

## Written Response by the Welsh Government to the report of the Finance Committee on Finance Wales

July 2014

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Finance Wales is a publicly owned company that was created in 2001 to provide finance to SMEs in Wales. It is a fully owned subsidiary of Welsh Government reporting to me as Minister for Economy, Science and Transport.

I welcomed the decision of the Finance Committee to conduct an inquiry into the current operation and future role of Finance Wales at its meeting on 7 November 2013.

The inquiry was particularly timely as we approach a new round of European structural funding and the continuing difficult economic conditions facing SMEs in Wales. It is essential that Welsh companies get the very best business support and have access to finance to support growth and jobs.

I have set out below my response to the Committee's individual recommendations.

### **Detailed Responses to the report's recommendations are set out below:**

The Committee recommends that:

1. The 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.

### **Response: Accept**

Welsh Government and Finance Wales will work collectively to improve intelligence surrounding the funding gap in order to better inform the development of future funding instruments. In particular it is important to further develop our relationships and data collecting activities with the Bank of England, British Business Bank, British Banking Association, Department of Business Innovation and Skills, Institute of Chartered Accountants in England & Wales and other relevant bodies.

Welsh Government will establish a dedicated resource within its Access to Finance team that will work with existing internal and external bodies. The primary purpose of this resource will be to better understand the Funding Gap within Wales. It will continuously monitor available data at local and national levels supporting future policy and product development.

**Financial Implications** – None. Any additional costs will be drawn from existing programme budgets.

The Committee recommends that:

2. All branches of Welsh Government with responsibility for business operate in a coordinated 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.

**Response: Accept**

I have commissioned Robert Lloyd Griffiths to carry out a review into how Welsh Government non-financial support can best align with and support its financial support mechanisms. Together with the reviews already completed by Professor Dylan Jones Evans this work will provide further recommendations on how to improve our support for smaller businesses.

I have also directed my officials to commence work on a pilot scheme in partnership with a number of leading high street banks. The scheme will seek to put in place a referral mechanism ensuring that businesses that are turned down by the bank are directed back to Welsh Government for support and guidance. Likewise those businesses that are turned down for funding by Finance Wales will also be referred back to Welsh Government.

**Financial Implications** – There is likely to be a resource implication that will need to be considered.

The Committee recommends that:

3. Any changes to Finance Wales build on its existing skills and infrastructure, and do not damage the reputation it has developed.

**Response: Accept**

My officials will continue to work with Finance Wales to ensure that any changes build on its existing skills and infrastructure, with due regard for the organisations reputation, whilst ensuring they are implemented in a manner that fulfils the terms of its remit.

**Financial Implications** – None. Any additional costs will be drawn from existing programme budgets.

The Committee recommends that:

4. The 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.

**Response: Accept**

My officials are currently in discussion with Finance Wales to review and amend the organisation's remit to ensure that it aligns more clearly and explicitly with the economic development focus of Welsh Government policy. The revised remit will allow sufficient flexibility to allow them to manage new funds and adapt to the changing economic conditions in future years.

**Financial Implications** – None.

The Committee recommends that:

5. 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.

**Response: Accept**

In addition to the current Departmental controls Finance Wales will in future be subjected to higher level of external scrutiny. For example Finance Wales will be required to present on its performance and annual report and accounts to a relevant committee of the Assembly for scrutiny each year.

**Financial Implications** – None.

The Committee recommends that:

6. 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.

**Response: Accept**

I am pleased that Finance Wales have already begun a number of internal reviews of their internal working practices as a result of the Stage 2 Report on Access to Finance undertaken by Professor Dylan Jones Evans. This work will continue with the aid of my officials who will continue to monitor and evaluate Finance Wales performance.

I have also asked my officials to build on work already underway within Finance Wales to poll SMEs to establish market awareness. As part of this I am keen to ensure that the review is supported by feedback on the customer experience and to that end build in, as an ongoing process, some random checking of customer service.

**Financial Implications** – None.

The Committee recommends that:

7. 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.

**Response: Accept**

Finance Wales will provide more information to businesses on the strategies and aims of each of its funds. The interest rate policies and fees for each fund, along with other lending policies, will be made clear both via the Finance Wales website and in information provided to businesses. Greater use of case studies will also be encouraged.

**Financial Implications** – None. Any additional costs will be drawn from existing programme budgets.

The Committee recommends that:

8. 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.

**Response: Accept**

My officials will work with Finance Wales to ensure that future funds will be developed in such a way as to offer appropriate flexibility to both adjust interest rates and take advantage of state aid exemptions.

Finance Wales have begun early stage discussions with the Welsh European Funding Office on a successor to the JEREMIE fund and they will design it taking full cognisance of this particular recommendation.

**Financial Implications** – None. Any additional costs will be drawn from existing programme budgets.

The Committee recommends that:

9. 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.

**Response: Accept**

There has been a great deal of progress made in recent months to improve communication with businesses and partnerships with groups representing businesses. As a result of my recent meetings with banks my officials are working with the main banks in Wales to pilot a Bank Referral Scheme.

My officials will continue to work with Finance Wales to help develop clearer communications and marketing strategies. The emphasis will be on creating a functional referral process in partnership with the banks, intermediaries and other business groups. This will be carried out in a fully coordinated manner with Business Wales.

**Financial Implications** – None. Any additional costs will be drawn from existing programme budgets.

The Committee recommends that:

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.

**Response: Accept**

Finance Wales will explore mechanisms for doing this initially working alongside the banks & Business Wales. Finance Wales will address this issue initially by reviewing and improving its web capability.

Finance Wales have embarked on a series of roadshows that are aimed primarily at businesses but also invites other intermediary audiences to attend. Seven events are planned to run throughout July alone and they will continue to develop and refine their marketing efforts. In addition they are presently working to refresh their website.

**Financial Implications** – None. Any additional costs will be drawn from existing programme budgets.

The Committee recommends that:

11. 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.

**Response: Accept**

My officials are working with Finance Wales to continually improve the quality of performance data it provides and the evaluation of its ongoing performance. Performance information will be made more transparent and accessible through the Finance Wales website and annual report and accounts.

The additional information will focus on investment performance, job creation, finances and award criteria whilst at the same time ensuring that commercially sensitive and client confidential information remain fully protected. Finance Wales will also improve the presentation of its performance data based on feedback received from the wider business community.

**Financial Implications** – None.

**Edwina Hart MBE CStJ AM, Minister for Economy, Science & Transport**