

Development Bank of Wales

Our mission is to unlock economic potential in Wales and enhance the local economy by providing sustainable, effective finance.

By providing sustainable, effective finance where options have seemed limited, we're bringing ambitions to life and fuelling possibilities for people, businesses and communities in Wales and beyond. Financial Transactions Capital (FTC) is a core part of how we provide Wales with a funding mechanism that can deliver this sustainable and effective supply of finance for economic development.

1. The rules governing the use of Financial Transactions Capital.

As highlighted by the 2019 Inquiry into the Welsh Government's capital funding sources, broadly Financial Transaction Funding is subject to repayment profiles agreed by the Welsh Government with HM Treasury. Whilst this limits its use, it does have some flexibility in limited circumstances to be used over longer periods and returns from the investments made can be reinvested in and recouped from Welsh businesses prior to any repayments to HMT. The need to generate a financial return positions the Development Bank of Wales as a natural choice for deploying FTC.

Another factor of FTC is that, DBW understands, around 80% of the original sum where this is gross FTC must be repaid to HM Treasury. This means we, in the Development Bank, must ensure we generate sufficient returns in order for the Welsh Government to meet its overall repayment obligations. As the Welsh Government manage FTC as a portfolio, which includes the Development Banks portfolio of FTC financed schemes, the returns required for each fund or scheme are agreed in advance.

Over £1.1bn of FTC has been deployed by the Development Bank, spread across a range of sector and generalist funds, meeting an extensive range of needs for loan and equity finance on commercial terms.

Our investment principles ensure we operate where there is market failure, investing on commercial terms as a patient investor to crowd-in private sector co-investment. These, alongside our responsible investor principles delivered with expert, independent investment management services, ensures the Development Bank is well placed to deploy FTC.

Each Business Case submitted to the Welsh Government details the economic development and commercial case for use of FTC. Welsh Government codify rules governing the use of FTC for each project in a Finance Offer Letter. Finance Offer Letters will include the Development Banks commitment concerning the target date and repayment amount.

Development Bank of Wales Plc

Unit J, Yale Business Village, Ellice Way, Wrexham LL13 7YL
info@developmentbank.wales | developmentbank.wales



Mewn Partneriaeth â
Llywodraeth Cymru
In Partnership with
Welsh Government

Development Bank of Wales Plc is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at www.developmentbank.wales

2. The purposes for which the Welsh Government has used Financial Transactions Capital.

FTC deployed by the Development Bank comes from a range of governmental departments including Economy, Housing and Regeneration, and Environment and Energy. We work closely with them to understand their challenges and help to develop products and services to deliver their programme for Government objectives.

The Funds currently operated by the Development Bank of Wales which utilise FTC encompass the very high risk (early stage seed funding and micro finance) to low risk (residential property development and management succession funding). This diversification spreads the risk and costs on a portfolio basis rather than isolating risks and costs on a project by project basis.

The Development Bank of Wales closely monitors the overall forecast returns on our FTC commitments. This helps to inform the risk appetite for future funds and our investment strategy.

The 2019 Inquiry into the Welsh Government's capital funding sources detailed how substantial a component FTC is in delivering the Help to Buy – Wales Scheme since 2014. FTC use for loan and equity investments into businesses and to the building of homes while providing support for homeowners, as the Development Bank does, is common across the UK.

Below is a table of the FTC deployed by the Development Bank through live Funds and services:

Government Department	FTC Deployed (£m)
Business Division Sub-Total	248
Other Economy Funds	175
Economy total	423
Property Development	109
Homeowner support	557
Housing & Regeneration total	666
Mutual Investment Model	22
Total Financial Transaction Capital Deployed	1,111

3. The strengths and weaknesses of Financial Transactions Capital.

As a high percentage of gross FTC has to be repaid by Welsh Government to HM Treasury, it must be invested in projects or funds that can generate a financial return, which in some cases means that repayment profiles to Welsh Government may exceed the 80% threshold. While this can limit uses and change risk appetites for deployment, varying repayment targets and profiles facilitates a portfolio approach for sustainable repayable finance.

Lower risk projects which repay FTC in full or provide the opportunity to overpay on our commitments enable us to deliver in higher risk environments. This is crucial for the continued support for the smallest businesses in the economy and those only at the start of their growth journey. Our lower risk property & homeowner and management succession funds allow us to take on higher risk products such as early stage equity and the Covid-19 Wales Business Loan scheme.

Recycling of funding is particularly important in the context of FTC. Rather than having a single short-term fund, where our repayment obligation to Welsh Government can be met, FTC can in some circumstances be used over a more extended period with reutilisation of receipts. Central to our long-term sustainability is the ability to utilise receipts for future investment, particularly within the context of ERDF no longer being deployed in Wales. The blending of FTC with any available core capital can create more sustainable long-term solutions.

Not all funds are candidates for recycling but the increase in impact for those that are suitable is substantial. A good example is the £54.5million Wales Property Fund II which, through recycling, is forecast to invest up to £272million. The Fund has already recycled twice, investing nearly £115m and is on track to repay its FTC commitment.

4. How Financial Transactions Capital is repaid, including expectations and amounts.

Repayment targets of the £1.1bn FTC deployed by the Development Bank range from 80% to 100%. Repayment deadlines typically extend up to 10-15 years after the deployment period for our patient capital funds. In the some of the services we administer on behalf of Housing & Regeneration, FTC repayment extends to 2049.

This range of repayment targets and deadlines is key to our portfolio approach to managing FTC commitments. While repayment deadlines often require us to front load FTC in our projects, this complements our robust forecasting of returns on its FTC commitments.

Forecasting returns on FTC commitments feeds back into our investment strategy allowing us to be dynamic with risk profiles. Active management of investment strategy includes careful review of interest rates and risk appetite. Each year we commission independent expert advice to review our fees and interest rate policy to ensure they are calibrated to provide sustainable, affordable and flexible finance for businesses that also meets our repayment commitments.

One example for repayment is the Wales Capital Growth Fund. Launched in 2014 it provided short-term working capital solutions between £50k and £2m for stock purchases, project finance and export contract fulfilment by SMEs in Wales. Our commitment was to repay £25m, after the fund had recycled twice which has been achieved and repaid.

Development bank has an agreed overall repayment of FTC over 80%. Repayment commitments over 80% gives some headroom and varies from fund to fund according to the risk profile of its target investments. Development Bank is on target to repay its commitments on the £1.1bn deployed and we have already repaid £132.6m to Welsh Government.

5. How the Welsh Government reports Financial Transactions Capital allocations in its draft and final budgets, including clarity on how much has been received, how much has been spent, and how much has been transferred back to HM Treasury.

N/A