

Vaughan Gething AS/MS
Gweinidog yr Economi
Minister for Economy



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: VG-PO-015-24

Paul Davies, MS
Chair
Economy Trade and Rural Affairs Committee

17 January 2024

Dear Chair,

I welcome the Committee's Development Bank of Wales inquiry and attach initial comments to support the consultation phase and also refer the Committee to my October 2022 Statement marking the fifth anniversary of the Development Bank:

[Oral Statement: Development Bank of Wales – Investing with ambition \(25 October 2022\) | GOV.WALES](#)

I look forward to appearing before the Committee later in the year.

Yours sincerely,

A handwritten signature in black ink that reads "Vaughan Gething". The signature is written in a cursive style.

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Gweinidog yr Economi
Minister for Economy

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

To: Paul Davies MS, Chair of the ETRA Committee
From: Vaughan Gething MS, Minister for Economy
Date: 17 January 2024

Re: Development Bank of Wales Inquiry - 2024

Purpose

This paper provides background information to support the initial considerations of the Committee as it commences its inquiry. A further evidence paper will be provided ahead of the Minister attending the Committee on 24 April.

Development Bank of Wales Overview:

The Development Bank is a key part of the Welsh Government's strategy to deliver a more prosperous and secure Wales and to support the economy of Wales by making it easier for businesses, innovators and entrepreneurs to get the finance they need to start up, strengthen and grow.

The Development Bank's primary role is to fill the space between business' need for finance and the supply of finance in the market. It addresses the 'gap' where the conventional risk appetite and products of private sector funders cannot meet the needs of finance-seeking businesses. It is required to operate on a commercial basis and its role is not to displace the market.

The Development Bank is an arm's length body and as such Welsh Ministers do not take part in day-to-day operational matters, commercial matters, or decision-making within the Development Bank of Wales Group. The governance structure includes the Board of Directors, the Audit and Risk committee, Remuneration Committee and Nominations Committee.

At formation in 2017, the Development Bank was set an annual investment target of £80 million by 2020. That initial target was met just two years later in the financial year ending 31 March 2019. Over its first five years (2017-2022) the bank has exceeded investment targets, delivering an economic impact of £1.2bn. In 2023-24 equity and debt investments totalled £124m.

The Development Bank supports priorities across the Welsh Government through provision of funds and services. It has proven capable of delivering complex solutions at pace. This was demonstrated in 2020 when it launched the first Covid-19 emergency lending scheme in the UK. More recent examples include the introduction of a new Green Business Loan Scheme and delivery of the Welsh Government's Help to Stay scheme.

With a customer portfolio of over 3000 businesses, the Development Bank offers an extensive funding range supporting the needs of smaller scale micro lending through to large scale growth finance.

As well as managing funds and making investments, the bank also provides service functions to Welsh Government on a contractual basis. Delivering Help to Buy Wales

is the largest of these functions. WG has also invested £8m into the bank for Mutual Investment Model Scheme (“MIMS”) projects where the bank becomes the public equity holder in companies that raise capital on international markets and deliver major capital projects such as road, hospital and school builds. The bank also manages a number of complex loans on behalf of Welsh Government and through the Recovery Support Group provides timely intervention supporting businesses in crisis.

The Development Bank’s point of differentiation as an investor is the partnership approach they take with their customers. *Best in class with a human face* has become the operational ethos of the organisation. The 2022 brand perception survey clearly evidences that both customers and intermediaries hold the development bank in high regard. For customers the strongest brand attributes are ‘honest and trustworthy’, ‘expert and professional’ and ‘explains things clearly’. The bank’s most recent Net Promoter Score, the measure used to track customer experience based on their likelihood of recommending a product or service, is rated as ‘excellent’.

Remit letter & Corporate Plan

Remit letters articulate policy and delivery priorities and have historically been issued on an annual basis. In November 2021 a 5-year Term of Government Remit letter for the Development Bank of Wales was issued, the first such Term of Government Remit to any Arm’s Length body in Wales.

The bank’s Corporate Plan [[Development Bank of Wales Corporate plan 2022/27](#)] developed in response to the remit sets out how it is supporting Welsh Government in tackling priorities from economic development to residential decarbonisation. Progress against the targets contained within the Corporate Plan are updated annually in the bank’s Operational Plan.

The Remit letter also directs the bank to place emphasis on delivery across Wales, across sectors, and to support businesses of different sizes and at different stages of development and growth. The regional distribution of investment activity is balanced across Wales.

Reporting and Assurance

The Board meets bi-monthly and Ministerial meetings with the Development Bank’s Chair and CEO take place biannually allowing the opportunity to receive updates on organisational performance and strategic challenges. These meetings also provide the opportunity to understand where and how government more broadly may support the work of the bank. These regular meetings form part of the agreed governance framework for the bank.

The Welsh Government has an observer who attends Board meetings, officials also attend the Audit and Risk Committee. Communication between the bank and Welsh Government is effectively managed by the Partnership Team and the Chair and / or CEO regularly write to the Minister giving notification on key developments, achievements, or challenges.

Evidence and feedback from the market tells us the Development Bank of Wales has established itself as a highly credible institution. It is respected by customers and stakeholders in the sector.

The Board and Audit and Risk Committee has provided a letter of assurance to Welsh Government noting the bank's Internal Audit Annual Report giving an opinion "the organisation has an adequate and effective framework for risk management, governance and internal control."

The Public Accounts and Public Administration Committee took an item on the Wales Life Sciences Investment Fund in December. There will be a lessons learned review undertaken by the bank on behalf of the Welsh Government which will be shared with the committee in due course.

Capitalisation

Business finance is a long term undertaking, particularly where equity investment or patient capital is involved. The Development Bank is currently well capitalised, with profiled investment activity extending through to 2031 for the Wales Flexible Investment Fund.

The bank does not receive 'grant in aid'. Rather, it utilises returns from interest charged on loans to meet organisational costs. In this way, when the Welsh Government provides capital to support a fund operated by the bank, 100% of that funding is deployed into businesses.

The bank seeks to maximise value for money to create a financially sustainable model for core business lending. The ability to "recycle" funding significantly adds to the value proposition.

The Development Bank operates a portfolio of funds effectively deploying capital to support economic development objectives. Some funds are higher risk than others due to the nature of the investments or loans they make. Managing a balanced portfolio, the bank is on track to fully repay its loan obligations to the Welsh Government.

Moreover, funding deployed by the Development Bank leverages significant private sector funding, improving further the overall value proposition. £114m additional investment from banks and other private-sector co-investment in 2022/23.

The contribution made by EU funding to the development of the bank has historically been significant. Today the Development Bank is no longer reliant on EU funding or successor UK based funds to sustain current investment levels into Welsh businesses.

End.