



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Menter a Busnes **The Enterprise and Business Committee**

Dydd Iau, 23 Ebrill 2015
Thursday, 23 Ebrill 2015

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

These proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol **Committee members in attendance**

Keith Davies	Llafur Labour
William Graham	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Mike Hedges	Llafur (yn dirprwyo ar ran Jeff Cuthbert) Labour (substitute for Jeff Cuthbert)

Rhun ap Iorwerth	Plaid Cymru The Party of Wales
Eluned Parrott	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Jenny Rathbone	Llafur (yn dirprwyo ar ran Mick Antoniw) Labour (substitute for Mick Antoniw)
David Rees	Llafur (yn dirprwyo ar ran Gwenda Thomas) Labour (substitute for Gwenda Thomas)
Joyce Watson	Llafur Labour

Eraill yn bresennol
Others in attendance

Robert Lloyd Griffiths OBE	Cyfarwyddwr (Cymru), Sefydliad y Cyfarwyddwyr Director (Wales), Institute of Directors
Edwina Hart	Aelod Cynulliad, Llafur (Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth) Assembly Member, Labour (The Minister for Economy, Science and Transport)
Rob Hunter	Cyfarwyddwr, Cyllid a Pherfformiad, Economi, Gwyddoniaeth a Thrafnidiaeth, Llywodraeth Cymru Director, Finance and Performance, Economy, Science and Transport, Welsh Government
Yr Athro/Professor Dylan Jones-Evans OBE	Cadeirydd y Grŵp Gorchwyl a Gorffen ar Fanc Datblygu i Gymru Chair of the Development Bank for Wales Task and Finish Group

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

Martha Da Gama Howells	Ail Glerc Second Clerk
Marc Wyn Jones	Clerc Clerk
Rachel Jones	Dirprwy Glerc Deputy Clerk
Ben Stokes	Gwasanaeth Ymchwil Research Service

Dechreuodd y cyfarfod am 13:25.
The meeting began at 13:25.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **William Graham:** Good afternoon and welcome to the Enterprise and Business Committee. This afternoon I have apologies from Dafydd Elis-Thomas and Byron Davies. We welcome Jenny Rathbone, substituting for Mick Antoniw; Mike Hedges for Jeff Cuthbert; and David Rees for Gwenda Thomas. Thank you very much for your attendance this afternoon.

13:25

Banc Datblygu i Gymru—Craffu ar Waith y Gweinidog
Development Bank for Wales—Ministerial Scrutiny

[2] **William Graham:** Our first item is the development bank for Wales. I'm very grateful to the Minister and her officials for being with us today. We will go straight into questions, if we may, but could I ask you to give your names and titles for the record, Minister?

[3] **The Minister for Economy, Science and Transport (Edwina Hart):** I am Edwina Hart, Minister for Economy, Science and Transport.

[4] **Mr Hunter:** I'm Rob Hunter. I'm the Minister's finance director.

[5] **Professor Jones-Evans:** I'm Dylan Jones-Evans. I'm professor of entrepreneurship and strategy at the University of the West of England, and I was chair of the task and finish group for the development bank for Wales.

[6] **Mr Griffiths:** I'm Robert Lloyd Griffiths. I'm the chair of the strategic board that oversees the delivery of Business Wales, and I conducted the access to finance review.

[7] **William Graham:** Thank you very much. Our first question is from Joyce Watson.

[8] **Joyce Watson:** Thank you. Good afternoon, Minister. I would like to ask you when you expect to be in a position to set out any detail on your response to Professor Dylan Jones-Evans's feasibility study on the creation of a development bank for Wales.

[9] **Edwina Hart:** I think it's quite clear that I'm hugely in favour of a development bank for Wales, and I'm very grateful for the work that has been undertaken by Professor Dylan Jones-Evans and his group. But I am sure that you will appreciate that a development bank is a good opportunity, but is also a very difficult road to travel in terms of its establishment. We have to be quite clear on what is required in terms of the Bank of England with regulation, and how we would develop it. That is the work that we are now currently undertaking. But, in Professor Dylan Jones-Evans's report, he talks about what the problems are, particularly in lending to business. Just because we haven't got a development bank within three months, we can still start to undertake some of the measures that we need to do in the work that we need to do within Finance Wales to actually take forward his particular report. Some of those actions need to happen now. In terms of Finance Wales, I think I should make it absolutely clear that Finance Wales was a creature that was much admired when it was established. It has taken us forward, I think, in many ways. But times are a-changing. We have only got to look at what's happened within the banking sector. We've only got to look at the funding gap that Dylan Jones-Evans has identified, and the concerns that there are, still, particularly for microbusinesses and SMEs, about where they are going to get their money from. So, the development bank is the end goal, but there will be a lot of work in terms of how it will be regulated, how it will come together, how we use Finance Wales as it exists now, how we change Finance Wales, what we add to it, and what it becomes. So, I'm very grateful that the Chair agreed to do this scrutiny and, probably, a further report for me that will help me further in the deliberations before I finalise the route-map to the development bank. But we are on that route; we have started the journey.

[10] **Joyce Watson:** I thank you for that comprehensive answer, Minister. A lot of that detail is in the papers that we see, which says much the same. Could you give a reason or an outline of why you prefer the task and finish group's preferred option of the hybrid approach?

[11] **Edwina Hart:** Yes. I think that that was the most suitable one, to be honest with you. We did examine all the options, and, of course, one of the options that you did really look at, possibly, was to leave Finance Wales alone—could it remain as it is? But it can't. I think I favour the hybrid option because Finance Wales, as it is, is not what it was. When you think of Finance Wales—what they did originally—it was the JEREMIE fund. That was the first thing, when I came in in 2011—it was the only thing that they really dealt with. I recognised straight away that, when I accept Government responsibility for this, it is our creature. We are responsible for its mandate. We are responsible for the guidance we give, and everything. So, it is important, I think, that we had a grip on it. We decided that we would give it more funds to administer, like the SME fund, the Welsh life sciences fund—all those funds. So, it has essentially changed. But we felt that what Dylan Jones-Evans was saying in terms of the hybrid model was the most suitable model for us, and I think it was the easiest to get us to the endgame. So, the Professor might want to comment on the hybrid model and how they reached that conclusion.

13:30

[12] **Professor Jones-Evans:** Yes, thank you. When we looked at this—and you keep saying that it's my report, but it's actually not my report.

[13] **Edwina Hart:** You chaired.

[14] **Professor Jones-Evans:** I merely chaired, and whereas I could take the praise and the blame for the previous two reports, this is very much a report that's been written by all the members and all the contributions in there are from the members of the group. But we had a very detailed discussion on the different sort of models that could be adopted. I mean, one of the ones that could've been very useful was the British Business Bank. We had an excellent presentation from the British Business Bank. But the question there, of course, is that, obviously, politically, to have a British Business Bank here in Wales under the control of a UK Government Minister would not have been acceptable. So, that was on one end. At the other end, we could've actually gone for the model that's in the second report we sort of alluded to, which was bringing both business support and financial support together. But, given the way that things are evolving here, particularly with the development of European structural funds and the potential that some might call it the second Welsh development agency, again it might not have been the sort of model that we wanted at this time.

[15] Clearly—and Robert can explain some of this in his role with Business Wales—the whole of business support in Wales is now being reorganised, and I see no reason why there can't be closer co-ordination, because that has clearly not happened in the past between the finance function of Welsh Government and the business support function. There's no reason why that can't be closely co-ordinated. Then, sometime in the future, once a development bank is established, that function could be looked at again and be brought under the umbrella. It does happen elsewhere—the Small Business Administration in the USA and the development bank for Canada have a certain consultancy role. But, at this stage we felt, 'Let's get the funding right first, let's understand where the funding gaps are, get that right and we can merge things in after'.

[16] **Joyce Watson:** Did you want to add anything, Mr Griffiths?

[17] **Mr Griffiths:** Only in relation to, obviously from Business Wales's perspective, offering a full and comprehensive range of advice, including finance, and that, perhaps, we can explore later, when we come on to my report in terms of upskilling Business Wales to be able to provide the best possible levels of advice on a whole range of issues, including access to finance, which was one of the key drivers of what I investigated and reported on.

[18] **Joyce Watson:** Thank you. Are you content, Minister, that the hybrid approach and the decisions for most funds on financing would be made largely outside the development bank?

[19] **Edwina Hart:** I'm not quite clear on the nature of the question, what's behind it and what you're trying to get at. So, can you give me some clarity so that I can give you some clarity in my response?

[20] **Joyce Watson:** I think the suggestion from reading the report is that if we go down the hybrid approach that most of the financing decisions or the funds for financing decisions would be outside the development bank. Is that the case?

[21] **Edwina Hart:** Yes. Do you want to outline this?

[22] **Mr Hunter:** Yes.

[23] **Edwina Hart:** We've been talking about this.

[24] **Mr Hunter:** I think the Professor will be able to add to this, but, in essence, at the moment, Finance Wales primarily runs its own funds. It is the fundholder for one fund—the Welsh life sciences fund. The decisions for those funds are made within the fund by the fund manager. Now, the model moving forward would be many different funds, potentially, not necessarily directly managed and administered by Finance Wales. But, in order to meet all of the regulations of the Financial Conduct Authority and so on, the decisions for the funds would be made within the organisation that was actually managing the fund. Now, that may or may not be within Finance Wales.

[25] **Professor Jones-Evans:** If we look at it from two points of view—looking at it from both debt and equity—what we realised with debt, clearly, is that there has to be a direct role. This is very different. You know, the role of the UK Government with the British Business Bank is to say, 'Hand it over to other people, you manage it and we just give you the funding to fill in the gap'. What we've found particularly with microbusinesses is that they are a group of businesses that are not getting the funding, and there is a justification there for Welsh Government, either through Finance Wales or directly itself, to intervene there because there is a market failure. The second type of debt funding that we looked at was, clearly, what we call low-to-medium risk companies that are not getting funded by the banks for different reasons—because they don't have the collateral or the banks feel they can't afford to pay their loans, and that's because, as the Minister said, the whole banking structure has changed. Pre 2008—and the Sir Andrew Large report on RBS showed this—the average loan was eight to nine years, and now it's three to four years, and it's as if you are doing a mortgage: if you cut the period, you're paying double and most businesses couldn't do that. So, what we were looking at there was how Government could work alongside the banks, as actually happens in many countries in the European Union. So, we are actually filling the gap rather than replacing.

[26] As we're all aware, the amount of funding that's becoming available to Government is reducing, particularly in terms of economic development. So, rather than the Government taking all the risk on, the whole idea was about how we share the risk with the banks and how we share the risk with financial institutions. That doesn't mean that the Government steps away from that, because, clearly, the final decision on whether that funding goes to that company comes from the Government. But it's a streamlined approach, so we wouldn't have what we have now, where a business would have to put a business plan to a bank, have that decision and they say there's a gap and then go to Finance Wales and do exactly the same. That's costing that business somewhere between £15,000 and £20,000 extra in terms of the costs of compliance with applying to both. So, what we're trying to do is streamline. So,

that's the situation there. That's why we we're talking about hybrid, in that, when we say 'hybrids', it's about where Government needs to intervene, it can do so on its own, and where Government needs to intervene in partnership, it can do so.

[27] If we move on to equity, we had probably one of Wales's—actually, one of the world's—leading experts in equity. He is Welsh—Roger Maggs—and Roger kindly agreed to be on the panel. We're talking about somebody with, you know, 30 or 40 years of equity experience here, and the models he's looked at, he's looked at very carefully. What he was saying—this is an odd statement—was that what we should be doing is outsourcing the greed, and the reason is because the best people to actually understand and develop equity are equity professionals. To an extent, the Welsh Government has already done this with the life sciences fund, in that you've given it to a group of experts who understand.

[28] One of the things you found in Finance Wales was that they were very much a group of generalists, and what you find in venture capital is that you need specialists in different funds. So, clearly, now we have a life sciences fund and a couple of other funds, which could be things like ICT. And, of course, we have Sir Terry Matthews as somebody who, through his own venture fund, has done this and has already expressed an interest in potentially managing a similar fund through this process. And creative industries all have their specific nuances when it comes to investing. But the whole point about this—and I think this is where we are very strong in terms of the report—is the governance structure has to be one where this is the investment of public money, and whereas we give this to experts to invest, it's on behalf of the Government and the people of Wales they are investing that, not on their own.

[29] **Edwina Hart:** I think we've also got to make it clear, as well, on the development bank, we are not competing with the private sector in any way. It is managing our relationship with the private sector. We are in a position now with one of the banks where we are managing together, and they will come together and we will all decide what chunk of something we will take—whether we will take the risk in terms of Finance Wales and lending, and what they will do, so that there's an enhanced experience for the persons looking for the investment. So, through the work that's already been done, we've actually engaged much better with the banks here, and they want to engage much more with us about the availability of money and who should take what risks. But, at the same time, it allows the individual to put their one business plan in, and they can actually discuss then with all of us about how we could all jointly match the funding, which I also think is very important. One of our experiences with businesses looking for lending opportunities is that they go from pillar to post, don't they, because they go from their bank, then they look elsewhere, then they come to Finance Wales? We've got to a get much more integrated approach for these businesses, because they haven't got time to be doing all this. They really need somebody to be upfront.

[30] I think that, since we started all this work on a development bank, the review of Finance Wales and what we're doing, we've actually had much better relationships with the key banks, as well.

[31] **William Graham:** Minister, I think we have great sympathy with what you're trying to do, but I'm a bit concerned. Are you going to be caught by current legislation if you're going to call yourself a bank, which is very limiting in many ways, particularly, looking to the future, if the proposal is that there should be three times the collateral needed for a bank loan, plus the recent legislation for alternative bank funding, which will catch you, anyway? So, will you still be able to operate in the way that you suggest?

[32] **Edwina Hart:** Yes, I think we will be able to operate in how we suggest, but I think these are the issues we now have to go through as we look for the establishment of the development bank. That's why we were particularly interested, in our earlier engagement with the Bank of England, about the issues that surround all of this and how we can take these

issues forward. I am not aware that anybody's indicated there would be any obstacles in current or possibly future legislation that you've come across within your working group.

[33] **Professor Jones-Evans:** No.

[34] **David Rees:** Do you want to add anything?

[35] **Professor Jones-Evans:** I was just going to say, one of the challenges, as you've seen, is this question on the funding. Are we going to have a question on the funding gap later? I can address it now.

[36] **William Graham:** Yes, now, if you like.

[37] **Professor Jones-Evans:** I'm just going to mention briefly that we were talking about one of the problems we've had, which is actually in getting data from the banks. I said this at the beginning, and it's been one of the issues. As part of the research, we've done probably the most comprehensive analysis of bank lending at a regional level ever. The reason I can say that is that I was at a seminar organised by the Learned Society of Wales up in Portmeirion last week, where you had all these regional policy experts, and they said it had never been done. We had the report there to show them: 'Whoa, you've done this?' What this actually showed was that that gap not only has been there but it's actually growing. This is using all the data that we've gathered since 2011 for the SME monitor, which is the most comprehensive analysis that's been done on this. So, Chair, the issue here is that the gap is there. The gap is growing. To be honest, if you speak to the banks themselves, they're absolutely honest in saying, 'Things ain't gonna change over the next few years'. Where we are now is where we're going to be. As you've seen with some of the reports recently, there are danger signs about whether some of the banks are fully capitalised. So, what we're seeing with Basel III now, in terms of restricting credit, could get worse. That's where there's a role for Governments to intervene.

[38] **William Graham:** Eluned.

[39] **Eluned Parrott:** Did you want me to go on to the funding gap, Chair?

[40] **William Graham:** If you'd like. Yes, please.

[41] **Eluned Parrott:** Okay. Firstly, just referring back to the question of if not the development bank itself making decisions, who? Do you have any view on the kind of balance that there will be between the use of the traditional high-street banks as opposed to venture capital or other forms of finance at this point in time?

[42] **Edwina Hart:** Well, I think we've got to recognise, haven't we, that the banks have made it quite clear what part of the market they're in? I was with a business this morning that was actually complimentary about its bankers. It was a very successful business. They regard themselves as an SME, but they are really quite large in terms of a company. What we've seen is the diversity. The difficulty we're finding, particularly on the small end, I would say—isn't it, professor—is on micro and the very small SMEs. This is the area that worries us the most: their ability to access money, and also the ability of companies with good ideas, with no proven track records to access money. Even though it's a good idea and they might get some funding, is there a role for a development bank to help and assist within that area? So, I think we have to be cautious about how we deal with the balance, but Professor Dylan Jones-Evans will deal with the funding gap issues, which we've dealt with in great detail. The funding gap isn't just an issue in Wales. It's an issue across the whole of the UK. Well, we've probably got the most comprehensive information now about where the funding gap is. I think it has been brought about by all the frightening things that happened in the financial crisis and the

way the banks are now regulated and the way things are looked at now more. Perhaps this is the opportunity for us, almost, to come in.

[43] **Professor Jones-Evans:** If you remember, in the very first report, we recommended that Wales should join the start-up loans programme that had been initiated in England. We also recommended that it should be expanded beyond the 18 to 30 range, which England actually then followed suit on and we've joined. I'm sure the Minister will be making further announcements about the success of that programme, but it has been enormously successful. When you think about it, that wasn't there. There was a gap there, which we identified. Finance Wales wasn't filling it. The banks weren't filling it. Start-ups just couldn't get hold of this money. Of course, now, they're actually queueing out the door to try and get access to this. This is a very simple process in terms of doing this. What I've always felt is that, if you look at where the real growth has been, and if you look at microbusinesses, during the recession, microbusinesses were responsible for 85 per cent of the jobs being created in Wales, and yet they weren't getting the support to do so. Robert's chaired a particular group on this. They recommended that we put in a fund. So, we felt very strongly that Government should intervene on that, because if we can spread that wealth to every town and village throughout Wales, where you've got a business on the high street, or you've got a business on a small industrial estate, which say, 'We actually need £10,000 for this piece of kit' or 'I need £15,000 to redo my shop', then those are the sorts of things, if you collectively do that, that can have a real impact.

13:45

[44] Then, you go on to the other side of it, which is the equity. You know, we've seen recently there are businesses that come to Wales that just cannot get access to that funding that they need. It's what we call the 'burn'. So, if you offer them something like £200,000, they'll probably go through that in three to four months. The problem is we haven't got that equity structure. We talked about the British Business Bank, and the British Business Bank said, 'We're giving this money out; we're actually letting the market choose.' The problem, in terms of venture capital, is the market is in London and the joke is that most venture capitalists will travel an hour, at most, before they turn back. So, they'll be turning back in their Lamborghinis somewhere around Swindon and not getting anywhere near south Wales. So, we felt very strongly that we need that venture capital and we need that expertise.

[45] As the Minister knows, even during this process—because this actually shone a light, to an extent, on what was happening in Wales—the Government has been approached by a number of venture capital organisations, which have said, 'Actually, we'd like to work with you, because we see the potential in Wales.' So, what we're talking about is, for all these microbusinesses that need these small amounts of funding, let's get it to them easier, quickly and at an affordable rate, so they can build wealth and prosperity in their own communities. We want to create—I hate to say it because it's a bit of a jaded statement—the Microsofts and the Googles of the future, but if we don't have that venture capital here, or access to that venture capital, that ain't ever going to happen. So, we need to balance that out, and somewhere in the middle, let's work with the banks to make sure that we get that funding to those bigger small businesses and medium businesses.

[46] **Eluned Parrott:** I'm a big fan, for example, of the start-up loan scheme. I think it's been a fantastic success, but you will recognise, I am sure, that the nature of the relationship between the Wales development bank and the banks and funding institutions is going to be critical, because there has fundamentally been a huge breakdown in the trust between consumers and the banks—consumers, whether they are individuals or businesses. To be able to build a successful development bank, working alongside those institutions, is going to be a challenge. Who is going to be managing those relationships, because it seems like, in the hybrid model, what we're looking at is a relationship management system that is going to be

devolved out to some of these lenders in the first instance. Is that not correct?

[47] **Professor Jones-Evans:** In terms of what—the links between the banks? When we have the banks and Government co-investing, you mean?

[48] **Eluned Parrott:** Indeed.

[49] **Professor Jones-Evans:** Well, yes, again, one of the issues here is how you create something that is both efficient and effective. I think one of the challenges, when you write this, is to put it in the realpolitik, as such—we're not going to create an army of advisers that are going to be employed by the Government. So, the idea is how we use the private sector in particular, but not only the banks. One of the things we recommend and what we found is that, certainly, Government and the banks, to that extent, haven't used the accountancy profession. If you see what's interesting about the research on that is where do businesses turn to first for advice? It's their accountant.

[50] So, one of the things we want to do is create a far greater relationship, which hasn't existed in the past, between a publicly owned financial institution and this network of private sector advisers that's out there, so you are able to actually work alongside them and actually get them involved in the process. I mean, if you look at what happens in Finland, with Finnvera, their national bank, advisers can actually fill in the application form for a loan and it's sent directly to their development bank. There's no reason why—and we've got to use technology far more effectively than we are—we couldn't have every accountant in Wales being able to do that. Therefore, then, you can start this conversation quite directly between the advisers, who the businesses value and pay for—it's not free—and the development bank, when they need to get access to that funding.

[51] **Edwina Hart:** And, of course, Robert, we're doing this already as part of your review.

[52] **Mr Griffiths:** We're doing this with the Association of Chartered Certified Accountants in upskilling the Business Wales advisers in the relationship and the advice that they offer to the businesses they're dealing with. So, we're actually working closely with that organisation and others to ensure that there's a professional approach and knowledge transfer.

[53] **Edwina Hart:** And they're very keen and they really want to do this with us, because they are on the front line, usually, with businesses, and it would be much easier if we had a more streamlined system, which we would envisage with the development bank, and the relationship between the adviser, who might be the accountant, and the company. So, even though we're not quite at full-scale development bank stage, the underlying principles that are behind it are now starting to come through in the work that we're undertaking.

[54] **Eluned Parrott:** Okay, thank you, Minister. I think, in terms of making sure that the development bank is a success across the piece, you'll recognise that one of the biggest areas of market failure was for those very small businesses. The medium or larger small businesses that have access to, and a good relationship with, an accountant with whom they work closely are in a much better position than microbusinesses who, perhaps, go to their accountant three or four times a year in a desperate panic about their VAT returns, or whatever it may be. Those are very different positions to be in. It's those microbusinesses, at the early stage of development, which aren't start-ups, so they can't apply for that kind of funding, and, as I said, they don't really have the scale to have access to very high-quality financial advice, perhaps. How are we going to make sure that they're not left behind and that the gap in that particular area isn't allowed to persist?

[55] **Mr Griffiths:** I think, certainly in terms of my report looking at access to funding

and enabling businesses to be lending-ready, this is what I concentrate on in my report. So, within Business Wales, we are now upskilling all the Business Wales relationship managers to ensure that they have the full range and scope of the financial opportunities available at their fingertips so that they can advise microbusinesses.

[56] Many—or all of the recommendations that I have suggested have been taken on board, and Business Wales now is upskilling themselves and upgrading the opportunities that they have to actually give this level of support going forward. Also, in the next tranche of Business Wales from 2015 to 2020, that'll be part of the approach in the next level, so we'll be concentrating on that quite significantly.

[57] **Eluned Parrott:** So, do you see that if someone phones Business Wales with a lending enquiry, are you going to deal with that inquiry yourself, or are you going to suggest that they contact their financial adviser or accountant?

[58] **Mr Griffiths:** I think it'll be on the merits of the enquiry that's there. A wide variety of different requests are made as to what the financial implications might be, and the adviser will give the best answer appropriate to the individual request.

[59] **Eluned Parrott:** How much is that funding gap? We're talking about a range of between £240 million and £750 million, roughly, according to your analysis. It's a huge range, actually, in order to try and nail down—

[60] **Professor Jones-Evans:** There was a report that was released this week that suggested that it was even higher than that. The problem is that we've used various sources. The reason we have that gap is that when you use one source of data like the BBA data, we come up with one figure, and when we use the SME monitor data, we come up with others. I think this has applied to all studies. I mean, if you took the median, it actually comes up with the original figure we came up with in the first report.

[61] **Eluned Parrott:** Of £500 million.

[62] **Professor Jones-Evans:** But the fact is, I think the most important thing is, yes, you're right; there is a variation there, but the fact is there still remains a gap and that's the most important element. That gap is certainly not being filled either by the public or the private sector at the moment.

[63] **Eluned Parrott:** How much of that gap is—

[64] **William Graham:** No. I'd like to move on now, please. Mike.

[65] **Mike Hedges:** A couple of questions. I'm a great fan, as you know, of the life sciences fund, and I've said it on a number of occasions. Will that become part of this bank, or will it continue to work separately? As you've heard me say on more than one occasion, I'd like to see the equivalent of a life sciences bank to cover three other key sectors—professional services, creative services and ICT. High-value areas of the economy where we're massively underweight in Wales.

[66] **Edwina Hart:** Yes. In terms of the life sciences fund, it's certainly successful in terms of Government investment being managed by Finance Wales. The additional money that's now coming into the life sciences fund from the private sector is allowing us to have more opportunities and more business created in Wales. I don't think we want to vary some of this expertise at all. That really comes into line with the fact that it's being managed by experts. The money might be lodged within Finance Wales, there might be a system, but it's that level of expertise that we require.

[67] I think you make a particularly good point, because one of the areas we are looking at currently is about further funds in creative, which can also be managed in that way by people who actually understand how to make money out of creative industries. So, when the Government's money's going in, we're just part of it, and they're just escalating the cash up all the time in terms of the fund. I think the life sciences fund has got the potential to go much larger than our original investment, and I mean very much bigger. I think people have confidence in the fact that we've managed this fund in this way, because they've dealt with people who they would have dealt with in life anyway, in terms of entrepreneurs and investors. So, I think it's been very good, but I can't see any difficulty with any of that.

[68] **Professor Jones-Evans:** To be fair, I mean, if you look at what the life sciences fund is, it is this concept of the Government, essentially, outsourcing the management and the decisions to a private sector company, and they succeed or fail by the decisions they make. In the report, obviously, we identified two more general ways—rather than doing it by sector, we're saying we may need to have a start-up and a follow-on fund. At the moment you've got that; because of the small number of life sciences companies, it is very much targeted. I think, when you start looking at ICT and creative, you may want to look at it in a different way. But, certainly, again, one of the most important things here is this co-funding element, where Government and private sector can work alongside each other. I think that hasn't happened previously to the extent we'd like it to happen, but, certainly, it's all about de-risking, so if you want to set up, for example, an ICT fund or a creative industries fund, the idea is that Government puts it in and is able to go to the market and say, 'Actually, we're prepared to risk this'. It de-risks that investment, and that's what venture capitalists in London are looking at, and in Paris, Silicon Valley, New York and all the other centres. They are looking to de-risk their investment, so they think, 'Well, actually, we're prepared to bring our expertise and experiences to bear on that.'

[69] **Edwina Hart:** Can I also come back in, Mike? It's very good to hear somebody saying that we're right to look at things like the life sciences fund, because there was a risk aversion within Government about all issues like this, but when you look now at what's happening in terms of public expenditure and how we've got to get money to motivate certain sectors, being able to do this type of thing in a managed-risk type of format is exactly the way we need to go forward in the utilisation in terms of Government money. You will know, Rob, that there've been many discussions about whether this was the right way to go, but even you as my principal finance officer agree now that this has been very successful, because, also, as well, we need to recognise that these funds have been monitored by other organisations. It's not just the responsibility of where our money has gone—financial compliance and everything have all got to be looked at. So, it is quite a regulated area, and when we assessed, when we went into life science, we knew there was an opportunity. There was an element of risk, but it was a managed risk, and I think, when you see some of the projects that have now come out and the companies that have come in as a result of it, we realise that it was a risk worth taking. But it is a very different mindset for Government to be engaged in something like that, because I don't think anybody else has got a fund like this, Dylan.

[70] **Professor Jones-Evans:** No. I mean, if you look at the classic venture capital model, out of every 10 businesses, seven will fail, two will break even and one will actually make enough surplus, when you sell it, to cover all your costs and give you some money in your back pocket at the end of the day. You think about that in terms of a Government-owned fund, where you are saying, 'Actually, eight businesses are going to fail.' Now, all of a sudden, people are saying, 'Why did they fail? This is a waste of public money.' But you've got to look at it in the round, and so, when you look at it in the round, the fact that we could create, potentially, under the life sciences fund, a life sciences plc here in Wales, whereas eight might not succeed, that is worth the actual argument.

[71] **Rhun ap Iorwerth:** Just on a point of clarification there, just to ask you to maybe spell out what the difference is between a fund and the development bank that we are talking about, and maybe we were getting that at the end there: is it about risk aversion, and that the development bank would have to be a little more risk-averse than maybe—?

[72] **Edwina Hart:** I don't know. Well, we don't set the development bank up to do things that are not going to be winners, do we?

[73] **Professor Jones-Evans:** It's market failure, isn't it? So, like I said, if you look at microbusinesses, for example, banks won't go there, so there is a risk there. I mean, I think the initial assessment of everything that's happened, with the start-up loans, the Government would lose 50 per cent of those, because they're start-ups, they are going to fail. I don't think it has been that high, but that was the decision. Why? Because they wanted more entrepreneurs, they wanted more businesses and they wanted to create wealth. So, the way I looked at it—I'm sort of half-full rather than half-empty, so I look at it and say, 'Well, actually, we've created 50 per cent more entrepreneurs, rather than 50 per cent failures.' So, there's a market.

[74] Now, the same here, if you look at equity, then that risk is being put out to those experts, who know what they're doing. Government won't be making those decisions and Government won't actually be making those investments. What might happen, and this could be quite interesting, is that you could put a fund out in Wales, and say, 'Here's £30 million' and that fund would say, 'There are no businesses in Wales worth investing in.' That could happen in a proper commercial—. That's where the risk is.

14:00

[75] So, there is an onus on business support and businesses to get themselves investor-ready, so they are ready for that investment. That's the other, softer side of this. It's not only the cash. Can we get our businesses ready so they have the management in place, they have the products in place, and they have, shall we say, the investment opportunity in place for those people to put that money in? Because that could easily happen.

[76] **William Graham:** Mike, on this point.

[77] **Mike Hedges:** Well, on a point I made earlier.

[78] **William Graham:** No. We'll carry on with your questions, then, please, Rhun. We'll come back to you, Mike.

[79] **Rhun ap Iorwerth:** I just wanted to come in on a point of clarification about working on a hybrid model. I think we covered those.

[80] **William Graham:** Okay; fine. It's your turn now, Mike.

[81] **Mike Hedges:** I've only really got one other question, and a plea: can you put professional services in there as well? It is an area where Wales is dramatically underweight, and which does provide a lot of high-value employment. The question I've got is: how is the development bank going to be different to Finance Wales? Finance Wales lends at risk. It is almost the lender of last resort. You get your £800,000 from the bank, the bank says, 'That's as much as you're going to get', they go to Finance Wales, which lends the last £100,000 at risk, without any claims on people's houses et cetera. How would a development bank differ from that, and why would it be better?

[82] **Edwina Hart:** I think we've got to understand that Finance Wales was established at

a certain moment in time. It's had a role and function at a moment in time. We've started to enhance this sort of function with the development of the funds, but we're now actually going to go this further stage. It would be easy to have said, 'Let's give Finance Wales a bit more to do', but that would then, I think, have been defeating the whole discussion about what we really want in the future, which is a development bank that is a bank that is fit for purpose and can actually deal with all the problems that are now emerging in funding gaps and the nature of society changing, and the way the world of work is changing and the way that companies are changing. So, we need to move away from that standard Finance Wales model we've got to a model that will allow us to run funds if we wish to do so, will allow us to work with the current banks in terms of how we will develop, and also because that would be a Government decision in its remit to any development bank about areas we might want to take a risk in, and be prepared to say, 'We have rising standards in this area. You in the commercial sector might not think we are right, but we think we are right', and we might want then to have the opportunity to do that. That is, to me, the risk element of the development bank. We've looked at this.

[83] **Professor Jones-Evans:** As we've said, we've looked at the different models, and I take your point because others clearly have made it as well. The whole issue here, I think, is about where Wales wants to go in terms of where we are, what's been achieved and where we want to go in the future. We feel we have to have a more comprehensive approach. So, for example, we talked about microbusinesses; until the report that Robert came out with, there was no interest whatsoever. Now, I would have thought a development bank, if you look at the structure and you talk about the research that should be going into this evaluation—the British Business Bank says the same—we've got to understand our market. Yet, there's clearly been a massive gap for years in terms of providing support for microbusinesses. Finance Wales had not addressed that.

[84] It's the same, to an extent, with specialising in different funds. The equity fund has been quite broad. One of the criticisms by Roger Maggs in particular: if you look at that portfolio, no venture capital organisation anywhere in the world would have that broad portfolio. Now, there's a rationale for that, clearly, but the question is whether that's the approach. So, it's done what it has, I think—. I think the Minister's right. As you know, I was on the board of Finance Wales when it was initiated in 2001. There was a need for it then to do a particular job. I think it hasn't evolved over that period. It's now time for that new model to be adopted. Remember, when we say here, we could have said, 'Let's just abolish Finance Wales'. But we absolutely appreciate what the Finance Committee said at the time about that expertise being within Finance Wales. But if you see what they've done with the British Business Bank, you had Capital for Enterprise here managing the enterprise finance guarantee scheme, and the UK Government realised they had to put more money out there, so they landed this on top of it, and they took the best of the Capital for Enterprise organisation and brought new people in to actually develop that function. The same applies here. What we should be doing here is looking at who are the best people within Finance Wales—and there are very good people in there who have done a very good job in what they do—and then add the bank on top of it to add these different functions. I think if we do that, like we say at the beginning of the report, this will be the first development bank in the UK, and I think that will give Wales a real competitive advantage, because, in Scotland now, they're already talking about it. In fact, my worry is that the Scots, even though they're talking about it now, will get a development bank before Wales.

[85] **Edwina Hart:** Don't you worry about that. [*Laughter.*]

[86] **William Graham:** Okay. We'll go on then. Oh, sorry, Rob, do you want to come in?

[87] **Mr Hunter:** On the microfinance, under JEREMIE, £6 million was put into microfinances. The Minister launched a £6 million microfinance fund back in 2011 or 2012,

so we were addressing the gap. But what the report's really shown is that the scale of the problem is much bigger, and I think one of the points about a development bank is around scale and around our ambition, really, in terms of that scale. The other thing I think it would allow us to do is to much better align business support through advisers. Our department gives grants to small businesses; it would be fantastic to align the grants with the loans, with the business support, so that any business in Wales that wants to come forward for something through one application process has a complete service, and that we can use the money, which is obviously going to be tougher in future—we all know that—to best effect. And the great thing about these funds, of course, is that we can get that money recycled. So, that focus, I think, is really important for the economy.

[88] **William Graham:** David Rees.

[89] **David Rees:** Minister, this afternoon, in your first answer, you talked about governance arrangements, and in your statement on 17 March, you identified in some of your answers issues relating to meetings you'll be having in the future and discussions about the process. When will you be in a position to give an indication as to the potential governance arrangements for the bank?

[90] **Edwina Hart:** Obviously, as we work through our consideration of how we establish the development bank, we will look at governance arrangements, but I've made it absolutely clear that I was delighted when the Finance Committee chose to look at Finance Wales, and it did an excellent report. One of the questions that the Chair of the Finance Committee asked me in Plenary is what I was prepared to do, and I am prepared to open up the chair and chief executive for scrutiny within the Assembly as we develop the policy process here. I think the fact that all the information—. I don't know whether you've looked at Finance Wales's website, but it's very transparent in terms of the information it carries on its quarterly figures; everything is all up to date. And I think that, as a result of the Finance Committee's report, there's been greater transparency there and I want that to continue, because I do think, as it is public money, and as it will be a bank that's established by us, there should be scrutiny by the appropriate committee within the Assembly. And I am certainly happy, as I've said in Plenary, for that to be undertaken.

[91] **David Rees:** So it will operate in a transparent way and will be scrutinised by the Assembly and by committees.

[92] **Edwina Hart:** Yes, by the appropriate committee in the Assembly; that will, obviously, be a decision for the Chairs to discuss—who would want to scrutinise it.

[93] **Professor Jones-Evans:** I will just come in on that. One of the things we found from looking at development banks all over the world, which formed part of our research, is that if the shareholder is a public sector body, then it's absolutely critical that the board, or representatives of the board, including the chair and the chief exec, regularly appear. I'm not too sure about the situation, but I'm probably correct that the appearance of Finance Wales's board in front of the Finance Committee was the first appearance since the old Economic Development Committee, back in 2004-05. Now, this is a publicly owned organisation, where the Welsh Government is the shareholder, and yet, that board didn't appear in front of an Assembly Committee for nearly 10 years. Now, as far as I'm concerned, and as far as our task and finish group is concerned, we think they should appear every six months—if not, every 12 months. Every six months, they should be here, even if it's only to basically say 'This is what we're doing', so that you, as basically the custodians of Wales, can actually make a decision on whether it is acting in a certain way, and, more importantly, to ask them questions.

[94] I'm going back to what Mike said about equity. I think we worry too much

sometimes about the fact that businesses will close when they're funded by the Welsh Government. That is the nature of businesses. If every business succeeded, it would be a wonderful place, but it doesn't happen. Fifty per cent of businesses close within three years; only 20 per cent of businesses are still surviving after five years. But what we've got to do, if we can accept that, and there's a clear governance structure, and we know that a development bank, or Finance Wales, has done everything they can to ensure that that business survives—sometimes it doesn't happen—is have that sort of reflection, where you are allowed to ask that question of the chief executive: 'So, this business in my constituency closed; what went wrong?' Why shouldn't a chief executive be able to answer that and say, 'Well, actually, we tried our best; this is what we did—can't help it'? Now, you wouldn't get that clarity and I think that, where public money is involved, you, as the Assembly Member, representing the people of your constituency, have every right to ask that question.

[95] **Edwina Hart:** And we will be ensuring that in the future as a result of the Finance Committee's report.

[96] **David Rees:** In that sense then, the other side of it is: what are you doing to ensure that the world out there is understanding the remit of the development bank and how it will work and how they input into it?

[97] **Edwina Hart:** We had quite a struggle in getting the world out there to understand the remit of Finance Wales. I think it was—. Until a light started to be shone on it with the Finance Committee and various inquiries into finance, it was only then that I think they got their act together in terms of publicising what they did, being more transparent about what they are doing and giving a greater understanding to businesses. There wasn't enough activity, I didn't feel, on the ground in going out to companies, doing business lunches and everything in order to explain what they could do. That is being dealt with and I pay tribute to the board in that they have taken all those points up and are now starting to do that.

[98] If we move to a development bank, there's going to have to be a lot more of that as well. There's going to have to be a lot more understanding of what's going on. We'll be able to rely on people like Robert Lloyd Griffiths in his other capacity at the Institute of Directors, and other organisations, to help us in partnership to develop those types of structures because Business Wales is out there talking to people and the development bank will have to be out there talking to people. People must understand what it can and cannot do as well. People mustn't think that it will be a panacea for every ill and that everybody can go there and get something out of it. It's not going to be like that. At the end of the day, it is going to be a bank and we will be prepared to take risks on it, as we are currently on other funds. But, at the end of the day, we've got to understand that we are running a bank and that's going to be quite a challenge as we move on. That's why, when we establish the development bank, we've got to be sure on every aspect of it because it will involve what type of board you want for a development bank, what type of executive structure you will require within the organisation and then how they then publicise what they will do so that people get used to it and understand it. That is actually quite a lot of work to do to ensure that we have public confidence in the model.

[99] **Professor Jones-Evans:** And the most important thing, I think, is to appreciate that you need that open-door policy, where a business person doesn't see this as a 'them' and 'us'—'Oh, I can't go in there'. You need to have that understanding that, if they can help me, they will and there may be circumstances where they can't, but if you can make that absolutely clear—. One of the things that we've been struggling with is trying to get the bank of Wales name back from Lloyds Bank; you never know, they may eventually give it back to us.

[100] But I think that that's the most important thing: the bank of Wales is there for the

businesses of Wales. I've been out talking to people, not surprisingly, about this. One of the more interesting things is how many successful business people have come up to me and said, 'Do you know what, we'd like to invest in the bank of Wales, because not that we're not getting a good return from the banks normally, but, if we invest in the bank of Wales, we're investing into Wales; we're investing into helping other businesses'. Now, certainly, the development bank isn't at that stage yet, but it may well be, and to have businesses coming and saying, 'We're proud'—even now before the thing has been set up—and, 'We'd like to get involved in this'—. It's something that could, I think, bring the businesses of Wales together because it's there, essentially, not only as a symbol of what's good about Wales, but, more importantly, it's there to help those businesses grow and develop and to help the economy.

[101] **Edwina Hart:** Of course, you will recall that Professor Colyn Gardner looked at community banking and, following on from Dylan's point, there is an appetite actually with individuals in the future for saying, with regard to their savings, 'Could we put them into a bank that's helping people in Wales and could we have a better return from that?' Could we establish when people put in whatever they want to afford—their £5,000, their £10,000—. Is there a model that, in the future, we can develop? I believe that, if we take the right decisions now on the development bank, those are the areas that we will eventually be moving into. I think it's very exciting. It's given us identity as a nation, and people are feeling they're doing something good for somebody else within the nation and I think that is very important.

[102] **William Graham:** Joyce.

[103] **Joyce Watson:** Right. Sorry. Timescales: Minister, could you clarify the likely timescale for implementation, should the Minister to decide to create this development bank that we've been discussing this morning?

[104] **Edwina Hart:** I think we all understand that I wish to create a development bank. It's a question of working, I think, through the work that I need to undertake on this because we've got to look at the lessons we've learnt from other organisations and how they've dealt with some of these issues. So, what I intend to do when I receive the report from your committee and, of course, from the Finance Committee—which is also taking evidence on this—is put timelines in and report back to the Chamber.

14:15

[105] **Joyce Watson:** Thank you for that, Minister. There were lessons that were learned from previous mergers—the WDA and other mergers—and feasibility studies about varying impacts. Would you like to share any of that learning that might have come out of that?

[106] **Edwina Hart:** Well, in terms of feasibility studies, we thought that it would become self-financing in five years, we hoped, in terms of the bank. There are also a lot of lessons, can I say, to be learnt about the way staff were dealt with within mergers, and I think it was Professor Dylan Jones-Evans who indicated that we don't want to lose any of the existing expertise we've got in Finance Wales. We don't want staff in Finance Wales to feel we're saying, because we're talking about a future enterprise, we're damning any of the work that they've done now, because they've done the work under the remit they've had from the Welsh Government, and I think we've got to be quite clear about that. So, it's very important that staff recognise there is a role and function for them, but, of course, there will have to be an enhancement of some of the skills and expertise, and they will also be able to work with staff, if this comes about, in helping them to develop whether they want to go further forward in this. Because I'd be very keen on having a much better regional structure, I think, if we move fully to a development bank, so we can actually see the regional differences that exist across Wales in terms of businesses as well. So, I think, in terms of that, we would look for it

to be self-financing within five years. But they've already done a good job in terms of how they've dealt—they've gone from five to three in terms of operating—have they, Rob? Am I right?

[107] **Mr Hunter:** Yes, it was about £5.5 million in 2011 block grant that we put into them, and that's gone down to about £2.8 million in 2014-15, which is quite remarkable.

[108] **Edwina Hart:** Which is a remarkable change. If only others could operate in that manner and help Government.

[109] **Professor Jones-Evans:** There are two very quick points on that. The first one is, again, when we looked at development banks all over the world, most of them are in—we wouldn't say profit, because they are publicly owned. They are in surplus. That would have to be the aim of this bank. In Canada, it's now law that their development bank cannot make a loss. So, that's the first thing, but that will take time to put into place, obviously.

[110] The second point, when you say about learning from mergers, I think, Rob, I'd be right to say that we're building a very good relationship with the British Business Bank, and officials are constantly meeting with their equivalents there. They went through this process, and it took them a year to get this right—a lot of that was to do with state aid compliance. But, in merging the capital for enterprise with the new British Business Bank, and getting that right, there's a lot of learning there that we have to get on board, and they have said—the British Business Bank are on record as saying—'Anything we can do to help the creation of a development bank Wales', they would. Also, I've been speaking to senior people in a couple of the banks who, at that time, also seconded people to the British Business Bank to help with the process of compliance and regulation, and, again, they've said, 'We appreciate the importance of the development bank for Wales; we'll be ready to second senior people to work with you to ensure this is as smooth as possible a process'.

[111] **Edwina Hart:** And, of course, we've got to recognise the awful words 'state aid' will appear in anything that happens. So, we'll have to make sure we take as best advice as we can on state aid. But the British Business Bank and people like that have done it already, so they would be able to help and assist, because there are so many hurdles in this, and you could fall at any one if you don't take help, advice and assistance, and it's been very pleasing, I think, because they did a presentation for the task and finish group, and they were very helpful and very pro what we're trying to do, and wanted to help in any way they can. I think we will take up their offers.

[112] **William Graham:** Keith.

[113] **Keith Davies:** In forming a new bank, of course, this would have an effect, or could have an effect, on Finance Wales staff, and you might lose some of the best staff that are there to other organisations.

[114] **Edwina Hart:** There is always a danger that people think, 'The grass is greener on the other side and I'll be more appreciated'. I think what I've tried to say today is, we appreciate the work that they've done; there are some very good people in there, and we want to keep them, because we'll need those skills as we go on. What we're talking about is something that's got to go in on top—new personnel. We might have to look at a management structure, but we want to keep the best, and they've been very loyal to us and have done the job that they've been asked to do. It's not their fault that we are now discussing what we might do in the future, if you see what I mean, because I laid the remit down for what Finance Wales did, and I accept that they went along with their remit. And what they've done in terms of requiring less Government subsidy has indicated that they've listened very well to their remit. So, I think we can reassure staff on that basis, but there's no doubt that we're going to

have to look at management structures as we develop a new organisation, and we have to look at both structures, because the Bank of England will be very keen about who we have as board members, as you can imagine, on Finance Wales, because they'll want to make sure that people understand banking and regulation and all those issues now far more than perhaps they needed to in the past, even though they have, of course, been regulated.

[115] **Keith Davies:** You talked about you making the recommendation to us, to everybody—I think the study said that 12 months was a possibility, or a certainty.

[116] **Professor Jones-Evans:** I think I was drinking from my half-full glass there again, Keith, to be honest with you.

[117] **Keith Davies:** But you wanted to beat Scotland, you said earlier. [*Laughter.*]

[118] **Professor Jones-Evans:** Well, they may take the same amount of time.

[119] Cyntaf i'r felin gaiff falu— [120] First come first served—

[121] —as we say in north Wales.

[122] We need to start this process earlier. That is an indicative. Everybody said it's—. If they can do it with the British Business Bank, I think, in the end, we've just got to get—. Once the process starts, what I'm hoping is that it will be accelerated, mainly from—as Joyce indicated—the learning we can have from both commercial and the British Business Bank. The key now is to ensure that, once we have that remit in place, we see where that fits in with Finance Wales and what other expertise and experience we need to bring on board to ensure that the bank is established quickly.

[123] **Edwina Hart:** I think it would be enormously helpful, if the committee has any reflections or views at the end of their report that would—. There is an understanding of where we are going in this; there'll be many hurdles. Because that enables me to take things forward with an element of consensus, which will also be helpful in developing the bank.

[124] **Keith Davies:** Thank you.

[125] **William Graham:** Jenny.

[126] **Jenny Rathbone:** First of all, I wonder if I could ask what relationship this development bank would have with the European Investment Bank, which is partly about huge infrastructure projects, but it is also about SME investment.

[127] **Edwina Hart:** Well, we use the EIB.

[128] **Mr Hunter:** In the previous round of structural funds, EIB funding was used—so, borrowed in at fund level. There are actually issues, budgetary issues, for the Government in actually borrowing. So, the facilities that the EIB offer can be fantastic, but unfortunately some of the rules on Government borrowing and the way it counts towards our departmental budgets make it extraordinarily difficult. As it currently stands, if we did exactly what we did last time and we borrowed £70 million or £80 million in for the JEREMIE fund, for example, and into the next one, we'd immediately lose that off our capital DEL in the year we borrow it. So, it makes it kind of relatively pointless for us and we don't gain a great deal. There are certainly approaches that we are taking and we have been in discussions with the EIB on potential models, particularly for off-balance-sheet vehicles. So, with the development bank, there's nothing stopping us from having the core bank with some completely off-balance-sheet subsidiaries that could borrow in the market from the EIB or from other investors to

reinvest that in Welsh SME. As it currently sits, and I think this is one of the big drivers for the report and the move towards the development bank, we are actually quite hand-tied on this and it is very difficult to actually take advantage of things that you would think obviously we could.

[129] **Edwina Hart:** But we can't.

[130] **Jenny Rathbone:** Okay. Fine.

[131] **Professor Jones-Evans:** Very quickly, certainly one of the points we made in the first report, and I know the Minister did write to Dr Cable about this, was that the British Business Bank is supposed to be getting up to £10 billion-worth of wholesale funding, and we were wondering whether Dr Cable would be so kind as to Barnettise that, but Treasury were very reluctant. That would address some of the gaps that we talked about. Again, I think there are conversations to have, once the development bank is established, about whether there is an element of that funding that has been given to the British Business Bank—whether that can be devolved to a development bank without any of the, shall we say, controls. To be honest with you, Rob, we've already had discussions, haven't we?

[132] **Mr Hunter:** Yes, we have. Oddly enough, with the British Business Bank money, because it's actually coming, in effect, through a Government department, it's already been scored in the DEL. So, if the money came through the EIB into British Business Bank and then into us, it doesn't cause us a problem. But we are looking at the vehicles and the structures.

[133] **Edwina Hart:** I think it might be quite useful if the Chair perhaps had a letter on this particular point, because it's something the committee might want to discuss when they do their report, perhaps, on the discussions we've had today.

[134] **William Graham:** Most helpful, thank you very much.

[135] **Jenny Rathbone:** Okay, thank you for that. Just going back to the lending-ready review, you found that some Business Wales advisers needed upskilling. If people haven't got the risk management and due diligence skills, are they perhaps needing to seek a different career path, given that this is such a sort of key thing?

[136] **Mr Griffiths:** I think, in the first instance, it is probably incumbent on us to give them the necessary training to give them the advantages to actually make them better at what they do. Certainly, what we are doing at the moment in Business Wales is training all staff to enable them to give proper and detailed advice. We are actually working with the ACCA in order to establish and identify a range of options at their fingertips that will help them be able to give advice in a better way. So, I think that, in the first instance, we would look to train, upskill and develop existing capacity before looking elsewhere.

[137] **Jenny Rathbone:** Okay. I suppose that one of the things that I'm struggling with slightly is what relationship the Minister would see between Business Wales and the development bank.

[138] **Edwina Hart:** Well, Business Wales and the development bank will have to have an exceptionally close relationship. I'm not sure, in the endgame, whether it will be all one and the same as we develop the development bank and Business Wales goes ahead. But we've got to make sure that Business Wales understands what the development bank is doing and that its advisers are able to access straight in on behalf of businesses, if they come in with queries into the development bank. So, there's a good, close relationship, hence why you have the two parties here today who have co-ordinated the reports. That's how we see that working in

the future. I think that what Assembly Members have said is that there needs to be greater co-ordination. People need to know one person to go to, and they can deal with the whole, and this is what we are trying to do as part of the development of the bank and building, of course, a relationship with Business Wales. I think everybody's agreed now that Business Wales has improved enormously. You've only got to see some of the work that they've been doing with enterprise zones, and the work they've been doing with specialists. Business Wales is even doing work currently with people with autism—people on the spectrum who have got business ideas. So, advisers in Business Wales are trained up to deal with their needs in terms of communication. So, we are trying to get to grips with all aspects of this, in terms of business relationships.

[139] **Professor Jones-Evans:** The important element here is that, as you may be aware, Business Wales is putting most of its big contracts now out to tender. There is Business Wales itself, you have the start-up fund, and you've got the growth—. So, we are talking about £120 million to £130 million. We felt that, as a group, like you said, it would be better for us at this stage to focus on the finance and get that business support structure in place. Then, it's up to Government to decide at a later stage. But what we did suggest, which actually doesn't happen now, is that there is a regular—probably weekly—meeting between development bank officials and Business Wales officials, so they actually get to talk to each other. The impression we seem to get is that that happened mainly on a personal basis. You know, if somebody in Business Wales knew somebody in Finance Wales, they'd chat. But to have that there—. So, if you have a situation happening where somebody in Business Wales says, 'Well, we need to develop something around funding in this area,' or if somebody in Finance Wales says, 'We need to develop mentoring', how do you bring them together? In the end, what you find is successful in Canada is that there are three types. With the Business Development Bank of Canada, if you give them funding, 10 per cent succeed—sorry, it is about 10 per cent growth. If you give them consultancy, it is about 15 per cent growth. If you give them consultancy and funding, it is 25 per cent to 30 per cent growth. So, given the structures that we have, both sides will have to work very closely together to ensure that any business gets not only the money but also the management. And, being somebody who was on the original board of Finance Wales, that's what Finance Wales was set up to do: money and management. Unfortunately, it's ended up just money, and so we need to deal with that.

[140] **Mr Griffiths:** Certainly, in the tender for the next level of Business Wales, the importance of the ability to advise on financial matters is a key consideration going forward.

[141] **Jenny Rathbone:** Okay. I can see some virtue in having two separate operations. One is advising the entrepreneur with the brilliant idea on some of the key skills they need to know how to employ people and, you know, know how to spot the good people to work with. The other is the risk assessment of whether this project actually has legs.

[142] **Mr Griffiths:** In terms of the advice that Business Wales can offer, there will be those businesses that will need advice on finance but will not be the high-fliers. They will be the lifestyle-type businesses, and we need to look after those as well. So, there will be a different sort of track level of speed of advice, and we're looking at ways in which we segment our advice levels in terms of Business Wales going forward, to identify which are the ones that are going great guns and which ones just need to be looked after, perhaps at a slower level.

[143] **Edwina Hart:** And, of course, when you've got people sometimes with brilliant ideas, the advice is, 'Get yourself a partner who knows how to run a business while you develop all the IP and get on with the brilliant ideas'. That's what we've got to get to: that type of cultural understanding that people with wonderful ideas will go great guns, but if they don't have the business acumen behind them to actually help them, the idea won't go anywhere. We are trying to integrate a lot more of this now. It is very difficult, and I don't

think anybody does it perfectly.

[144] **Professor Jones-Evans:** No, they don't.

14:30

[145] **Jenny Rathbone:** How do you think that this development bank is going to know that what X, Y, Z is hoping to develop is going to be competitive in the rest of Europe, given that the rest of Europe will also be, you know, wanting to develop its small businesses?

[146] **Professor Jones-Evans:** Do you mean the bank itself or the customers of the bank?

[147] **Jenny Rathbone:** Yes.

[148] **Edwina Hart:** Customers or the bank.

[149] **Professor Jones-Evans:** Well, if you're talking about the bank itself, I mean, clearly, the bank will be addressing Wales. One of the things that I think is going to be absolutely critical in the future development bank is the benchmark against other financial institutions. One of the things that we found—and I don't want to go back and rake over interest rates again—if you look at how, for example Bulgaria developed, essentially, they developed a very similar hybrid model where they've used the European structural funds, given it to the banks in a sort of wholesale manner and they've used that to reduce, basically, the cost of borrowing to small businesses by almost a half. Small businesses in Bulgaria are paying something like 3 per cent to 4 per cent over 10 years. There are no businesses in Wales that are paying that. If you look at what is happening in Ireland now, again, you've got this combination of Enterprise Ireland, the pension funds, a German bank and the European Investment Bank coming in to actually create a situation where the amount of interest again or the cost of borrowing will be reduced by almost a half at the moment through two main banks, Allied Irish Bank and Bank of Ireland.

[150] So, we've got these different types of intervention happening and, clearly, what we've seen for Wales is that we could have adopted any of these, but Wales has a certain sort of structure in terms of its businesses and what the Government wants to achieve in different sectoral areas. We feel the model that we've put in here is the one that's needed for Wales, but we do need to benchmark and benchmark constantly. I think, sometimes, that you could say maybe that's what Finance Wales didn't do. It didn't actually look to benchmark itself against everybody else and then improve itself. So, you don't need a revolution like is happening here; it would've been an evolution over time.

[151] **Edwina Hart:** But it's interesting what you said about how institutions elsewhere have the benefit of pension funds coming in.

[152] **Professor Jones-Evans:** Yes, absolutely.

[153] **Edwina Hart:** I think there is an issue for us. If you look at the life sciences fund, it is very attractive, but there is very little interest from Welsh public pension funds about whether they should invest in it. But you look sometimes at what the investment pension funds look like across Canada and everything, and they are always very eager to go into invest into new horizons and new businesses. I think this is a real issue for us, because I think something we've got to look at in the future is about getting more money in from what people are paying in around here to actually boost the economy. So, I think there are a lot of very interesting discussions along the way as this policy develops.

[154] **Jenny Rathbone:** Well, the key for investors, surely, is how much of a risk they are

taking and whether the development bank is going to be able to—

[155] **Professor Jones-Evans:** Well, it's more of a portfolio, isn't it? If you look at pension funds in Wales—and we were having a discussion last week—every pension fund in Wales will invest a certain amount into the safe stocks and the FT, and it will always have a small part of its portfolio that will look at the potential for risk. Unfortunately, none of that money seems to be invested in Wales. There's no reason, I believe. As the Minister says, why, for example, are the pension funds of local authorities investing in risky businesses in London or in Paris or in New York, which they seem to do, because, obviously, once a pension fund invests, they are not investing it here? So, certainly, there should be a reason. There could be—

[156] **Mike Hedges:** Do you know the answer?

[157] **Professor Jones-Evans:** I wish we did.

[158] **William Graham:** Are you asking a question, Mike?

[159] **Mike Hedges:** Is it not the reason that the Welsh local government pension funds, the eight of them, are so small that they are actually run by investment managers based in London and, if we actually had one pension fund for Wales, you could then have local managers who would be able to do that? But, effectively, it's because the pension funds are relatively small compared with the very big Greater Manchester fund or the Birmingham fund or West Midlands fund, for example, which actually have their own local managers. So, surely, if we want to get local government to do that, then we need to be enthusing local authorities to merge their pension funds.

[160] **William Graham:** I think you've made your point, Mike. [*Laughter.*]

[161] **Edwina Hart:** I can see another inquiry coming now, Chair.

[162] **David Rees:** I have just a quick question. Several times this afternoon, you've talked about Canada.

[163] **Professor Jones-Evans:** Yes.

[164] **David Rees:** How long has the development bank been in operation in Canada, because you are talking about it now being used as an example?

[165] **Professor Jones-Evans:** I know there've been changes. We—I say 'we'; when I was a professor at the University of Glamorgan, we wrote a paper on creating a development fund for Wales, which then, ironically, became the basis—. It was for the Federation of Small Businesses, and that was then put as evidence to end up creating Finance Wales. We used the Business Development Bank of Canada back in 1998 as an example. So, I believe it's been going for well over 20 or 30 years.

[166] **David Rees:** So, it's got a good history, then.

[167] **Professor Jones-Evans:** Yes. Another interesting example about the evolution of banking is the only public bank in America, the Bank of North Dakota. That was set up in 1919/1920. Why? Because, basically, farmers couldn't get access to loans in their own state. They were getting punitive rates from another state, but that's then evolved, not just from agriculture. It evolved into businesses, it evolved into student loans, into mortgages. It's become, essentially, a state bank that is publicly owned. Now, I'm not saying this is what will happen in Wales, but certainly there is a rationale there to look at exemplars elsewhere and

say, you know, if this has worked there, could we adapt it? We could never adopt it properly, but could we adapt that to what's happening here in Wales?

[168] **David Rees:** I haven't got a problem with that, I just wanted to know, because it's been mentioned several times, the history of it.

[169] **Professor Jones-Evans:** Sorry, my apologies.

[170] **William Graham:** Any more questions? Yes, please, Eluned.

[171] **Eluned Parrott:** I wanted to ask about the long-term ambition, if you like. You've talked about a lot of the practical issues, but I'm wondering—. You say that the Welsh development bank should be self-financing within five years. Within that kind of five-year period between establishment and, you know, starting to wipe its face, if you like, what would a successful development bank have achieved in terms of addressing that funding gap? What kind of percentage decrease in the funding gap would you like to see?

[172] **Edwina Hart:** If we could be absolutely clear on what the funding gap was—. But it's not; we can't say.

[173] **Professor Jones-Evans:** Well, let's assume it's £0.5 billion. At the moment, if that's the gap from the banks, if you add everything up, with alternative finance, that brings it down to about £400 million. If a development bank could bring it down by another £100 million—

[174] **Edwina Hart:** It would be a success.

[175] **Professor Jones-Evans:** —then what we're talking about is another £100 million circulating in the economy by businesses that then add value to that £100 million. I mean, it's very difficult. One of the things that a bank would have to do—. And this is why, again, we've emphasised very clearly that it would have to measure its own impact on a regular basis. We need to know what impact—. And, remember, when we talk about impact, one of the problems you have—and, to be fair to Finance Wales, they're guided by European regulations—is that the impact is always about input rather than output. I think we've got to look very, very clearly at any target for a bank being output-driven. What's the impact on GVA? What's the impact on employment? What's the impact on profitability of companies? What's the impact on sectors? So, it would be up to the Government, looking again at best practice elsewhere from other banks, to say how we measure the impact, but it should be output. I think, sometimes, we worry too much about—. When we say, 'We've invested in a business', that's great, but what are the outcomes coming from that investment in the business?

[176] **Edwina Hart:** It's rather like we do on some of our other funds, where we're giving money for plant and equipment. You can see the outcome because they've actually kept people in employment, they've taken more people on and they've had an order book, so you can really measure that as the output agenda. I'm very much like you—I'd like to see a direct impact on the microbusiness end. Also, I'd want to look at sub-regional targets as well. Sometimes, if we have this, it's going to be very different and very difficult in some other areas, and I think they're going to have to think about that. So, there would have to be a whole basket you would have to look at so they could define what their performance was based on and what we expected.

[177] **Professor Jones-Evans:** One of the things that we found in the first two reports—I think we discussed it at the time—was that, with tourism businesses, they have struggled to get access to finance for a number of reasons. First, basically, they're being given as 'leisure', and leisure has been an area that's been given a black mark by the banks, so they won't

invest. Secondly, banks have now gone from assessing loan-to-value on loans from 90 per cent to about 50 per cent or 60 per cent, which is a fire sale. So, you may have a £1 million hotel. That's what it's worth; if you sold it, that's what the property would be worth, but the banks are valuing it at £500,000 to £600,000. So, as a result, that's changed the entire structure. So, again, when we look at this, the bank has to be relevant to the sectors of Wales, and it has to develop the financing instruments that are relevant to those. So, it's not one. That's the issue we've had in the past: 'Here's a loan; here's equity; that's it', and it doesn't really matter what sector you're in. Financing different types of businesses is more nuanced. This is what we found when we looked at manufacturing versus tourism, and when we looked at the panels, when we did the first review, and you get, you know, creative businesses—. Ron Jones was saying 'Our solution is very different'; you go to life sciences, 'Our solution is very different'. So, we need to have—. That's why it's important, I think, that, again, a bank—this is where the linkage with Government is—has to be aligned, in what it does, with economic policy, whether it's in enterprise zones, whether it's in sectors in whatever area, so, it actually reflects that. If it starts going off and doing its own thing, then, that's not going to reflect, essentially, what the economy needs in Wales.

[178] **Eluned Parrott:** Indeed, but obviously, I mean, it's all about impact, as it is in higher education at the moment. But the European Union are also changing the way in which they assess and evaluate programmes to look more at the long-term outcomes, rather than the immediate outputs in terms of counting the number of transactional arrangements. I'm wondering at what point you're going to set out what the specific targets are in different sectors for individual arrangements. But what are the long-term strategic aims? Clearly, those strategic aims will set the priorities for this new institution and, by setting the priorities, will also set the direction of the effort that the bank will put into different areas of work.

[179] **Professor Jones-Evans:** Well, like I said, I think, as has happened with the British Business Bank, you know, you appoint a chief executive, you appoint a chair and, basically, they will set that, obviously, in co-ordination. This is what's happened very successfully. I've seen the strategic document on this, which is confidential, but clearly, what they did was say, 'This is how we want to go forward'. In the end, you know, it's people who make an organisation and if we can choose the right chief executive and the right chairman and the right team around them, then they will actually set the agenda for this in co-ordination, obviously, with the Government, but the key here is that they will do that for the next, probably, five to 10 years beyond the initial short term. We have to get the bank up and running and we have to get those people in place and when that's in place, then the thing can really take off.

[180] **Eluned Parrott:** Okay, thank you.

[181] **William Graham:** Any other questions from Members?

[182] **Rhun ap Iorwerth:** Yes.

[183] **William Graham:** Rhun.

[184] **Rhun ap Iorwerth:** Just looking ahead at the practical steps that will be taken, hopefully, working to as short a timetable as possible, could you give us an idea of the kind of level of resources, both financial and human, that are being put in to make this happen? And, what are some of the key milestones that we might expect to reach first, on the road towards this?

[185] **Edwina Hart:** When the committee completes its reports, I'll obviously take cognisance of everything that's been raised with me on that. We'll be getting a group of individuals together to take the project forward while trying to look at the high-level areas we

need in terms of what resource will be required, what changes will need to be made and what I would do in board and executive structures. That, I anticipate, will be work that will be undertaken during the summer.

[186] **Rhun ap Iorwerth:** So, the next key announcements will be—?

[187] **Edwina Hart:** I would have thought that I would probably do an update prior to the summer recess on the basis of the two reports, because I expect the Chairs would like me to courteously respond to those reports before recess. I am highly likely then, when we return in September, to do a fuller statement to the Chamber about what progress we've made on taking matters forward.

[188] **Rhun ap Iorwerth:** And, there will be a dedicated team, presumably, working on this now, or—

[189] **Edwina Hart:** Yes, there will be a dedicated team. We already have individuals starting to do the work in the department.

[190] **Rhun ap Iorwerth:** Okay. And, presumably, there'll be some recruitment early—

[191] **Edwina Hart:** I think there'll be a lot of people out there who'll be very interested in being involved in a project like this.

[192] **William Graham:** Indeed. Thank you very much, Minister, for answering our questions today.

[193] **Edwina Hart:** Thank you.

[194] **William Graham:** We're most grateful for your attendance. As you know, there'll be a record of this to scrutinise in due course. Thank you very much. That closes the formal part of our meeting today.

*Daeth y cyfarfod i ben am 14:44.
The meeting ended at 14:44.*