

Mr. Andrew R.T. Davies
Chair, Senedd Economy, Transport & Rural Affairs Committee
Welsh Government
Cardiff Bay
CF99 1NA

Via email to: SeneddEconomy@senedd.wales

24th January 2025

Dear Mr. Davies,

May I take this opportunity to congratulate you on your recent appointment as Chair of the Senedd Economy, Transport & Rural Affairs Committee.

I write today with responses to the supplementary questions requested by the committee in regard to the Annual Scrutiny of the Development Bank of Wales held at the Senedd on 20th November 2024.

Please do not hesitate to get in touch should you require any further information.

Yours sincerely,



Giles Thorley

Chief Executive.

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Llywodraeth Cymru
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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

The Development Bank of Wales' Annual Report shows that 76% of jobs created by the Bank in 2023-24 were in median to high pay jobs, and this proportion rises to 90% when just looking at equity investments. How do these figures compare to previous years and how are they used to guide investments in the current year?

Below is a comparison of the data for the last two financial years.

Impact report year	Full sample	Equity investment sample
2023/24	76%	90%
2022/23	62%	96%

In order to interpret the reported measures, it is important to consider the data included within the impact report alongside our [impact data disclosures document](#). This document explains in more detail how the annually reported figures are derived, specifically that the data is collected on a sample basis and does not represent an analysis of jobs as a result of in year investment activity.

This topic was also discussed at annual scrutiny [March 2023](#).

These metrics are not key performance indicators for our activity, and the reporting in any given year is heavily shaped by the market, the individual fund investment profiles and how long a reporting business has been a customer. We do, however, use the data to inform investment policy and action plans; promoting best practice and adding value wherever possible.

Impact returns are the outcomes realised in the years following investment rather than captured at the point of investment. They do not determine individual investments made (these being based on fund parameters, eligibility and viability), and our view is that we would not decline or approve a business for investment purely on the potential for wider KPI's. The returns do however shape our strategy in terms of fundraising, business development, outreach, sponsorship, marketing and communications.

As shown in the above table and noted by the committee, companies receiving equity investment report a higher proportion of median to high pay jobs. Working with the Welsh Government and other funders to make this product available to businesses with the potential to grow and create those higher numbers of well-paid jobs is a core part of the Development Bank's long-term strategy.

The annual remuneration of the highest paid director increased by 20% between 2023 and 2024, rising from £217,000 to £260,000. How was the scale of this increase determined, and to what extent is it directly related to the performance of the Bank?

Remuneration at the Development Bank is based on four elements:

- Base pay which is externally benchmarked by a third party every three years
- Consolidated annual cost of living increase which is based on performance
- Non-consolidated performance incentives which are based on performance
- Defined contribution pension through Legal and General

For a limited number of senior executives, incentive payments include both in-year performance and long-term deferred incentives, based on historic performance which are a standard method of compensation in the financial services sector, designed to maintain focus on overall fund performance and attract and retain senior talent. In 2023/24 the Development Bank reached year 3 of its first long-term deferred incentive schemes which weights incentives for performance based on the enduring performance of investments made in 2020/21

The overall pay protocol is agreed with the Welsh Government with implementation overseen by the group Remuneration Committee. The committee reports on its activity annually as part of the Annual Report and Accounts (page 111 in 2023/24).

During the meeting, we briefly discussed the Bank's pay differential, and while you noted that the Bank's pay and benefits are externally benchmarked, a clear figure for the differential was not provided. Could you therefore please clarify what this is.

Base salary differential

2023/24

Highest v Lowest Multiple 9.07

Highest v Mean Multiple 3.94

Highest v Median Multiple 4.47

Recommendation 11 of the Committee's report suggested that the Welsh Government and the Development Bank of Wales should both give consideration to how views of businesses can be collected in a confidential and/or anonymous way, including from those businesses that either haven't used the Bank before, or have applied for support and been unsuccessful. In response you noted that you have opened a route whereby people can e-mail your General Counsel directly. The Committee was aware of this route when drafting its report and, while welcome, would like to know whether any additional routes are being considered, as this was the intention of the recommendation.

In addition to the change noted above, made following the inquiry, we are increasing the frequency of our stakeholder perceptions surveys. These are conducted by a third party for independence and seek views and opinions from a range of stakeholders including:

- Businesses who have received investment
- Businesses who have not received investment
- Advocacy and membership bodies
- Co-investors
- Intermediaries

DBW's written evidence to the Committee's Green Economy inquiry stated that "Net Zero is the single largest economic mission in Wales". What percentage of the Bank's loans and investments in the last financial year directly supported this mission?

In 2023/24, c.17% of funds invested supported businesses creating a positive contribution towards Net Zero ambition through both targeted green products and general investment funds. We expect these figures to increase as we extend our offer in support of the Welsh Government's Net Zero policy priorities.

The Development Bank of Wales operates several targeted schemes in support of Net Zero:

- Green Homes Incentive - incentivising SME property developers to use greener methods of construction (launched 2022)
- Green Business Loan Scheme - supporting Welsh businesses in undertaking energy efficiency and decarbonisation projects (launched 2023)
- Green Homes Wales - Supporting Welsh homeowners improve the energy efficiency and decarbonise their homes. (launched 2024)

Also, since April 2023 the Help to Buy - Wales scheme has limited its support to homes with an EPC rating of B or above.

In addition to these targeted schemes, we support many more investments through our general funding whose activities have direct impact on Net Zero ambitions including backing innovation and Green Tech businesses with equity investment.

While this covers investment in Net Zero activity and innovation, we are also working closely with the wider portfolio of customers to support their own transition planning and therefore our impact extends beyond the initial investment.

You mentioned the maximum investment the Bank can make "in a management succession fund is £5 million. Would you be able to give us more detail around how that limit was set including details of any planned review of the limit and, if it is regularly updated the method for this?

The maximum amount in one round from the Wales Management Succession Fund is £3 million however we can and do combine money from across funds and instruments (debt and equity) to fund larger transactions up to £10 million.

The investment limit from any one particularly fund is set relative to a range of factors:

- The total size of the fund
- Any targets for the number of businesses a fund is forecast to support
- Evidence around the size of the market gap
- Appropriate diversification to manage risk at a fund level and meet the fund return requirements
- An assessment of the market gap based on research undertaken during fund design. This work showed that the market gap for succession transactions was below £10 million with the private sector meeting the requirement for larger transactions.

It is also worth noting that the Development Bank provides loan management and monitoring services to the Welsh Government where the Welsh Government itself has provided loans to organisations.

Could you provide more detail about the Bank's relationship with FW Capital, specifically details around how the fund interacts with DBW and how much direct management is involved from DBW in FW Capital investments.

FW Capital, a subsidiary of the Development Bank of Wales, operates as a fund manager regulated by the FCA for third-party funds. It currently manages over £400 million across seven funds in England and Wales, on behalf of various investors including the British Business Bank, Clwyd Pension Fund, Teeside Pension Fund, and the North East Local Enterprise Partnership. The company has its own board, comprising Development Bank senior executives and FW Capital fund directors, which meets quarterly.

The remit letter, 2021/26, para 5.2 states: "I invite DBW to actively work to identify solutions which create the potential to increase the flow of funds into Wales – for example, developing its relationship with other appropriate investment providers such as the British Business Bank and UK Infrastructure Bank."

Investments outside Wales are managed by the dedicated FW Capital team. Within Wales, the company operates two funds: the larger debt segment of the British Business Bank's Investment Fund for Wales and the Wales Management Succession Fund, backed by the Clwyd Pension Fund. These funds are delivered operationally by the customer-facing Development Bank of Wales team, with FW Capital covering the delivery costs.

The whole group benefits from integrated back-office and management support, and this financial year, FW Capital will contribute c. £2 million towards the group's operating costs through a



recharge mechanism. Additionally, it has contributed £1 million from profits to the Wales Rescue and Restructure Fund, which supports companies in difficulty.

Through FW Capital, the Development Bank has established a strong track record in managing third-party funds. Given the risks from reclassification and the potential opportunities in the UK arising from pension fund consolidation and the creation of the National Wealth Fund, having an accredited vehicle and a strong reputation for delivery positions us well to be agile in response to any new funding mechanisms and further support core activity in Wales.