of demonstrating the successes that Finance Wales has achieved.

Finance Wales's Work Outside of Wales

124. In addition to work in Wales, the Finance Wales Group has the 'FW capital' subsidiary which is responsible for administering funds across the North East and North West of England. The Committee heard mixed views about whether Finance Wales should be involved in funds outside of Wales.

125. For example, David Notley from Impact Innovation wrote that:

⁷⁵ Written Evidence, FIN(4)-06-14 Paper 3

“Finance Wales should focus all its efforts on Wales and not distract itself with other Fund Management activities.”⁷⁶

126. While, Adrian Godfrey Corporate Finance Partner from Mazars suggested that:

“I believe we should applaud the success of Finance Wales in exporting its expertise to generate business elsewhere in the UK. We are looking to stimulate good financial services’ businesses in Wales and I would argue that Finance Wales is an example of this. In my view, this activity is of benefit to the economy of Wales both in terms of creating jobs based in Wales and also through absorption of the existing cost base over a wider revenues which should ultimately drive down the cost of funding to SMEs in Wales.”⁷⁷

127. This is a view which was echoed by the Minister when she gave evidence to the Committee. She told us that the administering of these funds means that:

“... 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.”⁷⁸

128. Robert Hunter went on to say that:

“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

⁷⁶ Written evidence, FIN(4) FW002

⁷⁷ Written evidence, FIN(4) FW066

⁷⁸ RoP, Finance Committee, 30 April 2014, Paragraph 145

business itself has become broader and bigger and can call on more resources, which, actually, I think has benefitted Wales indirectly as well.”⁷⁹

129. The Committee welcomes the work of Finance Wales in the North of England. Given that this is administering money specifically for these areas, there is no money being taken out of Wales, and, in fact, Wales benefits from the profits made on these activities. As long as this work continues not have a direct impact on Finance Wales’s ability to deliver for Wales, we believe it can have many positive advantages. The Committee particularly welcomes that it builds capacity and allows for greater sharing of knowledge and expertise, which can help to maximise the effectiveness of Welsh investments.

Flexibility within Finance Wales

130. Finance Wales’ current structure allows for a good degree of flexibility in the work it is able undertake. Sian Lloyd Jones outlined the benefit of this to the Committee:

“It has also proved to be quite flexible. Using the existing structures and the existing model, we were able, for the housing and regeneration department, to set up the Help to Buy-Wales scheme at very short notice. We did that within about three months and it has been operating since January. That is a very different marketplace, if you like, from the one that we are accustomed to working in, in terms of investing. However, in terms of establishing models for providing finance for different types of individuals or people, then we have the skills to set those things up and we have recruited people to run it.”⁸⁰

131. The Minister also told the Committee that when introducing a new scheme, the department explores whether there is capability in Finance Wales to administer it, as utilising the existing structures means that they are able to get the best value for money for administering the scheme. Robert Hunter explained that:

“... 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;

⁷⁹ RoP, Finance Committee, 30 April 2014, Paragraph 146

⁸⁰ RoP, Finance Committee, 26 March 2014, paragraph 329

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.”⁸¹

132. The Committee welcomes this approach, and would encourage Finance Wales to be utilised when appropriate for administering new schemes. The utilisation of existing skills and structures appears a practical and sensible way forward, particularly given the esteem which Finance Wales is held in amongst other lenders.

133. Looking forward, the provision of finance is evolving with new funding mechanisms and techniques being introduced such as Crowd funding, CDFI (Community Development Financial Institutions), and peer to peer funding. The Committee heard that these were areas that Finance Wales had begun to consider, and would be taking forward in the future. Chris Rowlands told us that:

“We cannot be King Canute about this; it is with us and so I think it is a question of Finance Wales working out how it can absorb and adopt that proposition as part of its suite of activity. We have three new funds that are going to be launched—two this year and one next—to address very specific areas of market failure. So, in that sense, our operating model is constantly under refresh.”⁸²

134. Again, the Committee welcomes this and would urge the Welsh Government to work with Finance Wales, to ensure that their operating model is relevant to the developing methods of financing.

⁸¹ RoP, Finance Committee, 30 April 2014, paragraph 127

⁸² RoP, Finance Committee, 26 March 2014, paragraph 339

Annex A: Witnesses

The following witnesses provided oral evidence to the Committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed in full at

www.senedd.assemblywales.org/mgIssueHistoryHome.aspx?IId=1243

Wednesday, 5 February 2014

Professor Dylan Jones-Evans University of West England

Wednesday 12 March 2014

Peter Umbleja The Institute of Chartered Accountants in
England and Wales (ICAEW)
Alistair Wardell Partner / Advisory, Grant Thornton UK LLP
Iestyn Davies Head of External Affairs, Federation of
Small Business Wales
Josh Miles Federation of Small Business Wales

Wednesday, 26 March 2014

Sian Lloyd Jones Chief Executive, Finance Wales
Peter Wright Strategic Investment Director, Finance
Wales
Ian Johnson Chairman of the Finance Wales plc Board
Chris Rowlands Finance Wales Board Member and
Chairman of the Investment Committee

Wednesday, 30 April 2014

Edwina Hart AM Minister for Economy, Science and
Transport
Rob Hunter Director Finance and Performance, Welsh
Government

Annex B: List of written evidence

The following people and organisations provided written evidence to the Committee. All written evidence can be viewed in full at

www.senedd.assemblywales.org/mgConsultationDisplay.aspx?ID=102

<i>Organisation</i>	<i>Reference</i>
Finance Birmingham	FIN(4)-FW001
Impact Innovation	FIN(4)-FW002
MiE Group	FIN(4)FW003
HLN Group	FIN(4)FW004
Fusion IP plc	FIN(4)FW005a
Fusion IP plc	FIN(4)FW005b
Green Bay Media	FIN(4)FW006
Morgan Cole LLP	FIN(4)FW007
Flexible Commercial Funding Ltd	FIN(4)FW008
Arian Cymru	FIN(4)FW009
Eversheds LLP	FIN(4)FW010
MedaPhor Ltd	FIN(4)FW011
Alex Gooch Artisan Baker Ltd	FIN(4)FW012
Clearstream Technology Ltd	FIN(4)FW013
Inscapes	FIN(4)FW014
JR Gilbert Engineering Ltd	FIN(4)FW015
Watts Gregory LLP	FIN(4)FW016
Hywel Evans	FIN(4)FW017
Simon Thelwall-Jones	FIN(4)FW018
Dolun Developments (South Wales) Ltd	FIN(4)FW019
Grant Thornton UK LLP	FIN(4)FW020
Simon Powell	FIN(4)FW021
Creomed	FIN(4)FW022
Biotec Services International Ltd	FIN(4)FW023

Tim Wade	FIN(4)FW024
Wholebake Limited	FIN(4)FW025
Mark Barry	FIN(4)FW026
James Brown Industries Ltd	FIN(4)FW027
Bevan Buckland	FIN(4)FW028a
Bevan Buckland	FIN(4)FW028b
Hafren	FIN(4)FW029
BioMonde	FIN(4)FW030
Magnet & Steel Ltd	FIN(4)FW031
Padarn Bus Limited	FIN(4)FW032
Giltar Hotel	FIN(4)FW033
Broomfield & Alexander	FIN(4)FW034
Limegreentangerine	FIN(4)FW035
ACCA CymruWales	FIN(4)FW036
CM International	FIN(4)FW037
Clarkslegal LLP	FIN(4)FW038
BDO LLP	FIN(4)FW039
Stephen Hughes	FIN(4)FW040
Geoff Andrews	FIN(4)FW041
Laser Wire Solutions	FIN(4)FW042
Alan Yule	FIN(4)FW043
Super Rod	FIN(4)FW044
ICT Sector Panel	FIN(4)FW045
Voltcom Group	FIN(4)FW046
Energy Recovery investments	FIN(4)FW047
Greg Wilkinson	FIN(4)FW048
Clinithink Ltd	FIN(4)FW049
Bryn Tanat Hall	FIN(4)FW050
Cardiff University	FIN(4)FW051
Bevan & Buckland	FIN(4)FW052

Charterhouse	FIN(4)FW053
FPS Panel	FIN(4)FW054
Hugh James	FIN(4)FW055
PBD Consulting	FIN(4)FW056a
PBD Consulting	FIN(4)FW056b
EBA Consulting Ltd	FIN(4)FW057
Visionary Consultants Limited	FIN(4)FW058
Contract Services (South Wales) Ltd	FIN(4)FW059
KPMG	FIN(4)FW060
Elite Fitness	FIN(4)FW061
Maldwyn Jones	FIN(4)FW062
Gambit Corporate Finance	FIN(4)FW063
Watts Gregory LLP	FIN(4)FW064
Federation of Small Businesses	FIN(4)FW065
Mazars	FIN(4)FW066
ICAEW	FIN(4)FW067
The North West Fund	FIN(4)FW068
HLN Group	FIN(4)FW069
Board of Finance Wales plc	FIN(4)FW070a
Board of Finance Wales plc - Evershed State Aid Advice	FIN(4)FW070b
Kilsby and Williams	FIN(4)FW071
Robert Owen Community Banking Fund	FIN(4)FW072
HWB Cymru	FIN(4)FW073
Freight Movement Ltd	FIN(4)FW074
Protocol Control Systems Ltd	FIN(4)FW075
Clarissa Chambers	FIN(4)FW080

Additional Written Evidence

Organisation

Minister for Economy, Science and Transport	FIN(4)FW081
Stakeholders event with Small and Medium Enterprise	FIN(4)FW082

Reference

Finance Committee – Inquiry into Finance Wales

Finance Wales Stakeholder Breakfast event

22 January 2014
Pierhead, Cardiff Bay

Background

- 01.** As part of their inquiry into Finance Wales, the Finance Committee held a breakfast event with SMEs on 22 January 2014 to discuss their experiences with Finance Wales. A full list of attendees can be found at annex A.
- 02.** The session was run as four discussion groups. Participants were provided with some proposed areas for discussion, attached at annex B.

Key Issues

- 03.** There was a lot of support for Finance Wales at the session, and many commented that they disagreed with the findings in the Access to Finance review. SMEs told the Members that they value the approach taken by Finance Wales, such as being flexible in funding arrangements and the stability it offers in comparison to high street banks. It was suggested that Finance Wales is an asset and could have done with more support, and that the attitude of wanting to get rid of Finance Wales was an example of 'Wales shooting itself in its foot' again.
- 04.** The majority of concerns expressed by the SMEs to Committee Members were around customer care and communication. There was a suggestion that Finance Wales could be more proactive in promoting itself to SMEs, as there were a lot of referrals through intermediaries such as accountants.
- 05.** The SMEs did raise a number of questions about how Finance Wales innovates or spots a new/good idea and whether there is sufficient specialist knowledge within the organisation.
- 06.** The following key themes emerged from the discussions, which are explored in more detail below:
 - There is a need for Finance Wales
 - There is a need to define the remit of Finance Wales
 - Finance Wales' interest rates
 - Communication and Marketing
 - Funding for different types of business
 - Length of process



– The wider Welsh Government business support needs to be reviewed

The need for Finance Wales

In general, the SME representatives felt that there was a need for Finance Wales. They felt that a lot of businesses would not have come to fruition, or be based in Wales, without Finance Wales. They were willing to lend when the risk would be unacceptable to mainstream lenders. Attendees felt that Finance Wales had lent to businesses; and that as there was no private equity in Wales Finance Wales has helped to bridge this gap. It was considered that Finance Wales is not a replacement for private investments, but instead it is an accompaniment to it. They also felt they were receptive and flexible and can fill a gap due to the wide range of products they offer.

Remit of Finance Wales

Members were told that the remit and purpose of Finance Wales needed to be clarified. The SME representatives felt that it needed to be clear whether it was a quasi-grant provider, economic development agency or an autonomous lender/commercial entity. Some representatives felt that its key function was as an investment house, and others felt that FW goes through venture capital processes to make a decision. The SMEs felt it was unclear as to whether Finance Wales should focus on start-up funding or growth facilitation or job development. Some of the SMEs suggested that Finance Wales should provide seed funds, particularly given the low land prices and start-up costs in Wales. There were a number of concerns expressed about the difficulties of Finance Wales being a corporate structure in a political remit and the need to establish if they should be an organisation who balance risk and security in investing in business, or just an arm of Welsh Government business development. The SMEs suggested that this was an issue, as to be successful Finance Wales needs people who know the business/commercial world and that 'you can't do finance on the process'.

Finance Wales' interest rates

There has been much discussion about whether Finance Wales' interest rates are too high at 10% on average. The general consensus was that the rates were not unreasonable given the level of risk involved, as most of the loans are unsecured. It was suggested that the criticism of the interest rates was particularly unwarranted given the fact that banks were not lending to businesses in the main. It was suggested that while commercial loans have a lower APR, if you add in other things such as life insurance then it adds up to a comparable level to FW's APR. Furthermore the difference between a 5% APR and a 10% APR is around £100 a month, which should not be enough to make a business unviable. It was suggested that there was a misconception in the high rates being offered, with participants highlighting that the levels are not comparable to WONGA or such companies, or indeed London based private equity firms, and that if they were too high they would not have any business. There was surprise expressed at criticism of Finance



Wales' drive to self-sustain. There is a question of whether people would want the WG want to subsidise interest rates at a cost to the taxpayer.

Communication and Marketing

One of the major areas of concern about Finance Wales, was around the need for better communication and marketing of the services required. Participants told us, prior to involvement that they had little awareness of what Finance Wales did, and where they fitted into the funding mechanism, although others felt they were visible in the Business community. The difficulties of communicating to all small businesses, and the positive relationship Finance Wales had with accountancy firms, who tend to act as brokers in funding arrangements, were highlighted to members. It was suggested that a lot of Finance Wales' business came from referrals. Some participants were critical of the marketing material which was produced, suggesting that it was dated and unclear with regards to the areas they support. The SMEs stressed that if you are a start-up you need to know easily what is available to you, and that signposts to the relevant bodies were really important.

Funding for different types of business

Some participants raised concerns about the areas financed by Finance Wales, and suggested that this may need to be reviewed. Concern was expressed that Finance Wales were not flexible enough to deal with modern business models. SMEs raised concerns about Finance Wales's definition of retail, and that it had not been reviewed given the development of e-commerce. Participants felt Finance Wales was not upfront about what they will invest in, either in the details provided or in planning discussions. Moving forward, it was suggested that Finance Wales should get involved with seed funds for small technology businesses.

Length of process

There were some concerns about the process for getting a loan from Finance Wales. SMEs told us that the process can be off-putting and Finance Wales should consider offering some help with the application process. Finance Wales had taken longer to make a decision than other investors, such as private equity, in hybrid deals. Not everyone felt this was a problem, with some recognising the need for due diligence in allocating public money. It was suggested that innovative approaches such as recording video applications could be considered, as in a scheme being run by TSB and the UK Government, which could reduce the time spent on filling in forms. We were told that it would be useful to have an early indication whether you will be allowed to borrow, to save producing the detailed information and then being declined. It was felt that using accountancy firms often smoothed the process as they were able to advise on the information provided.



The wider Welsh Government business support needs to be reviewed

There was a general consensus that there was a need for a wider review of the business support provided by the Welsh Government. It was felt that there was a need for a strategic approach to business support, and that this was not Finance Wales's job.



Annex A

- Simon Buckley- Evan Evans Brewery
- Neil Cocker- Cardiff Start/Dizzyjam
- Warren Oscar Fauvel- Nudjed
- David Anthony- Chevler
- James Roberts- Grant Thornton LLP
- Anthony Bird- The Komodo Group
- Malcolm Duncan- Superod
- Dr Chris Tackaberry – Clinithink Ltd
- Clarissa Chambers
- Lindsay Hogg- Watts Gregory LLP
- David Jones- ICT Sector Panel
- Barry Pappin- Vita
- Dr Meirion Morgan- Meirion Morgan Limited
- Peter McGuinness- Chromogenics
- Gareth Kempson- Biomonde



Annex B

Themes for questioning

- How has the demand for finance by SMEs changed since the credit crunch in 2008?
- What has been your experience of Finance Wales?
- How well does the financial support and advice on offer from Finance Wales compare to other providers (e.g. banks)?
- What support would you like from Finance Wales and Welsh Government in the future?
- How well does Finance Wales promote itself and the range of funding options?

