

FIN(4)FW054

Finance Wales Inquiry

Response from the Financial and Professional Services Sector Panel

## F&PS Panel Views on the Access to Finance Review, Stage II

Finance Wales

The Panel welcomes the Welsh Government's (WG) review into the important area of access to business finance as it had, itself, reviewed this area, particularly Finance Wales' role in regenerating the Welsh Economy.

The Sector Panel has long held and articulated the view that the WG should have been a more active shareholder as it should have been in setting the strategic direction of FW and holding it to account. It is well known that FW has supported a large number of businesses and that it has carried out a particularly important role since the financial crisis when the banks severely curtailed their lending.

The Panel feel that FW has drifted from its overriding purpose of economic development in Wales towards being a sustainable economic entity in its own right aiming to be the leading lender to SME's in the UK. The Panel consider that it should be brought under closer scrutiny and direction from its shareholder, whilst remaining a separate entity. This is particularly true now that the economy appears to be recovering and the banks, and other private sector finance providers, seem to be coming back into the market place enabling FW to return to being lender of last resort.

The Panel recognised that the funds currently under management by FW are likely to have some restrictions around the interest rates which could be charged, particularly where third party investors such as Barclays or the European Investment Bank are involved. It also felt that it was important to consider what impact any change in interest rate policy might have on the ability to secure future funds, such as a JEREMIE II. Whilst the availability of finance for Welsh businesses is of greater import than the cost of it the Panel supported the view that, where possible, the rates charged by Finance Wales should be as low as possible, without under cutting commercial lenders.

The opportunity for significant variance in interest rate charging is highest where WG is the sole investor in a fund. Whilst all members of the Panel agreed that FW should not compete with the private sector and that it should only fund viable businesses, some members felt that FW should offer rates discounted from those considered "commercial", better enabling entrepreneurs to grow their businesses, whilst others

felt that the pricing should fully reflect the risk, instilling the necessary commercial discipline on business owners and managers. However, lower risk businesses should not be used to subsidise the higher risk businesses. The Panel welcomed and encourage a wide-ranging debate about this important issue as WG had to decide whether to encourage lending at preferential rates.

The Development Bank for Wales

The Panel support Professor Jones-Evans' Five Principles of Public Funding and felt that whilst they should be explored in more detail, they were a good rule of thumb.

They also supported the Development Bank concept and the creation of a unified organisation handling all aspects of WG Support for businesses; from finance, grants, advice and support. Professor Jones-Evans' alternative models, such as those operated elsewhere, should be considered carefully to properly understand their strengths and weaknesses relative to those that already exist here. The Panel strongly supports his view that the form and function of a Development Bank should be further explored, perhaps by a more independent panel of experienced advisors, as the creation of a "bank" is a significant undertaking and should be entered into with due care and attention.

The Panel also expressed a note of caution. If and when a Development Bank is created care must be taken to ensure continuity of service as there is a risk that government "shuts down" as it focuses on another new initiative, much like many businesses felt was the case during the launch of the Economic Renewal Programme.