

FIN(4)FW060
Finance Wales Inquiry
Response from KPMG

The Welsh Government has invited the business community to comment on the Access to Finance Review Stage 2 issued in November 2013. These comments are from an external business perspective.

The executive summary does not appear to be a balanced review of the issues explored in the report. As an example, on page 51 of the report the comment is "One of the potential options is whether the Welsh Government should establish a new publicly owned bank". In the executive summary on page 4 this has moved from an option to a recommendation: "The review recommends the establishment of a Development Bank for Wales". This is a large shift and at no point in the report are the significant regulatory and funding issues associated with setting up a bank explored and hence, in our view, it should only be considered as an option, not a recommendation.

Several references to the strategy adopted by Finance Wales are made in the detailed report, which do not appear in the executive summary, another reason for the executive summary being unbalanced. Finance Wales is a 100% subsidiary of the Welsh Government, which is represented on the Board by a non-executive director. The Welsh Government has therefore had involvement in determining the past and current strategy adopted by Finance Wales and in determining the future strategic direction. If, as stated on page 44 of the report, "Finance Wales has predominantly focused on developing itself as an investment fund rather than as an economic development tool for the Welsh Government" this would have been with the approval of the Welsh Government through their involvement on the Board of Directors. Our expectation would be that the same must be true for the policies adopted when determining Finance Wales's investment strategy. As the report states, there will be a number of issues which determine the interest rates charged by Finance Wales, including State Aid considerations, the interest paid on Finance Wales's borrowings from European and commercial banks and the fact that Finance Wales are generally lending to businesses which the commercial banks have decided not to finance, and hence the level of expected business failures is higher. It is our understanding that all equity investments, loans and related interest rates and conditions made by Finance Wales are approved by their investment committee in line with the guidelines established by the Board. If there is a recommendation that the investment policy adopted by Finance Wales is reviewed to bring it more in line with the requirements of the Welsh Government to support economic development and the SME sector in Wales, this revision is already within the power of the Welsh Government as its 100% shareholder, taking account of the issues noted above with respect to interest rates and the requirement that Finance Wales has to

repay or re-invest the money it has borrowed externally. The report as drafted does not make this clear.

From an external perspective it seems that one possible underlying cause of some of the issues raised in the report is the need for a clearer strategy from the Welsh Government on how economic development is supported in Wales. With a clear strategy for, say, the next 5 years, including an estimate of the funds that will be made available, it can then be determined whether changes need to be made at Finance Wales and other existing and potential Welsh organisations to bring their strategy in line with that of the Welsh Government. To say that Finance Wales is “not fit for purpose in delivering the economic development aims of the current administration in Cardiff Bay” (page 51) is unbalanced and unfair if :

- i. There has been no clear strategy given to Finance Wales for economic development by the Welsh Government and hence Finance Wales has had to develop its own strategy; and
- ii. The Welsh Government, through its Board presence, has had the opportunity to develop and influence the strategy and investment policy adopted by Finance Wales

With a clear future strategy from the Welsh Government on how they plan to support Welsh business in the future it will be possible to assess the various options and make positive decisions to improve economic development in Wales.

Ginny Stevens
Partner, KPMG Cardiff