

Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date:

Wednesday, 12 March 2014

Meeting time:

09.00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

Bethan Davies

Committee Clerk

029 2089 8120

FinanceCommittee@wales.gov.uk

Agenda

1 Finance Wales Inquiry (09:00–09:30)

Professor John Thornton – Expert Adviser

2 Introductions, apologies and substitutions (09:30)

3 Papers to note (09:30) (Pages 1 – 3)

Housing (Wales) Bill: Letter from the Minister for Housing and Regeneration (18 February 2014) (Pages 4 – 11)

Assembly Commission Corporate Performance Report: Letter from Angela Burns AM (20 February 2014) (Pages 12 – 26)

Welsh Government Supplementary Budget 2013–2014: Letter from the Minister for Finance (5 March 2014) (Pages 27 – 30)

4 Finance Wales Inquiry: Evidence Session 2 (09:30–10:45) (Pages 31 – 48)
FIN(4)-04-14 (paper 1)

Research Brief

Federation of Small Business Wales

Iestyn Davies - Head of External Affairs, FSB Wales

(Break 10:45 – 11:00)

5 Finance Wales Inquiry: Evidence Session 3 (11:00–12:00) (Pages 49 – 61)
FIN(4)-04-14(paper 2)
FIN(4)-04-14(paper 3)

Research Brief

The Institute of Chartered Accountants in England and Wales (ICAEW)
Peter Umbleja

Grant Thornton UK LLP
Alistair Wardell – Partner / Advisory, Grant Thornton UK LLP

6 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (12:00)
Items 6 & 7

7 Finance Wales Inquiry: Consideration of evidence (12:00–12:15)

8 Housing (Wales) Bill: Consideration of draft report (12:15–12:30)
(Pages 62 – 78)
FIN(4)-04-14 (paper 4)

Finance Committee

Meeting Venue: **Committee Room 2 – Senedd**

Meeting date: **Wednesday, 19 February 2014**

Meeting time: **09:00 – 11:07**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_300000_19_02_2014&t=0&l=en

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



Concise Minutes:

Assembly Members:

Jocelyn Davies (Chair)
Peter Black
Christine Chapman
Paul Davies
Mike Hedges
Alun Ffred Jones
Sandy Mewies (In place of Ann Jones)
Julie Morgan

Witnesses:

Jane Hutt, Minister for Finance
Jeff Andrews, Welsh Government
Lynne Hamilton, Finance and Commercial, Welsh Government
Gareth Morgan, Financial Reform, Welsh Government
Jo Salway, Welsh Government

Committee Staff:

Bethan Davies (Clerk)
Claire Griffiths (Deputy Clerk)
Joanest Jackson (Legal Advisor)

View the [meeting transcript](#).

1 Introductions, apologies and substitutions

1.1 The Chair welcomed Members and members of the public to the meeting.

1.2 Apologies were received from Ann Jones. Sandy Mewies substituted.

2 Welsh Government Supplementary Budget 2013–2014

2.1 The Committee took evidence from the Minister for Finance on the Welsh Government Supplementary Budget 2013–14.

2.2 The Minister for Finance agreed to write to Committee outlining how she intends to proceed with regarding the concerns raised by the Auditor General for Wales in his letter to the Permanent Secretary on 13 November 2013, prepare and lay in the Table Office annual reports on the *Invest to Save* scheme, explain what early release is and clarify the savings she expects under this scheme, and confirm the budget allocation for administration under the Discretionary Assistance Fund.

3 Draft Wales Bill: Evidence from the Welsh Government

3.1 The Committee took evidence from the Minister for Finance on the draft Wales Bill.

3.2 The Minister for Finance agreed to send the Command Paper to Committee, when published by the UK Government, for Committee to consider and comment on, including likely timelines for the implementation of the Bill.

4 Papers to note

4.1 The papers were noted.

4.1 Assembly Commission: Supplementary Budget 2013–14: Letter from Angela Burns AM (12 February 2014)

4.2 Draft Wales Bill: Letter from Secretary of State for Wales (14 February 2014)

5 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

5.1 The motion was agreed.

6 Welsh Government Supplementary Budget 2013–2014: Consideration of evidence

6.1 The Committee considered the evidence received from the Minister for Finance on the Welsh Government Supplementary Budget 2013–14 and agreed to consider the Committee’s report outside of Committee due to timing issues.

7 Draft Wales Bill: Consideration of evidence

7.1 The Committee considered the evidence received from the Minister for Finance on the draft Wales Bill and agreed that the Chair would write to the Secretary of State for Wales on points raised and also invite the Chief Secretary to the Treasury to Committee.

8 Approach to Budget Scrutiny: Effective scrutiny of the Budget by Committees

8.1 The Committee considered the letter from the Presiding Officer and the Chair agreed to reply based on the discussion.

9 Welsh Government Draft Budget 2014–2015: Progress report

9.1 The Committee noted the paper and agreed that if progress had been made, to have monthly updates and quarterly should the situation remain unchanged.

Agenda Item 3a

Carl Sargeant AC / AM
Y Gweinidog Tai ac Adfywio
Minister for Housing and Regeneration



Llywodraeth Cymru
Welsh Government

Ein cyf / Our ref: LF/CS/0184/14

Jocelyn Davies AM
Chair
The Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA



February 2014

Dear Jocelyn

Housing (Wales) Bill – Finance Committee – provision of further information

Thank you for inviting me to the Finance Committee on 5 February 2014 to discuss the Housing (Wales) Bill and for your letter of 7 February seeking further information on some issues.

I am pleased to provide this information, listed below:

(i) Data sharing of Housing Benefit.

Data sharing in relation to housing benefit and council tax information is something to which we are currently giving more consideration. Section 237 of the Housing Act 2004 covers the sharing of information in relation to HMO and selective licensing schemes, and we are considering this in the context of making provision for the sharing of information for the purposes of the proposed registration and licensing scheme. Further information on this matter will be available when our proposals are more finalised.

(ii) Spending on Gypsy and Traveller sites.

A note on this is provided at Appendix One.

(iii) Amendments at Stages 2 and 3 that will seek to change any financial aspects in the Bill

I am currently considering possible amendments to the Bill in the light of discussions and Committee scrutiny of the Bill and will write again outlining the financial implications of amendments when they are tabled.

Members also asked that I provide a note identifying how the proposed £1m savings associated with the priority need status of prisoners has been calculated.

A note on this is provided at Appendix Two.

I trust that the additional information I have supplied will assist Members in their scrutiny of the Housing (Wales) Bill. Should you or any Member have any further queries or require more information on any aspect, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'CS', written over a light blue horizontal line.

Carl Sargeant AC / AM
Y Gweinidog Tai ac Adfywio
Minister for Housing and Regeneration

Gypsy and Traveller Sites Capital Grant

The current level of Sites Capital Grant funding available is £1.5m per annum. The Welsh Government continues to consider the options to meet anticipated demand over the coming years if the Housing (Wales) Bill is passed. Although funding is a crucial component of this issue, political leadership is just as important. This is evidenced by previous years of unspent funds against this grant.

The following table outlines the total grant available in each year since the inception of the New Sites Grant (which was combined with the refurbishment grant in 2010/11) and actual spend.

Gypsy and Traveller Sites Capital Grant funding by financial year

	Available	Actual Spend	New Sites
2008/09	£2,500,000	£220,195	No
2009/10	£2,500,000	£1,616,232	No
2010/11	£2,500,000	£1,100,853	No
2011/12	£2,000,000	£1,966,261	No
2012/13	£1,750,000	£1,301,630	No
2013/14	£3,250,000	Full spend expected	Yes

NB: In some years expenditure has been allocated to the following financial year due the period in which it was claimed by local authorities.

In 2008/09 and 2009/10 £1.5m of the total was set aside for New Site development but was not spent. As a result, the New Sites and Refurbishment grants were amalgamated in 2010/11 to offer more flexibility for the funds to be spent on deliverable projects. The budgetary constraints caused by the recession meant that these grants were subject to funding reductions, as it could not be demonstrated that the grant was achieving its objective. The overall grant was reduced to £2m in 2011/12 and then £1.75m in 2012/13. However in 2013/14 the baseline funding of £1.5m was 'topped up' by £1.75m for the development of the first new site in Wales since 1997.

Local authorities have stated that they expect a significant increase in demand for this grant if the Housing (Wales) Bill is passed but the data above shows that a lack of site provision is not purely about the availability of funding. Welsh Government officials are continuing to work through options in relation to the level of Sites Capital Grant required in due course.

HOUSING (WALES) BILL: PART 2 HOMELESSNESS PROVISIONS

FINANCIAL IMPACT CALCULATION OF
AMENDMENT TO PRIORITY NEED STATUS OF FORMER PRISONERS

Paragraph 7.121 of the Explanatory Memorandum to the Housing (Wales) Bill describes the potential saving associated with the removal of the blanket priority need status for former prisoners. Over and above matters of principle about former prisoners automatically being considered for housing ahead of others in need, in recent years, local authorities have expressed increasing concern about the cost of finding accommodation for this group, which now comprise 15 percent of all people accepted for the full re-housing duty (around 1,100 per year).

A survey of local authorities by the Welsh Government in summer 2013 revealed that the average cost of meeting their homelessness duty to each former prisoner was £2,100. Based on an assumption that under the proposed legislation, local authorities find that 10 per cent of applicants who are or have been prisoners meet the revised definition, and accounting for the cost of providing the enhanced prevention and relief duties to this group, the change will reduce the net costs for local authorities of discharging their homelessness duties by approximately £1,200,000 per year.

Paragraph 4 of Annex B refers to the potential saving in the context of meeting the initial additional costs of implementing the provisions in the Bill. The Draft Budget includes £4,900,000 new funding. £1,000,000 will be saved from the cost of duties for released prisoners, resulting from provisions in the Bill. This is a year-on-year saving. In 2016-2017, it is estimated that this £1,000,000 saving will be ongoing and will be accompanied by a further £1,000,000 saving from existing Homelessness budgets. The latter will be achieved as a result of the major review that is currently being undertaken into the deployment of the £7 million Homelessness Grant programme. The review will align future expenditure with the core prevention goal of the Housing Bill.

The £1,000,000 saving is based on a comparison of the current average cost of accommodating a former prisoner with the likely cost under the new legislation. It takes into account the prevention rates and tighter priority need definition.

Table 1 estimates the current cost of accommodating former prisoners based on the average unit cost calculated after the exercise undertaken by my officials during the summer of 2013.

Table 1: Cost of duty to former prisoners in current legislation

Type of assistance	Households [former prisoners]		
	No.	Unit cost (£)	Total cost (£)-total
Full homelessness duty owed to former prisoners	1,100	2,100	2,310,000
		Total	2,310,000

In order to make a comparison, the same number of presentations is assumed for the new legislation (1,100). The revised average unit cost and agreed prevention filters have been taken from the research commissioned from Cardiff University, both of which have been supported by the WLGA. The expectation is that the majority of former prisoners will have their housing needs met as a result of the prevention and relief stages of the legislation leaving a small number left to access the full duty as a result of their priority need either via the amended prisoner definition or via one of the other priority need categories.

Table 2: Cost of duty to former prisoners in proposed legislation

Type of assistance	Households [former prisoners]		
	No.	Unit cost (£)	Total cost (£)-total
Enter Prevention stage	946	993.00	939,378
Direct to Relief stage	154	1,184.00	182,336
Passed to Relief stage	341	191.25	65,216
Full duty owed	47	2,030.50 ¹	95,433
		Total	1,282,363

Unit cost does not include costs associated with the earlier prevention or relief stages. Table 3 below compares the two calculations above. It shows the estimated saving as just over £1,000,000. This differs slightly from the figure at 7.121 of the Explanatory Memorandum because that saving was calculated by comparing legislative costs using the same higher average unit cost for both the current and proposed legislation, thereby calculating the savings in relation to the new proposed model for supporting people threatened with homelessness. In order to budget for the proposals, it is more appropriate to consider the actual cost savings by making the comparison using the existing unit cost, provided by Welsh authorities, against the new unit cost.

The savings are considered to be achievable on the basis that the average unit cost as agreed with WLGA errs on the generous side for local authorities. It also does not take into account the unknown number of former prisoners who will now no longer present to a local authority due to the removal of priority need.

Table 3: Estimated savings

Current legislation (£)	New legislation (£)	Savings (£)
2,310,000	1,282,363	1,027,637

Angela Burns AC/AM

**Comisiynydd y Cynulliad
Assembly Commissioner**



Jocelyn Davies AM
Chair of the Finance Committee
National Assembly of Wales
Tŷ Hywel
Cardiff Bay
Cardiff
CF99 1NA

20 February 2014

Dear Jocelyn

I am pleased to provide the Committee with the second Corporate Performance Report of the Assembly Commission, for the period April-December 2013.

Many of the indicators show an improving position and, where that is not the case, the Commission is taking action to make progress.

While we are pleased with the improving performance in terms of timeliness of papers for meetings, we know that accessing papers on time via mod.gov has become equally crucial to Members. We have taken urgent steps to address these concerns by introducing new quality checks and offering one-to-one training to all Members. We will review the KPI for the percentage of Committee papers issued on time to ensure that Members are able to access the papers in their preferred format by the deadlines set by each Committee.

Performance remains outside of target in relation to energy reduction. You have heard evidence from me before about the difficult balance between the cost of further significant investment measures and our desire to reduce the Assembly's energy consumption. The Commission will be examining this in the coming months and, given financial constraints, may have to consider revising some of our sustainability targets.

Bae Caerdydd
Caerdydd
CF99 1NA

Cardiff Bay
Cardiff
CF99 1NA

Ffôn • Tel: 029 2089 8598
Ffacs • Fax: 029 2089 8117

Ebost • Email: Carys.Evans@wales.gov.uk

Ysgrifenyddiaeth Comisiwn y Cynulliad/Assembly Commission Secretariat

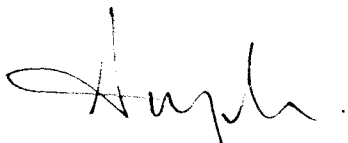
We have removed one indicator, which sought to measure public understanding of the remit and existing powers of the Assembly. We are concerned to ensure that our approach to measurement of this KPI produces credible data and that it delivers value for money. We have asked officials to explore a number of options and we expect to come back to this next year. In the meantime, the other KPIs for the strategic goal on engagement will continue to provide a picture of the Commission's activities.

Behind the headlines conveyed in the report, I am sure the Committee will want to note that excellent progress continues to be made on the ICT Futures project for the transition of services from Atos to the Commission's in-house ICT team. The project is currently ahead of plan, both in terms of time and budget. Clearly the next few weeks will be crucial and the Commission will be receiving regular reports from Dave Tosh leading up to a decision by the Commission on the date for the transition.

In another significant move, we will be launching the Assembly's Welsh for Microsoft Translator on International Mother Language Day on 21 February. This is an innovative tool that will allow people all over the world to translate text between English and Welsh. This supports a key commitment in the Assembly's Official Languages Scheme, to make the best use of technology in helping Members and staff carry out their roles effectively and is an example of the Assembly leading the way on the use of technology to support bilingualism.

I hope the Committee will find our report informative and helpful. Please do not hesitate to contact me if you have any queries or would like any further information.

Kind regards



Angela Burns
Comisiynydd y Cynulliad
Assembly Commissioner

National Assembly for Wales
Assembly Commission

Corporate Performance Report of the Assembly Commission

April to December 2013



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

The National Assembly for Wales is the democratically elected body that represents the interests of Wales and its people, makes laws for Wales and holds the Welsh Government to account.

National Assembly for Wales
Assembly Commission

Corporate Performance Report of the Assembly Commission

April to December 2013



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Introduction

The corporate body for the National Assembly for Wales is known as the Assembly Commission. The Commission serves the National Assembly for Wales to help make it a strong, accessible and forward looking democratic institution and legislature that delivers effectively for the people of Wales.

The Commission consists of Rosemary Butler AM, the Presiding Officer, and four Assembly Members nominated by each of the four party groups represented in the Assembly; Peter Black AM: Angela Burns AM: Sandy Mewies AM: and Rhodri Glyn Thomas AM. The Commission is responsible for the strategic direction of Assembly services and is accountable to the Assembly. Day-to-day management and delivery is delegated to the **Chief Executive and Clerk**.

The **Assembly Commission Strategy 2011-16** sets out our goals for the Fourth Assembly. Our goals are to: provide outstanding parliamentary support; engage with the people of Wales; promote Wales; and use resources wisely.

In support of the Commission's strategic goals, we have five priority areas for change, innovation and investment for this Assembly. These are set out in **Our Plan** - a corporate plan that we have developed to provide greater clarity and direction for staff on our strategy, priorities and various elements of governance.

Performance reporting

This is our second report for the financial year 2013-14, the first covering the period **April-June 2013**. The following pages report on the corporate performance of the Commission for the period April-December 2013:

- a traffic light summary sets out the overall performance under each of our strategic goals;
- a more detailed breakdown looks at the individual indicators that feed into that summary;
- appropriate comparators, from a range of sources, are provided where available.

Performance in providing outstanding parliamentary support

Improving performance can be seen over the period in terms of timeliness of the services provided and disruptions to committee/plenary meetings.

The Commission concluded its review of support for Committees during the year and has published its vision for **world class committees** as the basis for future work. We will shortly begin trialling the use of machine translation technology as part of our enhancement of bilingual services.

Performance in engaging with the people of Wales and promoting Wales

Improving performance can be seen in visitor numbers to the Assembly and in social media interactions, though use of Senedd.tv has fallen as alternative media channels gain popularity. Broadcast and print media promotion of Assembly Committee reports has fallen, resulting from media decisions on audience interest.

The Commission undertook a substantial consultation, “Your Say, Your Way”, with 11 to 18 year olds in the autumn, receiving almost 3,000 responses. These will inform the future direction of the Assembly’s engagement services.

Performance in using our resources wisely

Performance remains outside of target levels in relation to staff sickness absence, completion of performance reviews and reductions in energy usage this year. Significant improvements have been achieved in waste-to-landfill levels and average days taken to pay the Assembly’s suppliers and Members, and we are working hard to resolve recent issues regarding payroll services.

The transition of ICT services from an outsourced provider to the Assembly’s own team is progressing well and is on track for April 2014.

Access to information

The Commission publishes an **Annual Report and Accounts**, providing an overview of performance on an annual basis, linking performance with the money we spend in providing services to the Assembly. The Commission publishes a range of other information about its annual budget and key organisational policies, available **here**.

The Commission is happy to provide further information if you would like to learn more about our work:

You can contact us **here**.

Guidance on access to information is available **here**.

Corporate Performance Measures - Achievement against Strategic Goals

Summary overview of the more detailed KPI information that follows (see matching KPI groups)

KPI group number	Providing Outstanding Parliamentary Support	April - June 2013	July - December 2013		Comment - for detail see Page 4
1	Member Satisfaction	amber	-		Average score of 7.0, slight decrease compared to 2012 score of 7.3. Target 8. Survey carried out on an annual basis, next survey due July 2014
2	Timeliness and service delivery	green	green	➔	Relates to Committee Papers, publishing of the Record of Proceedings and Research enquiries. Improving trend
3	Professional Development	green	green	➔	Welsh learner numbers increasing along with number of AMs and AMSS undertaking CPD
4	Progress on Corporate Plan priorities	green	green	➔	Integration of services, Bi-lingual services, use of the Estate - progress made and all on track

	Engage with the People of Wales and Promote Wales	April - June 2013	July - December 2013		Comment - for detail see Page 5
5	Member Satisfaction	amber	-		Improved score of 7.13 compared to 6.35 for 2012. Target 8. Survey carried out on an annual basis, next survey due July 2014
6	Visitors to the Assembly	green	green	⬆	Increasing visitor numbers compared to 2012/13
7	External Profile	green	green	➔	Social media interactions and school engagement increasing
8	Progress on Corporate Plan priorities	green	green	➔	Progressing changes to education work programme/youth engagement

	Use Resources Wisely	April - June 2013	July - December 2013		Comment - for detail see Page 6
9	Member Satisfaction	green	-		Improved score of 8.22 compared to 8.16 for 2012. Target 8.
10	Budgetary Performance	green	green	➔	On target to deliver £500k efficiency savings and an underspend less than 1%
11	Staff	amber	amber	➔	Sickness absence and performance review completion outside target
12	ICT Customer Service	amber	amber	➔	Insourcing of ICT services will lead to significant improvements
13	Governance	green	amber	⬇	3 of 30 FOI responses missed statutory deadline due to complexity
14	Sustainability	amber	amber	➔	Waste management on target but energy target looks unlikely to be achieved
15	Progress on Corporate Plan priorities	green	green	➔	On target for successful transition of services from April 2014

Key

	RED: There are significant issues impacting the achievement of business objectives. To achieve delivery, changes must be made to timing, costs and/or scope.
	AMBER: There are issues or risks which must be addressed. However, successful delivery is achievable without major impacts to budget, service standards or target dates.
	GREEN: Work is meeting agreed standards or is proceeding to plan. All known risks are being managed.

Corporate Performance Indicators

Goal : Provide outstanding parliamentary support	Comparator	Target	June 2013	December 2013	Narrative
--	------------	--------	-----------	---------------	-----------

KPI on Member satisfaction, comprising :

1	Plenary meetings	7.33	8.00	7.33	-	We undertake an annual survey of Members and their support staff. Score is from most recent survey (June 2013), comparator is 2012 survey. An action plan is in place to address concerns raised by AMs.
	Committee meetings	7.46	8.00	7.43	-	
	Working in Welsh	7.10	8.00	6.20	-	

KPI on timeliness and service delivery, comprising:

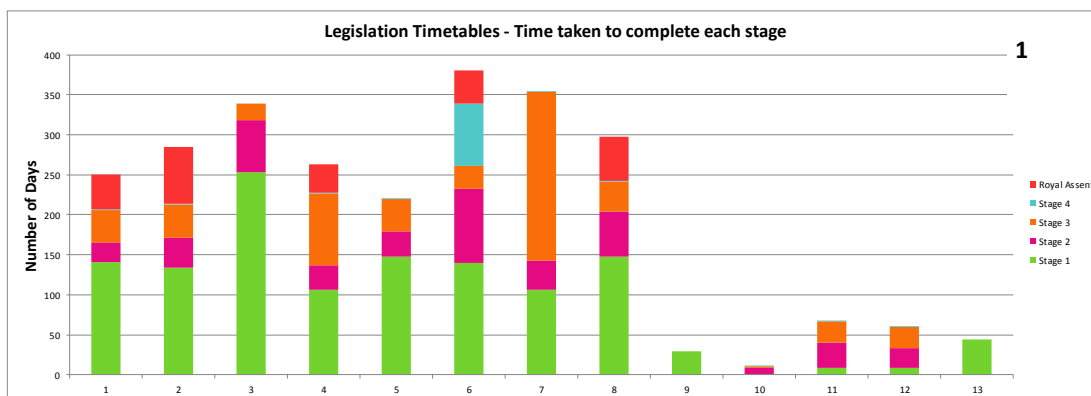
2	% of committee papers issued on time	-	2 working days before meeting (per Standing Orders)	97.52%	99.00%	↑	Average for July - December of papers issued on time
	% research service enquiries answered within agreed deadline	98% in 2012/13	100.00%	99.00%	98.00%	↓	Average for July to December. Deadlines are agreed with the relevant AM or AMSS for every confidential enquiry received.
	% of plenary Record of Proceedings published within deadline	98% in 2012-13	Within 24hrs of the end of Plenary	100.00%	100.00%	⇒	Average for July - December, Record published on time
	Number of committee/plenary meetings affected by failure to deliver Commission services	-	Zero	6 out of 86 (6.9%)	5 out of 128 (3.9%)	↑	The 5 failures were minor operational incidents.
	% of committee Record of Proceedings published within deadline	79% for 2012-13	14 working days	75.67%	95.00%	↑	Average for July - December, Committee Record of Proceedings published on time
	Appropriate timetable for each piece of legislation	-	-	-	-	-	See Graph 1

KPI on professional development, comprising:

3	Number of staff learning Welsh/proficient in Welsh	-	To increase the number of welsch-speaking staff	31	34	↑	Learners in December. The new HR/Payroll system will provide the number of Welsh Speakers once fully operational
	Number of AMs/AMSS taking part in CPD activity	40 and 185 in 2012/13	Engage more AMs and AMSS in CPD than 2012/13	18 and 72	33 and 128	↑	Steady increase of AM and AMSS attendance throughout the year

Progress on Corporate Plan priorities

4	Excellence and integration of services to support Assembly Business	Corporate Plan	Green	Green	Green	⇒	Commission concluded its review of support for Committees in 2013 and published its vision for world class Committees as the basis for future work
	Enhanced bi-lingual services	Corporate Plan	Green	Green	Green	⇒	Work on the machine translation project is progressing according to plan. Research service and TRS conducted a bilingual drafting pilot. Work on all Staff Language Awareness training is on-going
	Making the most of our Estate, particularly the Senedd, as the prime venue for Welsh public life	Corporate Plan	Green	Green	Green	⇒	Summer investment programme works completed and further works planned for completion by March to enhance the Senedd and Assembly Estate



Ref	Bill	Current Stage
1	Local Government	Complete
2	Human Transplantation	Complete
3	Social Services and Well-being	Stage 3
4	Active Travel	Complete
5	Further and Higher Education	Awaiting Royal Assent
6	Mobile Homes	Complete
7	Recovery of Medical Costs for Asbestos Disease	Awaiting Royal Assent
8	Public Audit	Complete
9	Education Bill	Stage 1
10	Agricultural Sector Bill	Awaiting Royal Assent
11	National Health Service Finance Bill	Awaiting Royal Assent
12	Control of Horses Bill	Awaiting Royal Assent
13	Housing Bill	Stage 1

Corporate Performance Indicators

Goal : Engage with the people of Wales and Promote Wales	Comparator	Target	June 2013	December 2013	Narrative
--	------------	--------	-----------	---------------	-----------

KPI on Member satisfaction, comprising :

5	Support given to AMs in their Constituency/regional role	6.35	8.00	7.13	-	We undertake an annual survey of Members and their support staff. 'June 2013' score is from most recent survey, comparator is 2012 survey. An action plan has been prepared to address concerns raised by AMs. Next survey will be completed in July 2014
---	--	------	------	------	---	---

KPI on engagement at the Assembly, comprising:

6	Number of visitors to the Senedd/Pierhead	153,141 in 2012/13.	An increase compared to 2012/13	43,328	86,703	↑	Average of 7223 per month for 2013/14 compared to 6380 per month during 2012/13. Total visitors for the period April to December was 130,031	
	Number of visitors on tours	9,376 April - December 2012		3,570	8,336	↑	July to December. Total for period April to December was 11906 - higher than December 2012	
	Number of events organised on the estate	140 April - December 2012		107	166	↑	July to December. Average of 28 per month compared to 36 per month for April to June. Total number of events for the period April to December was 273	
	Visitor satisfaction levels	-		<80% for 'Good' or 'Satisfactory' ratings	-	85%	↑	Exit poll started in September. Visitors to the Senedd are asked to vote by putting a token in a box to state whether their experience has been 'Good', 'Satisfactory' or 'Poor'.
	Joint events organised with Wales Governance Centre	-		-	2	2	⇒	Events held were on English Devolution (4.7.13) and the Scottish referendum (12.12.13)

KPI on external profile of the Assembly, comprising:

7	Committee reports promoted by either broadcast or print media	-	100%	88%	73%	↓	16 out of 24 reports were promoted between July and December. Unfortunately, the media deemed 8 to be not newsworthy or appealing to too narrow an audience
	Average time spent on a visit to our web pages	Average was 3m 40s in 2012/13	Aim to increase each period	5mins 22secs	2 mins 06 secs	↓	Average time/visits have decreased as the Assembly migrates it's social media following into subject based channels. However, the longer term aim will be to increase 'reach' on Twitter with a more engaged audience and drive traffic to more interesting content for that user
	Number of interactions on social media	1,637 Facebook likes in December 2012		1,875	2,402	↑	Likes' on our Facebook pages - climbing steadily
		12,529 Twitter followers in December 2012		17,465	22,035	↑	Followers' of our Twitter accounts - climbing steadily
		-		2,810	8,037	↑	YouTube views in between July and December. Average is 1339 per month for July - December 2013 compared to 936 for the period April - June 2013
	Use of Senedd TV	Average was 11,007 per month in 2012		20,823	32,198	↓	Total page views April - December 2013. Average is 5366 per month for July to December 2013 compared to 6941 for the period April to June. April to December average is 5891 views per month. Reduction in Senedd TV views offset by increased traffic to social media sites
	Number of new schools engaging with education outreach for the first time	-		18	38	↑	38 new schools between July and December of which 17 were engaged in education outreach
	Average weekly traffic to Record of Proceedings pages - Plenary Only	-		2,156 hits	1,587 hits	↓	Includes hits to both Welsh and English sites in respect of Plenary Record of Proceedings
International engagement to and from the Assembly	168 in 2012/13, 14 per month on average	-		36	103	↑	94 inward, 9 outward visits

Progress on Corporate Plan priorities

8	Increased engagement of people in Wales with the work of the Assembly, including young people	Corporate Plan	Green	Green	Green	⇒	Nearly 3000 young people consulted on how the Assembly engages with them. Focus groups are on-going to discuss the results and next steps. Research regarding engagement with the adult population will be reported back to the Commission in January 2014.
---	---	----------------	-------	-------	-------	---	---

Corporate Performance Indicators

Goal : Use resources wisely	Comparator	Target	June 2013	December 2013	Narrative
-----------------------------	------------	--------	-----------	---------------	-----------

Member satisfaction rating for:

9	Allowances and staffing	8.27	8.00	8.43	-	We undertake an annual survey of Members and their support staff. Score is from most recent survey (June 13), comparator is 2012 survey. An action plan is in place to address concerns raised by AMs. Next survey will be completed in July 2014
	Tŷ Hywel and Senedd	8.04	8.00	8.02	-	

KPI on budget, comprising:

10	Budget - % underspend forecast at year end	0.70% in 2012/13	<1% underspend at year end	1.20%	0.41%	↑	Budget is monitored monthly; we are on track to achieve the year end target position.
	Budget – spend vs. profile	0.32% as at December 2012	within 2% of profile	1.41%	3.43%	↓	Spend at December is slightly off profile however, the year end forecast of an underspend of less than 1% of budget will be achieved
	Value for Money target and achievement %	£476k in 2012-13	£500k for the year	£246k	£374k	⇒	Good progress being made under value for money programme

KPI on staff, comprising:

11	% sickness absence	3.03%	<3%	3.35%	3.06%	↑	Average of 7.1 days per employee against a target of 7 days. The CIPD public sector benchmark is 8.2 days.
	% completion of staff performance reviews	-	Staff to have 2 reviews per year	89%	89%	⇒	89% of mid-year PMDR's completed and 89% of year end PMDR's completed by December
	Staff engagement level (from staff survey)	78% 2012	80%	-	81%	↓	81% recommended the Assembly as a great place to work in 2013 compared to 78% in 2012. 77% response rate compared to 52% in 2012. Survey is done every July
	Number of staff - headcount and FTE	375 people, 359.68 FTE March 2013	No target	381 People 364.89 FTE	390 People 371.50 FTE	-	Headline growth linked mainly to the insourcing of ICT services

KPI on ICT:

12	Number of ICT constituency office visits	-	100%	100%	100%	⇒	The aim is to visit each office twice per year, the performance is measured against the visits which were planned for this period.
	% of ICT network/service issues notified to users within agreed time frame	-	100%	100%	100%	⇒	Target is to notify 100% users within 15 minutes of an issue being identified
	Member satisfaction rating for ICT	5.60	8.00	6.30		↑	We undertake an annual survey of Members and their support staff. Score is from most recent survey (June 2013), comparator is 2012 survey. Actions being taken to address concerns. Next survey will be completed in July 2014

KPI on Governance, comprising:

13	Average days taken to pay Members and suppliers compared to target	-	<10 days	4.93 days	3.22 days	↑	Target is to make all payments within 10 days of an invoice being received
	Number of 'Freedom of Information' requests answered and % answered on time	-	Number	10	30	↑	30 FOI requests were received between July and December of which 27 were answered within the deadline.
		-	100%	100%	90.00%	⇒	
	Number of Internal Audit recommendations overdue	-	Nil overdue	0	2	↓	Head of Internal Audit is satisfied that progress is being made

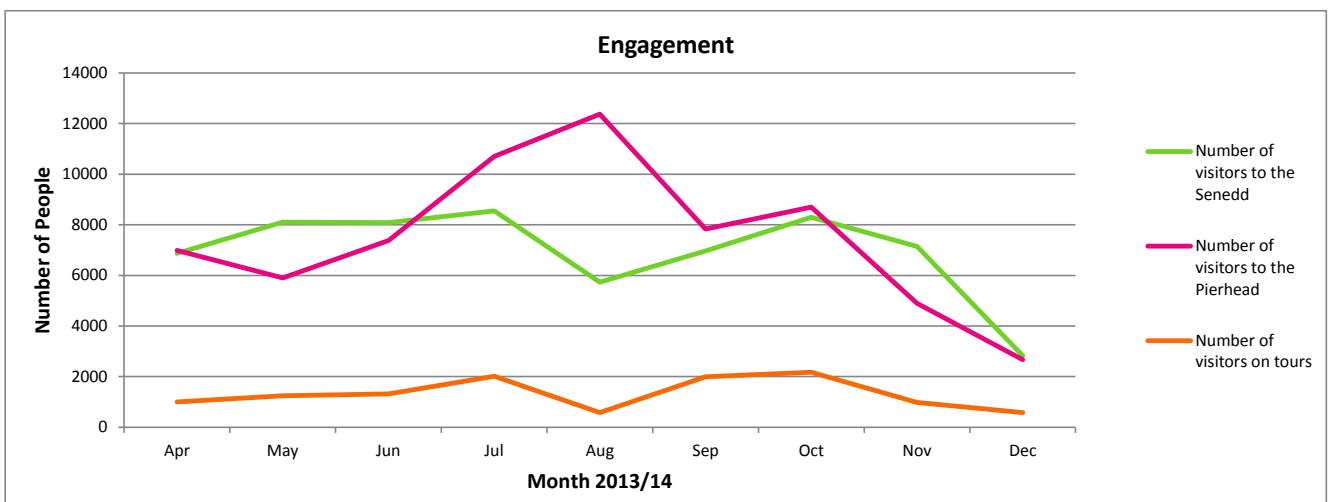
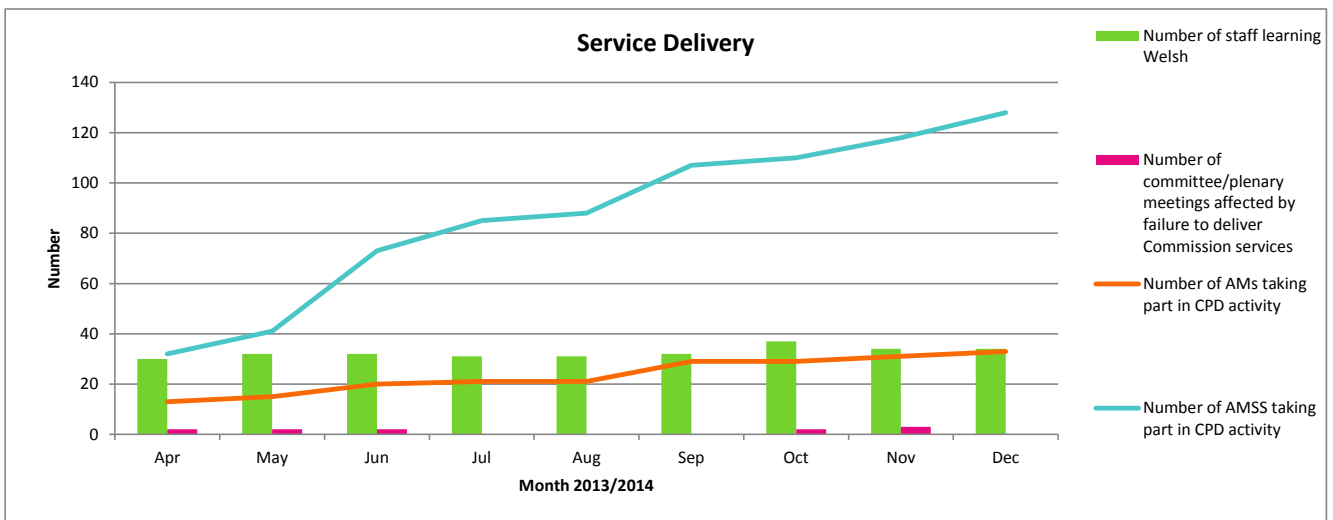
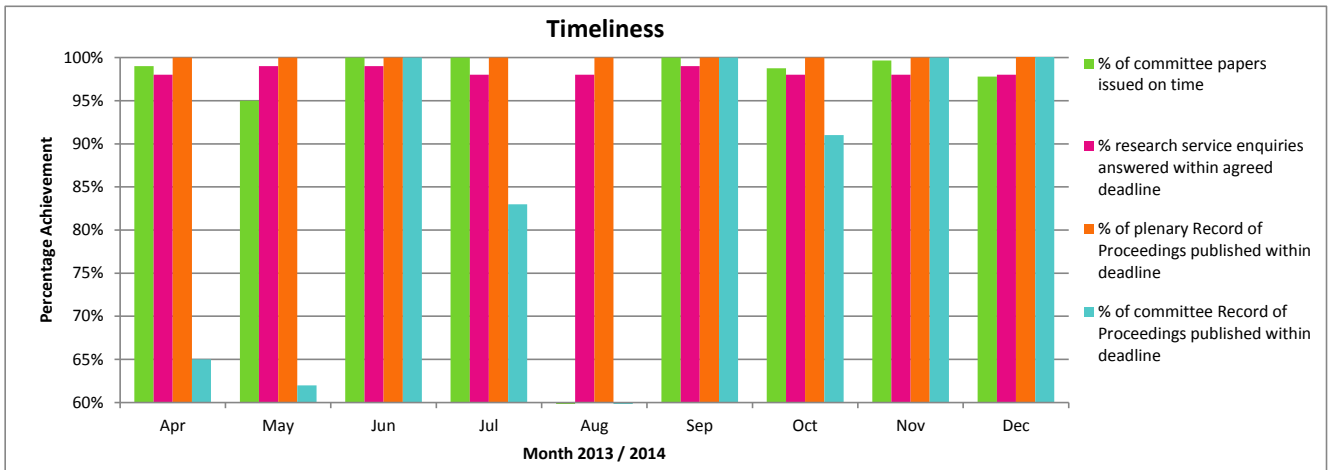
KPI on sustainability, comprising:

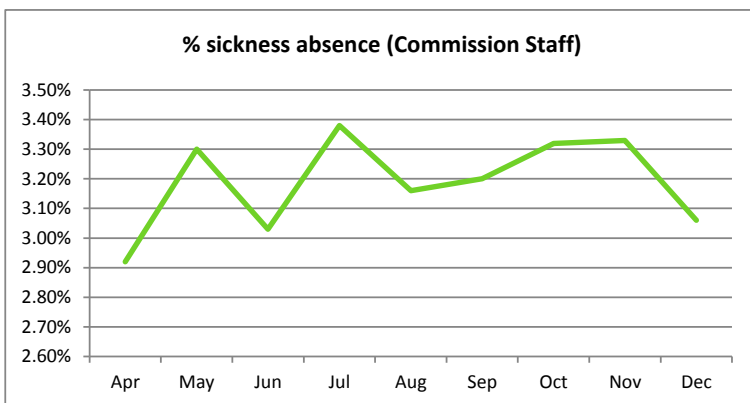
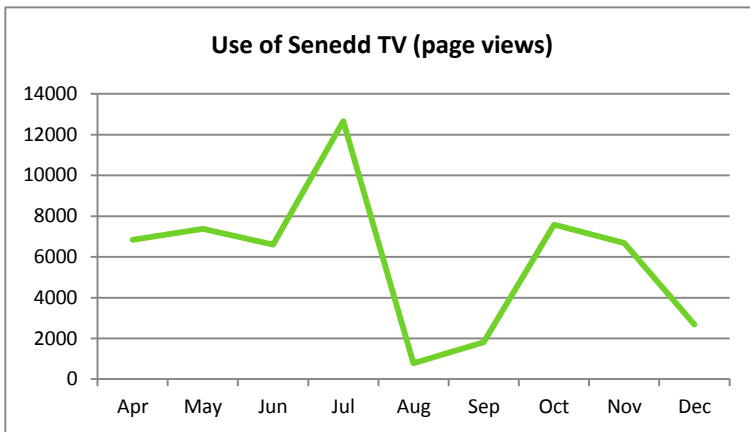
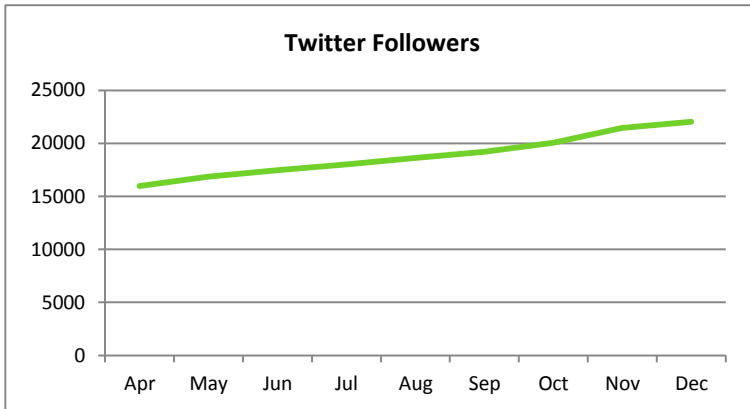
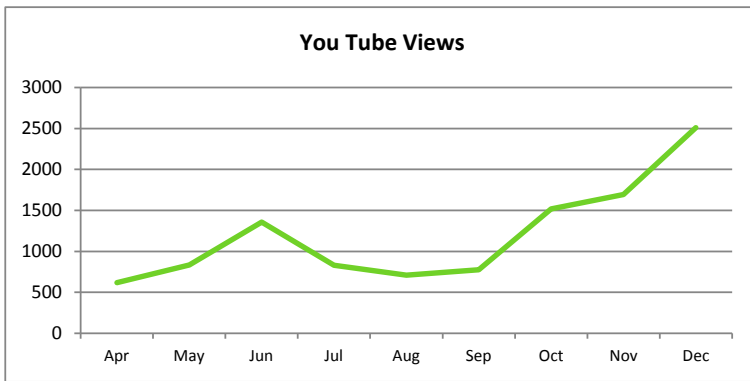
14	Combined energy footprint (Cardiff Bay Estate) (target of 8% annual reduction)	-40% compared to 2008/09	8% reduction per annum	-	-31%	↓	Combined consumption is 5% less than last year and cumulative emissions 31% less than the baseline year of 2008/09 but it is unlikely that the 8% reduction will be achieved.
	Waste to landfill (target of 5% annual reduction)	29.78 tonnes at November 11	5% reduction per annum	2.49 tonnes	4.35 tonnes	↑	Waste to landfill continues to reduce and performance is far in excess of the target. Waste sent to landfill at November 13 is 5% of our total waste and 61% lower than at the same stage in 2012. The long term goal of achieving zero waste to landfill could be achieved sooner than originally expected

Corporate Performance Indicators

Goal : Use resources wisely		Comparator	Target	June 2013	December 2013	Narrative
<i>Progress on Corporate Plan priorities</i>						
15	Future ICT Strategy, 2014 and beyond	Corporate Plan	Green	Green	Green	⇒ Project is on time and within budget. Project risk management has been given a 'green' status by KPMG. Transfer from Atos to Commission expected to be completed by April and project by 31/7/14
	Make the most of our Estate, particularly the Senedd, as the prime venue for Welsh public life	Corporate Plan	Green	Green	Green	⇒ Summer investment programme works completed and further works planned for completion by Spring to enhance the Senedd
	Integrated HR-Payroll system	Value for Money Programme	Green	Amber	Amber	⇒ The payroll system has been live since November though completion of Phase 1 has been extended to March 2014 in order to address remaining workarounds.

Annex





Jane Hutt AC / AM
Y Gweinidog Cyllid
Minister for Finance



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: SF/JH/0617/14

Jocelyn Davies AM
Chair
Finance Committee
National Assembly for Wales
Cardiff
CF99 1NA

5th March 2014

Dear Jocelyn,

When I gave evidence to the Finance Committee on the Second Supplementary Budget 2013-14, I agreed to provide further information on a number of issues that were raised.

Firstly, during the Committee session, we touched on the concerns raised by the Auditor General for Wales in correspondence to the Permanent Secretary about the presentation of the additional funding for health in the Draft Budget 2014-15. In line with my commitment to provide transparency around Budget information, I agreed to provide a note to clarify the position.

As was acknowledged in the Committee, the issue that was raised relates to the baseline year we use for comparisons. As you know, this is an issue we have previously discussed in some detail at Committee and, as a result of a specific Committee recommendation, we use the most recently published figures for the previous financial year as a baseline. In the case of the Draft Budget 2014-15, the baseline we used was the First Supplementary Budget 2013-14. In his response to the Auditor General, the Permanent Secretary acknowledged that the presentation of the health funding in the Draft Budget 2014-15 did not fully reflect the announcement that accompanied the Budget in relation to the £150m for the health service in 2013-14. That is why in the Final Budget 2014-15, we took steps to include a footnote to the comparable Table to highlight the real terms reduction in NHS funding in 2014-15 once the in-year allocation is included. This issue arose because of a specific set of circumstances where an announcement was made about a significant in-year allocation alongside the Draft Budget announcement. We will, of course, keep this in view in terms of the presentation of future Budgets.

Secondly, during the Committee session we also discussed the Invest-to-Save fund allocation in respect of the voluntary early release of staff from the NHS and I agreed to provide further information on the level of savings expected from this investment.

The Invest-to-Save fund has, since 2010-11, invested some £25m to support the NHS voluntary early release programme covering Health Boards and NHS Trusts. Overall, NHS organisations estimate that they will have generated cumulative savings of approximately £39.3m from this investment by 2014-15, a return of approximately 36%. This includes savings of £9m relating to the latest £7.4m investment, which are recurrent and, therefore, similar benefits at this level will be generated annually thereafter. The main focus of cost reduction for VERS has been management / administrative posts, particularly in corporate departments and including posts in estates and ancillary departments. The funding increases flexibility to maximise workforce deployment and efficiency, which includes generating costs reductions and increased flexibility to redesign services.

In terms of savings expected under the Invest-to-Save Fund overall, to date, some £77m of repayable Invest-to-Save funding has been invested in 68 public service improvement projects. Collectively these projects are forecasting significant benefits and improvements to public services, not least total annual savings of some £104m within five years of commencing, with further recurrent savings thereafter.

In the context of the Invest-to-Save Fund, we also discussed the importance of encouraging a wider understanding of Invest-to-Save through the publication of annual reports. As the Committee is aware, I have previously introduced measures to help increase the transparency of the Fund and my annual reports include individual project investments and their associated benefits in a directory and budget details showing the origin of funding, including repayments. In terms of actual Invest-to-Save expenditure, this level of detail will be published in the Welsh Government's accounts, commencing with the Whole Government Accounts 2013-14.

I will continue to publish annual reports about the Invest-to-Save Fund and will lay them in the Table Office. I published the latest report, *Investing-to-Save 4*, in October at the time of the Draft Budget and I will, as previously advised in my letter of 6 November, also consider the scope to provide further financial information in future reports.

Finally, I agreed to confirm the budget allocation for the administration of the Discretionary Assistance Fund.

As the Committee may recall, the UK Government transferred a total of £12.4m following the abolition of the Social Fund, which included £10.2m in respect of grant payments and £2.2m in respect of administration costs. These allocations were reflected in the First Supplementary Budget 2013-14 in respect of the in-year adjustment and in the Final Budget 2014-15 for future years.

Following the budget transfer from the UK Government, we have awarded a contract for the administration of the Discretionary Assistance Fund. In doing so, we were able to deliver significant cost savings.

In terms of the grant payments, there has been an underspend this year as a result of the initial slow take up of the grant. As I said during the Committee session, demand is now at expected levels and we do not anticipate underspends in future years.

The adjustments to reflect actual costs in 2013-14 for both the administration costs and the grant payments have been reflected in the Second Supplementary Budget 2013-14 and are set out in the table below. Of these adjustments, £0.6m was transferred from the Tackling Poverty Action to the Children, Young People and Families Action to support the Children's Play Duty. The remaining £2.7m was transferred from the Tackling Poverty Action to help manage pressures in other areas.

Discretionary Assistance Fund – Budget Allocation

	£million		£million
	First Supplementary Budget 2013-14 (July 2013)	Changes	Second Supplementary Budget 2013-14 (February 2014)
Grant	10.2	2.5	7.7
Administration	2.2	0.8	1.4
Total	12.4	3.3	9.1

I hope this response is helpful.

Yours Sincerely,



Jane Hutt AC / AM
Y Gweinidog Cyllid
Minister for Finance



FIN(4)FW065
Finance Wales Inquiry
Response from the Federation
of Small Businesses

WALES OFFICE	SWYDDFA CYMRU
1 Cleeve House	1 Tŷ Cleeve
Lambourne Crescent	Cilgant Lambourne
Llanishen	Llanishen
Cardiff	Caerdydd
CF14 5GP	CF14 5GP

Tel/Ffôn: 029 2074 7406
Fax/Ffacs: 029 2074 7595

E-mail/E-bost: admin.wales@fsb.org.uk
Website/Safle We: www.fsb.org.uk

9th January 2014

Jocelyn Davies AM
Chair, Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Dear Jocelyn

RE: Finance Wales

FSB Wales welcomes the opportunity to contribute to the Finance Committee's inquiry into the performance of Finance Wales. The Finance Committee will be aware that FSB Wales has been heavily engaged with Professor Dylan Jones-Evans in his work on access to finance by SMEs in Wales. FSB Wales submitted detailed evidence to both parts of the review that can be found on our website (www.fsb.org.uk/Wales/consultation-responses).

Furthermore, FSB Wales has responded to the Minister for Economy, Science and Transport's request for responses in light of the report in its entirety. This response is attached for the benefit of the Finance Committee's consideration. A significant portion of the response relates to the role, functions and performance of Finance Wales and FSB Wales agrees with Prof Jones-Evans' assessment that Finance Wales as presently constituted is not fit for purpose. By way of summary, the following key issues are considered in relation to Finance Wales:

- 1) It is clear that there is a lack of transparency and accountability leading to insufficient levels of scrutiny from all stakeholders into the performance of Finance Wales. As such, there is an urgent need to establish clear accountability mechanisms with both the Finance Committee and the Enterprise and Business Committee to properly scrutinise the work of Finance Wales as a wholly-owned Welsh Government subsidiary.
- 2) Despite being a publicly funded body, Finance Wales publishes no annual report for public consideration and scrutiny. This is in marked contrast to many other public organisations such as the Welsh Language Commissioner, ESTYN and the Climate Change Commission. It is also in contrast to many financial organisations that operate in similar sectors such as the Principality, or

perhaps more importantly the Development Bank of Canada. Previous annual reports have been produced by Finance Wales but there has been a general reluctance by the organisation to share this information with stakeholders such as FSB Wales, further weakening transparency.

- 3) Finance Wales' mission statement has evolved away from "[to] assist Welsh businesses to realise their true potential for innovation, growth and economic impact in the region" to a situation where its prime objective is to "to become the UK's leading SME investment company". This has been rectified in part by the Minister for Economy, Science and Transport but should be significantly strengthened to ensure Finance Wales' primary focus is the promotion of growth of SMEs in Wales. This should be accompanied by clear guidance from the Minister on objectives for Finance Wales and a mechanism to regularly report performance.
- 4) FSB Wales believes further consideration is needed on the 'hidden costs' of finance from Finance Wales. This includes the use of guarantees, lending, monitoring and security fees that significantly increase the cost of finance. Furthermore, the practice of referring businesses to third party business support should be examined, particularly in cases where Business Wales or private provision (such as accountants) have already been used by the applicant business.
- 5) Prof Jones-Evans' report confirmed FSB Wales concerns that Finance Wales interest rate policies are punitive and excessive, leading to perceptions of Finance Wales as a 'lender of last resort' for many businesses. For instance, the review states that the average interest rate for the Micro-Business loan fund is currently 11.2 per cent. FSB Wales believes this policy undermines Welsh Government's economic development focus (to promote jobs and growth) and is placing undue risk on businesses in Wales. The Finance Committee should examine the process behind the setting of this policy, as well as the misinformation provided by the Welsh Government and Finance Wales around the inflexibility of Finance Wales' interest rate policies in respect of EU regulations. FSB Wales believes the Minister for Economy, Science and Transport should review this policy and calls on Finance Wales to charge more competitive rates.
- 6) Any reform of Finance Wales should be organic and not simply initiative churn. In moving towards a Development Bank of Wales, the Welsh Government should set out clear objectives and vision around the model that is to be used, drawing on experiences from other developed economies. Any reform must secure real change for businesses in Wales and there should be a focus on accountability and transparency throughout this process.

I hope you find the comments of FSB Wales of interest. FSB Wales would be happy to provide the Committee with any further information required in order to facilitate the inquiry.

Yours sincerely



Janet Jones
Wales Policy Chair
Federation of Small Businesses Wales

Access to
Finance Review

FSB Wales
Response

6th December 2013





Access to Finance Review The Federation of Small Businesses Wales

The Federation of Small Businesses Wales welcomes the opportunity to present its views to the Welsh Government on access to finance for SMEs in Wales. FSB Wales is the authoritative voice of small businesses in Wales. With 10,000 members, a Welsh Policy Unit, two regional committees and twelve branch committees; FSB Wales is in constant contact with small businesses at a grassroots level. It undertakes a monthly online survey of its members as well as an annual membership survey on a wide range of issues and concerns facing small business.

1. Introduction

Access to finance is a perennial issue for FSB Wales members. Indeed, the debate about the role of the public sector in ameliorating access to finance has been present in political dialogue since the advent of devolution in 1999. In 2000, FSB Wales posited the idea of a Development Bank for Wales that would supply 'money with management', financial and business support.

The creation of Finance Wales was a reaction to this debate. Despite the good intentions behind the creation of Finance Wales, FSB Wales has long argued that it has not fulfilled its intended role. The review commissioned by the Minister for Economy, Science and Transport is therefore welcome and FSB Wales has actively engaged with Professor Dylan Jones-Evans and his team throughout the review process.

To this effect, the examination in both parts of the review has provided a welcome insight into access to finance for small firms in Wales in both the commercial and public sectors. We now know that there is a finance gap in Wales of around £500m¹. The review has made solid recommendations in terms of the high street banks in Wales, public providers such as Finance Wales and the, as yet, untapped role of novel, alternative forms of finance.

FSB Wales believes the Welsh Government should give detailed consideration to implementation of the recommendations. The status quo around finance Wales is untenable and FSB Wales agrees that it is "*not fit for purpose*"².

Our response to the second part of the review firstly discusses the scrutiny arrangements of Finance Wales before considering the implementation of the review on Finance Wales' interest rate policy. We then address the proposals for a Development Bank of Wales, and what this could mean in practice. Finally, this response will consider the recommendations relating to alternative forms of finance.

2. Scrutinising Finance Wales

FSB Wales has long held concerns about the objectives of Finance Wales and how they accord with Welsh Government policy, and representations to this effect were made to the review. It is clear

¹ Professor Dylan Jones-Evans. 2013. *Access to Finance Review: Stage 2 review* [Online]. Available at: <http://wales.gov.uk/topics/businessandconomy/publications/accesstofinance/?lang=en> (accessed 26th November 2013). P 4

² *Ibid.* P. 50



that there is a lack of transparency and accountability leading to insufficient levels of scrutiny from all stakeholders into the performance of Finance Wales. There are numerous symptoms of this accountability deficit.

Firstly, there is no clear reporting mechanism between Finance Wales and the National Assembly for Wales. FSB Wales believes the scrutinising function of the National Assembly for Wales, and in particular the Finance and Enterprise and Business Committees that oversee both the spending of public bodies in Wales and economic development policy respectively, has a beneficial impact on service delivery. Regular scrutiny by stakeholders and Assembly Members allows for the early identification of issues and for their rectification in the policy process. Professor Jones-Evans' review illustrates this lack of transparency by highlighting the reluctance of Finance Wales to publish its fifteen reference rates used to assess the cost of loans³.

As such, a reporting mechanism to the National Assembly for Wales should be established urgently, alongside an inquiry into Finance Wales' performance by the Finance Committee at the earliest opportunity.

Secondly, despite being a publicly funded body, Finance Wales publishes no annual report for public consideration and scrutiny. This is in marked contrast to many other public organisations such as the Welsh Language Commissioner, ESTYN and the Climate Change Commission⁴. It is also in contrast to many financial organisations that operate in similar sectors such as the Principality, or perhaps more importantly the Development Bank of Canada⁵. Previous annual reports have been produced by Finance Wales but there has been a general reluctance by the organisation to share this information with stakeholders such as FSB Wales, further weakening transparency. The Minister for Economy, Science and Transport should call on Finance Wales to publish a detailed annual report explaining how they have supported the economic development of Wales in line with the Welsh Government priorities.

Finally, Finance Wales' mission statement has been correctly identified by Prof Jones-Evans as contrary to the Welsh Government economic development policies. The review highlights how Finance Wales' mission has evolved over the last decade from; "[to] assist Welsh businesses to

³ *Ibid.* P.37

⁴ Climate Change Commission for Wales. 2013. *Second Annual Report* [Online]. Available at: <http://www.cynnalcyrmru.com/library/climate-change-commission-wales-2nd-annual-report> (accessed 26th November 2013).

Welsh Language Commissioner. 2013. *First Annual Report* [Online]. Available at: <http://www.comisiynyddygyraeg.org/english/news/Pages/One-year-in-action---launch-of-the-Welsh-Language-Commissioner%E2%80%99s-first-Annual-Report.aspx> (accessed 26th November 2013).

Estyn. 2013. *Annual Report of Her Majesty's Chief Inspector of Education and Training in Wales 2011-2012* [Online]. Available at: <http://www.estyn.gov.uk/english/annual-report/annual-report-2011-2012/> (accessed 26th November 2013).

⁵ http://www.principality.co.uk/~/_media/Files/PDF/Financial%20Reports/2012/PRINCIPALITY%20ANNUAL%20REPORT%202012%20ENGLISH.ashx
http://www.bdc.ca/en/about/publications/annual_report/Pages/annual_report.aspx



*realise their true potential for innovation, growth and economic impact in the region*⁶ to a situation where its prime objective is to *“to become the UK’s leading SME investment company”*⁷.

The report recognises recent interventions by the Minister for Economy, Science and Transport in rewording the mission statement for Finance Wales to closer align it with Welsh Government economic development priorities. This is a welcome step, however, in light of the evidence received in the review, the Minister should re-examine this issue and consider strengthening the mission statement further to align more closely with Finance Wales’ original aims from 2001. The Minister should also set out her expectations for how this should change delivery in practice and allow public scrutiny of progress via the methods explained above.

Taking the steps highlighted above will, in the short term, allow for greater public scrutiny and more closely align Finance Wales with wider economic development policies. These are short term steps that the Minister for Economy, Science and Transport could implement to begin the process of reform.

Should Finance Wales continue in its current role or indeed be transformed into a true development bank, it is also important that the processes and procedures it utilises in offering support to SMEs are monitored. FSB Wales’ concerns in this respect are twofold.

Firstly, the use of guarantees, the levying of charges and other costs should be monitored effectively as part of an annual review. A key feature of the review process should be to examine the costs faced by businesses for the administration of their loans.

Secondly, we are concerned about the use of external advisors and the transparency of the referral processes. Through queries raised by members, FSB Wales has become aware of the practice of referring applicant businesses to third party advisors. Whilst this maybe appropriate we are aware that in some instances businesses have already received advice and assistance from Business Wales and their own professional advisors but have been further referred to a third party by Finance Wales. The costs of any required advice prior to application should be fully disclosed and included when Finance Wales or any future body advertises its interest rates and charges.

3. Finance Wales interest rates

To many FSB Wales members, Finance Wales has been seen as a lender of last resort, somewhere to turn when the high street banks had refused finance. While this assumption is to be expected given Finance Wales’ role as a public sector finance body, the perception extends to the cost of the products available. Finance from Finance Wales is often perceived as expensive and this has largely been supported by the review’s findings.

Professor Jones-Evans’s review has provided the hard evidence that Finance Wales’ interest rates policy is excessive, confirming the concerns of FSB Wales members. The review has identified the

⁶ Professor Dylan Jones-Evans. 2013. *Access to Finance Review: Stage 2 review* [Online]. Available at: <http://wales.gov.uk/topics/businessandconomy/publications/accesstofinance/?lang=en> (accessed 26th November 2013). P. 39

⁷ *Ibid.* P. 40



average cost of loans from Finance Wales at 10.41 per cent with loans reaching up to around 9.69 per cent above the EU base rate. Coupled with the hidden cost of loans including lending, monitoring and security fees, the true cost of borrowing will undoubtedly impact on the viability of the businesses in receipt of finance. The lack of flexibility in Finance Wales' interest rates, particularly following the dive in interest rates that following the 2008 economic crisis, is concerning.

This practice is clearly at odds with economic development policy and falls short of the support small businesses in Wales need. As the review correctly identifies, *“a dime in every dollar’ going back to the state when it could be used within the business to create jobs”* undermines the Welsh Government's aims of fostering jobs and growth.

Therefore, the Minister for Economy, Science and Transport should mandate Finance Wales to adopt interest rates closer to the EU reference rates in loan funds such as the micro-business loan fund in order to provide a more attractive offer to SMEs in Wales. Furthermore, Professor Jones-Evans has suggested that using levers such as the General Block Exemption Regulation and De Minimis, interest rates for Finance Wales loans could be reduced, particularly in West Wales and the Valleys.

For instance, the review states that the average interest rate for the Micro-Business loan fund is currently 11.2 per cent. By comparison, the report details Department for Business, Innovation and Skills backed loans that have a nominal fixed rate of 6.2 per cent and examples in Ireland and Germany both below the 9 per cent rate⁸. There is no reason why SMEs in Wales should not be given the same opportunities, particularly given the relative weakness in the Welsh economy. This should be rectified in the short term.

4. Development Bank of Wales

FSB Wales welcomes the solutions proposed by Professor Dylan Jones-Evans and believes they merit further consideration. While FSB Wales agrees with the review's conclusion that *“Finance Wales is no longer fit for purpose in supporting Welsh SMEs and helping to deliver growth to the Welsh economy”*⁹; it is vitally important that a long-term solution can be found and that the Welsh Government does not embark on a period of 'initiative churn' in reforming Finance Wales. As such, any reform should be organic and progressive, seeking to focus on outcomes rather than on simply designing a new organisation.

The five principles outlined by Prof Jones-Evans are a sound basis for moving forward with this reform. There are numerous models that could be considered to satisfy these principles including the Small Business Administration in the USA, the Development Bank of Canada, the German Sparkassen model as well as a raft of public banking organisations in Europe.

FSB Wales believes the Welsh Government should have a firm idea about the desired outcomes and the preferred organisational framework that can deliver change. This should include a clear timescale for short-term reforms, such as to Finance Wales' existing remit, while looking towards the longer term reforms needed for the creation of a development bank.

⁸ *Ibid.* P. 42

⁹ *Ibid.* P.50



Of prime importance in this should be to enable the new organisation to foster alternative and mainstream forms of finance. There should also be a strong focus on financial inclusion, recognising that many firms are marginalised from formal routes to finance and could benefit from active support. This should be a cornerstone of the development bank's objectives.

Finally, any proposed reform must include the accountability mechanisms that Finance Wales currently lacks to ensure that any future organisation does not become equally disjointed from Welsh Government's economic development policies.

5. Alternative sources of finance

Professor Dylan Jones-Evans' review provides a comprehensive examination of alternative forms of finance. This is an issue FSB Wales has highlighted in the past with the publication of the Alt+ Finance paper and in conferences in conjunction with the Institute of Welsh Affairs. FSB Wales therefore welcomes the recommendations relating to alternative forms of finance and calls on the Minister to act swiftly to give SMEs in Wales access to these novel forms of financial support.

Their implementation would serve to strengthen much needed competition in the financial sector. Alternative forms of finance should be a key consideration in any future proposals for a development bank.

Despite the comprehensive work carried out by the review, FSB Wales believes there is also further potential in the credit union movement in Wales. Changes to regulation set out in our submission to Part 2 of the review highlighted the possibilities for credit unions to take a role in lending small amounts (below £15,000) to SMEs¹⁰. Anecdotal evidence suggests credit unions already lend to sole-traders for business purposes and further support should be considered on how to maximise this potential.

6. Conclusion

Professor Dylan Jones-Evans' review has set out clear recommendations for reform in access to finance for SMEs in Wales that merit detailed consideration. The Welsh Government should respond positively to the recommendations and set out a clear timescale for reform.

In the short term, this should include providing far greater accountability from Finance Wales to the public and the National Assembly for Wales. The Minister for Economy, Science and Transport should set out clear objectives and performance measures, a new mission statement for Finance Wales and ensure interest rates are more reflective of EU guidelines.

In the medium term, consideration should be given to Professor Jones-Evans' Development Bank of Wales proposals. This should be an organic process bringing together already existing support such as Finance Wales and Business Wales. This should also include the facilitation of alternative forms of

¹⁰FSB Wales. 2013. *Part 2 Access to Finance Review – FSB Wales Submission* [Online]. Available at: <http://www.fsb.org.uk/policy/rpu/wales/images/final%20non-bank%20finance.pdf> (accessed 26th November 2013).



finance as set out in the recommendations as well as further analysis of the potential role for credit unions.

Finally, over the longer term, the Welsh Government should design a solution drawing on best practice from elsewhere, such as the USA's Small Business Administration, the Development Bank of Canada and the German Sparkassen model. There should also be consideration of how a long-term solution can address financial exclusion for businesses, focusing on models of community banking.

**Contact:**

Federation of Small Businesses
WALES OFFICE
1 Cleeve House
Lambourne Crescent
Llanishen
CARDIFF CF14 5GP

Telephone: 029 2074 7406
Email: policy.wales@fsb.org.uk
Web: www.fsb.org.uk/wales

The Federation of Small Businesses

The FSB is non-profit making and non-party political. The Federation of Small Businesses is the UK's **largest campaigning pressure group** promoting and protecting the interests of the self-employed and owners of small firms. Formed in 1974, it now has **200,000 members across 33 regions and 194 branches**.

Lobbying

Our lobbying arm - led by the Westminster Press and Parliamentary office - applies pressure on MPs, Government and Whitehall and puts the FSB viewpoint over to the media. The FSB also has Press and Parliamentary Offices in Glasgow, Cardiff and Belfast to lobby the devolved assemblies. Development Managers work alongside members in our regions to further FSB influence at a regional level.

Member Benefits

In addition, Member Services is committed to delivering a wide range of high quality, good value business services to members of the FSB. These services will be subject to continuing review and will represent a positive enhancement to the benefit of membership of the Leading Business Organisation in the UK.

Vision

A community that recognises, values and adequately rewards the endeavours of those who are self employed and small business owners within the UK

The Federation of Small Businesses is the trading name of the National Federation of Self Employed and Small Businesses Limited. Our registered office is Sir Frank Whittle Way, Blackpool Business Park, Blackpool, Lancashire, FY4 2FE. Our company number is 1263540 and our Data Protection Act registration number is Z7356876. We are a non-profit making organisation and we have registered with the Information Commissioner on a voluntary basis.

Associate Companies

We have two associated companies, FSB (Member Services) Limited (company number 02875304 and Data Protection Act registration number Z7356601) and NFSE Sales Limited (company number 01222258 and Data Protection Act registration number Z7315310).

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted



FIN(4)FW067
Finance Wales Inquiry
Response from ICAEW

10 January 2014
Our ref: ICAEW Rep 03/14

By email only: FinanceCommittee@wales.gov.uk

Dear Sir/Madam

Invitation to provide evidence – Finance Wales

Introduction

ICAEW welcomes the opportunity to provide evidence to the Committee's Inquiry on the current operation and future role of Finance Wales.

We have recently responded to the separate consultation undertaken by the Welsh Government on the recent report by Prof. Dylan Jones-Evans and we draw on the views of our members submitted in the context of that consultation in framing our response to your questions.

Background

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 141,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

ICAEW, an active member of Commerce Cymru (formerly Business Wales) and the Council for Economic Renewal, has 3,000 members in Wales. We work closely with the Welsh Government in a number of different ways.

ICAEW has more than 20,000 members working outside the UK. The ICAEW qualification is recognised around the world as a prestigious professional business qualification. Members are entitled to the description chartered accountant and to the designatory letters ACA or FCA. Examinations for the qualification can be taken in a wide range of countries across the globe including China, Russia, Malaysia and Pakistan: however, papers are always set and marked in the English language.

Response

The role and strategic purpose of Finance Wales: We broadly believe that Finance Wales is fit for purpose.

'Finance Wales as a source of funding to SME's remains a great success. It has done what it says on the tin and bridged the funding gap between the private and public sector. It has repositioned itself away from its initial offering of "funder of last resort" into a much more commercial organisation, which is self funding and without the stigma normally attached to the public sector.'

While we believe that Finance Wales should and does promote investment and thus the creation of jobs and prosperity in Wales, it is essential that it operates on the basis of commercial investor principles.

In our view, the main market failure experienced by Welsh businesses in terms of access to finance is not with regard to the cost of borrowing, but to the *lack of availability* of finance: the role of Finance Wales is largely (quite correctly) to increase the volume of finance available for investment in Welsh businesses.

By acting in a commercial manner, Finance Wales is addressing market failure without perpetuating it. By demonstrating that investment in Welsh SMEs can both respond to a demand for finance and generate a commercial return, Finance Wales can potentially act as an exemplar to encourage competitors to enter the market. By contrast, were Finance Wales (or the Welsh Government) to offer investment on the basis of subsidised interest rates, it would effectively make it impossible for venture capitalists or commercial lenders to enter the market in competition with them because they could not 'match' the offer available from Finance Wales. A more commercial model also provides longer-term sustainability against the day when European funding (the mainstay of Finance Wales public funding) is no longer available.

'It would be wrong for FW to be the equivalent of a grant provider. European funding will come to an end and, if there is nothing to show for it, then the ramifications for Wales could be catastrophic. FW must be commercial in its approach, even though it may be not as mercenary as other sources of finance. It needs to be viewed as another option.... Taking FW in-house would be disastrous. Financial operations should not be run by politicians'

Moreover, by acting in a quasi-commercial manner, Finance Wales is able to lever in co-investment from other funders, to supplement public funding available from the Welsh Government or the European Regional Development Fund, notably Barclays Bank Plc in the case of the Wales SME Fund and the European Investment Bank in the case of JEREMIE. These partners need to believe that the Finance Wales investment approach is sound.

Current performance: we are not aware of any published recent evaluation of Finance Wales' activities, though we are aware one has been undertaken, and would welcome sight of such evidence.

However, from reports provided to the All Wales Programme Monitoring Committee for the Structural Funds, it would appear that the JEREMIE fund has supported the creation of 1,991 jobs and safeguarded a further 6,409¹. At this stage it is impossible to be sure whether the fund overall will generate a surplus or will register a net cost to the exchequer, since for any venture capital operation, a significant profit on a small number of equity investments over the longer term tends to be critical. While the current valuation of the JEREMIE portfolio is below the overall level of funds invested², the fund may return a surplus over its lifetime, in which case the net cost to the exchequer per job created will be zero. Even if the fund makes a loss, we would judge that with this level of job creation, the Fund is likely to show relatively good value for money compared to the grant schemes which have represented the usual Government intervention to support job-creating investment.

¹ Report to the Programme Monitoring Committee, December 2013

² The current value is £61.88 million, with £33.18 million having been repaid and £115.34 million having been invested.

Interest rates charged: while lower interest rates would always be desirable from the point of view of the investee, in our view criticism of the rates charged by Finance Wales is misplaced for a number of reasons:

- As noted above, the critical market failure is in volume not cost of finance available to business in Wales.
- The co-financing of public money by third-party investors is based on the latter having first call on the repayment of their investment, and the approach to risk and interest rates adopted by Finance Wales must satisfy these funders that the investment approach is sound. Since Finance Wales provides a mix of loan and equity investment (with the latter having generally requiring a longer investment time horizon and having less certain returns), Finance Wales has to be confident that its loan investments will generate sufficient returns to repay the co-investors.
- Finance Wales lends at fixed rates of interest, whereas bank rates are normally variable, which at a time of low interest rates provides more significant risk for the investee.
- In increasing the volume of lending over and above what would be available from the banks, Finance Wales necessarily has to adopt a less risk averse approach, and interest rates charged reflect this. Where (as is often the case) Finance Wales invests alongside a commercial lender, the latter invariably has preferred security rights, with Finance Wales bridging the gap between what the commercial lender will loan and what the business needs:

'I do not agree with the verdict on Finance Wales. Interest rates can be high, but this is a reflection of the risk profile on what is very often effectively unsecured lending. Without them over the last few years and now, there are very few deals requiring funding that we would have been successful with due to the banking issues discussed above.'

- While it would have been possible to rely on general State Aid exemptions (which would indeed have allowed Finance Wales, had it and the Welsh Government so chosen, to reduce interest rates), the decision to operate the JEREMIE Funds under a specific State Aid regime was entirely logical since it has allowed Finance Wales to make larger investments (GBER caps loans at £250,000) and to avoid a 'postcode lottery' where businesses on one side of a street are eligible for investment and ones on the other are not: this has been a significant problem with JEREMIE Funds in England, where the general exemptions have been relied on.
- A critical gap in Access to Finance relates to equity, and here too Finance Wales provides a critical role. However, in terms of equity, there are 'market failures' not only on the supply side, but also on the demand side, with SMEs often reluctant to consider this route, even though it may offer the best prospects of large-scale investment. This points to the need to improve the quality of business advice to potential investees:

'More resources need to be put in place to ensure that the SME's have the management and/or professional advisers to be able to assess the amount and source of the required finance and to put winnable cases to the various institutions, whether it be in the form of equity/ loan finance or training schemes.'

Value for money: Please see response on current performance above. While it is too early to make a definitive judgement on this, we believe that Finance Wales is likely to provide good value for money compared to other (predominantly grant-based) forms of public intervention and support. In this context, we are somewhat sceptical of the drift by the Welsh Government back towards deploying grants (for example, through the Welsh Economic Growth Fund) which represents a U-turn compared to the expressed intent in the Economic Renewal Programme to focus on repayable forms of finance for business.

Arrangements for future sources of finance: While your question asks specifically about sources of finance, it should be noted that the proposals from Prof. Jones-Evans suggest an integration of all forms of finance *and advice* to business under an umbrella body, the Development Bank for Wales.

In general terms, we agree with the analysis that suggests there needs to be more integration between the provision of finance and the provision of advice and guidance, and it is possible that Finance Wales should have been more pro-active in ensuring clients are accessing appropriate advice.

At the same time, we have always believed that the private sector (including our members), are capable of playing a larger role in providing qualified business advice to SMEs at crucial points in their development and that the proliferation of 'free' public sector business advice simply perpetuates rather than corrects any market failure.

We are also conscious that business support in Wales has been bedevilled by frequent structural change and 're-branding' resulting in confusion on the part of the business community. We strongly supported the recommendation of the Micro-Business Task and Finish Group in early 2012 to '*create a single well recognised brand for access to business support (public/private)*' and believe it would be unhelpful to embark on another re-branding just as 'Business Wales' is beginning to establish itself.

We are thus unsure if major structural change is needed now, and would in any case be opposed to dismantling Finance Wales to achieve it, although we would support better co-ordination between Finance Wales and Business Wales, and, potentially, better integration of all Welsh Government support for business (including any grants which are available) under the Business Wales brand.

Our members also believe that Finance Wales and the Welsh Government or any new organisation it might set up to co-ordinate support for business must work very closely with the new British Business Bank. Our members would not endorse duplicating the costs associated with the British Business Bank by establishing a separate Development Bank for Wales and believe that it is essential to ensure an integrated approach which encourages sharing of knowledge and lessons across government initiatives.

On balance, therefore, we doubt whether there is a strong case for the further structural change.

Corporate structure of Finance Wales: we do not feel well placed to comment on this. In the longer term, we believe it would be advantageous if Finance Wales could become free-standing from Government, as we believe this would provide an even stronger demonstration that it is possible to operate a Venture Capital business in Wales on a commercial basis, thus incentivising new entrants to the market.

Activities of the Finance Wales Group in the north of England: in our view, the fact that Finance Wales has successfully tendered to manage JEREMIE funds in the North-West and North-East of England should be regarded as a sign of success, helping to build Wales' reputation as a successful exporter of high value-added services.

We hope these views are of use to the members of the Committee and wish them well with their Inquiry.

Yours sincerely

David Lermon
Director for Wales
T +44 (0)29 2002 1481
E David.lermon@icaew.com

FIN(4)FW020
Finance Wales Inquiry
Response from Grant Thornton UK LLP

Sir

I write following the recent criticism of Finance Wales and its characterisation as “unfit for purpose” in the local media following the publication of stage two of the Access to Finance Review. I am concerned by the criticism of Finance Wales’s interest rate pricing policy and its strategy to become more commercially focussed and self-sustaining as I believe, at a time when public funds are under extreme duress, this strategy should be encouraged.

That said, what the report does well is to highlight an area where more funding may be beneficial and gives some suggestions about how this might be addressed. However, the report’s comments about Finance Wales are based around the author’s interpretation of the stated goals of the organisation. This interpretation, which is given little in the way of further explanation, is fundamental in its influence on the direction and emphasis of the entire report. It is also interesting to note that the goals themselves were laid down in 2001, a very different time in terms of the political and economic landscape. The report fairly states that other jurisdictions have provided lower cost funding to local companies without falling foul of State Aid provisions, and that this funding has benefitted the companies in question and therefore the wider national economy. In light of this, rather than questioning whether Finance Wales is fit for purpose, it would be better if Finance Wales’s role was clarified, whether this entails it being a self-supporting entity and therefore necessarily more commercial, or a soft lender charged with supporting businesses with the expectation that it will require on-going State financial support.

From my viewpoint, it is clear that Finance Wales is currently providing a useful function as there is demand for its products at the prices it is charging and without them this funding would, in my opinion, not be available.

If you would like to discuss this further I would be more than happy to do so.

Kind regards

Alistair Wardell

Alistair G Wardell | Partner | Advisory

For Grant Thornton UK LLP

Document is Restricted

Agenda Item 8

By virtue of paragraph(s) ix of Standing Order 17.42

Document is Restricted