



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

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

**Dydd Mercher, 12 Mawrth 2014**  
**Wednesday, 12 March 2014**

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

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

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

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

**Eraill yn bresennol  
Others in attendance**

Iestyn Davies	Pennaeth Materion Allanol, Ffederasiwn Busnesau Bach Cymru Head of External Affairs, Federation of Small Businesses Wales
Josh Miles	Ffederasiwn Busnesau Bach Cymru Federation of Small Businesses Wales
Yr Athro/Professor John Thornton	Cynghorydd Arbennig i'r Pwyllgor Special Adviser to the Committee
Peter Umbleja	Sefydliad Cyfrifwyr Siartredig Cymru a Lloegr The Institute of Chartered Accountants in England and Wales
Alistair Wardell	Partner / Cynghori, Grant Thornton UK LLP Partner / Advisory, Grant Thornton UK LLP

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

Richard Bettley	Gwasanaeth Ymchwil Research Service
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Meriel Singleton	Ail Glerc Second Clerk

*Dechreuodd y cyfarfod am 09:29.  
The meeting began at 09:29.*

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

[1] **Jocelyn Davies:** I welcome everyone to this meeting of the Finance Committee. We have with us today Professor John Thornton, our expert adviser for the Finance Wales inquiry. There are no apologies.

## Papurau i'w Nodi Papers to Note

[2] **Jocelyn Davies:** Before we move to our first substantive item, do Members wish to say anything on our papers to note? Are you happy to note those papers? I see that you are.

### Ymchwiliad Cyllid Cymru: Sesiwn Dystiolaeth 2 Finance Wales Inquiry: Evidence Session 2

[3] **Jocelyn Davies:** We will move therefore to our first substantive item, which is our Finance Wales inquiry. We are waiting for the witnesses for this session to be brought in. Our first witnesses today are representatives of the Federation of Small Businesses. You will have received their written evidence. I am sure that all of you have read that.

09:30

[4] We will wait for the witnesses to sit. Thank you very much for attending today. I wonder if you could introduce yourselves for the record. Then, if it is okay, we will go straight into questions, because Members have received your written evidence well in advance.

[5] **Mr Davies:** Bore da, Gadeirydd. **Mr Davies:** Good morning, Chair. I am Iestyn Davies ydw i o'r Ffederasiwn Iestyn Davies from the Federation of Small Busnesau Bach. Businesses.

[6] **Mr Miles:** I am Josh Miles from the Federation of Small Businesses.

[7] **Jocelyn Davies:** Thank you very much. I will start with the first question. I wonder if you could briefly summarise for us the general business environment for SMEs in Wales, as you see it.

[8] **Mr Davies:** The most recent report into the challenge around finance came yesterday from the Office of Fair Trading, which looked at competition. I do not think that a week goes by when we do not hear reported or accounted, in academic terms, some of the challenges that microbusinesses and SMEs, in particular, find in accessing finance, but also general banking and financial services. We often talk about finance as if it is some sort of definitive product on the shelf, but it can be a range of services from overdrafts to access to loan capital. It might even be in some instances the ability to get a business bank account. So, we see it in those very wide terms, and this discussion of Finance Wales sits within that context.

[9] **Jocelyn Davies:** Which sectors and size of businesses are facing the most pressure?

[10] **Mr Davies:** That question is difficult to answer. It depends whether you are looking at debt or equity, or whether you are looking at asset finance or the ability to renew an overdraft. Taking that as an example, most business will have found during the last four or five years, since the crash in 2008 and the reform of the banking sector, that having to re-broker their overdraft facilities is quite difficult. Fixing rolling loans and the ability to ask for finance have become quite difficult, and, generally speaking, it affects most, but those areas where it is most acute is when you are looking at start-up business. So, if you do not have a track record of access to finance and if your own personal credit history is not the best, when all those kinds of circumstances come together—bearing in mind that we are keen to encourage more people who are economically inactive to become involved in entrepreneurial activity—I think that that is where it is most acutely and painfully felt.

[11] **Jocelyn Davies:** That would also be the case for people without assets that they can put up to secure loans.

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

[13] **Jocelyn Davies:** How difficult is it then for small businesses to access finance from banks and private investors? Is it very difficult and almost impossible?

[14] **Mr Davies:** It varies. The easy thing for us to do is to make blanket pronouncements, as you know. It is the thing that gets asked and it gets answered as, 'It's a problem'. It could be that there is a sequitur there that you ask the question and, therefore, it becomes a problem. However, when we do a wide range of polling, and Josh has some of the figures here from our quarterly business index, it does keep cropping up as a constant problem.

[15] **Mr Miles:** 'It fluctuates' is the answer, I suppose. Looking at some of our data from our quarterly surveys, you can see that the affordability of credit has risen recently. So, firms are finding it a little easier as things move forward, and a lot of that is to do with economic conditions. However, what we are talking about here is a problem that has existed for quite a while. I know that Iestyn has a report with him on access to finance that we did in 1999-2000. So, for a lot of SMEs and microbusinesses, in particular, this problem has existed for a long time and has been made more acute from 2008 onwards.

[16] **Jocelyn Davies:** Yes, but it does fluctuate over time. It can vary, but there is a trend.

[17] **Mr Miles:** Absolutely.

[18] **Jocelyn Davies:** Banking regulation is not a devolved matter, but do you think that there are any actions that the Welsh Government could consider that might improve lending practices?

[19] **Mr Davies:** In terms of practices, it is about communication and encouraging a team Wales approach. A number of the established banks are now keen to be seen as banks lending to, and supporting, business in Wales. Whether that is just a spin on a marketing front, I do not know. I can think specifically of NatWest, which launched NatWest Cymru as part of the RBS group, for instance, specifically to try to pitch itself as a Wales business. Santander is another good name. I think that has come about because Government and elected officials, such as yourselves, and all of us who have a stake in this game, have tried to work with people in the banks to encourage greater participation. So, I do not think that it is a question of the will; it is a question of the practices, the culture and the wider circumstances affecting banks that cause acute problems here in Wales. As Josh has said, it is a historic problem that seems to have been compounded by the turnaround in the economy in 2008.

[20] **Mr Miles:** I think that one of the most important things to come out of Professor Jones-Evans's first report was that relationship between Welsh Government support services and the high street banks, actually. It is one of the recommendations that we seem to have lost sight of a little bit when we talk about such things as Finance Wales instead. However, I think that, for the vast majority of businesses, how Welsh Government support services interlink with high street banks is extremely important.

[21] **Jocelyn Davies:** So, high street banks are the first call for small businesses, are they?

[22] **Mr Miles:** I think so, yes.

[23] **Mr Davies:** That and friends and family.

[24] **Jocelyn Davies:** Right, okay. Outside of the banking sector, what about investors other than banks?

[25] **Mr Davies:** For our members, it is highly unlikely that you would be going to an equity house, because—

[26] **Jocelyn Davies:** Highly unlikely, because of the size of the businesses that you generally deal with.

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

[28] **Mr Miles:** One of the other problems that we have seen a lot of is credit cards and that kind of—

[29] **Jocelyn Davies:** People using their own personal credit cards to finance their businesses.

[30] **Mr Miles:** Absolutely, yes.

[31] **Mr Davies:** You are seeing people avoiding the banks, and they have traditionally done that. If you were to speak to a small business person and ask, ‘Where did you get your start-up capital from?’ Normally, it is from friends and family. I did hear one good example recently where a guy went on numerous quiz shows and, through his winnings, established enough capital to buy his business. So, you will find a range of very creative ways of accessing finance.

[32] **Jocelyn Davies:** Well, that is free money then, is it not? He did not have to pay that back.

[33] **Mr Davies:** Yes. It was quite a strange experience, but I think that it highlights the fact that a bank is probably the second tier that you are going to go to directly for loans. Of course, the reason why many of our members would not go to a finance house—an equity investor—is that roughly around half are incorporated and the vast majority of those would be single shareholder companies, where the owner is the single shareholder of the company.

[34] **Jocelyn Davies:** So, it is still the high street bank, other than quiz shows. [*Laughter.*]

[35] **Mr Davies:** Yes, quiz shows, and possibly finance brokers—

[36] **Jocelyn Davies:** Yes. Lucky dip is not a good way.

[37] **Mr Davies:** No. [*Laughter.*]

[38] **Jocelyn Davies:** Mike, shall we come on to your questions?

[39] **Mike Hedges:** My first question is this. You mentioned the £500 million funding gap and you quoted from Professor Dylan Jones-Evans’s ‘Access to Finance Review—Stage 2 Report’. Does that actually equate to the information that you are getting from your members?

[40] **Mr Davies:** I think that 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 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. We have consistently welcomed the steps that Welsh Government has taken through a number of its channels to plug that gap: through the SME investment fund, the micro investment fund and, of course, the European-backed funds.

[41] **Jocelyn Davies:** Are you saying that that is probably a conservative estimate, so, it is easily that amount, but it could be a lot more?

[42] **Mr Davies:** I think it is very difficult to pin down. If you were to ask a business for instance, ‘Would you like to borrow, and how much would you like—£5,000, £10,000?’ then the methodology would dictate the response that you would get. You could then have a numerical value and ask, ‘How many of you would like to borrow X?’ If a business is already borrowing through an overdraft, however, and you include that, for instance, as borrowing, and you help the individual business to understand the extent to which it is already using debt financing in its business, that might end up in it having to look at things such as paying an invoice late, so, instead of paying it at 30 days, paying it at 60 days. That is all debt management with somebody. Somebody is picking up the cost of that.

[43] **Mr Miles:** There are other types of surveys and data that can shine a light on this as well. The SME Finance Monitor has quite consistently shown firms in Wales to have slightly worse access to credit. So, I do not think that it is completely in isolation that Dylan has come up with this; there are a lot of other data that suggest that there is a gap there.

[44] **Mike Hedges:** Finance Wales is a very small investor compared to banks—it is about one twentieth of the size of banks. Are we spending too much time looking at Finance Wales, which is the 5% or so, rather than looking at banks, which are the 95%?

[45] **Mr Miles:** I think it goes back to the point that I made earlier on, that the first part of the review, which looked at the relationship between Welsh Government support services and the high street banks is probably just as important, if not more so, than Finance Wales, as an issue, because that is the conduit that most of our members will use to access finance.

[46] **Mike Hedges:** On Finance Wales, is its culture and brand known and appreciated by small businesses, or is it something that they stumble across occasionally when other sources are being explored?

[47] **Mr Davies:** Yes, indeed. A piece of work that we did about two and a half years ago looking at the sectoral approach—your colleagues in the Enterprise and Business Committee will be familiar with the work—looked at awareness of Finance Wales, and it was pretty poor. However, then again, you need to ask, ‘Well, if the main relationship is with the bank, is that surprising?’ In many instances, we would say of Finance Wales that, yes, you are right, Mike, that it is a smaller provider within a wider spectrum. However, it is also, in policy terms, a classic curate’s egg—it is not partly good and not partly bad—and there are issues with it that we need to tease out to ensure that it is a credible source of finance, advice and support, because it clearly has a role to play.

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

[49] **Paul Davies:** Diolch yn fawr iawn, Gadeirydd. Rwyf eisiau gofyn rhai cwestiynau i chi ynglŷn â pholisiau cyfraddau llog Cyllid Cymru. Rydych chi fel sefydliad wedi bod yn eithaf beirniadol o gyfraddau llog Cyllid Cymru. Sut mae eich aelodau yn  
**Paul Davies:** Thank you very much, Chair. I want to ask you some questions about Finance Wales’s policy on interest rates. You as an organisation have been quite critical of the interest rates offered by Finance Wales. How do your members see the loan terms

gweld telerau y benthyciadau sydd ar gael gan Cyllid Cymru o'u cymharu â thelerau banciau'r stryd fawr?

available from Finance Wales compared with the loan terms of high street banks?

[50] **Mr Davies:** Mae'n amlwg eu bod yn credu bod y cyfraddau'n uchel, ac mae sail i hynny o'r hyn rydym yn ei weld yn yr adroddiad. Mae'n ragfarn i ryw raddau—mae pobl yn dychmygu y bydd yn mynd i fod yn uchel, ac wedyn nid ydynt yn mynd i ofyn am yr arian oherwydd y perspectif sydd gyda nhw. Y cwestiwn rydym yn ei ofyn i'n haelodaeth yw, 'Beth yw cost y benthyciad hwnnw fel canran o'r cost cyfangwbl mae busnes yn gorfod ei ddiodeff?' Nid yw arian yn rhad. Nid yw arian i fusnesau sy'n fregus o bryd i'w gilydd neu'n fusnesau bach yn rhad, ac rydym yn derbyn hynny. Y cwestiwn yw, o ran swyddogaeth Finance Wales: a yw'r gyfradd yn cynorthwyo busnesau, neu, yn y bôn, yn troi busnesau i ffwrdd?

**Mr Davies:** They clearly perceive them to be high, and there is a foundation for that from what we have seen in the report. To some extent, it is a prejudice—people assume that they are going to be high, and therefore they do not apply for those loans because of that perception. The question that we ask of our members is, 'What is the cost of that borrowing as a percentage of the total cost that has to be borne by businesses?' Finance is not cheap. Finance for businesses that can be vulnerable or are small businesses is not cheap, and we accept that. The question, on the function of Finance Wales, is: does the interest rate assist business or, basically, turn businesses away?

[51] **Mr Miles:** To pick up on that, we asked for case studies when we started this work in advance of part 1 and 2. I can think of one in particular from north-east Wales who had been referred to Finance Wales from Business Wales, and had made an assumption based on the discussion with Business Wales that this was a body that would promote economic development and therefore would be keen to support SMEs. The member in question was quite surprised when they got to Finance Wales to find that the terms that were on offer were less favourable than those of the high street banks, because they expected it to be more of a development body rather than a financial institution. So, there are those perception issues that surround it as well.

[52] **Mr Davies:** Hefyd, pan ydych yn ychwanegu at y gyfradd cost *indemnities*, gweinyddu a ffioedd eraill, mae'r cleient neu'r cwmni yn sylweddoli fod y gost yn eithaf lot uwchben hyd yn oed y cyfraddau mae Dylan Jones-Evans wedi eu crybwyll yn ei adroddiad.

**Mr Davies:** Also, when you add to the rate the cost of indemnities, administration and other fees, the client or the company will realise that the cost is significantly more than even the rates cited by Dylan Jones-Evans in his report.

[53] **Paul Davies:** A ydych chi felly'n dweud mai *perception* yw rhan o hyn felly o ran eich aelodau?

**Paul Davies:** Are you therefore saying that this is partly about perception among your members?

[54] **Mr Davies:** *Perception reinforced by reality*, rwy'n credu. Pan mae ein haelodau yn mynd ymlaen i ymwneud â'r banc neu Finance Wales, maent yn gweld bod y cyfraddau'n uchel. Fodd bynnag, fel rydym wedi gweld, mae dadl sydd yn dweud y dylai'r gyfradd honno fod oddeutu'r hyn y mae'r farchnad yn gynnig os ydych am weld Finance Wales yn gweithredu fel banc. Y cwestiwn mawr yw: ai banc arferol sydd gennym yn y fan hon, neu a oes rôl iddo fel

**Mr Davies:** Perception reinforced by reality, I believe. When our members go on to interact with the bank or Finance Wales, they see that the rates are high. However, as we have seen, there is an argument to be made that that rate should be relatively close to what the market is offering if you want to see Finance Wales operate as a bank. The big question is: is this a bank, or does it have a role as an agency to undertake economic development, which means slightly different

asiantaeth i ddatblygu'r economi, sydd yn terms?  
golygu telerau ychydig yn wahanol?

[55] **Paul Davies:** A yw eich aelodau yn derbyn bod Cyllid Cymru yn llenwi bwlch yn y farchnad? **Paul Davies:** Do your members accept that Finance Wales fills a gap in the market?

[56] **Mr Davies:** Ydynt, maent yn derbyn hynny. Hefyd, yr hyn sydd yn amlwg gan fusnesau bach, a nid dim ond gan ein haelodaeth, o'r gwaith mae Kent Matthews, fel yr wyf wedi ei grybwyll, wedi ei wneud yn barod, yw bod busnesau yn barod i dalu mwy o ran telerau cyfradd er mwyn cael ateb sydyn, syth, 'ie' neu 'nage'. Mae'r adroddiad ar *relationship banking* y mae yr Athro Matthews wedi ei wneud yn dweud fod cost i chi o fynd at fanc neu *source of finance* lle rydych yn gwybod eich bod yn mynd i gael ateb felly. Felly, mae'r aelodaeth yn barod i dalu am hynny. Yr hyn y mae nhw'n bendroni drosto efallai yw os ydynt yn mynd at y Llywodraeth, yn y bôn, am arian cyhoeddus, pam eu bod yn cael eu cosbi i ryw raddau o'i gymharu â mynd at fanciau neu ffynonellau eraill? **Mr Davies:** Yes, they accept that. Also, what has become apparent from small businesses, and not just from our members, from the work that Kent Matthews, as I have mentioned, has already carried out, is that businesses are willing to pay higher interest rates for a swift 'yes' or 'no' response. The report on relationship banking carried out by Professor Matthews states that there is a cost to you of going to a bank or source of finance where you know that you will get a swift response. So, members are willing to pay more for that. What they are perhaps concerned about is that if they are going to the Government, essentially, for public funding, why are they being penalised to a certain extent in comparison to going to banks or other sources?

[57] **Paul Davies:** Felly, yn eich barn chi fel sefydliad, pa newidiadau liciech weld Cyllid Cymru yn eu gwneud o ran cyfraddau llog? **Paul Davies:** So, in your opinion as an organisation, what changes would you like to see Finance Wales make in terms of interest rates?

09:45

[58] **Mr Davies:** O ran y cyfraddau, hoffwn iddo ddeall ei rôl a'i swyddogaeth yn enwedig yn nhermau arian i fusnesau bach, microfusnesau, ac hyd yn oed yr hyn rydym yn eu galw yn *nanobusinesses*, sef busnesau bach rhan-amser sydd ar fin dechrau, yn enwedig busnesau bach yn y gymuned, a gweld cyfraddau yn yr un modd a'r cynllun yng Ngwynedd, neu Gasnewydd, a'r hen *local investment fund*, hefyd. Hynny yw, bod elfen o *grant* i'r cysyniad a'r cyd-destun hwn yn hytrach na benthycia masnachol. Felly, mae *continuum*. Mae angen derbyn y ffaith bod buddsoddiad masnachol yn cael ei wneud ar ran y Llywodraeth drwy Finance Wales, ond, ar y llaw arall, mae'r Llywodraeth yn barod yn rhoi *grants* am ddim er mwyn hybu busnesau. Felly, y cwestiwn gan ein haelodaeth yw: ble mae Finance Wales, yn enwedig o ran y *funds* i'r busnesau bach—yr *SME investment fund* a'r *micro fund*? Ble **Mr Davies:** In terms of the rates, I would like it to understand its role and function particularly in terms of funding to small businesses, microbusinesses, and even what we call nanobusinesses, namely small, part-time businesses that are start-ups, particularly small businesses within the community, and to see interest rates in the same way as the scheme in Gwynedd, or Newport, and the old local investment fund. That is, that there should be an element of grant to the concept and this context rather than commercial lending. Therefore, there is a continuum. We need to accept that a commercial investment is being made by the Government through Finance Wales, but, on the other hand, the Government already provides grants free of charge in order to promote businesses. So, the question for our membership is: where does Finance Wales sit in this, particularly in terms of the funds for small businesses—the



mae'r rheiny ar y *continuum* hynny?

SME investment fund and the micro fund?  
Where are they on that continuum?

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

[60] **Peter Black:** Yes, thanks. In the last few minutes, you have described Finance Wales as a curate's egg, you have raised questions as to whether it is a bank or an agency, and you have referred to it as providing Government funding, implying that that might be aid of some sort. Is part of the problem that Finance Wales is not defining its own role to your members, so that they understand what to expect from it?

[61] **Mr Davies:** That is a very good assessment of the situation. We have tried to work with Finance Wales and we have a very good and honest—I say 'good', but am thinking 'effective'—working relationship in the current circumstances. We have a very honest and frank relationship with Finance Wales. We have engaged with it consistently. 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.

[62] **Peter Black:** What is the FSB's view on the role of Finance Wales?

[63] **Mr Davies:** 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 market, particularly around support for SMEs and microbusinesses. Other people are more skilled and more experienced in terms of being able to answer the question about equity-based finance. Indeed, there are questions about the future of asset-based finance outside Finance Wales, which other people could talk about, as well as the role of overdrafts. 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.

[64] **Peter Black:** Does Finance Wales agree that that is its role?

[65] **Mr Davies:** My personal opinion—it is my opinion in this role in the FSB—is that it is reluctant to accept that role, and it is probably one that it is not currently best equipped to deliver. Its attempts to engage with other third-party deliverers for those services, both within the third sector and the microbusiness sector, seem to have failed and it has had to take that responsibility upon its shoulders. If we have allowed this organisation to develop and to grow as something that is largely about equity investment, 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.

[66] **Jocelyn Davies:** Mike, do you want to come in on this point?

[67] **Mike Hedges:** Yes. Surely, if it was to reduce the rates, it would also have to reduce the risk, would it not? Therefore, it would follow the practice of certain banks and lend where risk is minimal rather than, as is the case at the moment, lending at risk.

[68] **Mr Davies:** Indeed. I think that is consistent with its commercial market-to-market approach, albeit that it is like a market intervention. What we are calling for, and, indeed, what we called for back in 1999, is a genuine development bank. So, that risk is not ignored or put to one side, but it is contextualised within a different function.

[69] **Jocelyn Davies:** Ann, shall we move on to your questions?

[70] **Ann Jones:** We have touched upon and skirted around some of the issues that I was going to raise. Are the interest rates on offer from Finance Wales preventing viable businesses from accessing finances?

[71] **Mr Davies:** Yes, and 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.

[72] **Mr Miles:** If we see Finance Wales as an economic development body as well, that raises the question of affordability and whether, if the rates are too high or could be more flexible, there could be more investment going into things like extra capital investment or employment within the business. If we are looking at Finance Wales as an economic development body, that would obviously be something that we would like to see. So, that kind of affordability is important on the business side as well as in terms of the risk that we are looking at.

[73] **Ann Jones:** You mentioned earlier that you thought that businesses would pay a higher interest charge for a quick decision. Is that what happens in Finance Wales or is it a high charge and a long lead-in time?

[74] **Mr Miles:** We had a case study that was supposed to be joining us today, but unfortunately the person in question fell ill. In that particular instance I think that it took six months or more to get the finance that the business needed. The charge, in the end, I think, was around 11% or 12%. So, I think that you are right to say that, in many instances, they are waiting a long time.

[75] **Ann Jones:** You mentioned some of the examples on additional fees, and your written evidence states that Finance Wales needs to be more transparent about associated or additional costs. You gave one example, but is that the norm? One example is nothing to go on.

[76] **Mr Davies:** You know—[*Inaudible.*]

[77] **Ann Jones:** Are there other things under the indemnity that would ensure that every business would have to have some form of indemnity?

[78] **Mr Davies:** I think that you are right, Ann. Obviously, this market is different to the retail market, where fees are much more easily disclosed and bound up in an APR rate. You have to bear in mind the sophistication. I do not mean that in derogatory terms, but the ability of a small business, particularly at the start of the context, to understand that it is different to borrowing on your mortgage, and that it is different to having a loan for a car, for example. It seems to be an emerging trend that both the fees were involved in actually securing the loan and administering the loan, but as we began to tease away at some of these issues, we seem to find evidence of businesses being advised, cajoled or pushed towards a non-existing source of advice, and not to their current accountant but to other business advisers and then actually picking up costs there. I should add that this is not in the area of equity. It is not in that area that, to a degree, lies beyond our responsibility, but we would probably be inclined to say that Finance Wales has done a good job. However, in this area of development and supporting business, I would be very concerned if a consequence of Finance Wales’s policies and

procedures would be to push businesses to go to very expensive advisers and actually eschewing their existing accountant or financial adviser in the process.

[79] **Ann Jones:** So, in terms of the additional cost, indemnity may be different or higher, and it is support or management fees or advice fees.

[80] **Mr Davies:** Yes, for the loan itself.

[81] **Ann Jones:** Are those the only two additional costs that are added onto a loan?

[82] **Mr Davies:** They are added to the loan itself, but the cost for the business might then be the amount of money that would have to be paid to go to an adviser to get the business plan in a way that Finance Wales would accept, having already perhaps presented accounts or a business plan based on the advice given to them by their existing advisers or accountants.

[83] **Ann Jones:** So, you are saying that a business case that is done by management company A would not be looked at by Finance Wales, and it would want you to go to management companies B and C, incurring an additional cost.

[84] **Mr Davies:** Indeed. That seems—and I can only say ‘seems’ from what we have been able to tease out—to be a particular problem.

[85] **Ann Jones:** So, there is no hard evidence that that happens.

[86] **Mr Davies:** I could not give you empirical, quantitative data that says that this happens on a regular basis.

[87] **Ann Jones:** Those are the only associated costs that your members have mentioned.

[88] **Jocelyn Davies:** However, it is something that you have heard, from time to time, or frequently.

[89] **Mr Davies:** In some case studies we have looked at with Assembly Members, that clearly seemed to be the case.

[90] **Jocelyn Davies:** This crops up. Julie, did you want to come in?

[91] **Julie Morgan:** Yes, I just wanted to pick up on your comment that the people that you actually see may be a self-selecting group because they have had difficulties. We had a business breakfast, and I do not know whether that was a self-selecting group, but nearly everyone was very positive about their experiences. There seem to be these two views about Finance Wales. I do not know how you can explain that.

[92] **Mr Davies:** Possibly in the same way that I would explain any case book that you might have. People who tend to come to us tend to come because they feel that they have been done down, and they see us as their advocates. We accept that, and we try to take steps as best as we can to tease out what is going on. That would be the same for other forms of business services, for instance, such as Business Wales—a subject that I am sure we have discussed with you in other fora in many ways. Also, there is a second tier of individual businesses whose perception, because of what they hear—and it could be second or third-hand—is that, if they go to Finance Wales, they will have a fair hearing. That is wrong, because we would want to make sure that anyone would feel that they would be given an open hearing by any Government agency irrespective of the kinds of services it is looking to provide. That does trouble me.

[93] I wonder about the extent to which that is a symptom of being in a small business versus being in a larger business where you feel that you have perhaps earned your stripes and you have confidence in going to a professional adviser or a bank. I am sure that we could say the same about banking in general. The question that we have to ask here is about how form always follows function: what do we really want Finance Wales to do? I think that there are clear areas where it is excelling and doing well, and we would not want to see those compromised in any way, shape or form. We have spoken with businesses, with individuals and advisers who would say that there are aspects of this work that are good. We recognise that. Our concern is that we are what we are—the Federation of Small Businesses is the micro and SME investment side of the business.

[94] **Julie Morgan:** Do you see part of your role being—well, it is, is it not, giving information to small businesses?—to promote Finance Wales in that way?

[95] **Mr Davies:** Indeed. We have tried to. 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.

[96] **Jocelyn Davies:** Ffred, shall we come on to your questions?

[97] **Alun Ffred Jones:** Iawn, diolch yn fawr. A gaf i fynd yn ôl at amcanion strategol Cyllid Cymru? A ydych chi'n dweud mai datblygu economaidd ddylai ei flaenoriaeth fod neu a ddylai fod yn gorff sydd yn gwneud elw masnachol allan o'i—

**Alun Ffred Jones:** Fine, thank you very much. May I just return to the strategic objectives for Finance Wales? Are you saying that economic development should be its priority or should it be a body that makes commercial returns from its—

[98] **Mr Davies:** I ni, yn syml, dylai fod yn datblygu'r economi ac yn ymateb i'r problemau strwythurol sydd yn dal i fod gennym ni yn yr economi gynhenid Gymreig yn benodol.

**Mr Davies:** For us, simply, it should be economic development and responding to the structural problems that we still have in our indigenous Welsh economy.

[99] **Alun Ffred Jones:** Nid ydych yn credu bod Cyllid Cymru, fel y mae'n gweithredu ar hyn o bryd, yn cyflawni hynny'n llawn.

**Alun Ffred Jones:** You do not think that Finance Wales, as it operates now, achieves that fully.

[100] **Mr Davies:** Nac ydym.

**Mr Davies:** We do not.

[101] **Alun Ffred Jones:** Sut ydych chi'n credu y gallai Cyllid Cymru fod yn fwy atebol a thryloyw?

**Alun Ffred Jones:** How do you think that Finance Wales could be more accountable and transparent?

[102] **Mr Davies:** Yn y lle cyntaf, drwy ei wneud yn haws i bobl fel ni fedru pori a syllu ar ei adroddiad blynyddol fel bod elfen o gyhoeddusrwydd i'r hyn y mae'n ei wneud.

**Mr Davies:** First of all, by making it easier for people like us to browse and look at its annual report, so that there is an element of transparency to what it does. So that we can

Er mwyn inni drïo deall yr hyn sy'n digwydd yn holl ystod ei waith, rydym wedi gorfod mynd i Companies House a lleoedd eraill lle mae cyfrifon yn cael eu gosod, defnyddio gwybodaeth sydd wedi bod tu fewn i sgôp y *programme monitoring committee* ar gyfer y JEREMIE funds, a gwneud ychydig o waith ymchwil eithaf ffïorensig i drïo dod o hyd i'r hyn sydd yn digwydd. Ar sail hynny, rydym yn nodi, fel y dywedais wrth Julie Morgan, fod elfennau o'i waith y mae'n eu gwneud yn dda. Mae'n amlwg bod targedau sydd wedi cael eu gosod i Finance Wales, yn enwedig o dan bethau fel cynllun JEREMIE, efallai wedi bod yn heriol, hyd yn oed, efallai, yn rhy heriol ac yn afrealistig. Fodd bynnag, y peth cyntaf i ni yw ble mae'r adroddiad blynyddol, ble mae'r pethau sydd yn gyhoeddus ar hyn o bryd a ble mae'r cyhoeddusrwydd am y cynlluniau y mae Cyllid Cymru yn eu cynnig ar hyn o bryd. Ar y lefel honno y mae'r methiant wedi bod i ni.

[103] Yn y pen draw, ac edrych yn ehangach, rydym yn sylweddoli mai dyma'r tro cyntaf mewn rhyw bum mlynedd i bwyllgor fel hwn gael cyfle i graffu ar waith Cyllid Cymru. Rydym ni'n credu, fel pob corff neu asiantaeth sy'n derbyn nawdd, sy'n amlwg yn arian cyhoeddus ac arian y mae modd ei ddilyn reit yn ôl i'r Gweinidog, y dylai bod sefyllfa lle mae'r adroddiad blynyddol yn cael ei roi gerbron y Cynulliad neu o leiaf gerbron pwyllgor fel hwn.

[104] **Alun Ffred Jones:** Nid oes adroddiad blynyddol yn cael ei gyhoeddi—

[105] **Mr Miles:** The last one that I am aware of was in 2010, so it has been quite a while since there has been an annual report, and it is very difficult to get that kind of information from Finance Wales as well. I think that if you request the report—it was on a website that has now disappeared—you have to ask it directly for the report and you get into the usual difficulties in terms of communication then.

[106] **Mr Davies:** Rydym ni wedi dibynnu ar ryddid gwybodaeth fel ffynhonnell neu fel mecanwaith i gael gwybodaeth oddi wrth Finance Wales er mwyn trïo deall yn union beth sy'n digwydd. Rwy'n credu bod hynny'n annerbyniol. Rydym ni eisïau gweithredu, fel corff a wnaeth lobio dros sefydlu Finance Wales, ac fel mae Julie wedi dweud, drwy roi cyhoeddusrwydd a chymorth, a'r *benefit of the doubt* i ryw raddau, i Finance Wales, ac mae wedi bod yn

try to understand what is happening across the range of its work, we have been forced to go to Companies House and other places where the accounts are laid, to use information that has been within the scope of the programme monitoring committee for the JEREMIE funds and to do some quite forensic research work to try to find out what is happening. On that basis, we do note, as I said to Julie Morgan, that there are elements of its work that it carries out very effectively. It is clear that targets that have been set for Finance Wales, particularly under things like the JEREMIE fund, may have been challenging, perhaps even too challenging and unrealistic. However, the starting point for us is: where is the annual report, where are the publicly available documents and where is the publicity for the schemes and programmes that it currently provides? It is at that level that there has been a failure for us.

Ultimately, and looking at this more broadly, we realise that this is the first time in some five years that a committee such as this has had the opportunity to scrutinise the work of Finance Wales. We believe that, like all bodies or agencies in receipt of public funding and which can be trailed straight back to the Minister, the position should be that an annual report is laid before the Assembly or certainly before a committee such as this.

**Alun Ffred Jones:** There is no annual report published—

**Mr Davies:** We have depended on freedom of information as a source or a mechanism for getting information out of Finance Wales in order to try to understand exactly what is happening. I think that that is unacceptable. We want to act, as a body that lobbied for Finance Wales to be set up, and as Julie said, by giving publicity and support, and the benefit of the doubt to some extent, to Finance Wales, but it has been very difficult to do that.

anodd iawn gwneud.

10:00

[107] Rwy'n gobeithio y bydd Aelodau'r Cynulliad sydd wedi gweithio gennym ar *case studies* wedi gweld ein bod yn awyddus i weld Finance Wales yn llwyddo. Ni fyddem am weld y corff yn diflannu. Rydym am sicrhau ein bod yn cyflawni dibenion datblygu yn y lle cyntaf. Dyna'r sgwrs yr ydym wedi ei chael gyda *Finance Wales*, ond mae wedi bod yn uffernol o anodd i gael gwybodaeth yn gyhoeddus.

I hope that Assembly Members who have worked with us on case studies have seen that we want to see Finance Wales succeed. We do not want to see it disappear. We want to ensure that we achieve the original objectives of development. Those are the conversations that we have had with Finance Wales, but it has been exceptionally difficult to get information publicly.

[108] **Alun Ffred Jones:** Os mai'r adroddiad blynyddol diwethaf oedd un 2010, nid yw'n adroddiad blynyddol, wrth gwrs.

**Alun Ffred Jones:** Of course, if the last annual report was in 2010, it is not an annual report, is it?

[109] **Mr Davies:** Nac yw.

**Mr Davies:** No, it is not.

[110] **Jocelyn Davies:** Do the annual reports exist, but they are just not made available to you, or do they not exist?

[111] **Mr Miles:** I think that they have been made available in the past, but they are certainly hard to find on the website now. Whenever we have approached Finance Wales—

[112] **Jocelyn Davies:** It is hard to find the website.

[113] **Mr Miles:** Yes. Whenever we have approached Finance Wales for that information—

[114] **Jocelyn Davies:** As you said, it has not been forthcoming. Mike, do you want to come in?

[115] **Mike Hedges:** Does Finance Wales have to lodge its accounts at Companies House, and has it done so?

[116] **Mr Davies:** Yes. We went to Companies House to be able to understand and report what it is declaring in the context of the PMC papers. As a member of the shadow board of the programme monitoring committee, and the partnership forum previously, we get that information. Some of it is already in the public domain because there are other pieces of work, such as the review. It is very difficult to form an opinion. I would reiterate: we would like to be in a situation where we could advocate to the whole wide world that Finance Wales is a Wales body that is doing well and is supporting small businesses. That is our desire.

[117] **Jocelyn Davies:** Chris, shall we come to your questions?

[118] **Christine Chapman:** We know that Finance Wales will be coming to this committee in a fortnight.

[119] **Jocelyn Davies:** Have we asked it to bring an annual report? If we get a copy we will send it to you.

[120] **Mr Davies:** Thanks very much.

[121] **Christine Chapman:** Lots of questions will be asked. Some of us would remember when Finance Wales started and, obviously, you would remember that as well. So, do you sense a change over the years about the openness? Has it always been like this, do you think? What would your assessment be?

[122] **Mr Davies:** My personal, professional assessment is that, having worked in a number of fields in public policy and campaigning essentially, probably the most difficult relationship I have had to navigate has been with Finance Wales. That probably trumps health boards or the old health trusts.

[123] **Christine Chapman:** Is that currently or in the past? Has there been a change?

[124] **Mr Davies:** I think it got incredibly defensive during the last two years or so. My personal and professional opinion—not the opinion of the FSB—is that possibly there was some mission creep or mission drift that set in. It was allowed to take on a role that was beyond, possibly, what we would want it to do. We refer in our evidence that its own mission statement changed. What the cause of that was, I do not know. Perhaps it is worth asking Finance Wales. I was assured that it was not because it felt that it needed to find an exit route to become something other than what it was in case the Welsh Government decided to pull the plug. The opinion I have had from it is that it is trying to maintain a greater source of evergreen funds. Whether it is possible for it to do that and maintain a clear focus on what we have said is an expensive, risky business, I do not know. It has been very difficult to get under the surface, but that then is almost contradicted by the willingness of individuals in the organisation to engage. It is difficult to understand why we should be in this kind of trench warfare, siege mentality with Finance Wales at the moment, both as a business organisation and indeed more widely.

[125] **Christine Chapman:** These are some of the things that we will be able to ask Finance Wales about. I know we have touched on this, but I want specifically to ask—it seems straightforward to me—whether you think that the objectives of Finance Wales need to be clarified, or are they clear now?

[126] **Mr Miles:** There has been a tightening up recently, as Professor Jones-Evans mentioned in his report, and that is certainly something that we welcome. There is more of a focus on economic development. It is in the mission statement now, but I think there is room for that to go further. We could have a policy statement to say what the objective of Finance Wales is, what we are funding this body for, and what we want to see it achieve. That would be something that we would welcome.

[127] **Christine Chapman:** Are you saying that job creation and preservation should be a specific objective, then?

[128] **Mr Miles:** I think SME growth would be a good objective, and obviously job creation is a fundamental part of that. The vitality of SMEs would be the focus for us.

[129] **Mr Davies:** One of the observations that we would make more widely about economic policy is that we understand the imperative of a narrative that says, ‘We have created jobs’, but, bearing in mind that much of the funding source for Finance Wales comes from the European structural funds, that is actually about increasing GVA. Again, we are aware of the fact that it is difficult to increase GVA in the UK as a percentage of the European average when you have such a strange skewing phenomenon in the economy as London. So, GVA itself is not the best index, if you like, to use. We need to see this in the context of actually growing the stock of businesses and the value of businesses rather than simply creating jobs, because, if we do that, technically, some of these businesses are not creating jobs but they are creating economic activity. So, it is about getting the balance right

and understanding what we want to count.

[130] **Mr Miles:** I think that the term used in the next structural funds regulations is ‘SME competitiveness’. That is quite an interesting way to reflect on what we think Finance Wales should do.

[131] **Christine Chapman:** You have touched on governance or oversight of scrutiny. Do you think that there should be scrutiny, certainly by Welsh Government or the National Assembly—a committee like this or others? How do you feel about that?

[132] **Mr Davies:** Our wider position is that we believe that it is the National Assembly that holds organisations to account, and, indeed, Ministers to account. We have talked elsewhere, including in comments to the Williams commission, about the dislocation of scrutiny functions—and, indeed, the capacity to scrutinise—and the role of Ministers; these are things that need to be brought together. Obviously, that is a much wider conversation, particularly in the Silk 2 context. However, we would see that, ultimately, the use of public money is held to account by those who are elected on our behalf to hold that to account.

[133] **Christine Chapman:** So, what could the Welsh Government do, to go back to it? What could it do to improve the way that Finance Wales operates?

[134] **Mr Miles:** It could set out quite clearly what it wants it to do and how it would measure progress and success or failure in that regard. It 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 Iestyn mentioned earlier on.

[135] **Jocelyn Davies:** Just to be clear, then, did it ever behave as a development bank? I know that you were saying, ‘We called for this, we championed this and it’s not what we wanted it to be’. Was it ever what you wanted it to be?

[136] **Mr Davies:** It is difficult for us because of our limited experience in this portfolio and brief. However, if we were to look at it and perhaps reflect on what our members have asked for and what it is currently delivering, we would see that a lot of the focus was on this mezzanine financing, this plugging of the equity gap. It is a recognised problem in Wales. No-one is questioning that. What the development bank proposals back in 1999 demonstrated and what the banking and finance crash in 2008 and the firming up of Basel II rules probably indicate is that the availability of finance for risky investments, where the level of assurance by the bank is greater than that even for individual retail customers—. All these things now point to the fact that we need to look once again at the development function of Finance Wales.

[137] **Jocelyn Davies:** We do not have much time left so I ask Members to be brief. Julie, shall we come to your questions?

[138] **Julie Morgan:** I just want to follow-up Christine’s questions by asking about EU rules. Ministers are not supposed to interfere, are they? How would that fit in with what you are saying?

[139] **Mr Davies:** There is clear scrutiny and accountability via the managing authority for European structural funds and the programme monitoring committee. We would hope now that any future European funding investment in any organisation, let alone Finance Wales, would be predicated on an understanding of the economic prioritisation framework that came out of the Guilford review. So, we feel that there are opportunities for scrutinising, for



example, the European structural funds side. However, what we are looking at here is a much wider range of investments than just European structural funds. Yes, it is a key, integral part, and we can address that there, but the wider context is for you, as Assembly Members, to scrutinise.

[140] **Jocelyn Davies:** We do have plenty of time left; sorry, that was my mistake.

[141] **Julie Morgan:** We do have time, do we?

[142] **Jocelyn Davies:** We do have time, yes. Sorry, that was my mistake.

[143] **Julie Morgan:** You have already mentioned a few things that you would like to see happen with Finance Wales. You have said that you want it to succeed and you talked about openness and the annual reports and so on. What other things would help in the short term?

[144] **Mr Davies:** I think that we would like to see a closer fit between it and Business Wales, the advice-giving service that you are familiar with. Perhaps we need to look at how much time is spent in the development function between Business Wales and Finance Wales and, indeed, whether, in the eyes of individual potential business borrowers, the term 'Business Wales' is the best way to go. There are other forms of subsidised investments being made by UK Government measures. It seems to me that, where that has been administered and supported by groups that already have Business Wales contracts, there seems to be a much shorter turnaround time.

[145] So, there are some good examples of what is already happening in this field. 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. We would also like to see steps being taken to address more fundamental challenges in terms of financial exclusion. If you are being encouraged, maybe through the work programme, Jobs Growth Wales or some other form of intervention—it does not necessarily have to come from the Welsh Government; it could come from individual organisations like the Prince's Trust for instance—but you have no track record or history of banking and the first thing you are asking for is a business account, then that is going to be very difficult. 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. We would very much hope that that would sit alongside other steps being taken through credit unions and the one community finance initiative that we have in Wales, to address a wider issue around 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—

[146] **Julie Morgan:** And you see that as a real gap in Wales.

[147] **Mr Davies:** Yes, indeed.

[148] **Julie Morgan:** That is one of the key things.

[149] **Mr Davies:** Yes. I think that it would be wrong to pile that responsibility onto Finance Wales as well. Let us be realistic about what one organisation in its current guise can effectively do.

[150] **Julie Morgan:** We have already mentioned the development bank. Can you talk about how you would see that being implemented and what that would address?

[151] **Mr Davies:** I think that there are a range of functions and a range of options being

pushed forward by a number of political parties and various academics. I do not think that we are particularly—

[152] **Jocelyn Davies:** What is your view then? You have a whole catalogue out there to choose from. Come on, Josh, what do you think?

[153] **Mr Miles:** I think that the important thing for us is to get that development aspect into it. You spoke about it earlier, Chair, when you asked whether Finance Wales has had that in the past. I think that Dylan's report has shown quite clearly that, in terms of things like business advice that you get from business in Wales, there is a bit of a disconnect there. There is certainly a disconnect between public sector advice and finance and private sector finance. So, what we would like to see is those things close together; let us join the dots and make it a little bit more seamless. As far as the model for that, there are a number of ways you can achieve it, but what is important to us is not that we have an initiative here and that we have a new institution with a new set of objectives, but that we tighten up the objectives that we have now and make it work, so that we get there as a process of evolution rather than revolution.

[154] **Mr Davies:** What I would say is that it seems to us that the model is more likely to be a community development financial institution model, if you are familiar with that, which is almost like a credit union on steroids; it has a beefed up set of powers. That is important because the culture of the organisation is important. Many of our members would find corporate banking and the corporate business culture quite foreign. Again, Christine and I met with a local businessperson and that individual in the case that we looked at would get that support from a development model, but it would be very difficult for individuals such as him to be able to understand why he was being asked for a business plan and why he was being asked in that way for these kinds of figures. That is all important; we are not denying that it is important that the data are there, the business plan is there and that the marketing plan is there. However, to use that example, we went to see a business—I think it was Christine and me—and asked, 'What's your business plan?', and he said, 'I open the door and open the till and if there's people coming in and there's money in the till, my business plan is working.' We need to help businesses to take that step forward, but let us be aware of the fact that these are not Shell, Amoco, BP or Waitrose. These are individuals who are grappling with a number of challenges, just one of which is access to finance.

[155] **Jocelyn Davies:** Mike, you wanted to come in on this.

[156] **Mike Hedges:** On a development bank, what I cannot understand is that if we had a development bank instead of Finance Wales, why it would offer a lower interest rate without the danger of running out of money. Finance Wales is not a highly profitable organisation by any stretch of the imagination. If you halved the interest rate, it would just run out of money relatively quickly.

[157] **Mr Miles:** On the face of it, there is no reason why it would be more profitable, but the problem that we are looking at is the interest rate and whether that is fair at the moment. The institution is neither here nor there at the moment.

[158] **Mike Hedges:** The point that I was making on interest rates is that if you had a development bank instead of Finance Wales and you halved interest rates—if its interest rate was 4.5% or 5%, say—why would it not just run out of money?

[159] **Mr Miles:** There are examples elsewhere of more flexibility in interest rates; they have been less than what Finance Wales charge at the moment and there is a profit. For us to assume that this kind of area is just too risky and that we will never be able to make it evergreen is a little bit short-sighted. There has to be a way of doing it. I know that it is a risky kind of investment and a risky area, but there are other examples of European funds

being used to some effect.

10:15

[160] **Mike Hedges:** What I cannot understand—I am sure that you will explain it to me—is how, if you keep on lending the same money to the same people at a lower interest rate, you will not at some stage run out of money. The only way that I can see of getting out of this is by reducing risk.

[161] **Mr Miles:** It is worth looking as well at the gap between the reference rate and the actual rate that was charged historically. In 2008, the base rate—the reference rate—dropped significantly, and that gap has gone. You will have seen the graph in Dylan’s report. So, there is obviously more money being made in Finance Wales as a result of that. To be as inflexible as it has been, perhaps, is not necessarily the only way of doing it; there are other ways of looking at it, I think.

[162] **Mr Davies:** I think that the other point is that there is an implicit risk, and we accept that. Whether the reference rate should attract more effectively is another question—I am sure that Dylan addressed that with you, and I know that it is something on which Finance Wales has an opinion. However, it is a question of where that risk exists. In all forms of lending, much of that risk is indemnified. It is not borne at the complete cost of risk; it is a shared or pooled risk. The question is to what extent Government should have schemes directly in the game for that risk, to manage the loss of income or an asset base, by directly subsidising. It is already doing that, because, as you rightly pointed out, Finance Wales is far short of being an evergreen investment fund as a whole.

[163] **Mike Hedges:** May I just finish off on this one point, Chair?

[164] **Jocelyn Davies:** Yes, and then we will move on to Alun Ffred.

[165] **Mike Hedges:** If someone is able to lend at 1% less than what the banks are lending at the moment—so, say that they start lending at 5.5%—people will go to them before going to the banks. They will cherry-pick the best company—the company that will find it easiest to repay—and, consequently, those that are most in need of it—the ones that they are currently funding—would not get funding from anyone.

[166] **Mr Davies:** We agree that that is a danger, and that is why good governance, clear terms of reference, good engagement with businesses and the selection of businesses are the way to go. If you were to take that argument—with respect, Mike—to its logical conclusion, there would be lots of initiatives that we would not do via the public sector, because of the danger that those that least need them would be the most likely to try to take them up. It is a case of being careful what you wish for in that regard. We have a situation where we have businesses not going to Finance Wales where the rate seems—allegedly, taking on board what we have already said about the self-selection criteria in other cases that we have heard about—to be pushing the business into failure. Would more effective management, alongside lower rates, achieve the best public-policy outcome, which is for more small and medium-sized enterprises being more effective and more competitive?

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

[168] **Alun Ffred Jones:** Rydych yn cyfeirio yn eich tystiolaeth at Fanc Datblygu Busnes Canada. Beth mae banc datblygu yn gallu ei wneud nad yw ‘Finance Wales’ yn gwneud?  
**Alun Ffred Jones:** In your evidence, you refer to the Business Development Bank of Canada. What can a development bank do that Finance Wales cannot?

[169] **Mr Miles:** In Canada, they have a stated economic development function that is quite clearly articulated. They have business support services included in that. They are very locally based. When a business goes to the Business Development Bank of Canada, it gets advice, support and the finance all in one. I think that that is the crux of the difference, really.

[170] **Mr Davies:** I understand that it is also a genuine bank, so it has the ability to raise its own cash and finance. It is not relying on one other principal lender to work with it; it is raising its finance from a wider range of sources. As far as we understand, it is a genuine bank with a banking licence. We also look at the Sparkasse and Handelsbanken model—not the Handelsbanken brand that we know here in the UK, but that tier of banking and support that has, historically, existed more effectively on the continent. It is, perhaps, chastening to note that as Europe moved toward the UK banking model, many of its own banking failures have emerged.

[171] We would accept that there is a role for the business bank that has been set up by Vince Cable to supply a wholesale supply of money to this sector. However, what we need is rooted and grounded Sparkasse and banks on the ground that know and understand their local market. It seems to us that businesses would be prepared to pay a higher cost for that, but possibly not at the level that they would reputedly have to pay currently on the microfinancing side of Finance Wales's offer.

[172] **Jocelyn Davies:** Julie, have you finished with your section? I see that you have. Peter, shall we come to yours?

[173] **Peter Black:** It seems to me that you are actually arguing for several things at once. You are arguing for a development bank, you are arguing for Finance Wales to do something different, or to fulfil the role that you think that it should, and you also argue for these other banks to be in existence in Wales at the grass-roots level. So, I am not really clear about what you see as the way forward, in terms of Finance Wales. Are you saying that Finance Wales should mutate into a development bank that offers advice and holds business' hands through the formation period and the business development period, or are you saying that we should set up something completely separate from Finance Wales to work alongside it and perform that role?

[174] **Mr Davies:** The very least that we need is greater clarity on the role of Finance Wales in this area, and for it to be given a mandate and the resource to do this effectively. However, what we would like to see, going forward, is something a bit more substantial than just Finance Wales with a lick of paint and a bit of tweaking here and there. It would be good, as I say, to embrace the capacity that already exists in the CDFI network and to maximise it, and even to look at developing other CDFIs, looking at the role that credit unions currently have under the change in regulations that apply to them, and seeing a much wider presentation of offers. It would be good to do this, rather than hold Finance Wales or any other future body to ransom and say, 'This is your gig; you sort it out'. We realise that what businesses want is access to a number of opportunities. So, we could turn what you said into a virtue; we do not want to see a one-size or one-route only approach to this. We want to develop a hybrid model with various routes to this kind of finance.

[175] As I said, we have not spoken much about asset-based finance: buying a capital item on the basis of the value of that item. Apparently, that seems to be a particular problem in Wales, in respect of companies that are willing to invest by that route in Wales. So, we are clearly saying that we cannot expect Finance Wales or its successor organisation to answer all of these problems. It is a complex problem and a complex issue. We should bear in mind that many individuals in the microbusiness and nanobusiness sector will choose to go elsewhere, particularly to friends and family in the first instance, for their start-up capital. What we are

dealing with here is a very complex proposition, I agree.

[176] **Peter Black:** The Welsh Government in 2003 had a commitment to create a CDFI that was never taken through and delivered. I have been to a fair number of small businesses. We have had a business breakfast, and I have been involved in trying to work with banks on behalf of small businesses as well. What I tend to find in some instances—and people tell me this, too—is that businesses that find themselves not being able to access finance do not have robust business plans, do not understand how to set the business up, and need advice and support. Is it not the case that a lot of the dissatisfaction with Finance Wales is coming from those small businesses that have not been able to put together a coherent package and are not getting what they need?

[177] **Mr Davies:** That is clearly likely to be the case. The challenge for us as a business organisation, as I say, is to tease out from that what can be genuinely answered by better public policy initiatives and what is essentially just a fact of life. I am sure that a number of people around the table have been involved in business of one sort or another. You will know that, every time you ask for investment, you will hear the word ‘no’. Every time you try to sell a product to a customer, they will say ‘no thanks’. That is the very nature of business. We are not arguing some sort of entitlement position here. We accept that the market will dictate. When you speak to our members, a lot of them will turn around and say, ‘Well, yes, I would not invest in that company or business either.’ That is the difficult challenge that we are trying to address here. I would not want that implicit challenge to be something that we blame Finance Wales for. It is the environment that we are in.

[178] **Peter Black:** So, in terms of the way forward, if you had a redefined Finance Wales, if everyone was clear about exactly what it was there for, and if the Government in some way set up a high-profile business advice service, do you feel that that would deliver on most of your members’ needs?

[179] **Mr Davies:** I think that it would go some way to doing that, yes. We already have an increasingly higher profile Business Wales brand. Josh has mentioned ‘initiative churn’, which has happened consistently since the war in terms of economic development policy and industrial policy in the UK. We get something running and someone comes along and says, ‘I tell you what: we will change it and I will stick my name on it as well’. We have to avoid that inevitable—what is the phrase? Perhaps it is, ‘Look busy, there is an election coming’. Is that what dictates this? You are politicians. Perhaps you can help us understand the politics of why these changes have historically happened. We have an emerging brand. Let us maintain that brand and strengthen it. If we need to pull it together effectively, and if we need to add competition—through other initiatives, particularly much more localised ones—then let us consider how best to do that. However, this should be under a very clear message to businesses of all sizes that, where it is humanly possible, organisations such as ours or the Welsh Government will support them as best we can.

[180] **Peter Black:** Just for completeness, do you think that the British business bank will fill some of the gaps that you have highlighted in Wales?

[181] **Mr Davies:** It will help, because it will, presumably, make finance a little cheaper. Many initiatives that have happened at a UK level have had an impact on the banking market, as, indeed, has much of the political pressure that has emerged from a number of sources. However, ultimately, if what we are arguing for is the re-establishment—and it is an expensive business to do this—of grass-roots relationship banking, that should come as a consequence of Government intervention or other players being willing to step into the market who are more community-development focused, rather than simply making more money available to businesses.

[182] **Jocelyn Davies:** You mentioned non-bank finance alternatives, and you have a paper that you have produced—

[183] **Mr Miles:** Yes, we produced a paper from our Westminster office, which is not Wales specific, called ‘Alt+ Finance’, a couple of years ago. It looked at the different types of finance that are out there that are not mainstream, and what practical measures can be taken to increase take up of those types of finance.

[184] **Jocelyn Davies:** Can you tell us about any of those alternatives? Describe a couple, if you like. Perhaps you could tell us whether there are any there that are particularly successful.

[185] **Mr Miles:** Iestyn mentioned CDFIs. There is one in Wales at the moment. So, it is quite new and novel. I find credit unions interesting. There was a change in regulation for credit unions a few years ago, which allowed them to take corporate membership and to give loans of up to about 15% of their loan book to SMEs. Their limit is £15,000. So, it is very much the territory of our members; they are not massive loans at all. I know from having discussions with a few credit unions that they are quite keen to look at how they can do this as part of widening their role in society. So, I think that there are certainly elements that we could look at there, but it does not happen at the moment.

[186] **Jocelyn Davies:** That is very patchy, is it?

[187] **Mr Miles:** It does not happen at the moment. I am not aware of it happening, other than to the self-employed on a personal basis. I am not aware of it happening anywhere in Wales.

[188] **Jocelyn Davies:** So, some self-employed individuals, instead of going to the bank, have gone to the credit union and have taken out a personal loan, instead of using their credit card.

[189] **Mr Miles:** Yes. There are a lot of options like that that we can maximise in Wales.

[190] **Mr Davies:** We have this one CDFI—Robert Owen Community Banking—and the Welsh Government is working to encourage solutions that address these problems, but that is one for the whole of Wales. CDFIs tend to be quite localised, and they pull together this idea of being in a community. They are very similar, in a way, to credit unions.

[191] There are more sophisticated, digital and social media kinds of funds, crowd sourcing and peer-to-peer lending. The concern then is that it is unregulated, and we know what unregulated markets have done to small business, in terms of introducing swaps or other forms of quite complex investment. So, we are a bit concerned about those.

[192] **Jocelyn Davies:** So, those would be risky things for a Government to promote.

[193] **Mr Davies:** It would be risky for us as well. Some people ask us to recommend one, but I would never give an FSB endorsement to a particular kind of funding source. Maybe it is my age, but, having turned 40, anything digital seems to concern me these days, and I am not quite as confident that I understand what is going on. From what I see, you invest money here and you borrow money there on a website, and I start to get a bit nervous, I must admit. If I am consistent with the profile of small businesses, I understand why they would say, ‘I don’t know about that crowd sourcing’.

[194] **Jocelyn Davies:** There are people your age who are not as conservative.

[195] **Mr Davies:** Yes, possibly; I do not know what happened. [*Laughter.*]

[196] You also have things such as the kick-starter funds, where people invest in a business, without a real share-based return, simply because they want to support the kind of initiative and investments that are being made. That has been quite successful in the creative industries. It has been quite successful in the States and in microbrewing, where you get something back but it is not a return on your investment, as such. So, there is a wide range.

[197] **Jocelyn Davies:** Could these things be of possible help? How can they be promoted if nobody is prepared to promote them? Who should be promoting them?

[198] **Mr Miles:** There is definitely a role for Government, in terms of opening up the doors to alternative routes to finance. The credit union movement has been a great example of that. We have seen Government intervene with credit unions in the past to help to support them into certain kinds of areas. Housing associations and those kinds of things work closely with credit unions. So, I definitely think that there are opportunities there. However, we would not want the Government just to fund that on an unsustainable basis; it would have to be with a very direct plan to support that to happen and to be sustainable in the future.

[199] **Jocelyn Davies:** Could this development bank that you have talked about contribute to that?

10:30

[200] **Mr Davies:** One of the things that we seem to be lacking in the localised sector—leaving the commercial banks and Finance Wales aside—is available skill and expertise in being able to administer and, as Mike has said, assessing risk. For instance, one of our members sits on the Gwynedd loan fund board, which has a lot of debates over how risky a project is and how much support is being put in elsewhere. There is a fund in Newport as well that does something similar. The problem that you are embarking upon here is one of an understanding that there is a lack of skill in this sector. The question is: what role does, for instance, Bangor University have, which has a centre for banking studies? Could we build indigenous capacity in banking and financial services in Wales, not led by the corporate names but is led in a more community-focussed way? I went to a conference in Bristol some weeks ago for the CDFIs and chaired the closing session. There were two representatives from Wales there as well as me. One was from Finance Wales—that was a fun lunch, I must admit, discussing Dylan’s report—and there was Robert Owen Community Banking. That is all that was there from Wales. We could do a lot to up-skill the voluntary sector, the community housing sector and the social activism sector—which is where we belong as the FSB in that ballpark. We would certainly like to see that happening, so that universities and colleges are developing these skills.

[201] **Jocelyn Davies:** We have run out of questions before we have run out of time—or Mike, did you want to come in on this? Mike wants to have the last word, obviously. [*Laughter.*]

[202] **Mike Hedges:** You talked about the fact that companies are being pushed into receivership because of the additional cost of borrowing from Finance Wales but I have done a couple of calculations—tell me if I got them wrong. If you are borrowing £15,000, the difference between borrowing from a bank at 7% and Finance Wales at 11% would work out at about £12 a week. If you borrowed £100,000, the difference would be about £80 a week. Surely a company that goes into receivership because of £12 a week has something intrinsically wrong with it anyway.

[203] **Mr Davies:** I would agree. We are dealing with very vulnerable companies. I think that the Welsh word ‘bregus’ conveys the position very effectively. Again, the difference

between perception and what is actually the case is what we are dealing with here, particularly with businesses' take on Finance Wales. We accept that and we have attempted—and will continue to attempt—to work with Finance Wales to promote the existing services that it provides across the range of its services. We would like to see a much more nuanced approach, which borrows from the very best in community development practices to support much greater sustainability within the business community. Whether that is tackling actual, assumed or perceived problems, we need to do that. We would welcome working with anybody to bring that situation about.

[204] **Jocelyn Davies:** Thank you. I think that it has been a very useful session. I do not think that you need to send us a note on anything. I do not think that there was anything that you could not answer.

[205] **Mr Davies:** We could send you an electronic copy of the original submission made in 1999, and—

[206] **Jocelyn Davies:** Do you know what? You need to get over the 1999 thing—it was a development bank that never turned up. [*Laughter.*] Earlier on, we were discussing the aims of Finance Wales and what it originally set out to do, so that document would probably be quite useful for us. Thank you.

[207] We will take a break now and our next session will be with the Institute of Chartered Accountants in England and Wales and a representative of Grant Thornton UK LLP.

*Gohiriwyd y cyfarfod rhwng 10:34 a 10:58.  
The meeting adjourned between 10:34 and 10:58.*

### **Ymchwiliad Cyllid Cymru: Sesiwn Dystiolaeth 3 Finance Wales Inquiry: Evidence Session 3**

[208] **Jocelyn Davies:** Welcome back to this meeting of the Finance Committee. We are on item 5. This is our inquiry into Finance Wales. With us we have representatives of the Institute of Chartered Accountants England and Wales, and a representative of Grant Thornton UK. If you would like to introduce yourself for the record, then we will go straight into questions, if that is okay.

[209] **Mr Wardell:** I am Alistair Wardell and I am a partner at Grant Thornton. I head up Grant Thornton in Wales.

[210] **Mr Umbleja:** I am a chartered accountant, Peter Umbleja. I am here as a representative of the Institute of Chartered Accountants England and Wales. To give you a bit of background, our organisation has 3,000 members in Wales and just over 1,000 of those are engaged in public practice, principally providing advice to owner-managed businesses. My own firm is BPU Ltd Chartered Accountants based in Cardiff. We have 34 staff and our client base is concentrated in south-east Wales, with some clients in west Wales. I am the managing director and look after my own portfolio of owner-managed business clients.

11:00

[211] The committee may find it useful for me to provide a summary of the services that we offer, just to give you a bit of background. They are typical of the services provided by our members. We finalise statutory accounts, including audit. We do tax compliance work, both corporate and personal. We do tax planning, retirement planning, business succession, and we provide bureau services, payroll and bookkeeping to help smaller businesses. We also do management accounts, forecasting, accountancy software support, and, importantly, for this



occasion, corporate finance, especially raising funds for our clients, and we also have an independent financial services business, which provides life and pensions advisory work. We have built up these services over the years in response to our client needs. Our work enables our clients to get on with what they do best, which is running their own businesses in terms of organisation, planning and generation of sales. Traditionally, our members have been the first port of call for owner-managers when they have an issue, idea or problem. We have built up a network of trusted referrers, whom we recommend to our clients to provide services that we cannot provide, including legal, human resources, marketing, website development and, unfortunately, insolvency occasionally.

[212] **Jocelyn Davies:** It sounds as if you are the perfect witness for us with that background. You have given up your time to come here today, so, in fairness, you have given yourself quite a good plug, and I think that you deserve that. Shall we go straight into questions? I wonder whether you could summarise for us briefly the general business environment for Welsh SMEs, as you see it. Shall we start with you, Alistair?

[213] **Mr Wardell:** I guess that it has been an extremely difficult five years for businesses across the UK, and particularly in Wales, I would say. As it stands at the moment, I would say that things are getting better. The indicators of that are more confidence-based than figures-based at the moment. So, we can see people starting to invest. However, in terms of the recovery that we are hoping to see, I think that it is a little early to say that that is now proven. However, I would say that we have certainly seen a turn now.

[214] **Jocelyn Davies:** Do you have anything to add to that, Peter? Are you happy with that?

[215] **Mr Umbleja:** Yes. We are seeing the green shoots of recovery, which is the term, I think, and we are seeing that on a small basis. I do have clients who are buying and acquiring small businesses and investing a little in capital expenditure in preparation and in readiness for the orders that are beginning to come through.

[216] **Jocelyn Davies:** Which sectors and what sort of size of businesses are facing the most pressure, do you think?

[217] **Mr Wardell:** To be honest, without a detailed analysis, I would not be able to give you a definitive answer, but 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.

[218] **Jocelyn Davies:** Is that one of the biggest challenges for our SMEs, access to finance?

[219] **Mr Wardell:** I would not say that that is the biggest challenge facing them, no. I would say that being competitive in the market is the biggest.

[220] **Mr Umbleja:** 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.

[221] **Jocelyn Davies:** Shall we come to your questions, Mike?

[222] **Mike Hedges:** [*Inaudible.*]—small and medium-sized enterprises in Wales with good business plans and good products to access funding from banks and private investors?

[223] **Mr Umbleja:** Sorry, I missed the first part of that question.

[224] **Mike Hedges:** If small and medium-sized enterprises have a good product and a good business plan, how difficult is it for them to access finance?

[225] **Mr Wardell:** Are these existing businesses or start-up businesses?

[226] **Mike Hedges:** It is up to you to decide on which one you would prefer to answer. [*Laughter.*]

[227] **Jocelyn Davies:** What about someone who does not currently have a business, and then perhaps we could talk about those that just want to expand?

[228] **Mr Umbleja:** For business start-ups, when I have a business start-up come through my door—and they do—my first idea is to try to understand what the business is about and what it is planning to do. I then think about whether this is a lifestyle business or the first steps to self-employment and, if it is, to be honest, the support that I, personally, can provide is a bit limited because they need someone to hold their hand. We have a direct link with Business in Focus and we send our start-up referrals to it immediately to go on a range of free courses that give them an idea of whether what they are doing makes any sense. It will help them to make business plans in a small way and also talk to them about the other statutory legal obligations they have in terms of employment, if they are going to employ people. We like to think that, at some point during that process, if they decide to go forward, they will come back to us and we will then hold their hands in terms of some of the compliance issues, such as VAT registration and things such as that. If they want to access finance at that early stage, the local authority small grant schemes that are available in different parts of the country will help. They will need a business plan. Business in Focus will help them to do a basic business plan, and then they quite often come back to us so that we can top and tail things and perhaps question their plan in advance of them going to look for finance very much at the start-up end of the market.

[229] **Jocelyn Davies:** Alistair, do you have anything to say on start-ups?

[230] **Mr Wardell:** Peter would be better placed to answer on start-ups, because he deals with more start-ups than I do.

[231] **Mr Umbleja:** Sorry, that was on start-ups.

[232] **Jocelyn Davies:** Yes, I was asking Alistair—. You have nothing to add to that then, Alistair.

[233] **Mr Wardell:** No.

[234] **Jocelyn Davies:** What about on expansions, then?

[235] **Mr Wardell:** On expansions, my view would be that, if you had a good business with a good business plan, there is decent access to finance.

[236] **Mr Umbleja:** I think that there is decent access to finance and I think that there is a broad range of finance available for expansions as long as people are realistic. I guess we can get into a discussion about secured and unsecured lending, but it is all about the business plan and about whether we, acting as brokers if you like, view a business plan or an idea converted into a business plan, look at some of the non-financial issues, perhaps, and make sure that we point our clients in the system to go in the right direction to raise finance.

[237] **Jocelyn Davies:** With daily talk of very low interest rates, do you find that those who are looking for expansion are a bit shocked when they see that interest rates are not as low as the rates they could borrow at for personal borrowing or if they had savings?

[238] **Mr Wardell:** They would certainly like them to be lower. That is the response. However, they are realistic. They know that the days of very low interest rates being charged by banks have gone.

[239] **Jocelyn Davies:** They have gone. Ffred, do you want to comment on this? Then I will go back to Mike.

[240] **Alun Ffred Jones:** You seem fairly content that there is finance out there if small companies seek it, and yet the report by Professor Dylan Jones-Evans on Finance Wales, and the FSB this morning, constantly talk about the gap in the market and say that about 20% of SMEs cannot access finance. Is that not your experience?

[241] **Mr Umbleja:** Well, no. If someone gets past my stage 1 assessment, in that there is a business proposition going forward, we can see that finance is available. I think that, when you are carrying out an analysis like that, you have to acknowledge that some people are trying to access finance for unrealistic ideas and things that are not going to go anywhere. We, just like the finance providers in Finance Wales and the clearing banks, will look at a proposition and we may say, 'I think there are too many weaknesses'. It may not be a lack of security. It may be the capabilities of the management. It may be the market. It may be anything. It is not the job of finance providers to provide finance for situations that are hopeless. It would not be fair on the people seeking the finance, and it is our job to help them not to be naive and to perhaps suggest that they return later when they have developed their ideas a bit more.

[242] **Jocelyn Davies:** Alistair, you are nodding. Would you agree with that, then?

[243] **Mr Wardell:** I would agree with that. My experience at the moment is that the banks are welcoming the fact that some of their clients are now looking to do things. They may be clients who have money or clients who want to borrow money; they have objectives to lend money, and there seems to have been reticence from people to come forward to borrow money.

[244] **Jocelyn Davies:** Okay. Mike, shall we go back to your questions?

[245] **Mike Hedges:** I have just one comment. The days of borrowing 2% above the base rate seem to have gone.

[246] The access to finance review said that there was a £500 million funding gap for Welsh small and medium-sized enterprises. Do you recognise that as realistic?

[247] **Mr Wardell:** Do you mean the £500 million gap?

[248] **Mike Hedges:** Yes.

[249] **Mr Wardell:** 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.

[250] **Jocelyn Davies:** Okay. Peter, what do you think of the £500 million funding gap that has been identified in the access to finance review? Do you think that that is realistic?

[251] **Mr Umbleja:** I have no idea of scale. I would just like to see where that number comes from.

[252] **Jocelyn Davies:** You would like to see the workings-out.

[253] **Mr Umbleja:** Yes. I have no feel for it and my own day-to-day experiences do not bear that out in terms of the finance that we can or cannot obtain under different terms.

[254] **Jocelyn Davies:** Okay. Mike, it is back to you.

[255] **Mike Hedges:** The last question that I have is this: Finance Wales is a very small player in the lending business at about 5%, compared with banks. Are we looking at the right thing? Should we be looking at bank lending to small and medium-sized enterprises rather than something that is a small player that is often borrowing 'as well as,' with enterprises turning to it after they have borrowed from banks as a sort of top-up? Are we looking at the right thing?

[256] **Mr Wardell:** 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. Therefore, which part you look at to try to solve that problem is a secondary question for me.

[257] **Mike Hedges:** I tend to agree with you.

[258] **Jocelyn Davies:** Peter, do you want to add anything to that or do you agree with that?

[259] **Mr Umbleja:** Yes, I agree with that. It is a mixed package. If I have a client who has an idea and has ample security, I will use the clearing banks, because their rates of interest are lower. If there is, perhaps, a security issue, I will go to Finance Wales. I have done quite a few deals in the last year or so where there is a combination and Finance Wales and the clearers are working together and talking to each other, and they are talking to each other after finance if there are problems. So, I have a number of clients who have a mixed bag of funding from Finance Wales and one of the clearing banks, and it is almost like a team, with the bank being more difficult than Finance Wales.

[260] **Jocelyn Davies:** So, Peter, your clients come from all sorts of businesses.

[261] **Mr Umbleja:** Yes.

[262] **Mike Hedges:** Sorry—

[263] **Jocelyn Davies:** We will come back to you in a minute, but I know that Ffred wants to come in on this point.

[264] **Alun Ffred Jones:** Just on this point, can you explain to us when you would advise your clients to go to Finance Wales, just to give us a feel for the type of businesses and when you would feel that that is needed? Under which circumstances would it be?

[265] **Mr Wardell:** I think that, as Peter just said, your first port of call is going to be whether you can finance the business through bank lending because it is cheaper secured lending. If you need to go beyond the availability of the secured lending that you have got, you would then go to somewhere like Finance Wales, which can provide higher risk debt and equity to fund the gap of the additional funding between the bank lending and the equity that they are able to raise themselves.

[266] **Jocelyn Davies:** Okay. It is the same for you, Peter, is it?

[267] **Mr Umbleja:** Perhaps I can give you an example. Fairly recently, I had a client in the telecom support business who wanted to acquire a subsidiary—the owners were talking about retiring and it felt like a good match and seemed to make sense. My first indication was that we were buying equity, so it was unlikely to be a bank situation. I had informal approaches with Finance Wales, which expressed interest in general, and then when we got nearer to the client, we found out that the client's business had a significant freehold commercial property in it. We have switched now to my client's own bankers, and they are providing the support that we need, secured on the property in the subsidiary company. That is how it has worked in that case, and there are cases where that does not apply, because I have not got security, in which case I will be looking to Finance Wales first and perhaps going to the clearer for an extension of overdraft facilities or factoring—

11:15

[268] **Jocelyn Davies:** So, it is case by case, depending on the circumstances of the client. Okay.

[269] **Mr Umbleja:** I see Finance Wales and the clearers as side by side. On Finance Wales, again, there is substantial expertise. If I was having this conversation with you seven or eight years ago, I would have said that the managers in Finance Wales probably lacked a bit of experience and things, but they have developed over the years and brought a number of people in from the clearing banks, as bank managers, and as managers of portfolios. So, they are alongside each other.

[270] **Christine Chapman:** Mike, shall we go on with your questions?

[271] **Mike Hedges:** How is the culture and brand of Finance Wales perceived by small businesses—those small businesses you deal with?

[272] **Mr Wardell:** How are the culture and brand perceived?

[273] **Mike Hedges:** Basically, what do they think of it?

[274] **Jocelyn Davies:** First of all, have they heard of Finance Wales?

[275] **Mr Wardell:** I think that in the majority of cases they have heard of Finance Wales.

[276] **Jocelyn Davies:** Then they will know roughly what Finance Wales is and what it does.

[277] **Mr Wardell:** I would think so. What do you think, Peter?

[278] **Mr Umbleja:** I think they do. There is quite a bit of coverage in the business press locally of Finance Wales's activities, and what it does, so they will generally be aware of it and they would certainly be aware of it when they come to see me.

[279] **Jocelyn Davies:** So, do you think that these businesses would think that Finance Wales is going to be welcoming to them, or does it take your little push; do you have to recommend it?

[280] **Mr Umbleja:** Again, it just depends on—. For my clients, anyway, it is almost my assessment as to whether Finance Wales is the right—.

[281] **Jocelyn Davies:** They would not have gone to Finance Wales directly before they

came to you.

[282] **Mr Umbleja:** No, because of the relationship that I have with my clients.

[283] **Mr Wardell:** Some of my clients may well have gone to Finance Wales of their own—.

[284] **Jocelyn Davies:** Prior to it—okay. Mike, have you finished?

[285] **Mike Hedges:** I am happy.

[286] **Mr Umbleja:** May I just explain that it has a lot to do with the maturity of the clients themselves? The larger businesses, which have their own finance directors and financial controllers in place, will be able to make important judgments of their own. So, they are likely to have decided that Finance Wales is a reasonable starting point, and I may only get involved at the edge of the arrangements if the businesses have got their own expertise in-house.

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

[288] **Paul Davies:** I just want to ask you some questions regarding Finance Wales's interest rates and fees policy. How do you think small businesses actually perceive the loan terms on offer from Finance Wales compared to those on offer from high street banks?

[289] **Mr Wardell:** You have used the word 'perceive', so in terms of their perception, given that the interest rates are higher than the high street banks, they are going to perceive them, and they do perceive them, as higher than the high street banks.

[290] **Paul Davies:** And is that a perception, or is that reality?

[291] **Mr Wardell:** As I say, the reality is that when we are looking for finance for businesses, you would go to the high street banks first because they are cheaper. Therefore, it is the reality. So, you would expect Finance Wales to be more expensive because it is lending in a position where the risk is higher.

[292] **Mr Umbleja:** That is right. Their perception is going to be that it is higher, because it is. I cannot really add any more to that.

[293] **Paul Davies:** Okay. Do you feel that Finance Wales actually fills a gap in the market? Do you think it performs that function?

[294] **Mr Wardell:** It absolutely fulfils that function. 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'. So, I think that it absolutely does fill a gap.

[295] **Mr Umbleja:** 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 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.

[296] **Paul Davies:** Do you think that Finance Wales should make any changes at all to its interest rate policies?

[297] **Mr Wardell:** For me, personally, without doing an in-depth analysis of the companies that it has and the risk profile of those businesses, it would be wrong for me to comment on whether it should adjust its policy. All I can make is a broad comment, which is that the types of interest rates that it charges seem to be in the right range for the type of risk profile that it is lending to. However, as I said, to answer that question in terms of the adjustment of policy, I would have to look at individual cases more specifically.

[298] **Jocelyn Davies:** Otherwise, you would be referring your clients somewhere else, I assume.

[299] **Mr Wardell:** Yes.

[300] **Jocelyn Davies:** You mentioned, Alistair, that some of the businesses that come to you have already been to Finance Wales, or they may very well have made enquiries there first; does it ever refer businesses to you?

[301] **Mr Wardell:** Who?

[302] **Jocelyn Davies:** Finance Wales.

[303] **Mr Wardell:** Yes, Finance Wales does.

[304] **Jocelyn Davies:** So, somebody might go to it, and they are then pointed in your direction as needing to come to you first—or, at least, there is a referral of some sort.

[305] **Mr Wardell:** With that kind of referral where somebody has gone to Finance Wales for finance, it is unlikely that they would then come to us to augment that finance. Sometimes, Finance Wales might ask us to look at one of its businesses if it is in difficulty, or, if it is looking to sell one of its businesses, we might get involved at that stage, or if it needed audit or tax advice, then it may ask them to come to us for that purpose.

[306] **Jocelyn Davies:** I see. However, that does not happen in your case, Peter, because it is a different sort of client.

[307] **Mr Umbleja:** Generally speaking, I know that Finance Wales will sometimes see a smaller business and recommend that it goes to see an accountant to get help with its business plan and put a case together that is maybe stronger than it could otherwise have achieved.

[308] **Jocelyn Davies:** I see. So, there may very well be referrals to other members of your organisation, although you have not experienced that directly.

[309] **Mr Umbleja:** Yes, but they are likely to say to the individuals, ‘Go and talk to your accountant first and put it together’.

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

[311] **Paul Davies:** Sure. Earlier, you mentioned that the interest rates on offer from Finance Wales sit properly within the market, but do you think that the interest rates on offer prevent some viable businesses from accessing finance?

[312] **Mr Umbleja:** 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.

[313] **Jocelyn Davies:** Your view would be the same, would it, Alistair?

[314] **Mr Wardell:** My view would be similar. The reality is that there may be exceptions out there where people could be put off, but that is down to the individual. I would agree with Peter that the reality is that it should not, in general, affect those business decisions, but that is not to say that there are not a couple of examples out there of businesses that are put off.

[315] **Mr Umbleja:** If I may, I will just give you another example. There is an innovative leisure business that has been lent to in the last 12 months. There was a £1 million capital cost and a bank secured lender offered 6.5%, and it lent as much as it could. Finance Wales came in with unsupported personal guarantees for some directors who were pretty unsupported and the rate was 10% for the balance of the funding requirement. We created 20 jobs and the deal went ahead. There have been teething problems along the way—this is the example that I was quoting earlier—and Finance Wales and the bank have both worked together to help the business through some teething problems.

[316] **Paul Davies:** You mentioned earlier that Finance Wales offers higher interest rates than your normal high street bank. Could you confirm whether Finance Wales's additional fees and costs are also higher, compared with high street banks?

[317] **Mr Wardell:** I could not comment on whether the arrangement fees are in line with the high street banks. My understanding is that Finance Wales charges 1% for debt and 2% for equity. That sounds about right, but I could come back to you and tell you whether that is similar. What I can compare it with is Funding Circle, which charges in the region of 4% to 5% for debt, which is more similar in terms of the type of lending that we are talking about.

[318] **Mr Umbleja:** That is about my experience, although I have not had any experience of Funding Circle.

[319] **Jocelyn Davies:** What about the banks? Is it similar to the high street banks?

[320] **Mr Umbleja:** A bank's standard arrangement fee is 1%, so that is quite close to Finance Wales. There are some discounts available from one of the clearers at the moment.

[321] **Jocelyn Davies:** Okay. Mike, you wanted to come in on this.

[322] **Mike Hedges:** Banks also ask people to take life insurance and a whole range of other things as well, in order to protect borrowing, do they not? If people borrowed against a house that was mortgaged, they would expect them to take life insurance out, et cetera, in order to protect the borrowing.

[323] **Jocelyn Davies:** Is there a requirement by Finance Wales to have additional insurances and so on to cover the debt?

[324] **Mr Wardell:** I am not sure, in terms of banks lending to corporates, that—. Would you say, Peter, that the insurance is—

[325] **Mr Umbleja:** Historically, I have seen it as a condition, but, in recent years, I have not seen that so often. I have seen recommendations, but not conditions, in recent years.

[326] **Jocelyn Davies:** Right, but usually the bank lending is secured on something anyway, is it not? So, it is slightly different.



[327] **Mr Umbleja:** Sure.

[328] **Jocelyn Davies:** Okay. There may well be other fees therefore; I think that that is your point. Ffred, shall we come to your questions?

[329] **Alun Ffred Jones:** Yes. How could Finance Wales become more accountable and transparent? Does it need to be?

[330] **Mr Umbleja:** Obviously, in preparation for today, I have looked at its financial accounts and I have read its annual report.

[331] **Alun Ffred Jones:** How did you get hold of its annual report? We have been told that it does not produce one.

[332] **Mr Umbleja:** I mean the glossy document that it issues, which I have seen—I did not bring it with me—that is only pie charts and things; it is not a detailed written document. Maybe I am thinking of the wrong document. It is accountable to the owners of the business, being the Welsh Government, as far as I am aware. In its accounts, it mentions, in a note to the accounts for the year to March 2013, a series of mechanisms under which the company's controllers have an oversight of the business—that is the wording from the annual report. I imagine that the owners of the business have decided that that is sufficient.

[333] **Jocelyn Davies:** Does it send you its annual reports?

[334] **Mr Umbleja:** No. These are the statutory accounts from Companies House.

[335] **Jocelyn Davies:** I see. You get the statutory accounts.

[336] **Mr Umbleja:** I did not bring them with me, actually, but they go on for 40-odd pages, because they are prepared by accountants and no-one else understands them.

[337] **Jocelyn Davies:** Yes. So, the governance, as far as you are concerned, Peter, is perfectly adequate for the type of business that it is doing.

[338] **Mr Umbleja:** That is only from my reading. I have no knowledge of that in detail, so that is only from my reading. You would expect a note in the accounts saying how the holding organisation manages and controls its business, and it is just a bland statement that says that it does, which I would expect there to be.

11:30

[339] **Mr Wardell:** My understanding is that Finance Wales is externally and internally audited by external bodies. I also understand that it has a non-executive presence on the board from Welsh Government. It appears to me that there is the right foundation there for monitoring what Finance Wales does. I think that what appears to be lacking—from what has come out of Professor Dylan Jones-Evans's report—is the clear objective written down by Welsh Government against which it can be measured and monitored. That may very well go on within the Welsh Government, but I have not seen that. I feel that, if that objective were clear and out there, it would be very easy for us to say whether Finance Wales is performing against that objective. I do understand that it produces a business plan annually, which is signed off by Welsh Government—that is what I am told. I would look at two things. The first would be whether the objectives in the business plan match what the Welsh Government wants and, if they do, then great, and if they do not, change them. Secondly, I would look at the performance of Finance Wales against its business plan and whether it has performed and delivered what it said it would or not, and if it has not, then it is a performance management

issue about how to change its structure.

[340] **Alun Ffred Jones:** You have answered my next question very well. I will just ask one further question about the strategic objectives of Finance Wales, and perhaps you have touched on this. Is it, in your view, to promote economic development or to be self-funding through commercial returns, or is it a balance of both?

[341] **Mr Wardell:** Will you repeat the question, please? Is it economic development or—

[342] **Alun Ffred Jones:** Is Finance Wales about economic development or is it about being a commercial body, self-funding through its investments, or should it be a bit of both?

[343] **Mr Wardell:** I think—and obviously this is my perception—that the way that Finance Wales would see itself is as a combination of both. It sees that the best way that it can promote economic development is through being commercial enough to be ultimately self-funding. Whether that is what the Welsh Government wants is a question that I cannot answer. It appears to me that it sees Finance Wales filling that gap in terms of funding as a way that it can promote economic development. If it does that in a way that is commercial, that will allow it to keep doing that, so that it is sustainable into the future and will allow better long-term economic development and stability.

[344] **Jocelyn Davies:** Peter, do you agree with that?

[345] **Mr Umbleja:** I agree with that. I have nothing to add; he has said it far better than I could have. [*Laughter.*]

[346] **Jocelyn Davies:** Chris, shall we come to your question?

[347] **Christine Chapman:** Further to Alun Ffred's questions, I would like to ask you about the governance and the oversight of Finance Wales by the National Assembly, but also by Welsh Government. First, on the National Assembly side, is there a role for the National Assembly in the scrutiny of Finance Wales, bearing in mind that it is in receipt of public money?

[348] **Mr Umbleja:** I can only imagine that it does.

[349] **Christine Chapman:** How could the scrutiny be improved therefore?

[350] **Mr Umbleja:** I have here its annual report for the year to March 2013—the report and financial statement. It goes through the processes of corporate governance and how it is worked. Some of these statements are bland, but it does seem to have the sort of governance and control mechanisms that any large company would have.

[351] **Jocelyn Davies:** You are saying that the governance laid out in its accounts is appropriate for the type of business it is, but I think Chris's point is that this is slightly different because there is public money in this particular business. So, taking that aspect into account, is that still appropriate?

[352] **Mr Umbleja:** Just because there is public money involved, it does not mean that there should be any greater or lesser degree of governance and management than there would be in any commercial organisation, and it seems as though there is, as far as I can see.

[353] **Jocelyn Davies:** Alistair, do you agree that it makes no difference whether there is public, private or a mixture of both in a business, and that as long as the oversight is appropriate, it is fine.

[354] **Mr Wardell:** If there is sufficient governance here, which there appears to be, then I think that aspect is probably covered. I think that it just goes back to my earlier point, which is that there is money going in, so what does the Welsh Government want that to be used for, and is it being used for that purpose? If it is not doing that itself, and the National Assembly wants to have an overview of that to check it is happening, then fine, but I would be very cautious about adding an extra layer of bureaucracy over it because I think what we are trying to address is quite simple. It is about asking what you want to achieve and whether it is achieving it.

[355] **Jocelyn Davies:** So, our scrutiny of the Welsh Government might aid the scrutiny of Finance Wales, but not necessarily in a governance arrangement; that is something that could be outside.

[356] **Mr Wardell:** That is if it is necessary. What I cannot tell is whether it is necessary or not because I do not know whether, at the moment, the Welsh Government is getting what it wants from Finance Wales, because it is just not clear to me. It may be clear to it, but as I say, if it is not, then, potentially, yes.

[357] **Mr Umbleja:** I think it is a fairly simple question: what are the reporting mechanisms between the Government and the company it owns called Finance Wales, and do they need to be improved? However, that is a matter for the Welsh Government in its stewardship and management of the company that it owns.

[358] **Christine Chapman:** I want to ask some very specific questions here. The review found that Finance Wales was not fit for purpose. Would you agree with that assessment—yes or no?

[359] **Mr Umbleja:** No.

[360] **Mr Wardell:** No.

[361] **Jocelyn Davies:** What did you not agree with? Why did you not agree with that conclusion? You mentioned the report and the Professor earlier on, so you have obviously read the report.

[362] **Mr Wardell:** I have read the report and I have also read the transcript of your questioning of Professor Dylan Jones-Evans. What he said during questioning was that he had not quite said that it was not fit for purpose, but, actually, that it was not fit for that purpose. You will see, if you read the report, that he said in the detail that the Welsh Government would have to decide whether it was fit for that purpose. In that case, it was for job creation. I just think that it goes way too far to say that Finance Wales is not fit for purpose because it is not clearly defined in the report, or I have not seen it. I keep coming back to the same point that, unless you can clearly identify what that purpose is, you cannot possibly say whether it is fit for purpose. So, you have to identify that.

[363] On the question of whether Finance Wales is fit for that purpose of job creation, it would be nice to give it the opportunity because what you do have is an established structure with some good people there. So, if you gave it the task of job creation—if that is what the Welsh Government wanted to do—then it may very well be good for it, but it has been asked in a way that has raised a very big question, and the way it has been raised is very controversial and has created a lot of instability. It has threatened—‘threatened’ is probably too strong a word—it has caused uncertainty within an organisation like Finance Wales, so I would expect it to have difficulty recruiting and to have difficulty, potentially, with staff retention and with raising any future funds, because now there is a question of whether

Finance Wales is fit for purpose. It is being considered whether it is fit for purpose; therefore, questions are being raised about whether it should be subsumed into the Welsh Government. I think that the sooner that this process is concluded the better, because, as I say, it is threatening it.

[364] **Christine Chapman:** I wonder whether Peter wanted to add anything, because I want to move on to another supplementary point.

[365] **Mr Umbleja:** I just think that the timing of the ‘not fit for purpose’ statement— I originally thought that that was a press interpretation, and that Dylan could not possibly have said that, until I read the summary in the report and saw that indeed he had. The timing is such that I have clients—the green-shoots thing that I have just mentioned—who are looking to do things that they were not going to do a few years ago. Their working capital has deteriorated as a result of losses, difficulties and tight margins, so maybe their balance sheets are not as strong as they should be. It is just about now that I am thinking that Finance Wales could help with the development of these businesses, just at a time when they should be getting ready to cope. It is bound to have created uncertainty among people.

[366] **Jocelyn Davies:** Have you been able to detect that? You mentioned that there may be uncertainty within Finance Wales, but what about with the clients—the people who you refer to Finance Wales? Since this ‘not fit for purpose’ headline, have your clients been a bit more cautious?

[367] **Mr Umbleja:** I would not go as far as that. The contact that my practice has had with the people in Finance Wales over the last couple of months has been fine, and it has continued to act in a professional way. However, behind the scenes, you can only imagine that there is a bit of uncertainty in the organisation. My clients have not said, ‘We can’t go to Finance Wales because there’s uncertainty’. People assume that Finance Wales will carry on doing what it has been doing.

[368] **Jocelyn Davies:** Alistair, what about you?

[369] **Mr Wardell:** I do not have specific examples of companies that were thinking of going to Finance Wales that are not because of that.

[370] **Jocelyn Davies:** However, the future structure is uncertain, so there is a question mark there.

[371] **Christine Chapman:** I just wanted to pursue that, because I can understand perfectly that there could be uncertainty in any organisation that may be facing possible change. However, on the other hand, that should not be the problem of your clients, really; that is for Finance Wales to deal with. You are obviously content with Finance Wales, but do you have any idea of what changes it could make? Does it need to make any changes to support your clients?

[372] **Mr Umbleja:** I think that Dylan mentions it in his report. I would, perhaps, like to see Finance Wales working more closely with Business Wales, so that it is signposting businesses that need other forms of support alongside a financial requirement; I think that that would be good. Equally, I would probably like to see Business Wales, which is part of the Welsh Government, working more closely with Finance Wales. I think that that would help with the non-financial aspects of any business proposal. Business Wales has only just started, and it needs to develop relationships with Finance Wales and with people like us as well; I think that that is another issue, but that is a Business Wales issue, not a Finance Wales issue.

[373] **Christine Chapman:** What about you, Alistair? Bearing in mind that you are largely

content with Finance Wales, are there any improvements that you think could help in the short term?

[374] **Mr Wardell:** I think that, with any organisation, there are always lots of improvements that you could make—that is true of our own organisation. It is about continual improvement.

[375] **Christine Chapman:** Is there anything that it could do to be more reactive to your clients and the economy of Wales?

[376] **Mr Wardell:** Again, as with all lending institutions, speed of process is always something that can be improved.

11:45

[377] **Christine Chapman:** Are you aware that that is a problem for your clients at the moment? In some cases, are they a bit slow? I am not trying to put words in your mouth—I am just checking, really.

[378] **Mr Wardell:** No, not at all. It is a general comment about lenders that it is increasingly difficult to get credit approval quickly and Finance Wales is no different in that respect. So, improving and speeding up those processes is a good idea. If a review was carried out, it would find things that could be improved, but, generally, I am content.

[379] **Mr Umbleja:** As of last week, my practice has been working for a media-support business that has lost its biggest customer, needs to restructure and needs time to find a new customer, or a few more customers. It has been declined by a clearer and it needs £120,000—which does not seem like a huge amount of money, but it will be the difference between survival or otherwise, and Finance Wales is on track to provide a response within seven days. It does not have the security issues to worry about, which can delay things, but that is still a very quick response time.

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

[381] **Julie Morgan:** On Christine's previous question, I think that you, Peter, expressed great surprised that Dylan Jones-Evans used the phrase 'not fit for purpose' in the report. Did you think that it was irresponsible to do that?

[382] **Mr Umbleja:** I would not say that it was irresponsible but I tried to read as much of the report as I could follow as a non-academic and it did not seem that the conclusion 'not fit for purpose' ran through the report. However, as Alistair has said, it is for the Welsh Government to decide what its purpose is.

[383] **Julie Morgan:** However, in terms of what you are requiring from Finance Wales, you clearly say that it is fit for purpose.

[384] **Mr Umbleja:** It is for the provision of finance. I think that what Dylan was getting at a bit was that the other purpose of economic growth is development and employment creation, but those things follow on from the provision of finance in the way that Finance Wales does when clearers cannot, will not or have not.

[385] **Mr Wardell:** Personally, I would stay away from using words like 'irresponsible' in the same way as I would stay away from phrases like 'not fit for purpose' because that is the kind of phrase that gets picked up by the media and used to create disproportionate attention, which was unnecessary in this case.

[386] **Jocelyn Davies:** Before we move on, are you saying, Peter, that from reading the report you would not have jumped to the same conclusion?

[387] **Mr Umbleja:** No, I would not, but I hasten to say that I went through the detail and I did not get to that conclusion.

[388] **Jocelyn Davies:** From the evidence—

[389] **Mr Umbleja:** From the report, as I remember it, having read it three months ago and skimmed over it a few days ago.

[390] **Mr Wardell:** The report cannot possibly come to the conclusion that it is not fit for purpose because at no point does it say what the purpose of Finance Wales is. It is just not possible.

[391] **Jocelyn Davies:** Are you a lawyer as well, Alistair? [*Laughter.*]

[392] **Mr Wardell:** No, I wish I was.

[393] **Jocelyn Davies:** I think that you would have been an excellent lawyer. Back to you, Julie.

[394] **Julie Morgan:** I was going to ask you about the idea of creating a development bank for Wales. What are your views on that? I think that that is being explored now. What sort of models do you have in mind? Also, how do you see Finance Wales fitting in to that?

[395] **Mr Umbleja:** I think that Finance Wales could become a development bank for Wales if that is what is required. I do not see any problem with that. The structure is there, the funding is there and the Welsh Government has provided significant funds for it. I would not see any reason, if there was a decision within the Welsh Government to build a development bank for Wales, why it could not be Finance Wales—

[396] **Jocelyn Davies:** Why it could not become it—

[397] **Mr Umbleja:** Yes, if that is what was decided. Obviously, there are financial implications of all of that. My understanding is that that might be very expensive.

[398] **Mr Wardell:** Any talk of replacing Finance Wales with a development bank, I think, fails to recognise how lucky we are to have an organisation like Finance Wales. If we want to change the direction of Finance Wales, as Peter says, towards being more of a development bank, or to have it as a development bank as well, then I think that it should be given the opportunity to see whether it could fulfil that function. However, I think that the time, effort and money to create something from scratch is likely to be prohibitive.

[399] **Mr Umbleja:** Yes, as well as the uncertainty that that would cause in the intervening period. That is my key point.

[400] **Jocelyn Davies:** Yes, because there would still need to be a place for the work that is being done by Finance Wales, which was your point, whatever the future brings.

[401] **Mr Umbleja:** Yes, at this point now.

[402] **Julie Morgan:** Lots of alternative partners are being suggested for a development bank. I do not know whether you have followed any of those suggestions or have any views.

[403] **Jocelyn Davies:** Do we need one? Do we need a development bank for Wales?

[404] **Mr Umbleja:** Again, I have been through the process with you today in terms of what I think Finance Wales does, and I know that there are clearing banks alongside it. In terms of a public sector development bank, you would have to define what its role was, really, and whether it is then competing with the clearing banks or not.

[405] **Jocelyn Davies:** Is there a gap? Do we have a gap that needs to be filled by something along the lines of a development bank?

[406] **Mr Wardell:** I just do not know.

[407] **Julie Morgan:** What do you think, Peter?

[408] **Mr Umbleja:** Someone should try to tell me what a development bank would do, I guess, and then I could respond. It does not seem to me that, from my recent experiences that—. Finance Wales and the clearing banks work alongside each other, providing finance to my clients. I do not know what the proposals would be.

[409] **Jocelyn Davies:** So, for your clients there is no—. Okay. Are you happy, Julie?

[410] **Julie Morgan:** Yes.

[411] **Jocelyn Davies:** Shall we come to your questions, Peter?

[412] **Peter Black:** The UK Government is putting together a British business bank. Do you think that that will be of benefit to Welsh SMEs? Could that take the place of a possible development bank in Wales?

[413] **Mr Wardell:** Again, it goes back to what Peter is asking, really: what hole are we trying to plug? If we identify what the gap is, and then what you want the development bank to be, I guess that the answer is 'maybe'.

[414] **Peter Black:** In terms of the British business bank, which is being created by the UK Government, are you aware of that initiative?

[415] **Mr Wardell:** Yes.

[416] **Peter Black:** Will that actually assist your clients?

[417] **Mr Umbleja:** From what I understand, in England, there is not a Finance Wales. So, perhaps it is trying to do something that replicates a bit of what Finance Wales does.

[418] **Peter Black:** As I understand it, it will also apply in Wales.

[419] **Mr Umbleja:** Yes, I know, but in England—. It is an initiative of the Government in Westminster.

[420] **Mr Wardell:** I suppose that additional funding may be of benefit to some companies but you would need to commission a study to understand what the need is and whether we should introduce it. However, my instinctive feeling is that I am not sure that there is the need.

[421] **Peter Black:** My last question is in relation to how we can make greater use of non-

bank alternative finance, which I guess is Finance Wales. Are there any other sources of non-bank alternative finance in Wales that SMEs can access and could greater use be made of those?

[422] **Mr Wardell:** With non-bank finance, I suppose that there are—. The predominant new finance, if you like, that has been around for the past few years—it is not new—is asset-based lending. So, there is a lot of invoice discounting and lending against individual assets, which is done by the clearers and other individual entities. So, there is a lot more of that in the market, and that is equally available in Wales as in the rest of the UK. There are other initiatives like Funding Circle and angel investors.

[423] **Peter Black:** Are we getting a good share of that investment in terms of our companies, our SMEs and the bigger companies?

[424] **Mr Umbleja:** I have not actually done a deal with a Funding Circle-type of organisation, but I am aware of two or three. I know of one for certain that is based in Cardiff, for which I have seen literature and I am quite close to exploring further, but that is as far as I—

[425] **Jocelyn Davies:** These new initiatives are not widespread, therefore.

[426] **Mr Umbleja:** They may be; I just have not have explored it as far as I should. Maybe I am not—

[427] **Jocelyn Davies:** Okay. So, it is not in your experience. Do you not talk about these things at dinner parties that you have with your—

[428] **Mr Wardell:** No. [*Laughter.*]

[429] **Mr Umbleja:** It is sad, is it not? I am sorry.

[430] **Jocelyn Davies:** Peter, have you finished?

[431] **Peter Black:** That is fine, yes.

[432] **Jocelyn Davies:** We will have one final question from Julie.

[433] **Julie Morgan:** Going back to the British business bank, obviously, that money is going to be available and some of it will be for Wales, but there will not be a regional branch, as I understand it. So, do you think that Finance Wales should take on that money that would be available from the British business bank, as part of its operation?

[434] **Mr Wardell:** It would be sensible for it to use an existing structure that works pretty well, I suspect, but, again, you just have to make sure that it is not competing with itself for money in any way; you would have to be very clear about the objectives of the money that would be coming in and you would have to consider how they compare to the objectives that Finance Wales has been set, to make sure that they are aligned. So, I would suggest that you just have to make sure that there is alignment there.

[435] **Jocelyn Davies:** Do you agree with that, Peter, or could there be internal tensions in an organisation that is getting its funding from several places with different objectives?

[436] **Mr Umbleja:** Finance Wales already gets its funding from different sources—the JEREMIE fund and some European funds—so it is another source of funding for it, I guess. A separate British business bank will take time to set up and cause uncertainty. It is great that



it is happening and it will be new funding. However, it would make sense if it were developed within Finance Wales for the Welsh part of it. That might be quite a reasonable idea.

[437] **Jocelyn Davies:** Okay, thanks very much. We will send you a transcript, so if there is anything in it that is inaccurate, perhaps you could correct it before we publish it in final form. We would like to thank you very much for giving us your time today. We found that very useful.

[438] **Mr Wardell:** Thank you.

[439] **Mr Umbleja:** Thank you.

11:57

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

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

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

[441] I see that Members are content.

Derbyniwyd y cynnig.  
Motion agreed.

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:57.  
The public part of the meeting ended at 11:57.*