

FIN(4)FW064
Finance Wales Inquiry
Response from Watts Gregory LLP

In response to your invitation to provide evidence, my views on the specific questions set are as follows:

The role and strategic purpose of Finance Wales
FW as an institution ought to support the economic development of Welsh businesses, which one hopes is also a priority of the Welsh Government. In reviewing the big picture FW forms part of the of the national support solution mix, not the only part. When providing support for Welsh businesses inevitably there is a focus on the principles of commerciality and sustainability, which I think should be translated to the public sector, so I would welcome an institution that is self funding. In my experience banks are very receptive to working alongside FW and a higher percentage of transactions are in the form of a consortium facility between FW and the banks. In this respect I can't readily see how the relationship can be improved, but the key to continued participation is the commercial terms adopted by each party.

Current Performance

I am not in possession of the facts concerning the appropriate outcomes as outlined and am therefore unable to comment, save as to say the outcomes listed are very relevant and should be measured.

Interest rates charged

A key element of an lending proposition is the understanding and assessment of risk and this should be a driver in the pricing of the transaction. As noted above the relationship between the banks and FW has been forged because they don't perceive themselves as competitors. Each has a different emphasis on the key lending criteria (security, serviceability, risk, interest and term), which is why there are so many joint transactions. FW's interest rates tend to be higher than the banks, since the banks minimise their risk by taking the lion's share of security, it's just a matter of trade off. I am not familiar with the state aid rules, so am unable to comment on whether the rules have a bearing on the interest rates charged.

Value for money

On the basis that FW is self funding, it must be considered value for money from a cost benefit perspective. Again I don't have the facts to support the value for money assessment of the other public sector support programmes. My perception is that these programmes are inefficient and the cost of administration outweighs the benefits. I have very few clients who have had positive experiences of dealing with support agencies, and even fewer who would pay for their services on a commercial basis.

Arrangements for future sources of finance

In terms of funding for FW I would advocate more of the same. I also believe the positioning of FW as a standalone subsidiary of Welsh Government is the best way to administer those finances. I agree that it would be beneficial if all the support programmes were combined, under an advice hub. However, specialist advice should be provided by the private sector on a subsidised or otherwise basis. If Welsh Government continue to provide support in the form of business grants, then this support should also be centralised. I presume civil servants will always preside over the administering of public funds. In this context I don't believe FW or any other institution ought to administer both grant and commercial funding.

Corporate structure of Finance Wales

As mentioned above I believe the current structure is fit for purpose. FW is a wholly owned subsidiary of Welsh Government, and accordingly will be able to influence its operations. However, too much intervention by "civil servants" could undo what has been achieved to date.

Activities of the Finance Wales Group in the north of England

I don't believe the activities of FW in England is leading to a drain of welsh talent across the Severn Bridge, nor the relocation of businesses. It suggests to me that FW have the talent and knowledge to raise funding and an infra structure to administer it. If other areas in the UK pay for this service all well and good.

Regards

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