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**Cynulliad Cenedlaethol Cymru**  
Pwyllgor yr Economi, Seilwaith a Sgiliau

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**National Assembly for Wales**  
Economy, Infrastructure and Skills Committee

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Ken Skates AM, Cabinet Secretary for Economy and  
Transport  
Welsh Government

Re: Finance Wales/Development Bank of Wales

15 November 2017

Dear Ken,

On 25 October 2017, the Committee welcomed Finance Wales to scrutinise their annual report and their planning for the future as the Development Bank of Wales.

We are grateful to Giles Thorley and his team for attending the session, and for providing additional information responding to questions they were not able to address in the meeting.

### **Transparency**

In evidence provided to the Committee in advance of its scrutiny, FW/DBW stated that they had exceeded their targets. But nowhere did they state what those targets were. This is a simple example of how DBW can raise the bar for transparency and clarity in the future.

Twelve months ago, following our scrutiny session, the Committee noted:



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“In response to our questions about the losses reported for 2014–15, you were able to assure us that this was not a fair reflection of the financial health of the organisation.

“Kevin O’Leary said: ‘I don’t believe the committee should be concerned by that loss... Our accounts are not a good entry in to understanding Finance Wales’ performance.’”

– EIS letter to Finance Wales

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Last year we recommended that “Finance Wales considers – while acknowledging its statutory reporting obligations – how it can present its annual accounts in a way which gives a clearer picture of the organisation’s performance and allows the Welsh taxpayer to see whether their money has been invested in a way that produces benefits. This might be part of, or in addition to, the annual accounts.”

This year, the Committee heard that while the accounts show a “surplus” of £13m this wasn’t really a true reflection of the position either.

Mr O’Leary told the Committee on 25 October 2017:

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“Last year, I was asked at this committee about the £1 million loss and whether the committee should be concerned about that. I would say similarly about the surplus this year that it isn’t anything really to be celebrated. As you point out, the majority of that is covered by the ERDF cash coming to us for investment. The actual business, if you like—the fund management business and the back-office functions—are basically exactly the same, year-on-year, as they have been for probably the last three or four years, and the overall surplus is probably something like £100,000 on those.

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Later in the session, in a discussion of transparency, Chairman Gareth Bullock noted:



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“...technical accounting actually gets in the way of what I might call the ordinary, day-to-day understanding of what we do.”

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The Committee welcomes this acknowledgement and understands that accounting rules in relation to the annual accounts are not optional. However, there must be a way of presenting whether or not the organisation has had a successful year.

#### **Recommendation 1:**

**Finance Wales should produce information alongside its annual accounts which would allow any interested member of the public to see whether the organisation has covered its costs in the preceding year.**

#### **Business case**

The Committee has previously asked to see the business case for the Development Bank of Wales. While various documents have been produced, the business plan has not been published. Mr Thorley suggested it was “a pretty soporific read” and a very technical document. He also noted that publication was a matter for the Welsh Government. In the interests of transparency, the Committee still thinks it should be published.

**Recommendation 2: Welsh Government should publish the business case for DBW.**

#### **FW Capital**

The Committee notes the success Finance Wales has enjoyed in securing additional funds to manage in the North West and North East of England. Providing this service generates fees for the organisation, and develops experience among staff. It also has the potential to generate cross-border



economic benefits from successful businesses in the north west of England drawing on Wales-based supply chains, or collaborating with Welsh businesses.

The growth in the scale of the funds managed outside Wales' borders also increases the risk of potential conflicts of interest. The Committee raised concerns that as the activities of FW Capital grow, so does the risk that investments will be made in companies that would have a detrimental effect on Wales.

Senior leaders from FW/DBW were clear that they feel the benefits outweigh the risks. However, it is not difficult to imagine a hypothetical situation where support given to a business in the North West of England would enable it to grow and prosper at the expense of an equivalent business based in Wales.

**Recommendation 3: In the remit letter, the Cabinet Secretary should remind the DBW Board that in determining whether to take on work outside Wales' borders it must be mindful that it will not undermine the core objective of the organisation – to support business *in* Wales.**

### **Areas for Future monitoring**


The Committee noted the pragmatic approach which is being taken towards relocation to Wrexham. This has clear benefits in terms of continuity, and keeping down costs. However, there is always a danger that action delayed is action that may never happen – and the Committee will continue to monitor whether and how quickly progress is made towards establishing an effective HQ in the north.

DBW acknowledges that the greatest risk it faces is that it doesn't raise sufficient funds through its activities to self-fund its running costs. While the leadership were confident they would be able to do so, the Committee notes that this will be the key test for this financial year.

The Committee will return to these issues next year.



Yours sincerely,

A handwritten signature in black ink that reads "Russell George". The signature is written in a cursive style with a large initial 'R' and a long horizontal flourish at the end.

Russell George

Chair, Economy, Infrastructure and Skills Committee

cc. Gareth Bullock, Giles Thorley.

