Cynulliad Cenedlaethol Cymru
National Assembly for Wales

Cofnod y Trafodion
The Record of Proceedings

Pwyllgor yr Economi, Seilwaith a Sgiliau

The Economy, Infrastructure and Skills Committee

09/11/2016

Agenda'r Cyfarfod
Meeting Agenda

Trawsgrifiadau'r Pwyllgor
Committee Transcripts

Cynnwys
Contents

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle y mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

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. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Hannah Blythyn Bywgraffiad|Biography	Llafur Labour
Hefin David Bywgraffiad|Biography	Llafur Labour
Russell George Bywgraffiad|Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Vikki Howells Bywgraffiad|Biography	Llafur Labour
Mark Isherwood Bywgraffiad|Biography	Ceidwadwyr Cymreig Welsh Conservatives
Jeremy Miles Bywgraffiad|Biography	Llafur Labour
Adam Price Bywgraffiad|Biography	Plaid Cymru The Party of Wales
David J. Rowlands Bywgraffiad|Biography	UKIP Cymru UKIP Wales

Eraill yn bresennol
Others in attendance

Gareth Bullock	Cadeirydd, Cyllid Cymru Chair, Finance Wales
Rhian Elston	Cyfarwyddwr Buddsoddi, Cyllid Cymru Investment Director, Finance Wales
Kevin O'Leary	Cyfarwyddwr Cyllid a Gweinyddiaeth, Cyllid Cymru Finance and Administration Director, Finance Wales
Giles Thorley	Prif Weithredwr, Cyllid Cymru Chief Executive, Finance Wales

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

Mike Lewis	Dirprwy Glerc Deputy Clerk
Gareth Price	Clerc Clerk
Ben Stokes	Y Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 09:30.
The meeting began at 09:30.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest

[1] **Russell George**: Bore da. Good morning. Welcome to the Economy, Infrastructure and Skills Committee. I move to item 1: there are no apologies this morning. All Members are present. Can I ask Members if there are any declarations of interest? No indications.

Adroddiad Blynyddol Cyllid Cymru ar gyfer 2015-16—Sesiwn Graffu
Finance Wales's Annual Report 2015-16—Scrutiny Session

[2] **Russell George**: So, I move to item 2, which is Finance Wales's annual report 2015-16 scrutiny session. I'd like to welcome members this morning from Finance Wales. I will just give a few housekeeping rules, then I'll ask you to introduce yourselves. The meeting is bilingual this morning. Headsets are available. Translation from Welsh to English is on channel 1 or amplification is on channel 0. I should say, there will be a transcript of proceedings following the meeting made available to you. If the fire alarm goes off this morning, please take advice from the ushers. You may notice Members on electronic devices—that's not an indication that they're not taking part in the meeting—[*Laughter.*]—we use those for the progress of the meeting. So, can I ask our guests this morning to introduce themselves?

[3] **Ms Elston:** Good morning. My name is Rhian Elston from Finance

Wales. I'm one of the investment directors for Wales.

[4] **Mr Thorley**: Bore da. Good morning. I'm Giles Thorley. I'm the chief executive of Finance Wales.

[5] **Mr Bullock**: Morning. Gareth Bullock, chairman of Finance Wales.

[6] **Mr O'Leary**: Good morning. Kevin O'Leary, director of finance, Finance Wales.

[7] **Russell George**: Great. Members have indicated a number of subject areas this morning, which I'll move to, but if I could ask you to perhaps outline the main achievements of Finance Wales in this financial year of 2015-16?

[8] **Mr Thorley**: I should just start by saying that I actually joined in April, so that financial year actually doesn't cover any period when I was involved. But I found a business that is in very good shape. The performance really demonstrates what Finance Wales does, which is to provide funding for the gap for small, micro and medium-sized business in Wales. We've invested around £14,500 per job delivered, and in the year, we've completed just over £45 million-worth of investments, with 185 companies supported. You'll hear a phrase called 'PSL', which is private sector leverage—this is where funding that we have provided has also been matched or exceeded by third party investors. That's generated almost £65-million worth of private sector leverage. Jobs created or safeguarded are just over 3,100.

[9] **Russell George**: Can I ask, are there any challenges that you've had this year or are there any—perhaps if I ask this question—goals that you've set yourselves this year that haven't been met?

[10] **Mr Thorley**: No. I think actually what I found is an organisation that was, albeit in a period of transition with the arrival of Gareth as the new chairman in the autumn and a number of personnel changes—. Actually, there were some very stringent targets, nearly all of which have been met, as far as I can see.

[11] **Russell George**: Okay, thank you. I'll move to Vikki Howells.

[12] **Vikki Howells**: Thank you very much. I have some questions for you about profit and loss, really. Looking at the data that we've had submitted to

us, Finance Wales has made a loss in three out of the last four years. Is that something that should be a cause of concern for us?

[13] **Mr Thorley**: No, but what I will do is I will pass you on to Kevin, who is the finance director, who can probably talk through in more details on the accounts.

[14] **Mr O'Leary**: Okay. I'm glad you've asked me that question—I think. [*Laughter.*] Without being too techie about this, this is an accounting loss. So, Finance Wales is basically three different businesses. There is Finance Wales plc, which is the holding company, which contains the management of the company, all of the support services—HR, finance, marketing—for the group, and also xénos, which is our business angel network. So, the money for that—most of the money for that plc bit of the company comes from all of the different areas of the business where we charge out those functions. And then the bit that isn't covered by those re-charges comes from Welsh Government. So, that's our subsidy, our grant-in-aid, which is now, I think, £2 million, from about £5.6 million a few years ago. So, that part of the business, if you like washes its face completely.

[15] We also have fund management. Now, fund management is where we manage funds in Wales and, indeed, outside Wales through FW Capital. That, invariably, is profitable—not hugely profitable, but we cover the costs and some with that activity. The third part of the business is the fund-holding element—the funds themselves. We have, probably, eight or nine active funds at the moment, all at different stages in their lives, and all funded differently. So, some might be wholly Welsh Government funds, some will have elements of European money in there, some might, indeed, have European Investment Bank debt in there, some have got Barclay's debt in there. So, all of those funds, if you can imagine, are at different stages in their lives. So, when we prepare the annual accounts, we cut through these three areas of the business, and what you're seeing in these losses or profits are funds part way through their gestation. So, if you want to really understand how Finance Wales is performing, what you have to do is to look at each fund individually and what it's projected to do when it eventually finishes. So, we would expect, certainly, the JEREMIE fund, which has closed, and the Wales Business Fund, which has just started, all to leave what we would call a legacy. So, in other words, there will be money left at the end of the day for further reinvestment in Wales. So, a very long answer to a short question, I'm sorry. But no, I don't believe the committee should be concerned by that loss.

[16] **Vikki Howells**: Thank you. That was a helpful answer. So, for instance, if we look at 2014-15, which is the one year within the last four years where you made a profit, which was £1 million, that would be linked back to what you were saying then.

[17] **Mr O'Leary**: Absolutely. It's fortuitous—. I'll say 'fortuitous'; it's probably not a good word. But, really, I think if we have the opportunity, perhaps, to discuss at some future point with individual members of the committee—or, indeed, to present to the whole committee—we can talk about fund performance, and you can see how those funds are doing. Sadly, our accounts are not a good entry into understanding Finance Wales's performance, I'm sorry.

[18] **Vikki Howells**: Just to dig a little deeper, then, and maybe to look at some real-life examples, would you be able to outline for us the areas of specific activity that have been most profitable for yourselves and also least profitable?

[19] **Mr O'Leary**: If you are happy for me to take that, I—

[20] **Mr Bullock**: Could I just say something at this point? As a non-accountant chairman, I asked exactly the same question on about day two when I arrived in this role. It's true that the way that the current accounting policies work do not make it very easy, at a glance, to see how the dynamics of profit and loss actually work. It's one of the things that I hope we can do, if the accountants are willing, next year: to actually recast the profit and loss account, so that it's much more easy to understand.

[21] I think that there are two big variables, if I could supplement Kevin's answer to you, that make all the difference to the final profit and loss, and that is impairments, which is where we've made an investment or a loan and it goes wrong and we have to provide for it. And the other one is realisations, where we make an investment and it succeeds. A company might buy the company or it might list on the stock exchange, and we can take, normally, a profit on that. Those tend to be the big variables each year. In fact, just looking at the last three years—2014, 2015, and 2016—the impairments are -£9 million in 2014, -£12 million in 2015 and just under -£3 million, actually, in this last year. Realisations go from £4.6 million to, actually, a loss. So, those are the big variables and, within those, those will be individual companies. Those are the things that make the big difference.

[22] **Mr O'Leary**: Just on the question you asked now, I would say probably our least profitable area is the fund management activity to do with micro loans, because whilst micro loans themselves have a huge impact on individual companies, they are notoriously expensive to administer because they are extremely labour intensive. We've done work on that in terms of introducing an online application form to try and streamline that, but, certainly from an accounting point of view, I would say that's probably one of our most expensive bits of the business.

[23] **Mr Thorley**: On the other side, on the profitable side, we, working with the Welsh Government, have created a property fund that funds SME builders to build small residential property developments. That fund was initially a £10 million fund—we've actually already spent or committed almost £24 million by recycling that money—and that fund is probably the most profitable. And it's actually supporting houses that we're also funding through the administration that we provide for Help to Buy—Wales, so we're actually funding the purchase of the houses that we're funding the construction of.

[24] **Vikki Howells**: That's very useful, thank you. Just to finish off, then, I notice that, between 2015 and 2016, Finance Wales has exited four different equity investments, which, on paper, leads to a loss of over £445,000. I wonder if you could furnish us with some details about why that decision was taken.

[25] **Mr Thorley**: I'll give you the outline—because there's a particular structural component to Finance Wales, and then I'll pass on to Rhian to give you a little bit more detail. So, as Finance Wales is wholly owned by the Welsh Ministers, we're not in a position to hold majority stakes in companies, so all the investments that we make are minority holdings, as a result of which, when the company wishes to sell to a third party, it is their decision, not ours, and so we are to a certain extent at the whim of their decision. Kevin mentioned that in the case of one of our funds—it's a fund called the JEREMIE fund, which was funded by European regional development fund money—there was also a loan from the European Investment Bank and that loan has to be repaid and is on schedule to be repaid by the end of March of next year. So, again, sometimes there are opportunities to sell or to agree to sale of our equity as part of our requirement to fund the repayment of that loan. If I pass on to Rhian to talk about the specific exits we've done in this year—.

[26] **Ms Elston**: In terms of the detail for this particular year, and just to add to what Giles has said there, we are about supporting the management team—so, it's their decision, really, when they get to a point where they wish to exit the business and we look to support them, to help them, often through the introduction of non-executive directors, for example, to the board of those companies. But, when an opportunity comes forward, it gets approved by our investment committee for us to sell the shares—so, if you like, that's the internal governance. If you look at the four [correction: four exits] that went through last year—I can't go into specifics on a deal-by-deal basis, just because of the confidentiality, I suppose, of the detail, but, to give you an idea, one of those that we exited in that year was actually quite a long-term investment. We'd invested previously—unfortunately, the company hadn't gone to plan and we actually introduced somebody to take the business out of insolvency. So, it was a turn-around situation for us. They came in, took the business forward, we actually went on to invest more money, and it was last year that we finally exited the business. So, it was a good result at the end. It was a good result at the end, but that was a number of years of us working with the company to get to that position. So, it does vary.

[27] This year, in the first six months, we've had a good start to exits. We've recently completed on one where the management team were very keen to sell, and actually, the chairman that we introduced there was instrumental. The management team had not done this before, so actually having somebody to sit alongside them, to be on their side, effectively, in the negotiations with the company that was purchasing them, really helped. But, it was their decision to sell and we just had to approve it from an investment committee perspective.

[28] **Vikki Howells**: Thank you.

[29] **Russell George**: In regard to your account showing a loss, which you've given a very detailed explanation of, had you anticipated that 12 months ago?

09:45

[30] **Mr O'Leary**: No, I would say, because, as Gareth alluded to, some of the things that we talk about—so, certainly impairments—are very difficult to predict. So, we usually come up with a figure of what we think will be companies moving from the good book to the bad book, if you like, in a year.

And, sometimes, it's better than others, if you like. So, last year wasn't hugely bad in terms of impairments. But it would be impossible for me to sit here today and to say to you, 'I would say that our estimate will be that we will break even this year' or, 'We will make a £2 million loss', because those impairments in particular are very, very volatile.

[31] **Russell George**: So, when you set you a target, you wouldn't set a target for what your balance, your profit, would look like at the end of the next financial year. You wouldn't do that.

[32] **Mr O'Leary**: No. The targets are on the individual funds. So, when we start to intervene or get very concerned would be—. So, a fund might have a risk tolerance of, say, 10 per cent. If we started to approach 7 per cent quite early on or something, then we would start looking at that, but it tends to be very much on a fund-by-fund basis. The rest of the business, certainly the plc bit and the fund management bit, is budgeted, monitored against the budget, and brought in on target. But it is the fund elements that are so volatile.

[33] **Mr Bullock**: Might I just supplement that by saying—to draw the distinction, if I might, Chair, between your use of the word 'anticipated' and maybe another one, which is 'forecast'? I think forecasting, as Kevin said, is quite hard on the fund side because we all know what business is like: there are ups and downs. I think, in terms of—. We can forecast fee income, because it's contracted and that's much more visible. Anticipation: I would say that we always anticipate the possibility that there may be loss, and therefore we actually have to position ourselves and look at our portfolio accordingly. And, just to remind, if I might, the committee, that we do operate—I was very clear in my chairman's statement this year to point this out—at the risky end of the market. We're operating where the private sector don't operate. So, we should anticipate that we will have some losses. The key and the trick is actually to manage that to as minimum as possible, and that's what we're trying to do. So, I would just draw that distinction between forecasts and anticipation.

[34] **Russell George**: I appreciate it. So far, I have Mark, and then Jeremy and then Hefin. So, Mark Isherwood first.

[35] **Mark Isherwood**: What criteria do you apply to return on capital? Are you bound by the normal capital adequacy rules and insolvency ratios? And, in terms of help to buy, what provision are you making for the eventual

requirement to repay the loan finance to the Treasury?

[36] **Mr Bullock**: Let me just answer the first part of that, and if I could hand over to Giles to answer the granular part of that—. We are not a bank, in the sense of—or an insurance company, so, in terms of solvency, capital adequacy ratios, that doesn't apply in that sense to us. The point about return on equity, I think, is one that I'm certainly trying to, as we move towards the transition into a development bank, frame. It's a little bit the answer to the Chair's question. What is the right return on equity for a business like ours that operates where the private sector doesn't operate? And I think, conceptually, that's actually quite hard. At this point in time, we do not have a target for that. I think what we would like to say is that we would like to be able to provide at least the money that the Welsh Government provides to us, to actually give that back at some point in time.

[37] **Mr Thorley**: To your specific question about Help to Buy—Wales, you're absolutely right, that is funded by FTR funding. And the funding is broadly coterminous with the length of the individual help to buy fund. So, I believe it's 25 years, but I can double check that and come back to you. So, given that, on the last numbers that I looked at, average house turnover was around—the average time to move for house owners is around eight years—. I think it's more than satisfied—the structure is more than satisfactory to make sure that we meet the FTR repayment.

[38] **Russell George**: Jeremy Miles.

[39] **Jeremy Miles**: Can we go back to the question of the exit from the four equity holdings—subject to the point that you've made about confidentiality, obviously—just to get a sense of the alignment of your interest with the majority shareholders? Were each of the four transactions loss making?

[40] **Ms Elston**: No, that's the overall blended position. So, no, not each of them were loss making.

[41] **Jeremy Miles**: So, how many of them are, within that?

[42] **Ms Elston**: Do you know, I'm not sure, actually? I think it was one of them that was overall.

[43] **Mr Thorley**: Just hold on a second; I'll just find an answer to your question.

[44] **Jeremy Miles**: Okay. Just to get a sense of—. Presumably, your shares were valued at the same valuation as the majority shareholders' shares. So, your interests are aligned in that sense.

[45] **Ms Elston**: Yes, in terms of just aligning interest with the majority shareholders, you're absolutely right. That's a key factor when we're initially making the equity investment into the company because we have to be aligned with the majority. They're the ones who are controlling the board, they're the ones who are making the decisions going forward, and that's—

[46] **Jeremy Miles**: Yes, so they're the same class of shares with the same valuation, effectively, in general terms.

[47] **Ms Elston**: Yes, generally, we can go in a slightly different class of shares, compared to management team, but, broadly, we're investing in the company.

[48] **Jeremy Miles**: And from a valuation point of view they should be—.

[49] **Ms Elston**: Yes. So, we can get a slightly preferential return when a company sells, in that we get our cash back first and then it's split between the rest of the shareholders, but it varies. It's on a day-by-day basis in terms of—

[50] **Jeremy Miles**: Okay. I wanted to get a sense of the general approach, basically. So, obviously, in the ordinary course of events, the majority shareholders would be disposing for profit, clearly.

[51] **Ms Elston**: Yes.

[52] **Jeremy Miles**: But in at least one example the company was in distress of some sort.

[53] **Ms Elston**: Yes, and it could be that just we are exiting at that point. So, it could be that there's an example where perhaps the management team has decided to buy back our element of it, or someone else has come in to take it out.

[54] **Jeremy Miles**: I see. Okay. So, they're not all dragging your shares to a third party.

[55] **Ms Elston**: No. In an ideal world, we all work together and everybody looks to exit at the same point, but it varies hugely. We've got examples this year where other private equity firms have come in: so, a recent deal that we've done with the Business Growth Fund, where we backed the business originally with equity funding, when it was at an earlier stage with slightly higher risk, but the company's performed really well, there's growth, and the BGF now have come on board. We've managed to realise part of our investment, so we can de-risk our involvement. It allows us to meet some of the EIB loan repayments. We've still kept an interest in the company, but the BGF have come in with more firepower to continue to take the business forward. So, there are a number of different variations of how we could achieve an exit of our equity investment.

[56] **Jeremy Miles**: Okay. You mentioned, I think, in your answer earlier—I think I understood you correctly to say—'effectively further capital injections' on some basis.

[57] **Ms Elston**: Yes.

[58] **Jeremy Miles**: Would that be in return for additional shares, or—

[59] **Ms Elston**: Yes, it varies again, but usually. So, we could either be investing for perhaps a larger shareholding in the company or we could all be investing, so then you're just keeping the same percentage if all shareholders are continuing. We've often provided—. We've got the flexibility to provide either debt or equity, which is a big benefit when we're working with SMEs because we could start with an equity investment and then, as the company evolves and moves into an ability where it can service debt, we could provide a loan to the company. So, again, it's trying to keep the flexibility so that we can serve the needs of the SMEs, and depending on what they're looking for at that particular point within their company.

[60] **Jeremy Miles**: Okay.

[61] **Mr Thorley**: Jeremy, to your question, with the four companies—[Inaudible.]—and Microvisk, what we'll do is we will write back to the committee with the details of the overall return on those investments. But I reiterate Rhian's point, which is that one of the unique features of Finance Wales is that we can invest in equity and debt. Because the lifecycle of businesses changes, at various stages in their lifecycle, they have to invest so

they're not generating enough capital to repay debt, for example, but we can switch from equity to debt or we can make equity or debt investments, and that is extremely unusual. Well, it's nigh on impossible for the commercial banks to do that. It's even unusual for the venture capital organisations or the crowd funders to do that, and that's one of the things that we have as a significant virtue when supporting Welsh businesses.

[62] **Jeremy Miles**: Thank you.

[63] **Russell George**: Grateful. Hefin David.

[64] **Hefin David**: With your permission, Chair, before we look to the future I'd just like to test some of the consistency of evidence that you've given to the predecessor committee to this one in 2015, and some of the statements made today. Mr Bullock, you said that you aim to give back the money you receive. Is that what you mean by 'breaking even'?

[65] **Mr Bullock**: What I mean by that is one of the things, as you're coming into this business, like in any business, is you have capital. You deploy it. The capital provider, which is the Welsh Government, the taxpayer, I think it's legitimate to give our shareholder an expectation of what return they might make on that capital—my answer to you, Mr Isherwood—and we don't have that target, never have had one. As we go into the development bank, I think it's something that we do want to work with. The idea would be, for example, to answer your question directly, if we have a £50 million fund from the Welsh Government, by the end of that fund, I think it's probably a good working hypothesis—we're not at the conclusion of this yet—to give £50 million back. But that money has been deployed in the economy, and all of the good economic multipliers that come from that, which are employment, an increase in tax base, et cetera, will have played their part. But one thing we don't have at the moment is that kind of commitment or granular target to say, 'This is what we will give back to the Welsh Government, if asked at a point in the future.'

[66] **Hefin David**: Okay, so you're talking about an overarching aspiration. Over what kind of period of time would you be talking, a financial year, or—?

[67] **Mr Bullock**: Well, that depends. As Kevin said, I think these things are always—. You have to look at these on a fund-by-fund basis, because that's what we're deploying and it would be at the term of that fund. That could be, you know, 10 years.

[68] **Hefin David**: Okay. The evidence that came into the committee in 2015—the predecessor committee, Enterprise and Business Committee—from your organisation, was that—and I quote what was said—

[69] 'we've made a commitment that we will aspire to be break even, if you like, or non-grant dependent, in three to five years, and that will take real focus. So, I would have to say that it's a challenging goal'.

[70] Would you still aspire to that?

[71] **Mr Bullock**: Yes, I think we would. The reason I hesitate is that—and you'll see this as the development bank proposal comes forward—our revenue is earned mainly through fees on funds. We supplement that at the moment through grant in aid. You could have a situation whereby we go to zero GIA, and have it all from funds. The risk there was that we have a cost base—we have employees, we have rents, et cetera. The question is: will we have enough volume of funds under management that come from Welsh Government that, on that, we can generate enough fee revenue to cover our expenses? That, if you like, is the equation.

[72] **Hefin David**: Okay. And what's the likelihood?

[73] **Mr Bullock**: I think the question is, really, one for the Welsh Government. If we had a scale of funds sufficient to cover our costs, you can run down GIAs to whatever number you really want. It's really that kind of relationship.

[74] **Hefin David**: Forgive me if I'm not getting quite to the complexities of this—I mean, it's not my area of expertise—but you did say at the previous predecessor committee to this one:

[75] 'To be self-financing, in my opinion, you need to be able to source those funds as well',

[76] which I assume to mean PSL. Is that correct?

[77] **Mr Bullock**: No. They're two different things.

[78] **Mr Thorley**: Private sector leverage is investments that come alongside us in individual transactions. So, when we're supporting a company, we may

provide subordinated or junior debt or equity, and commercial banks may provide senior equity. So, there's an example, that would be PSL. Other equity investors may invest alongside us, as Rhian has mentioned. To your specific point—

[79] **Hefin David**: Sourcing the funds, therefore, does that mean?

[80] **Mr Thorley**: That's independent of the funds. So, the funds themselves—. As the chairman has mentioned, we're in a slightly circular situation, to the extent that if we had funds to invest that cover our costs then there would be no requirement for GIA, and we certainly have budgeted that that is the basis on which we do it. But the reason why, I think, we're being just slightly cautious is because it is a function of raising those funds. That is our responsibility: to work with the Welsh Government to justify how we can commit capital into the Welsh economy to that extent.

[81] **Hefin David**: Okay, and looking to the future, the Cabinet Secretary said that he would like to drive up investment levels to £80 million within five years.

[82] **Mr Thorley**: Yes, the £80 million per year. Yes, that's correct.

[83] **Hefin David**: Is that realistic?

[84] **Mr Thorley**: Well, that would require gross funds, in addition to the funds that we have at the moment, of around £160 million.

[85] **Hefin David**: Over that five years.

[86] **Mr Thorley**: No, £160 million of capital.

[87] **Hefin David**: Okay, and can we say that—given the current state of the situation—it's realistic?

[88] **Mr Thorley**: I think this is a point at which to say that, actually, Finance Wales has an extraordinarily highly regarded track record in its ability to invest development funds. When I came to the role, I met with people, particularly in England, who are looking at Finance Wales, and Finance Wales is regarded_as one of the pre-eminent investors of regional development moneys.

10:00

[89] So, there is a perfectly good rationale for us approaching not only the Welsh Government, but other parties for funding. However, that is something that Finance Wales has historically not done and, therefore, there is no track record to do that at this stage. So, Hefin, I think it's possible, but that's work in progress.

[90] **Hefin David**: Okay. Thank you, Chair.

[91] **Russell George**: Hannah Blythyn.

[92] **Hannah Blythyn**: Last week, under budget scrutiny, we had the Cabinet Secretary before us and he talked about plans for the development bank. When we were asking about the business case, he said that there were a number of options on the table and he'd be able to update the committee in due course. So, what are you able to share with us today in terms of that business plan for a development bank and the nature of the discussions that Finance Wales has had with the Cabinet Secretary on this?

[93] **Mr Thorley**: We provided a first draft of the business plan for consideration by the Welsh Government on 14 September. We've had a number of meetings with Welsh Government in the period following that, to incorporate their comments. A further draft of the business plan was provided on 30 October and it's now with the Welsh Government to look at and determine and to put their gloss onto the document.

[94] **Hannah Blythyn**: The other key thing that the Cabinet Secretary said when he was before the committee last week was about his plans to decentralise Welsh Government functions and to look at having the development bank in north-east Wales. To what extent have you been involved with those discussions, in terms of the nature of the location of the bank and the cost implications for that?

[95] **Mr Thorley**: We have been involved in the discussions. In fact, it was raised with us to consider as part of our work on their behalf. We already have four offices in Wales. We have offices in Llanelli, in Cardiff here, in Newtown in Powys, and also in St Asaph in north Wales. The location of the office in north-east Wales is perfectly conceivable and it's part of a bigger analysis of how we provide nationwide coverage for the Welsh economy.

[96] There are two components to that: one is the location of offices and one is using technology to make sure that all of our services are accessible to anybody in Wales over the internet. To the specific decentralisation, that is part of that discussion. We're producing a paper on the various options for consideration by our board at the end of this month.

[97] **Russell George**: If I had to explain to somebody succinctly what the difference is between Finance Wales and the development bank, what would be the main points that I could raise?

[98] **Mr Bullock**: That's a key question, isn't it? I think there may be four or five things. The first one, any development bank, whichever one you take around the world, has a large financing operation within it. That will be Finance Wales in a development bank for Wales's case. And I think scale is a really important thing to make a big difference, to get those multipliers maximised at operation within the Welsh economy. So, scale in funds that we can deploy in support of Welsh Government economic goals is the first one.

[99] The second one, I think, is advice and support. At the moment, that's done elsewhere within Government, within the private sector, and I think the whole area of supporting micro, small and medium businesses with different calibrated levels of support and advice in terms of how they might grow, how they might develop, to the benefit of themselves and of the Welsh economy, is an important part too. We don't have that at the moment within Finance Wales. That's a new part, I think, within the development bank.

[100] Another one is the intelligence unit, we call it. One of the things that I've noticed is that it's very difficult to find consistent economic, demographic information. It's something—Giles can talk about this in a little bit more detail if the committee wishes, because we've already started on that—we've actually been working on with Welsh companies and education institutions to develop a database that can inform the size of our market, the nature of the market and, much more importantly, the precise nature of their needs, so that we can actually tailor different products and services. I think that's the fourth thing that's going to be different—that, with scale, also comes the ability to actually start to develop different types of products and services for the very particular needs of customers today.

[101] **Mr Thorley**: Chairman, I'd just like to add one other thing, which is that we have already, since I've joined, reached out across Welsh Government. We think that the development bank will be able to provide

services for a number of Government departments, and already we're working with the environment department. We manage a small community energy fund. I've already mentioned the property fund, and we're working very closely with homes and communities on an extension of that, and also Help to Buy Wales, which we administer on their behalf. We've had discussions with the civil servants in the health department. In fact, I've offered to sit on a committee that looks at start-up ideas coming out of the university hospital in Cardiff and Vale University Local Health Board. Then, finally, obviously there's the work we do with the economy department.

[102] **Russell George**: Are there any dangers that there'll be overlap between other Government departments and organisations? I think, Mr Bullock, you mentioned business advice in your summary, but Business Wales offers advice, so how do you grapple with that?

[103] **Mr Bullock**: Well, I think we have to grapple with that. I think it is an important part of the offer to Welsh businesses, and I think that the approach that I would take is to see what is best in class in terms of that service, and see how we can best—if we're not the best in class anywhere in Wales; we might be, in some parts—learn from that, and then organise ourselves efficiently and properly to give best effect to that. That's how I would answer that.

[104] **Russell George**: There are a couple of Members who just want to add questions on this section. Adam Price first and then Mark Isherwood.

[105] **Adam Price**: In discussing the policy rationale for the creation, initially, of Finance Wales and now the development bank, we often focus on the funding gap. You've kind of touched on this a little bit, but isn't the reality that there's actually a multiplicity of funding gaps—plural? So, the lack of risk capital, if you like, for high-growth-potential firms traditionally provided by venture capital was a particular focus of the early genesis of Finance Wales. The development bank has largely been about maybe more traditional areas of business lending, and the micro-loans that traditional lenders have withdrawn from.

[106] But isn't there a third funding gap, which is actually those already successful medium-sized businesses? We talk about the missing mittelstand, but we do have some companies in that category, and unfortunately, of course, when they get there, they're often acquired externally. Rachel's dairy, of course, is the classic example that's often quoted, but there are others.

The issue there is that actually you're talking of a quantum. These are deals that would normally have been done, in the old days, by a merchant bank, nowadays by private equity. We could be talking of companies that have revenue of hundreds of millions, and therefore market capitalisation of a multiple of that—you know, deals of £500 million. That would be way beyond Finance Wales or the development bank's capacity. Is there a funding gap there as well, and how could the development bank insert itself into that arena, which is so important if we're going to retain the successful companies that we do grow indigenously?

[107] **Mr Thorley**: Yes, I think there is a funding gap in that sense. I think, Adam, that you're absolutely right that, unfortunately, British entrepreneurs tend to feel the need to sell out earlier than they probably could or should, and that's primarily because of, I think, two things. One, it's partly the lack of finance at certain stages in the economic cycle of a business. I also think that running a private business as an entrepreneur in the UK is very hard. So, when somebody does get an offer, and that offer is seemingly attractive, as in the case of Rachel's Organic, then they're often more inclined to take it. They feel satisfied that they've made a healthy return and that is enough. That's partly a cultural problem, that people don't want to push on to the next level.

[108] How can the development bank help with that? Well, you're absolutely right—in scale, it would be nigh-on impossible for us to provide the core funding to that sort of situation. However, our role is to fill the gap and, in many cases, the reason why that funding isn't available can be a very, very small series of issues: that there's a short-term capital requirement to reinvest in some of the plant or machinery, to get the next stage of investors on board; or there may be short-term cash-flow issues. Those are things that we can help with, and part of our challenge is to make sure that we are marketing ourselves to those organisations to show that we can provide that. In actual fact, we have made a proposal to the Welsh Government for a fund that provides us with a degree more flexibility, specifically to identify those sorts of issues and, for example, issues that may come out of the Brexit decision in due course.

[109] **Adam Price**: You mentioned bringing together the advisory role of Government, but on this issue of succession planning, which is also a key factor in many of these cases as well, thinking of family-owned companies, is that something where you think you could actually have a role to play and then, maybe, of course—and I accept what you say in terms of your ability,

but maybe putting together at least a plan and then looking at a range of funding opportunities that allow those larger scale management buy-outs to happen that aren't happening now?

[110] **Mr Thorley**: Yes. Just on succession planning, we do actually have a specific succession fund, so perhaps I'll pass over to Rhian to talk about how that works.

[111] **Ms Elston**: Yes, I think succession has been a really interesting area for Finance Wales, and there's a lot that we do do and a lot that we need to continue to do to help get that up the agenda, because often, as you suggested, the owners are not thinking about that—they're too busy running the business and are not really planning early enough for that succession issue that is coming. Actually, very recently, just last week, we ran a succession seminar in conjunction with the Institute of Directors. So, they invited their members to come to a breakfast seminar, which we presented, alongside corporate finance experts and people who had been there and done it, the people who we'd supported, which is the best way, really—it's getting our companies to talk about their experience, talk about how they needed to get their house in order so that they could prepare anyway, and then in advance of a succession deal.

[112] So, I think that is a big part that Finance Wales and the development bank needs to play, and that's about using our companies, using the investments that we've made, using some of the successes and some of the growth pains that they've gone through, and using them to tell the message, because I think we found that to be the most effective way to communicate to other SMEs, whether that's inspiring ambition or getting them ready for a succession event. But the succession seminars we've run have been very successful, and it's a nice feeder for us into the management succession fund that we run as well. We've been able to do succession funding from other funds in previous years, but this is our first dedicated fund for this sector, which we think is great news.

[113] **Russell George**: Mark Isherwood.

[114] **Mark Isherwood**: Thanks. What discussions have you had with the north Wales business council and North Wales Economic Ambition Board about where the best location for the development bank headquarters in north Wales would be to meet the needs of the regional economy? And secondly, and finally, key to everything that we're discussing is underwriting

capacity. Certainly there's been good news, but, where problems have been raised with me over the years, that's where the problem has lain. I can think of a major, well, middle-sized, investment from overseas investors in new renewable energy technology that would have gone to St Asaph, creating 150 jobs, that was lost to Brazil because it took so long for anybody to make a decision. On a smaller scale, a now small, successful meat-pie company in north-east Wales, again had to wait so long that he went ahead without the support. These are all some years ago, but has that been remedied, and how are you factoring in the capacity for underwriting and skills in the new structure?

[115] **Mr Thorley**: Well, yes, part of the proposals that are in draft at the moment include reference to the resources we need. The resources will always be finite, so there is always a limitation on what can be achieved, but our objective is to make sure that we streamline all of our processes to give definitive answers as quickly as we possibly can. In fact, for example in the microloan space, we have a 48-hour turnaround time, we have an online application process and we want to extend that to most of our other fields.

10:15

[116] But, unlike the commercial banks, we have individuals on the ground in the regions who are actually making those decisions and going to visit the businesses, with the hope that they are in a constant dialogue, so that, at the very least, the companies that they are dealing with are aware of where we are in the process. We had an example where we needed to set up a bank account for one of our new funds, and I think it's been—how long has it been?—three months and we haven't even got a bank account, and this is a bank that we already bank with. So, we as a smallish organisation also see the problem.

[117] And to your other question about location in north Wales, as I said, we already have an office in St Asaph, and as part of our overall plan looking at where the offices should be located, that's an exercise we need to do, but we haven't had any discussions with any of the chambers of commerce or economic forums in the north of Wales.

[118] **Mark Isherwood**: They're not just any; these are key—the economic ambition board is everybody, and the business council, which represents three different key sector organisations and also sits on the economic ambition board, which also works with the Mersey Dee Alliance and cross-

border agencies. So, it is key, and I hope that, therefore, their view on the best location is sought before a final decision is reached.

[119] **Mr Thorley**: Thank you for that. We will definitely speak to them, yes.

[120] **Russell George**: Jeremy Miles on a new subject area.

[121] **Jeremy Miles**: Well, it's developing that discussion, really, in terms of the operational impact and workforce impact of establishing the development bank. What are your assumptions at the moment about whether Finance Wales staff will transfer to a new development bank, and would that be on a TUPE basis or some similar basis?

[122] **Mr Thorley**: That is work in progress. We have just over 130 staff, so I think, at this juncture, it's probably inappropriate to talk about the exact details, but it's very much a case of maintaining and keeping the skill set that we have from Finance Wales into the development bank, and obviously extending it.

[123] **Jeremy Miles**: Right, but the broad principle would be that most, I guess, would transfer over. Is that the—

[124] **Mr Thorley**: Broadly, yes.

[125] **Jeremy Miles**: Right, okay. And is there a concern that uncertainty around the new arrangements might be causing existing staff to make other decisions, which would be a risk to your skills base potentially? Have you identified that as a risk, or is it—

[126] **Mr Thorley**: Of course, we identified that as a risk. We've been very open with the team, and, in fact, there is actually a high level of enthusiasm and excitement. I think there has been a number of years where, although the organisation has performed exceptionally well, there has been a degree of uncertainty. And actually, the progress that we've been making on the preparations for the development bank have been very positively received.

[127] **Jeremy Miles**: Okay. And in terms of the relocation of the headquarters, that would presumably mean that there'd be a relocation for a number of staff as well. What level of risk do you attach to that in the arrangements?

[128] **Mr Thorley**: Well, again, all of that will be worked out as part of the plan for the location of all of the offices, because we want to make sure not only in terms of where the various administrative centres are, but also where we are closest to our customer base.

[129] **Jeremy Miles**: Okay. A separate question now, but in the space of workforce, I guess: can you set out a little bit about how you decide on the remuneration of directors, generally? I think, in 2015-16, the report shows that the highest paid director was in receipt of £404,000, and then, in the previous year, the most highly paid was about £216,000. So, what benchmarking do you undertake or what processes do you undertake to get a sense of those figures?

[130] **Mr Bullock**: Do you want to—. [*Inaudible*.]

[131] **Russell George**: I was going to say—. [*Inaudible*.]

[132] **Mr Bullock**: I'll take it in two parts, because there's a very specific part that we're putting our heads together on, which I know you've focused on. If I talk about the non-executive directors and also the current executive directors, for non-executive directors there's a standard fee that I don't think has changed for a couple of years now, and that's well in line with market. In terms of executive directors and the appointment of Giles, there is a public sector scheme and tariff, and we've gone with that. And, in that sense, I think, at our senior management levels, including executive directors, those are what I would call normal and in line with the public sector. The one that you've highlighted in the accounts—I'll have Kevin explain the detail of that—is actually the departure of the previous CEO, and that's what it refers to. Do you want to—?

[133] **Mr O'Leary**: Okay. Just following on from what Gareth said, first of all, we have a triennial review by the Hay Group to look at salaries across the piece and we tend to benchmark our salaries against the lower quartile—

[134] **Jeremy Miles**: Against what, sorry?

[135] **Mr O'Leary**: Against the lower quartile. So, they tend to be very low for the industry. The particular figure that you've picked off there is to do with the departure of a particular individual from the management team. It's to do with the pension scheme that we used to have at Finance Wales, which was the local government pension scheme. So, a lot of the staff who originally

were in Finance Wales came across from the WDA on that pension scheme. We haven't operated that scheme for a number of years and there are probably 30 per cent of staff, if that, now still tied to that. When that individual exited, because the individual was over 55, they were entitled to early access to their pension. The cost that you see on there is pension stretch. It is the cost of that early access. That was a contractual obligation. There was no discretionary element to that payment. That was purely the figure that was given to us by Rhondda Cynon Taf, the pension provider, and we were required, under the legislation, to make that payment.

[136] **Jeremy Miles**: So, it's the same individual that is represented in both figures, and the increase in the latter year is entirely based on allocating a value to the pension because of his or her departure.

[137] **Mr O'Leary**: Indeed.

[138] **Jeremy Miles**: Okay, thank you.

[139] **Russell George**: If I can just clarify, the current chief exec's remuneration is not in that figure.

[140] **Mr O'Leary**: No, the current chief executive was not here then. I was acting chief executive for the year. My salary would be significantly—not in that ball park, shall we say. You will see a significant diminution in that figure going forward.

[141] **Russell George**: So, your salary is not in that figure, when you were stand-in chief executive.

[142] **Mr O'Leary**: Not in the highest-paid director figure at all. My salary as a director would be in the—

[143] **Russell George**: So, the highest-paid director figure is just related to one person—the previous chief exec.

[144] **Mr O'Leary**: It's related to one person and the vast majority of that figure is pension stretch.

[145] **Russell George**: Hefin David.

[146] **Hefin David**: Can I preface my question by saying that I don't advocate

going above the lower quartile, to be honest with you? But it does raise the question the Work Foundation identified that, on some occasions, the public sector could be fishing in the same pool for talent as the private sector. Does it present challenges in the labour market for you? No offence, Giles. Does it present any challenges in the labour market for you?

[147] **Mr Bullock**: Just on that—and thank you for raising that question because we've had an exchange with the civil service on this. At the moment, we have a three-year agreement set up for Finance Wales, which is agreed with the civil service. I would say that my view of this—let's be clear—we are an agency of Welsh Ministers, we're owned by the Welsh Government, but our activity is wholly within the private sector. That is what we're here to do. Therefore, the competition for talent, as it's called, for good people, is within the private sector, almost exclusively. We do lose people to the private sector. We are constrained by public-sector guidelines on pay. My reading of that at the moment—I'll let Giles give you the view of the executive—is that I may be a bit more worried that he is. I don't know; we haven't calibrated our sentiments on this recently.

[148] **Hefin David**: He doesn't look like he's got any plans to go anywhere.

[149] **Mr Bullock**: But actually, I would like to say, I think it will become an issue increasingly. I think it's good that it's been aired at this committee because we do want, especially as we go into the development bank with the ambition that we all have for that, to make sure that we actually have the flexibility to attract and retain—actually, retain is very important—the right people that we've developed over the years. Whilst I'm not saying we're in any way at a crisis point at this point, I would like to just register that it could well become an issue over the next couple of years.

[150] **Hefin David**: So, that flexibility you're talking about is wage flexibility and pushing up wages, possibly, in order to retain talent.

[151] **Mr Bullock**: Yes.

[152] **Hefin David**: Okay.

[153] **Ms Elston**: I think the retention point—sorry, Giles—is interesting just because we've had—. It's a very good training ground in Finance Wales. People join us and they get a vast experience of doing equity, debt, investments, that really they can't get elsewhere, certainly within Wales.

We're good at growing our own, in terms of people coming through the organisation, but then they are hot property from the private sector and we've had a number of examples, actually recently, where people have left and gone to the private sector, either other private equity firms or the banks, and there has been an uptake on that activity. In some ways it's a compliment if the private sector want to take people over and that's good if they still then continue to invest in Wales and that's their focus, but there's always a balance. We can't have too many of our good people leaving. We need to make sure we are retaining people and bringing new people in. That is a constant challenge for us to think about.

[154] **Hefin David**: But there's also a public interest issue associated with it.

[155] **Ms Elston**: Yes.

[156] **Mr Thorley**: I'd like to reiterate the point I made earlier, which is—and it's very difficult looking from within—but from outside Wales, Finance Wales is regarded as one of the pre-eminent organisations in this space and you'll be glad to know that I could have earned considerably more going elsewhere, but I do feel that running Finance Wales—

[157] **Hefin David**: [*Inaudible.*]—like David Rowlands.

[158] **Mr Bullock**: I should perhaps have said that.

[159] **Mr Thorley**: And also, the opportunity to help the Welsh Government to develop or to create the development bank is an extraordinary opportunity. What I would reiterate as well, because I think the team of Rhian and Kevin, for example, are very modest—it's an excellent team of people who really are working in Finance Wales because they want to work there because they're actually making a difference. Historically, or in the last few years, the organisation has been bogged down to a certain extent by some negative comments. I have not found anything like that. I've found a very dedicated group of people. I think the opportunity to develop skills within is important and we have to do that, and that's one of the ways that I think we can retain high quality talent. But occasionally, we are going to have to push the boat out to a certain extent to get the right people to make sure that we continue to have that level of skill set that we need.

[160] **Russell George**: Thank you. David Rowlands.

[161] **David J. Rowlands**: You've answered many questions with regard to—from Hefin—with regard to becoming self-financing, but what I'd like to do is just come at it from a slightly different angle now. That is, yes, there is a desire to become self-financing, but I'm sure we'd all agree that we wouldn't want that to make you risk averse. You've already mentioned the fact that you're in a business sector that is much more risky than those that the normal high street banks might be lending to. So, what are your thoughts on that with regard to how you feel you ought to progress over the next few years? I don't think we ought to be putting pressure on you, quite frankly, to become self-sufficient. I'd much prefer you to be out there loaning to the people and doing that side of your job.

[162] **Mr Thorley**: Just to make it clear in terms of the context, the funding this year of GIA or Government funding for the organisation is around £2 million. So, it's a relatively small proportion of our total costs that is covered by Government funding. So, in general, there is no reason why that would affect our propensity or the type of lending we do. The criteria for lending is actually set out in each individual fund. What we try to do—or what we've tried to do certainly since I've been in the business—is to make sure that we have quite a wide range of funds that tailor to specific sectors and the specific requirements of those sectors to give us the flexibility to continue to maintain that level of risk appetite. It's not certain and the risk appetite has to change—the nature of the role that we play has to change as and when economic circumstances change. So, we have to have a degree of flexibility and I appreciate your support in that way.

[163] **David J. Rowlands**: Just following on a little from that, I noticed that for the north-east and north-west of England, you invested £17 million but managed to leverage something like £96 million from that investment, whereas in Wales, it was something like £45 million invested to leverage something like £64 million. Do you have a reason or any idea why that might be the case?

[164] **Mr Thorley**: It's a very good question. The reality is that is there is greater availability of debt capital to support SMEs in England than there is currently in Wales. One of the exercises that we have to do—it's not about Finance Wales or the development bank being the only lender in the marketplace. We actually have to encourage other lenders to see Wales as an exciting investment opportunity. That's the main difference.

10.30

[165] **David J. Rowlands**: Okay, fine. I have a very different question now, really. I've been a businessman all my life and application for loans is one of those huge hurdles that you often have to come up against, particularly if you're a small business and you can't put the personnel into very lengthy, awkward loan applications. So, are you working on simplicity of the loan process as such?

[166] **Ms Elston**: Yes, absolutely. It's one of our key areas that we need to continue to improve on, and that's never going to go away from what we need to work on. We carry out customer satisfaction surveys for every deal that we do and that is the key part of the feedback. If there's any way that we can reduce the paperwork, then that's what the SMEs are looking for. A good example, which was mentioned earlier, was in the micro space. When we looked at the range of microloans we were making, there was very little being invested below £5,000, and that was directly related to the amount of paperwork that they needed to fill in to get a £5,000 loan, compared to a £50,000 loan, where they could possibly get it on their credit card. So, we changed that process in December last year. So, for an established business—that's where they can get an answer in 48 hours. It's a very quick online, streamlined process now. Since we made that decision, which was now about 11 months ago, we've made loans less than £5,000—30 investments in that space. In the previous 12 months, we'd only made two. So, there's a stark difference in terms of the difference it's actually made in these number of small loans that we can get out there to microbusinesses. But that's just the start. We need to continue to look at that. We have responsibilities with our European funders—that we have to provide them with a certain level of information. We have to verify jobs, for example, and private sector leverage, which we need to get off the SMEs, but it's our job to simplify that as much as possible for the SMES.

[167] **David J. Rowlands**: Okay, fine. And finally, in the area of innovation, this is probably one of the riskiest areas of all with regard to business start-ups et cetera. Do you have a fund that's readily available on that, or in that specific area?

[168] **Ms Elston**: We've got a specific team that look at technology investment, the technology ventures team, and it's just coming up to two years now that we launched a tech seed fund, because what we were finding was that we had the equity availability for technology companies at a slightly later stage. The gap was earlier, so it was where it was more proof of concept

and smaller amounts of equity investment. And that really came from the staff. So, that came from the staff, from their relationship with SMEs saying: ‘There’s a gap, we need an extra fund, we need something to deliver in this area’. We pitched that to Welsh Government and luckily secured the fund to meet at that end as well. So, there’s a dedicated team looking to deliver in that area and they work with the Welsh Government and the various different hubs [correction: different innovation hubs] on that side.

[169] **David J. Rowlands**: Thank you very much.

[170] **Russell George**: Mark Isherwood.

[171] **Mark Isherwood**: How will you/the development bank source your own capital in the future?

[172] **Mr Thorley**: The key for sourcing capital—there are a number of different sources. Firstly, we obviously want to continue to work closely with the Welsh Government, and so funding from the Welsh Government is going to be—we would say it is the anchor to our strategy. We’ve already had positive dialogue with the likes of the British Business Bank and some what I would call Wales-centric institutions to work alongside us as sort of co-investors in some of the transactions and type of funds that we do. That would be a second source. I think there is also a possibility, I’d say, at this stage—also coming back to the conversation that we had with Hefin and the comments with Hefin—that we do have the ability to raise funds from third party institutions. But that is very much based upon—the thing that third party funds look at is track record. And historically, the organisation has done a very large and very eclectic range of investments, and what we’re doing at the moment is an exercise, effectively, to build the database of all of our historic transactions to look at what the trends are, where we’ve been being investing well, and where we’ve been investing less well, and to provide that as the benchmark for going out to seek third party investment.

[173] **Mark Isherwood**: Given your anticipated greater reliance on non-Government capital—[*Inaudible.*]—ultimate ownership by Welsh Government, how might this impact on the Welsh budget itself? And given my comment earlier about capital adequacy, will this require you to build a greater risk aversion or capital provisions in the future to meet the requirements of your external funders?

[174] **Mr Thorley**: Not necessarily, because, as I said, each fund has its own

criteria. So, for example, the Wales business fund, which is a joint investment by the Welsh Government and the European regional development fund, has very specific criteria in terms of the type of investments that can be made, the levels of private sector leverage, the geographic locations of those investments, so it's skewed to west wales and the Valleys, as opposed to east Wales and north-east Wales—or south Wales and north-east Wales. So, each fund will be determined on its merits. I don't see that it necessarily correlates that it has to be less risky.

[175] **Mr Bullock**: I'll just add that, in proceeding towards a development bank, there is no implicit reduction in risk appetite associated with that. If anything, it's the other way, but certainly maintaining our approach but on a much greater scale, as we mentioned before.

[176] **Mark Isherwood**: Okay, thank you. Finally, in the context of another debate, what impact, if any, on your ability to raise capital in the future do you think there might be through post-Brexit loss of access to EU structural funds, and how the impact on UK involvement with the European Investment Bank might develop or might roll out?

[177] **Ms Elston**: I think, in terms of where we are at the moment with the Wales business fund: we've launched the fund—it was launched over the summer—and that's a seven-year investment period. So, for us, we were the first to launch the successor to the JEREMIE fund in the UK. So, it was great that Wales was at the forefront of getting that funding delivered. So, that's a committed fund. We've got the ERDF investment for that, and the UK Government has made announcements to say that they are underwriting any European programmes that are already approved. So, that gives us a sort of short-term visibility on that seven-year investment period for our largest fund. Longer term, obviously it does impact on our ability to get any further ERDF funding. The EIB is interesting, though, because we've had an historic relationship with the EIB. They were investors in the JEREMIE fund. We've got a very good relationship with them in terms of meeting our repayment obligations to the loan that they provided to us. They can still lend to companies that are outside of the European Union, so it's still an option for us, but, you know, that's a wider discussion that we'd need to have with Welsh Government.

[178] **Mark Isherwood**: That could happen—it would all depend on negotiations. The UK is required to release its own share in the EIB and you become an external borrower—would that affect your terms? Is there a

precedent with other non-EU borrowers?

[179] **Ms Elston**: To be honest, I don't know. I don't have the level of detail around how other terms would compare to ours. What I would say is that, as a credit risk, if you like, to the EIB, we've got a very good relationship with them. We've got a very good repayment track record. I would say the best in the UK of all of the other JEREMIE funds in terms of meeting our repayment obligations. So, for the impact that that has on the terms that they would offer us, I think we're in a very good place in terms of our relationship with them.

[180] **Mr Thorley**: I think we would say that we're an extraordinarily small cog in a very big machine, which relates to Brexit. But what I can say is that we are putting together a structure that provides as much flexibility to consider all options for making sure that we continue to invest in the Welsh economy.

[181] **Mark Isherwood**: Okay, thank you.

[182] **Russell George**: Adam Price.

[183] **Adam Price**: Just on that, in these interesting times we live in, you have to remain optimistic, I think, as the alternative is too horrible to—

[184] **Mr Thorley**: I was very pleased to see Joe Allen winning the vote yesterday. [*Laughter.*] That was a great result.

[185] **Adam Price**: Indeed.

[186] **Mr Thorley**: That's what you're talking about, isn't it?

[187] **Adam Price**: Yes, there is some good news. I accept that the wider policy discussion is a much larger one, but thinking more positively—you mentioned the British Business Bank, for example, do you have some emergent ideas about maybe a larger and modified role for that institution, maybe becoming a kind of a British investment bank, if you like, in order to fill some of the gap left behind by the demise of the UK role in the EIB?

[188] **Mr Thorley**: Certainly, they believe that that is a possibility. I've had a number of meetings with the British Business Bank since I joined. In fact, in December, I'm sitting on a panel that is specifically focused on the devolved

administrations, with the British Business Bank, to talk about just that issue. It's certainly the case that the net inward investment by ERDF or the European social fund has to be replaced in some way or form. Now, it's probably not going to land in the same way as it's been invested to date, but it's still an opportunity for Wales to put the case to make sure that we have the organs to invest in, and I'm certainly going to make sure that the Wales development bank will be at the forefront of those requests.

[189] **Adam Price**: Local authorities, certainly in England, have started to get involved with business lending directly through the Northern Powerhouse, for example. Some of the local authorities in England have effectively tried to create their own local business development bank, and indirectly through the pension funds as well, and trying to create the pension platform. Is that an opportunity, to have maybe a creative discussion with the likes of the North Wales Economic Ambition Board, to see whether maybe regional funds could be created within Wales that could be delivered by the development bank?

[190] **Mr Thorley**: It is conceivable. I believe there is already discussion, for example Cardiff city council is looking at creating a fund—in fact, it may already have a fund. So, there are examples where that can be the case, whether that's through local authorities, whether that's through local enterprise partnerships, as operate in England, or whether it's through regional boards, we'd be happy to have discussions with a number of people. The point is that we actually have the infrastructure to administer those operations, even if it's not actually being the fund manager as such. So, it's a service that we can provide, yes.

[191] **Adam Price**: Finally, Chair, I mentioned the Northern Powerhouse fund there, and we've had occasion, Giles, to discuss this in private, and you might want to put some of that on the record. The access to finance review—or reviews—was critical of Finance Wales for its role as a fund manager for funds in the north-west of England and the north-east. To paraphrase, the criticism was based on the danger of Finance Wales taking its eye off the ball, effectively, from its principle purpose, which was to focus on the needs of SMEs in Wales. Do you see this as a role that could actually be continued to be performed by the development bank and how do you respond to that criticism there of the access to finance reviews?

[192] **Mr Thorley**: I'd like to refer to an article that is from July 2012, which states, amongst other things in the article, that

[193] 'a key part of the new export-oriented economic strategy will be to devise an appropriate plan to maximize the economic opportunity offered by our nearest and biggest neighbour, England...The Welsh public and private sectors need to pool their intelligence and resources in seeking to sell Welsh goods and services to England.'

[194] And, I'm sorry, I go on:

[195] 'A further possibility might be the creation of publicly-owned Welsh enterprises bidding for some of these contracts.'

[196] Essentially, that is what FW Capital, which is the—. I'm sorry, this was written by Adam Price—

[197] **Adam Price**: You've obviously done your research. [*Laughter*.]

[198] **Mr Thorley**: This was a piece of work written by Adam Price. Apologies, that was very unfair of me. But the point of that—

[199] **Adam Price**: I take it as a back-handed compliment. [*Laughter*.]

[200] **Mr Thorley**: FW Capital, which is the subsidiary of Finance Wales that operates in England, is a very highly regarded organisation. I was tasked by the board to visit the FW Capital business to determine whether it was something that we should retain and develop or otherwise. What I found is an organisation that is extremely highly regarded. Tees Valley LEP—local enterprise partnership—and, likewise, Newcastle, Manchester City Council and the British Business Bank have all sought the support of FW Capital because of their specific skill set. Therefore, what we're doing is we've taken the skills and the knowledge that we've developed with Finance Wales and we're exporting it to England and we're developing a niche business, which is actually subsidising the Welsh Government, you know, quite substantially, actually, to continue to operate. The Northern Powerhouse fund I think is actually a very interesting opportunity, because, on Mr Isherwood's point about north Wales, I think north Wales's alignment to the Northern Powerhouse—whether it's transport links, whether it's industrial, whether it's business—is going to be a particular feature of the next decade, and therefore we want to make sure that we can participate on both sides of what is actually an artificial border.

10:45

[201] **Adam Price**: I commend you on your research. Is it the case, though, that—I think you're making the point—certainly the subsidiary companies operating in England would never be subsidised by the taxpayer?

[202] **Mr Thorley**: Correct. Absolutely.

[203] **Adam Price**: So, that's the principle No. 1. And there has to be a demonstrable benefit in terms of the core mission of Finance Wales and, potentially, the development bank, and that would remain the case, and that would be—

[204] **Mr Thorley**: That would definitely remain the case, and on your point, which is a perfectly valid one, which is taking your eye off the ball—the team that runs the north of England operations is operationally separate. There is one of my senior team who sort of straddles the border, so to speak, as he looks after that team, but it really doesn't take up a significant amount of the time. The priority of the vast majority of the people in Finance Wales is focused on the Welsh economy.

[205] **Russell George**: I think that Members have asked all the questions that they have this morning. Is there any information that you would want to pass on to us, which you believe would be useful, that perhaps wasn't raised in questions?

[206] **Mr Thorley**: I'd like to just discuss the intelligence unit in just a little bit more detail, because I think it is a function of—it's a feature that we're proposing A part of the development bank, but I think it could be a very interesting component in due course. So, as the chairman mentioned, what we've found is that there is relatively little direct information, whether that's economic or even subjective information about the performance of the Welsh SME community, and also the actual, real situation in terms of the lending, the funding gap, that we've discussed. So, what we've begun to do is to come up with a structure for an organisation—this is going to be an umbrella organisation—to provide research specifically focused on the Welsh economy. We've held detailed discussions with Cardiff Business School and the Office for National Statistics in Newport to be partners with us in setting up that organisation as part of the development bank. We will also be seeking to commission academics from the other Welsh universities and elsewhere to provide specific research on topics. Our aim is to produce quarterly reports. Those reports will comprise outline data on the Welsh

economy, sort of like a traffic-light-type product, or dashboard, together with periodic reviews of certain key questions. So, of course, we'll be able to share that with you, hopefully, in due course.

[207] **Russell George**: I'm very grateful. Thank you. In that case, can I thank you for your time this morning? You will, over the next few days, receive a transcript of proceedings, so please review that, and if you think there's anything you need to add, please let us know. I'm grateful for your time this morning.

[208] **Mr Thorley**: Thank you.

10:48

Papurau i'w Nodi
Papers to Note

[209] **Russell George**: If we move to item 3, papers to note, there are a couple of letters. Can I ask Members to note those letters? That's agreed.

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

Cynnig:	*Motion:*
bod y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod yn unol â Rheol Sefydlog 17.42(vi).	*that the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).*

Cynigiwyd y cynnig.
Motion moved.

[210] **Russell George**: I move to item 4, a motion under Standing Order 17.42 to resolve to exclude the public from the remainder of the meeting. Are Members happy? We will now move into a private session.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 10:48.
The public part of the meeting ended at 10:48.