

FIN(4)FW071
Finance Wales Inquiry
Response from Kilsby and Williams

BY E-MAIL

The Finance Committee
National Assembly for Wales
Cardiff Bay
CARDIFF
CF99 1NA

Our ref: SRT/NGW

10 January 2014

Dear Sirs

OUR VIEW ON FINANCE WALES

Our view below is based on our experience of working with Finance Wales for our clients, working with Finance Wales providing financial due diligence on their deals and from our general knowledge of how the business community works and interacts with Finance Wales.

The role and strategic purpose of Finance Wales

Our perception is that Finance Wales was set up as a tool of the Welsh Government to support Welsh SME's. Its initial lending was somewhat surprising and was, we believe, the result of a less than able team. However, following changes in senior management Finance Wales has now become better placed and more commercial investor in its own right whilst still supporting Welsh SME's and other objectives of the Welsh Government.

We think it should continue to develop as a commercial investor working for Welsh businesses whilst keeping a close alignment towards the economic policies of the Welsh Government. We think it has carried this out successfully in recent times and can see no sensible reason for any change.

We operate in the South East Wales locality and see that banks have developed strong relationships and good communication channels and now work well and closely with Finance Wales. Banks are currently operating on restricted lending criteria so where they cannot achieve a deal for a business they will automatically bring in Finance Wales to work alongside and get a deal done. This is routine practice amongst all the major banks we work with. No change is needed here.

We think that Finance Wales should maintain a distance, as it has done in the past, from the Welsh Government to ensure that it stays free from any political bias. Finance Wales has a business function and should be run as such with no political involvement. The key is for Finance Wales to maximise its delivery of financial assistance to Welsh business at minimum cost.

In order to evaluate cost there is a need to charge commercial rates of interest based on the risks of the particular loan. This can fall apart if politicians get involved in any way in lending approval. If the Welsh Government start to get involved in operations it may be easier for influential lobbyists to derive an unfair advantage. There has been a perception in the past that this has been the case with some Welsh Government economic support schemes.

Finance Wales has become a key national business asset which has taken a number of years to create. It would be the wrong decision to dismantle it.

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Current performance

Many Welsh businesses have survived because of Finance Wales' involvement. Finance Wales has continued to lend through recent tough times when other banks and funders have simply walked away. The survival and re-emergence of these businesses is partly down to Finance Wales. Many jobs would have been lost if their support had not been available.

We have seen continued support by Finance Wales even for ailing businesses when other lenders have given up. It is important to note that in most cases the continued support has been the right decision and based on sound business principles. Our experience is that public money has not been wasted on blatantly wrong investment decisions.

Ongoing business advice

Finance Wales have not just positioned themselves as providers of finance, but as advisors to try to ensure business continuity and growth. This is hugely important in Wales. Their team help businesses improve themselves with advice on better management structures and financial controls. This is important and positive for Welsh businesses, many of whom lack the ability to expand because of shortcomings in key management areas. The recruitment policy of Finance Wales has brought in a number of ex bankers and accountants who are used to providing these additional services and who also have access to the right people. They actually do this better than the banks.

Conclusion

We consider the Finance Wales team is highly capable with some very talented individuals who are delivering the right products and advice for Welsh business.

Interest rates charged

We believe it is appropriate for Finance Wales to assess commercial risk and security when determining their interest rates. Finance Wales are generally acknowledged as being a high risk lender and so must charge accordingly. Our clients who take funds at high interest rates are fully aware of why these rates are being charged. Whilst some may feel the charges are too high, there are no alternative lenders. Our clients do understand that there is a price to pay for survival.

We are aware of the ability of Finance Wales to charge lower interest rates. This does not mean that all interest rates should be unilaterally lowered but maybe if a borrower's risk profile improves considerably it could be reassessed as time passes. This could be included in the original lending terms and may be related to improving business performance. In this way rates could be matched to risk which may be a fairer way to ensure that high interest rates do not hamper future growth.

We have noticed a trend towards more and better quality of security taken by Finance Wales on debt deals over recent years. This is an area that could be reviewed as good quality security combined with high interest rates is seen by some as unjust.

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Value for money

Without Finance Wales some of our clients would have gone out of business. This may not be because of a poor performing business but because many businesses are now different following the recent economic shocks. Some banks have not given businesses a breathing space but Finance Wales have. If those businesses had been allowed to fail the Welsh Government would have simply ended up with another mechanism of support funding to get those people back into work probably in higher risk, new start up situations and at greater overall cost.

The close proximity maintained by Finance Wales to their investments offers better value for money for the Welsh Government than other forms of small, seemingly free, grant aid. At a higher level we believe grant aid offers a better rate of return to the public purse. This probably gives a somewhat difficult problem in that Finance Wales does seem to have aspirations to move into bigger deals.

Arrangements for future sources of finance

We believe the Welsh Government should tread very carefully if it wants to put money into crowd funding platforms. We consider these to be highly fashionable and we think they will fall out of favour quite quickly. We have seen a number of these in operation, we would not advise our clients to participate particularly as investors as the risk is exceptionally high without any satisfactory due diligence procedures.

We have seen clients, particularly those wanting investments, utilise the existing national EIS and SEED schemes. They give good tax benefits and allow investors to get close to their investments.

Businesses who understand about the benefits of equity participation would probably take this route rather than debt if the Welsh Government could work its own EIS/SEED type scheme alongside Finance Wales.

We are not convinced by the appetite for a National Bank for Wales. This would deliver nothing that is not already available. It appears a politically driven proposal of no value.

Stage 2 report

We think many Welsh businesses only look for assistance within Wales and are unaware of nationwide schemes. We have tried to source these but they become complicated and unwieldy. It would be best to have schemes administered and publicised in Wales.

Corporate structure of Finance Wales

We have no comments on this as we believe it is fit for purpose in structure, management and personnel. However, we would suggest an independent board.

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Activities of the Finance Wales Group

We see the activities in the North of England as being commensurate with the organisation pursuing its ambitions as an autonomous commercial investor, as long as the business is run on purely commercial terms and kept separate (both legally and operationally).

It must not put public money at risk that could be better used in Wales.

Yours faithfully

A handwritten signature in black ink that reads "Kilsby & Williams LLP". The signature is written in a cursive, slightly slanted style.

KILSBY & WILLIAMS LLP