

Development Bank of Wales

July 2024



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Development Bank of Wales

July 2024



About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddEconomy

Current Committee membership:



**Committee Chair:
Paul Davies MS**
Welsh Conservatives



Hefin David MS
Welsh Labour



Luke Fletcher MS
Plaid Cymru



Vikki Howells MS
Welsh Labour



Samuel Kurtz MS
Welsh Conservatives



Jenny Rathbone MS
Welsh Labour

The following Member was also a member of the Committee during this inquiry:



Buffy Williams MS
Welsh Labour

The following Member attended as a substitute during this inquiry:



Alun Davies MS
Welsh Labour

Contents

Chair’s foreword	5
Recommendations	7
1. Introduction	9
2. Background	10
3. The Role and Remit of the Bank.....	12
4. Strategic coordination with Government Priorities	19
5. The Bank’s relationship with Business Wales	22
6. The re-classification of the Bank by the Office of National Statistics (ONS)	24
7. The status of the Bank	26
8. Independence from Welsh Government and due diligence ...	28
9. Governance and Complaints	33
Equity Investments	33
The Complaints process	36
10. An independent review of the Bank.....	41
11. FW Capital.....	44
12. Risk appetite	46
13. Global perspective.....	49
Conclusions	53
Annex 1: List of oral evidence sessions.	56
Annex 2: List of written evidence	57
Additional Information.....	57

Chair's foreword

Seven years after the Development Bank of Wales was set up, it felt timely for the Committee to undertake a more in-depth inquiry into how it has performed and the extent to which it is fulfilling Welsh Government's aims and objectives. The Bank is a critical part of the finance ecosystem in Wales, and its support for businesses, not least in recovering from the impact of Covid-19, is highly valued by organisations such as the Federation of Small Businesses Wales.

This inquiry took us in a different direction to that which Members had originally foreseen, but highlighted important issues for both the Bank and the Welsh Government to consider. We heard much that was highly positive about the Bank's activities and approach as a lender, some constructive suggestions for improvements, but also some concerning negative evidence and criticisms, in particular relating to the Bank's equity investments. Some of that latter evidence was provided in confidence, which presented difficulties in verifying and taking account of all the matters brought to our attention. We reflect this in our reporting. As always, the Committee strives to take a fair and balanced approach to interrogating the evidence received in the course of an inquiry, and we appreciate the constructive way in which everyone has engaged with us in this important piece of work.

The Committee is calling for Welsh Government to undertake a full tailored review of the Bank's operations as originally planned during this Senedd, and for further strengthening of its complaints process to be considered as part of that. The Bank is quite rightly fully independent of the Welsh Government, but is funded through the public purse: views on the extent to which the Bank's activities are fully aligned with Welsh Government economic priorities and strategy, including support for particular business sectors, were mixed. We therefore also recommend there should be regular reviews of the Bank's remit letter from Welsh Government, to reflect changes over the course of a Senedd term.

As would be expected, we gave considerable attention to the Bank's due diligence processes as a lender of significant public funds. We welcome the commitment already made by the Cabinet Secretary to ask the Bank to review its due diligence processes. High levels of regulation are a feature of lending by organisations like the Development Bank of Wales, but as a Committee we also considered the pros and cons of the Bank being placed on a statutory legislative footing like its counterparts in Scotland and Canada. Having taken evidence from the Cabinet Secretary and the Bank about the implications of the Bank's re-classification as an institution by the Office of National Statistics, the Committee considers that this reclassification issue is most pressing, and should be resolved before wider consideration is given to the Bank's future status.

We heard that the business support landscape in Wales is "massively fragmented", and it was suggested the Bank could take on an integrated business support function as other Development Banks do. The goal would be a more streamlined support offer for Welsh businesses, and we recommend the Cabinet Secretary prioritises this issue.

The report makes 13 recommendations in total, which also include further building on the Bank's success in supporting employee buyouts, more understanding of how it supports community energy schemes, and more analysis to understand the full impact of the Bank's investments on the Welsh economy. We hope the Welsh Government will give full and careful consideration to the views and recommendations of all those who responded to our call for evidence.

The inquiry terms of reference included looking at global best practice and considering comparator organisations. The Bank provided strong evidence of the benefits of its engagement with other Development Banks. In some respects the Bank can be seen as leading the way - as the first of its kind in the UK - but it can also learn much from other longer-established Development Banks. We welcome the Bank's continued sharing of best practice with international bodies including the Montreal Group as it continues on its journey.



Paul Davies MS

Chair

Recommendations

Recommendation 1. The Welsh Government should review its approach to succession planning and employee buyouts, and how the Development Bank of Wales can play a greater role in this, when developing the next remit letter for the Bank. Page 18

Recommendation 2. The Committee notes that the Development Bank of Wales’s remit and responsibilities have grown and changed over time. The Welsh Government has explained how officials are engaged in a regular rhythm of meetings with the Bank with observer status, but the Welsh Government should set out the mechanism for reflecting changes to its economic priorities and focus over the course of a Senedd term. The Committee would like this to include, but not necessarily be limited to, a commitment to issue the Bank with more regular remit letters. Page 21

Recommendation 3. The Development Bank of Wales should undertake or commission a piece of work to give the Cabinet Secretary for Economy, Energy and the Welsh Language a firm understanding of the impact on the Welsh economy of the private funding brought in as a result of direct investments by the Bank. Page 21

Recommendation 4. The Development Bank of Wales should provide the Committee with more information on how it is supporting the development of community energy schemes. Page 21

Recommendation 5. The Welsh Government should prioritise a review of Business Wales’ functions and examine the feasibility and desirability of integrating these functions into the remit of the Development Bank of Wales, and focus on streamlining the offer of support to businesses. Over the next 6-12 months the Cabinet Secretary should keep the Committee updated on consideration of this issue, and give a clear rationale for the decision taken as a consequence. Page 23

Recommendation 6. The Welsh Government must seek to conclude negotiations with HM Treasury as soon as possible on a satisfactory solution to the reclassification issue for the Development Bank of Wales. The agreement reached must protect the Bank’s role and avoid restricting its activities as a lender, and must also not have a detrimental effect on the Welsh Government’s budgetary position in the future. Page 25

Recommendation 7. A review of whether the Development Bank of Wales should be placed on a statutory footing should be conducted by Welsh Government, but this work should be undertaken after the issue of the Bank’s re-classification has been resolved. The review should consider which elements of the Bank’s remit could and should be made statutory. The Cabinet Secretary should keep the Committee regularly updated on developments and planned timescales for that work..... Page 27

Recommendation 8. The Welsh Government should task the Development Bank of Wales with reviewing its due diligence processes, with a view to identifying whether there is a need to strengthen them. The Welsh Government should keep the Committee informed of the scope, progress, outcomes and agreed actions arising from this review. Page 32

Recommendation 9. The Welsh Government should deposit in the Senedd Library all versions to date of the framework document setting out its relationship with the Development Bank of Wales, and ensure the same is done for any future versions. Page 32

Recommendation 10. The Committee acknowledges that the Development Bank of Wales has made some changes to its complaints handling process, however the Committee recommends that the issue of complaints handling is looked at within the recommended tailored review of the Bank. Page 40

Recommendation 11. 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 Development Bank before, or have applied for support and been unsuccessful. The Committee should be updated on the outcome of those deliberations. Page 40

Recommendation 12. The Welsh Government should conduct a full tailored review of the Development Bank of Wales, during this Senedd term as originally committed to in the Bank’s term of government remit letter. Page 43

Recommendation 13. The Committee welcomes the Bank’s engagement with other Development Banks and relevant organisations and fora. It encourages the Bank to work further with the Montreal Group, to ensure it is adopting best practice, and the Committee supports its aim to fully join the Group..... Page 52

1. Introduction

The Development Bank of Wales (“the Bank”) has been operating since 2017. In place of its usual scrutiny of the Bank’s annual accounts this year, the Committee decided on a more in-depth inquiry to assess overall performance against objectives, and how the Bank compares with similar-sized development banks.

- 1.** The full terms of reference were to consider:
 - The overall performance of the Development Bank of Wales since it was established in 2017, including areas of success as well as any areas of under-performance.
 - The extent to which the Development Bank has met the specific objectives as set out in The Development Bank of Wales – a strategic asset for a more prosperous Wales, published in July 2017 and in the ‘Term of Government remit letter’ for the Development Bank published in November 2021.
 - Exploring examples of global best practice and to understand how the Development Bank of Wales compares with other similar sized development banks – in terms of scale of funds, types of support provided and impact etc.

- 2.** The Committee ran a consultation from 16 November 2023 to 4 January 2024 and received 8 responses. These are listed at Annex 2 along with other written evidence published during the inquiry. Oral evidence was taken between January and April 2024 – details are listed at Annex 1.

2. Background

The Bank operates at arms-length from the Welsh Government. Its objectives and priorities are guided by a remit letter from Welsh Ministers.

3. The Bank was set up following an independent review in 2013, commissioned by the then Minister for Economy, Science and Transport, into how SMEs in Wales were financed. The subsequent report of a Task and Finish Group, led by Professor Dylan Jones Evans and published in 2015, concluded that:

“... the current solutions being provided by Finance Wales, as a subsidiary of the Welsh Government, will not be able to fully address the challenges in closing the widening funding gap for SMEs in Wales. Therefore, we recommend that a new organisation - the Development Bank for Wales - be established that will enhance the capability of the Welsh Government to support SMEs in Wales. It will do so by working more closely with the private sector to address the supply and demand dynamics of the Welsh finance market as well as developing its own innovative approach to provide solutions that directly address the needs of the SME sector.”

4. Following Committee scrutiny and recommendations made in 2015-16, the then Cabinet Secretary for Economy and Infrastructure, Ken Skates AM, stated in September 2016 that he had ‘now received a fully-costed business plan from Finance Wales which would see them evolve into the Development Bank for Wales’.² On 11 July 2017 the Welsh Government Cabinet approved a full business case for the Bank, and published ‘The Development Bank of Wales: a strategic national asset for a more prosperous Wales’.³

¹ <https://www.gov.wales/sites/default/files/publications/2019-05/a-feasibility-study-into-the-creation-of-a-development-bank-for-wales.pdf>

² <https://www.gov.wales/ps136m-fund-and-development-bank-will-help-support-businesses-wales-post-eu-referendum-says-economy>

³ <https://developmentbank.wales/sites/default/files/2017-10/DBW%20Strategic%20Outline%20Brochure%20digital.pdf>

5. The ‘strategic asset’ document stated that DBW was intended to become a “cornerstone for delivering Welsh Government priorities, driving up long-term growth, and creating and safeguarding higher quality jobs”, and that:

“The Development Bank of Wales’ mission is to unlock potential in the economy of Wales by increasing the provision of sustainable, effective finance in the space between the demand and the market. Its vision is to be a unique resource for Wales, creating long-term value by delivering financial services – enhancing a dynamic, competitive Welsh economy.”⁴

6. The Development Bank is a public limited company owned by Welsh Ministers. The company was originally incorporated on 18 August 2000, initially named Finance Wales PLC, before being renamed the Development Bank of Wales PLC on 6 October 2017. As set out in the Term of Government remit letter⁵, the Development Bank is the “entrusted” entity through which the Welsh Government places funds for investment and return. The 2021 remit letter from the former Minister for Economy states:

“I am setting out the priorities I wish to see DBW address in line with its mission, including playing an active role as part of the Team Wales model supporting our economic recovery mission and in responding to the climate emergency. In delivering on these priorities DBW will help us realise our vision, making Wales an attractive place to live, study, work and invest. I reserve the right to review and update this letter over the 5-year term.”

⁴ <https://developmentbank.wales/sites/default/files/2017-10/DBW%20Strategic%20Outline%20Brochure%20digital.pdf>

⁵ <https://www.gov.wales/sites/default/files/publications/2023-11/development-bank-of-wales-term-of-government-remit-letter-2021-to-2026.pdf>

3. The Role and Remit of the Bank

7. The Welsh Government's written evidence at the start of the inquiry stressed the Bank's role as "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." It highlighted the Bank's continued role since 2017 in 'filling the space between business need for finance and the supply of finance in the market.'

8. With regard to performance it said that the Bank was held in high regard by customers:

*"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'."*⁶

9. The Committee undertakes regular scrutiny sessions with the Bank to interrogate its annual report and accounts and look at performance against targets, with the last scrutiny session prior to this inquiry being held on 1 March 2023.⁷ Scrutiny of the 2022-23 accounts, which were published after 31 August 2023, was superseded by this wider inquiry into the Bank's role and remit. The Committee's next annual report scrutiny session is scheduled for autumn 2024.

10. After the Committee's inquiry concluded, media reported the Secretary of State for Wales' request to the First Minister to explain losses reported in the Bank's Annual report and financial statements for 2022-2023 of "more than £62m." The article also reported the response from a Bank spokesperson explaining the loss figure.⁸ The Committee subsequently wrote to the Bank asking

⁶ Written evidence – DBW05

⁷ [Agenda for Economy, Trade, and Rural Affairs Committee on Wednesday, 1 March 2023, 09.30 \(senedd.wales\)](https://www.senedd.wales/Agenda-for-Economy-Trade-and-Rural-Affairs-Committee-on-Wednesday-1-March-2023-09.30)

⁸ <https://nation.cymru/news/david-tc-davies-challenges-vaughan-getting-over-development-bank-losses/>

about any possible impact on its ability to meet the aims and objectives set by the Welsh Government, and whether said losses would decrease the amount of money available for the Bank to loan out going forward.

11. The Committee was provided with a detailed and robust response from the Bank's CEO, stating that the correct figure was a £24 million loss for 2022/23.⁹ He stated the loss "does not impact the Development Bank's ability to meet the aims and objectives set by the Welsh Government. We remain on track to meet our investments targets and loan repayments to the Welsh Government as set out in the funding agreements."

12. The letter went on to explain that the loss was "primarily a result of three non-cash items which are accounting exercises and meet the requirements of the International Financial Reporting Standards." Those were £17 million expected credit losses, £30 million from changes in 'fair value' and £9 million in Notional Interest on Welsh Government loans. The Bank stated that funds should be looked at over the long term not year-on-year: "surpluses or losses from the funds business should not be assessed annually because fund results include volatility caused by year-on-year movements in assets held at fair value, impacted by the prevailing economic conditions and which are estimates and unrealised." It was suggested a longer-term view on a fund-by-fund basis may be a more appropriate way to assess performance of funds, which are monitored through quarterly reports to the Welsh Government.

13. Evidence from the Welsh Economy Research Unit (WERU) at Cardiff Business School stated:

"The total value of debt and equity investments made by DBW during 2022/23 was £75.8m, with equity investment made during the financial year of nearly £23m, almost double the value of the previous financial year. Meanwhile, the value of property development investments during 2022/23 totalled £48.4m. This investment model has led to positive economic outcomes, with almost 1,360 new jobs created and a further 2,080 jobs safeguarded, during the 2022/23 financial year."¹⁰

⁹

<https://business.senedd.wales/documents/s150418/Letter%20from%20the%20Development%20Bank%20of%20Wales%20-%2017%20May%202024.pdf>

¹⁰ Written evidence - DBW04

14. In terms of economic impact of the Bank's investments, the evidence went on to highlight that Economic Intelligence Wales' annual reports calculate the Welsh gross value added (GVA) supported by the Bank:

"... the total direct jobs created (1,358) and safeguarded (2,076) during the 2022/23 financial year, which were linked to DBW investments, is estimated to be connected to be over £200m of GVA in gross terms and over £120m of GVA in net terms. This compares with an estimated £85.8m GVA in net terms supported during the 2021/22 financial year. The net figure takes account of deadweight, displacement, substitution, and multiplier effects. During 2022/23, this equates to an estimated net increase in Welsh GVA of around £35,100 for each job created or safeguarded."¹¹

15. The WERU notes that these results are estimates based on a number of assumptions, but are also likely to be conservative, as they exclude some investments not directly aimed at job creation/safeguarding (for example, associated with property or construction). It also says that no consideration is given to the fact that the vast majority of funds are repaid to the Bank, and that investment activities are also linked with varying levels of co-investment/private sector leverage but those are not considered in its analysis.

16. The Bank set out its approach to tracking customer satisfaction in its written evidence. Its most recent Annual Report, for 2022-23,¹² states that it achieved a Net Promoter score of 88 for that year, based on a 35% response rate to a survey of all of the businesses it had supported that year. (100 would be the highest possible score.)

17. The CEO of Laserwire Solutions highlighted how the Bank was different from other lenders:

"... the focus is definitely on the bigger mission of developing the Welsh economy. We have always been dealt with fairly yet firmly. The appointed advisor / contacts have helped our management focus on what matters and have greatly aided the growth of our business. Rates are competitive and not

¹¹ Written evidence - DBW04

¹² [Annual Report and Financial Statement 2022-23.pdf \(developmentbank.wales\)](#)

always the absolute cheapest – but the rates charged are fair and the service is way above a simple commercial lender.”¹³

18. Likewise, the submission from the CEO of Nutrivend was wholly positive about the activities and achievements of the Bank, and stressed its agile response to the challenge of supporting businesses through the Covid-19 pandemic. Its CEO said:

“The Development Bank of Wales has undoubtedly been a catalyst for economic development and growth in the region. Their dedication to nurturing businesses and providing them with the necessary financial tools to thrive is evident in the success stories that continue to emerge. I have personally experienced the positive impact of their support, which has allowed my business to not only weather the challenges but also embark on a trajectory of growth.”¹⁴

19. The Bank’s important role in helping businesses recover from Covid-19 was also emphasised in evidence from Cardiff Business School¹⁵ and FSB Wales: who said the Bank “... played a crucial role in helping them survive, underscoring the institution’s significance not only in fostering innovation and growth but also in providing vital crisis funding.”¹⁶ However Professor Dylan Jones-Evans was critical of the Bank’s approach on some issues around SME support, and said he was “surprised” at the Bank’s insistence at taking personal guarantees on Covid loans.¹⁷

20. Initially the Committee received a relatively small number of responses to its public consultation. It then went on to take a range of oral evidence about the role of the Bank.

21. Professor Jones-Evans suggested “increasing support to start-ups - which create jobs, develop innovation, disrupt markets, and support communities - should be a key objective for the DBOW.”¹⁸ Cwmpas suggested the Bank’s remit letter “could arguably be strengthened, with greater compulsion to act, especially in relation to worker buy-outs at the point of business failure.”¹⁹

22. Tegid Roberts said the Bank was not big enough as “a lot of its £2 billion assets are tied up in real estate and not active in the Welsh economy”, suggesting

¹³ Written evidence – DBW01

¹⁴ Written evidence – DBW07

¹⁵ Written evidence – DBW04

¹⁶ Written evidence – DBW03

¹⁷ Written evidence – DBW06

¹⁸ Written evidence – DBW06

¹⁹ Written evidence – DBW02

“if the function of the bank is to support in a meaningful way SMEs, micros, succession planning, generating co-operatives, then it currently doesn’t have the firepower to do that.”²⁰

23. When the Committee questioned the Cabinet Secretary for Economy, Energy and Welsh Language (“the Cabinet Secretary”) on this point, he responded by saying:

“I’m not sure I recognise that point about not being active in the economy. I’m sure there’ll be lots of small house builders who’d probably take issue with that characterisation. I think it’s an important part of the work of the bank to support development in the house building sector in particular, and that helps in many ways to drive the economy, as we understand.”²¹

24. Going on to address the point about the scale of the Bank, he said:

“... But the larger point you’re making, about the scale, if you like, of the bank—I think it’s currently the case that about £1.2 billion of funds are under management for businesses. That £2 billion figure that you gave, by the way, is equivalent to 10 per cent of the Welsh Government’s entire budget, so I think that gives a bit of a sense of scale of it. I think as well, actually, that we should recognise the impact that the bank’s investment decisions have in terms of the leveraging in of other funding into the economy. So, I think that, since 2017, the direct investment is just shy of £700 million, and the co-investment, the funding leveraged in by that, is just a little over £0.5 billion. So, those sums are significant, I think.”²²

25. Evidence from FSB Wales about support for SMEs was positive,²³ with the Bank considered to be “an effective, well known and useful tool in the armoury of Welsh Government, and one that has been quickly accepted as a good part of the business environment by smaller businesses.”²⁴

26. In oral evidence Ben Cottam of FSB Wales gave examples of what could be done to better support SMEs, e.g. supporting female and disabled entrepreneurs,

²⁰ Economy, Trade and Rural Affairs Committee, 31 January 2024, Paragraph 122

²¹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 218

²² Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 218

²³ Written evidence – DBW03; Economy, Trade and Rural Affairs Committee, 22 February 2024

²⁴ Written evidence – DBW03

and making an assessment of whether the support and services provided by DBW and Business Wales are right for 2024 and beyond.²⁵

27. The Cabinet Secretary told the Committee that supporting start-ups was “pretty core to what the bank does, and I want to see that happening at scale”²⁶ but went on:

*“... I don't think I agree that the entire focus of the bank can be on start-ups, because, clearly, we want the bank to be there to provide funding for already established businesses to grow and to take on more employees. I don't think it's a binary question; I think it's a question of the mix between the two ...”*²⁷

28. The Cabinet Secretary stressed the importance of making as much ‘patient capital’ available through the bank as possible, pointing to how that amount available had increased, and with longer terms, to give smaller businesses “the breathing space to grow without that external pressure.” He added “... we've always got to be constantly looking at what more we can do.”²⁸

29. Focusing on the extent to which the Bank has met the objective regarding employee ownership set out in its remit letter, Cwmpas noted in its consultation response published early in 2024 that “our Employee Ownership Wales team within the Social Business Wales project confirmed we have reached 68 employee-owned businesses, up from 37 in 2021” and “... we have nearly achieved our ambition to double the size of the sector with three years to spare – highlighting the potential this model has to prove beneficial to the Welsh economy.”²⁹ On 21 June, after the Committee had concluded evidence-gathering, Welsh Government announced³⁰ it had reached its Programme for Government target of doubling the number of such businesses by 2026, with 74 Wales-based businesses being under employee control.

30. In April, the Cabinet Secretary had told the Committee that the Bank was supporting the ambition of more employee-led businesses, but it would not be appropriate to direct it to intervene more, and “more practically, perhaps, I think there's a limit on the number of employee buy-outs that would come to the bank. There are other sources of finance that they would probably go to.”³¹

²⁵ Economy, Trade and Rural Affairs Committee, 22 February 2024, Paragraph 257

²⁶ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 220

²⁷ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 220

²⁸ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraphs 301-302

²⁹ Written evidence – DBW02

³⁰ <https://www.gov.wales/not-your-run-mill-business-model>

³¹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 246

31. The Cabinet Secretary did not commit to any changes in what was asked of the Bank in relation to employee buyouts, but noted that in preparatory work for the Bank’s next remit letter “there are some reviews that we might consider doing in order to have further insight into some areas in advance of that.”³²

32. FinTech Wales’ members provided a significant amount of constructive criticism of the Bank and offered nine recommendations for improvement. Some of the criticisms Fintech Wales heard from its members were that “the offer is unclear”; it is “extremely hard for Founders / Startups to access the DBW / AIW process”; the process is “far too slow which means startups are failing as they wait for updates”; the overall approach taken by the Bank is “risk averse”; “DBW positions itself as a VC (venture capitalist) however its actions fall short and is often not attractive compared to other VCs.”³³ Some of these criticisms are addressed in more detail later in this report. The Bank later told the Committee that it met regularly with FinTech Wales, but Members welcome the fact that it also reported holding a roundtable with a number of FinTech Wales members to have a “really open discussion about some of the challenges that they have put forward.”³⁴

Conclusion 1. The Committee welcomes the Cabinet Secretary being open to reviewing Welsh Government’s approach to employee buyouts. Members feel that the Bank could have a greater role to play in supporting employee buyouts in the future, and would expect any review to give detailed consideration to this.

Recommendation 1. The Welsh Government should review its approach to succession planning and employee buyouts, and how the Development Bank of Wales can play a greater role in this, when developing the next remit letter for the Bank.

³² Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 248

³³ Written evidence - DBW08

³⁴ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 77

4. Strategic coordination with Government Priorities

33. Evidence suggested that coordination between the Welsh Government's economic priorities and strategy and the Bank's priorities and strategy could be better. FSB Wales stated that it is "very difficult" to point their members to an economic strategy from Welsh Government "that articulates what the aspiration for entrepreneurship is, what the aspiration for particular sectors is, and therefore what the Development Bank's role is in that."³⁵ Ben Cottam of FSB Wales suggested there was a need for greater clarity and detail, and that following the election of the new First Minister, FSB Wales would like to see "a clear articulation of economic strategy".³⁶

34. The Committee heard evidence that some priority sectors were overlooked and there were some concerns about staff having sufficient specialist expertise in key sectors that Welsh Government are targeting. Professor Jones-Evans said "... they're quite generalist in terms of the expertise within,"³⁷ and highlighted a lack of specialists looking at the creative industries and issues relating to intellectual property or copyright assets.³⁸ His view was that what Welsh Government was offering with its business support function should be mirrored by the Bank's finance function.

35. FinTech Wales' members highlighted a lack of capacity in both tech and venture capital (VC).³⁹ Its members expressed concern about staff capacity, saying that the Bank "has some really great people" but that "there is a risk in the current form that high capability staff will get disillusioned and leave if DBW doesn't start to compete with other VCs". FinTech Wales' members also said:

"... both in terms of tech and VC investment, DBW are seen to fall short on expertise, with teams lacking the capability to understand potential value. It was also felt that their bench strength was falling short with Founders commenting they were going elsewhere to seek business support and coaching."⁴⁰

³⁵ Economy, Trade and Rural Affairs Committee, 22 February 2024, Paragraph 240

³⁶ Economy, Trade and Rural Affairs Committee, 22 February 2024, Paragraph 240

³⁷ Economy, Trade and Rural Affairs Committee, 31 January 2024, Paragraph 34

³⁸ Economy, Trade and Rural Affairs Committee, 31 January 2024, Paragraph 34

³⁹ Written evidence - DBW08

⁴⁰ Written evidence - DBW08

36. FSB Wales also said that the Bank could provide more support for carbon auditing to meet net zero goals.⁴¹

37. The Bank told Members that it had grown a lot and that it recruited a range of experts, however it looked to businesses it supports to have the necessary sectoral expertise - its role was to have expertise in investment and growth. The Bank noted that the four national priorities within the Welsh Government's updated Economic Mission are reflected within its corporate plan, and gave examples of how its work linked to the Economic Missions, which is required under its remit letter from Welsh Government. CEO Giles Thorley also mentioned that the Bank had a fund "to provide community and renewable energy schemes."⁴²

38. The Cabinet Secretary said that it was for the Bank to ensure it was appropriately staffed to meet the priorities set in the remit letter. The Cabinet Secretary's officials told Members that they have regular meetings, including attending the Bank's board meetings as an observer to represent the Cabinet Secretary as a shareholder, and they used these meetings to feedback to the Bank, to "respond in our framework and, basically, support the bank in its objectives."⁴³ An official also sits on the Bank's audit and risk committee as an observer, and they are involved in annual reviews of the Bank's funds: "... we're a customer on behalf of the Minister for those funds, so we seek to be challenging, looking at the key performance metrics, performance, et cetera, and they provide also an opportunity for the bank to tell us about any issues and trends."⁴⁴

39. The Cabinet Secretary told the Committee he was not sure Welsh Government were able to capture "the full extent of the impact of the private funding brought in to the economy as a consequence"⁴⁵ of the Bank's direct investments. He said if "the committee had any reflections on that during its inquiry, I'd be very keen to hear."⁴⁶

40. This report sets out evidence received in response to the original terms of reference about the overall role and focus of the Bank, and how it aligns with Welsh Government economic priorities and objectives. However it should be noted that the inquiry went in some different directions from that originally envisaged by Members. The outcomes of this inquiry work demonstrate the importance and timeliness of more detailed scrutiny of the Bank beyond its

⁴¹ Economy, Trade and Rural Affairs Committee, 22 February 2024, Paragraphs 271-272

⁴² Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 95

⁴³ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 240

⁴⁴ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 240

⁴⁵ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 218

⁴⁶ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 218

annual accounts, particularly in light of the fact that the Welsh Government has decided not to undertake the tailored review it had previously committed to (see Chapter 10 below).

Recommendation 2. The Committee notes that the Development Bank of Wales's remit and responsibilities have grown and changed over time. The Welsh Government has explained how officials are engaged in a regular rhythm of meetings with the Bank with observer status, but the Welsh Government should set out the mechanism for reflecting changes to its economic priorities and focus over the course of a Senedd term. The Committee would like this to include, but not necessarily be limited to, a commitment to issue the Bank with more regular remit letters.

Recommendation 3. The Development Bank of Wales should undertake or commission a piece of work to give the Cabinet Secretary for Economy, Energy and the Welsh Language a firm understanding of the impact on the Welsh economy of the private funding brought in as a result of direct investments by the Bank.

Recommendation 4. The Development Bank of Wales should provide the Committee with more information on how it is supporting the development of community energy schemes.

5. The Bank's relationship with Business Wales

41. When the Bank was established, the potential option put forward by the Task and Finish Group in 2015 to combine business support and the finance function under one organisation, was rejected. However, Members heard evidence from experts⁴⁷ and the Business Development Bank of Canada that this model works well.⁴⁸

42. Both FSB Wales and Professor Jones-Evans raised the issue of there being many different providers of business support active in Wales at the moment – such as Business Wales, the Development Bank, the British Business Bank, the City and Growth Deals, as well as the UK Government's Shared Prosperity Fund and the Levelling Up Fund.

43. Ben Cottam of FSB Wales suggested that based on the experience of the FSB's members there is cross-referral between the Bank and Business Wales, however, he wasn't able to comment on the effectiveness of the referrals process.

44. The Bank suggested that its approach "is always to seek to build trust with stakeholders in the ecosystem through communicating how we can help clearly and consistently". It said:

*"We work closely with Business Wales, making it simpler and easier for businesses to access support alongside finance. We work together through both strategic and operational links and Business Wales remains our most prominent source of deal referrals for the micro loan team."*⁴⁹

45. The Bank's written evidence went on to say that while it does not provide support services, it does "support portfolio companies to navigate the wider business support ecosystem and offer targeted specialist workshops and seminars and in some instances access to part funded consultancy services."⁵⁰

46. FSB Wales suggested the Bank sits within a "massively fragmented landscape of business support"⁵¹ and now is the time for a 'stocktake' of how business support is delivered in Wales. The Cabinet Secretary agreed with this view and said it "probably is a sensible point in time" to look at whether there is "more we

⁴⁷ Economy, Trade and Rural Affairs Committee, 22 February 2024, Paragraphs 12, and 15-16

⁴⁸ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraph 295-298

⁴⁹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Written Evidence – Item 3

⁵⁰ Economy, Trade and Rural Affairs Committee, 24 April 2024, Written Evidence – Item 3

⁵¹ Economy, Trade and Rural Affairs Committee, 22 February 2024, Paragraph 241

can do to integrate business support and the functions of the bank”⁵² and to ensure a streamlined offer.

Recommendation 5. The Welsh Government should prioritise a review of Business Wales’ functions and examine the feasibility and desirability of integrating these functions into the remit of the Development Bank of Wales, and focus on streamlining the offer of support to businesses. Over the next 6-12 months the Cabinet Secretary should keep the Committee updated on consideration of this issue, and give a clear rationale for the decision taken as a consequence.

⁵² Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 210

6. The re-classification of the Bank by the Office of National Statistics (ONS)

47. The ONS reclassified the Development Bank of Wales Group, excluding FW Capital Limited, as “Central Government” in August 2021, which was back dated to Sept 2017, when the Bank was formed from Finance Wales. FW Capital retained its classification as “Public Corporation”.

48. The Bank sets out in written evidence that “this reclassification, which was not anticipated, means that the Development Bank of Wales Group, excluding FW Capital, falls within the Welsh Government budgeting boundary and FW Capital lies outside the Welsh Government budgeting boundary.”⁵³ Discussion is still ongoing between the Welsh Government and HM Treasury as to the long-term budgetary treatment of the Development Bank Group.

49. The Bank stated that:

“The reclassification and delayed budget reprofiling alignment with HMT is not currently impacting the activities agreed with the Welsh Government but remains a significant (government) budgetary risk in a circumstance where investment activity is constrained by budget cover as opposed to available funds.”⁵⁴

50. The Bank and Cabinet Secretary highlighted the ONS reclassification as the most pressing challenge facing the Bank and suggested it required urgent resolution. The Cabinet Secretary explained the “double-counting” issue that arose as a result of the change:

“... Previously, once the bank had received funding from the Welsh Government, it was treated as spent; now it's only treated as spent when it's invested. So, we have to account for that money having been passed over, but we also now have to account, under the new treatment, for the difference between the capital spent and the capital received by the bank in any one year. We are trying to find a solution to that with the Treasury at the moment. We haven't yet found a solution. It is

⁵³ Economy, Trade and Rural Affairs Committee, 24 April 2024, Written evidence – Item 3

⁵⁴ Economy, Trade and Rural Affairs Committee, 24 April 2024, Written evidence – Item 3

important that we do, because it creates a double exposure in our accounts.”⁵⁵

51. The Cabinet Secretary told the Committee that Welsh Government “are seeking from the Treasury additional budget cover to deal with how the bank operates.”⁵⁶

Recommendation 6. The Welsh Government must seek to conclude negotiations with HM Treasury as soon as possible on a satisfactory solution to the reclassification issue for the Development Bank of Wales. The agreement reached must protect the Bank’s role and avoid restricting its activities as a lender, and must also not have a detrimental effect on the Welsh Government’s budgetary position in the future.

52. The Committee will also write to the Chancellor of the Exchequer, as a priority, to seek an early and satisfactory conclusion to negotiations with the Welsh Government, for the reasons set out above. Members are concerned about the significant implications of this issue not being resolved as a matter of urgency. The Chair will ensure that the Cabinet Secretary is copied in on this correspondence.

⁵⁵ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 193

⁵⁶ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 193

7. The status of the Bank

53. FSB Wales has proposed that there should be an economic development Bill for Wales that would put the Development Bank, Business Wales and the National Infrastructure Commission on a legislative footing. FSB Wales considers this “would embed the Bank into longer-term thinking on the growth of the Welsh economy and clarify the role of the Bank within that conversation.”⁵⁷

54. In oral evidence, Ben Cottam of FSB Wales noted the example of the Welsh Development Agency being underpinned by legislation. He said that doing so “gives confidence on the part of the customer, it gives confidence on the part of institutions that invest in Wales, it gives confidence on the part of SMEs, that there is that long-term approach, that it is probably less susceptible to changes of direction by Government...”⁵⁸

55. The Committee took evidence from the Scottish National Investment Bank and the Business Development Bank of Canada. Both of these institutions are publicly owned and both are established in law. Similarly, the British Business Bank and the UK Infrastructure Bank were created on a statutory footing.

56. In oral evidence, Karen Kastner of the Business Development Bank of Canada highlighted the benefits gained from being established on a legislative footing,⁵⁹ and representatives of the Scottish National Investment Bank also referred to the “clarity and certainty”⁶⁰ that a legislative basis provided.

57. Written evidence from the Development Bank of Wales showed it to be open to this proposal. Although it noted that many benefits of a statutory footing have already been established through its existing frameworks and operating procedures, with policy alignment managed through the framework agreement with the Welsh Government and the remit letter, it stated:

“In our view, one benefit of such a move would be is longer term certainty which could open more opportunities to access private capital.”⁶¹

58. The Bank’s written evidence went on to set out further benefits related to increased confidence and certainty for investors and the business community, but

⁵⁷ Written evidence – DBW 03

⁵⁸ Economy, Trade and Rural Affairs Committee, 22 February 2024, Paragraph 249

⁵⁹ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraphs 306-308

⁶⁰ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraph 27

⁶¹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Evidence paper – Item 3

noted that it needed to be part of a longer-term strategy over decades, with legislation “sufficiently specific so as to bring clarity and broad enough to allow sufficient flexibility to address a changing market.”⁶²

59. In taking oral evidence from the Bank, its CEO Giles Thorley acknowledged that the Canadian evidence was “compelling.”⁶³ However, the Bank’s Chair, Gareth Bullock, suggested “a proper review of the options and the implications”⁶⁴ would be necessary by a taskforce set up for that purpose. He said that the Bank’s Board had not formally discussed the matter and so had no formal position on it.⁶⁵

60. The Cabinet Secretary said it was good there were calls for the Bank to be put on a legislative footing, as it suggested it was valued as part of the business finance ecosystem in Wales. However, he went on to say “it’s probably something to consider at some point, but it doesn’t feel to me like the most important priority.”⁶⁶

Conclusion 2. Having considered the evidence received for this inquiry, the Committee considers that putting the Bank on a legislative footing could be beneficial in the long run. However, there are more pressing issues which need to be resolved first, such as the reclassification of the Bank, and so it recommends that a review of whether the Bank should be placed on a statutory footing is carried out after that.

Recommendation 7. A review of whether the Development Bank of Wales should be placed on a statutory footing should be conducted by Welsh Government, but this work should be undertaken after the issue of the Bank’s reclassification has been resolved. The review should consider which elements of the Bank’s remit could and should be made statutory. The Cabinet Secretary should keep the Committee regularly updated on developments and planned timescales for that work.

⁶² Economy, Trade and Rural Affairs Committee, 24 April 2024, Evidence paper – Item 3

⁶³ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 61

⁶⁴ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 60

⁶⁵ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 60

⁶⁶ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 200

8. Independence from Welsh Government and due diligence

61. Members sought and were given reassurances regarding the Bank's independence from political decision-making or influence with regards to the loans it issues and the investments it makes. The Bank's CEO told the Committee "I can absolutely assure you there's full independence."⁶⁷

62. The Bank's Chair went on to stress:

"... we're not a lender of last resort in the sense of saying, 'We will have to do it.' And a lender of last resort, when it's a Government, tends to involve political considerations. And I can say that I've been chair for nine years and not once has the board ever had an instruction or a direction to do anything of that ilk."⁶⁸

63. When questioned about the relationship between the Bank and Welsh Government, the Cabinet Secretary referred to a framework document which "governs the relationship" and provides the foundation for it. As this document is not in the public domain the Chair wrote to the Cabinet Secretary to request a copy⁶⁹ and received a response with the signed document.⁷⁰ The Committee notes that the framework document states the intention to deposit the original 2017 version, and each subsequent version of the document, in the Senedd Library, for all Senedd Members to access, but that to date this has not been done.

64. Officials from the Bank gave evidence to the House of Commons Welsh Affairs Committee on 28 February 2024, for its inquiry into Business Support in Wales, and also referred to a framework document in that session. In answering a question on whether the Bank supports businesses in the defence sector, Rhian Elston, the Bank's Investment Director, stated:

"The guidance that is in our document is: are there any reputational issues that we need to consider or are there any ESG [environmental, social or governance] considerations that we need to bring into mind? So there isn't a blanket thing that we cannot support the defence sector, and we have supported

⁶⁷ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 10

⁶⁸ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 17

⁶⁹ Economy, Trade and Rural Affairs Committee, 13 June 2024, Paper to note 2.9

⁷⁰ Economy, Trade and Rural Affairs Committee, 26 June 2024, Paper to note 2.1

business in that area. It is about us making an assessment when the deal comes in: what do they do? Are there any concerns? We will sometimes refer that to the Welsh Government... ”⁷¹

65. When asked about the due diligence the Bank had undertaken on its loans to Dauson Environmental Group, Giles Thorley told this Committee “the specific issue we’re looking at is the lending to a business, and those businesses that Mr Dauson ran were businesses that had borrowed before and had successfully repaid the money before.”⁷² He also told Members that while the Bank undertakes “reasonably extensive due diligence” there “are some limitations on what we’re allowed to find.”⁷³ He also said that “in most cases” it would not undertake Criminal Records Bureau (CRB) checks on the individuals seeking the loan.

66. When asked at the same meeting on 24 April 2024 whether he was satisfied with the Bank’s due diligence processes for granting loans, the Cabinet Secretary told the Committee:

“... Well, those are operational questions, so I think it’s important that the bank operates as a bank, at arm’s length from the Government, and it will have processes in place to undertake diligence in relation to the loans that it provides, and I think that’s in the hands of the bank’s executive, answerable to its board.”⁷⁴

67. When pressed further on the matter he went on to say, “it isn’t for me to be in the detail of the due diligence process; that’s a matter for the bank itself. We have a framework document, which provides, very importantly, that Ministers aren’t involved in the operations of the bank in the way that question would require them to be.”⁷⁵

68. The Cabinet Secretary subsequently gave evidence to the Welsh Affairs Select Committee (WAC), on 1 May 2024 for inquiries into the Defence Industry in Wales and Impact of Population Change in Wales. In answering a question on the Bank’s loan to Dauson Environmental Group during that session with MPs, the

⁷¹ House of Commons Hansard: <https://committees.parliament.uk/oralevidence/14365/pdf/>

⁷² Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 200

⁷³ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 27

⁷⁴ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 226

⁷⁵ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 228

Cabinet Secretary told them that he had asked the Bank to “reflect on whether any recent experience causes it to look again at its diligence processes.”⁷⁶

69. The framework document provided by Welsh Government does not specifically refer to how ESG (Environmental, Social and Governance) considerations and reputational risks are managed, and how matters are referred to the Welsh Government. However, the Committee notes that ESG considerations are referred to extensively in the Bank’s Annual Report for 2022-23, including in the section relating to the Bank’s Risk Management framework.

70. The Committee wrote to the Bank on 12 June⁷⁷ seeking further clarification of the document that was referred to in evidence to the Welsh Affairs Committee. Page 2 of the Framework document notes that it was amended in 2021 with “revisions to clarify DBW autonomy of decision-making”. Therefore clarity was sought on whether an earlier version of the Framework document contained that information, or if there was an additional document that governs how matters of ESG and reputational risk are managed as part of the relationship between the Bank and the Welsh Government.

71. The Bank’s CEO responded on 24 June⁷⁸, explaining that the guidance referred to in evidence to the Welsh Affairs Committee was “our investment operating guidelines which are documents internal to the Development Bank of Wales.” He went on to explain that “each fund managed by the Bank has its own operating guidelines, agreed with the Welsh Government at the outset of a fund, which set out the fund parameters including areas such as investment terms, reporting and sector eligibility. The guidelines also include a general line that activities which may bring either the Development Bank or the Welsh Government into disrepute are excluded.”

72. Giles Thorley further explained that:

“In practice, and in a very limited number of cases, the view of the Welsh Government about a business activity where a concern has been identified is sought from the partnership team. As you have noted, in line with the framework agreement, investment decision making is taken independently of the Welsh Government (3.22) and in line with the fund agreements and associated documentation (4.19, 4.20). The corporate plan 2022/27 set out our plans to increase focus on

⁷⁶ House of Commons Hansard: <https://committees.parliament.uk/oralevidence/14753/pdf/>

⁷⁷ Economy, Trade and Rural Affairs Committee, 26 June 2024, Paper to note 2.1

⁷⁸ Additional Information - Letter to the Chair from the Development Bank of Wales – 24 June 2024

*environmental, social and governance (ESG) matters as part of investment decision making (p37) and we became signatories to the UN backed Principles of Responsible Investment in 2023.*⁷⁹

Conclusion 3. The Bank's response to this Committee's questions about due diligence in relation to the Dauson loans seemed to be predicated on the company's ability to repay being the key determinant. Although the Bank is lending on a commercial basis it is also making loans and equity investments using public funds. There is no suggestion that the Bank is not applying standard approaches to its assessment of loan applications. However, scrutiny of the loans to Dauson Environmental Group highlight the importance of robust due diligence to avoid, or at least identify, the possibility of the Bank lending to companies whose activities are in breach of key Welsh Government statutory obligations and commitments, or have been found to have broken the law. The Committee notes that, although the Bank's latest published annual report for 2022-23 sets out how it considers environmental, social and governance issues (ESG) as part of its assessment of risk, the Framework agreement between the Bank and the Welsh Government, signed in 2017 and updated in 2021, is not explicit on this point. The Bank responded to the Committee's request for further clarification, explaining that it has internal fund operating guidelines agreed with Welsh Government, and referring to 'very limited' instances of referring matters to the Welsh Government. Members appreciate the Bank's cooperation in responding on this matter, and that there are matters of commercial confidentiality and operational independence to consider. However, the circumstances and exact process by which the Bank will refer any issues or concerns to the Welsh Government to consider is still not entirely clear. It is also not immediately clear from the response from the Bank exactly what role Welsh Ministers may, or may not, play in this process. The Committee has considered these due diligence issues in considerable detail as part of the direction its inquiry has taken. While it accepts the Bank must be, and be seen to be, fully operationally independent of Welsh Government, it is of the view that much more clarity and transparency is needed about these due diligence processes, to provide the necessary public assurances. The Committee therefore welcomes the statement made by the new Cabinet Secretary for Economy, Energy and Welsh Language, in his evidence to the Welsh Affairs Committee, that he has asked the Bank to look at this again. The Committee expects to be kept updated on this matter by the Cabinet Secretary and the Bank in future regular scrutiny sessions.

⁷⁹ Additional Information - Letter to the Chair from the Development Bank of Wales - 24 June 2024

Recommendation 8. The Welsh Government should task the Development Bank of Wales with reviewing its due diligence processes, with a view to identifying whether there is a need to strengthen them. The Welsh Government should keep the Committee informed of the scope, progress, outcomes and agreed actions arising from this review.

Recommendation 9. The Welsh Government should deposit in the Senedd Library all versions to date of the framework document setting out its relationship with the Development Bank of Wales, and ensure the same is done for any future versions.

9. Governance and Complaints

73. This chapter includes an overview of confidential and public complaints supplied to the Committee during its inquiry. However, it should be noted that it has been difficult for Members to verify and report on some of what has been said, particularly as some complainants have been reluctant to come forward publicly.

74. The confidential complaints were received following proactive work by Dylan Jones-Evans and Fintech Wales to encourage people they were aware of who had negative experiences with the Bank to supply details to the Committee. They were received after the Committee’s public consultation had closed. All complaints received in this way were seen by Members in an anonymised format.

Equity Investments

75. Professor Dylan Jones-Evans noted that the Task and Finish Group on establishing the Development Bank “proposed a more active equity finance element for DBOW funds, particularly for technology firms, but that just hasn’t materialised in the way expected.”⁸⁰ FinTech Wales’ members stated that while the Development Bank positions itself as a VC, its actions fall short and it “is often not attractive compared to other VCs”. FinTech Wales’ members further suggested that the terms offered on investments “could often make it untenable for businesses to do a further raise, and are a risk to inexperienced Founders”. FinTech Wales’ members also felt that companies “were felt to be frequently undervalued.”⁸¹

76. This also chimes with written evidence from Professor Jones-Evans, in which he states:

“Unfortunately, I have been approached by a range of businesses prior to this review who feel that they have not been treated fairly with valuations being too low, where decisions have taken far too long, and where terms are unacceptable with a ‘take it or leave it’ attitude. Worst still, there have been instances where some have been bullied by the directors imposed on them, where they have been forced out by dubious means and where founders feel they have not been supported by the Bank. This has happened to several young inexperienced founders who should have been given far greater support at the

⁸⁰ Written evidence – DBW06

⁸¹ Written evidence – DBW08

*time by the Development Bank as their business' main funder."*⁸²

77. The complaints received by the Committee centred around equity investment and the investor directors appointed on behalf of the Bank. Andrew Ling specifically made an accusation that the "Development Bank of Wales appointed advisors that took my business from me."⁸³

78. However, the Committee had also received positive evidence about the angel investor process from a business owner who said it was 'instrumental' in allowing his business to grow.⁸⁴ The Committee also expressly asked the Institute of Directors if they had heard any negative feedback and it said it had only heard positive feedback.

79. The Bank said the use of investor directors was standard practice in venture capital and they had a database of 165 interested potential candidates, but the list was "constantly evolving."⁸⁵ In a follow up letter to the Committee's session with the Bank, the Chief Executive noted that it did re-appoint the same people multiple times if it thought that person was a good match and had capacity.⁸⁶

80. The Bank said investor directors would always work in the interest of the company itself, as a matter of company law. The Bank also confirmed that its investor directors had been removed in the past, but this would be a matter for the company board to make a decision and this would then be referred to the Bank for consent.⁸⁷

81. In a follow up letter to the Committee the Bank noted "Through our monitoring role we consider the decisions and proposals made by the board [of a company where an investment director is placed] which includes the investor director, but do not exert any degree of control on an investor director."⁸⁸ However, they did note they "can remove and replace an investor director", but this is normally done due to business growth or change of trajectory.

⁸² Written evidence - DBW06

⁸³ Economy, Trade and Rural Affairs Committee, 21 March 2024, Letter from Andrew Ling regarding the Development Bank of Wales, Paper to note Item 2

⁸⁴ Written evidence - DBW01

⁸⁵ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 181

⁸⁶ Letter from the Development Bank of Wales, Economy, Trade and Rural Affairs Committee, 22 May 2024, Paper to note Item 2.2

⁸⁷ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 159

⁸⁸ Letter from the Development Bank of Wales, Economy, Trade and Rural Affairs Committee, 22 May 2024, Paper to note Item 2.2

82. The Committee heard from SNIB and BDC that they make similar appointments in relation to equity investments. However, SNIB told the Committee that the appointment of an investor director is “a potential step that the bank could take, but it’s not something that we would look to impose on a business or on a founder.”⁸⁹

83. With specific regard to the complaint made by Mr Ling to the Bank, and his evidence to the Committee about the role of Finance Wales (the predecessor to the Bank, which had invested in his business), the Bank provided the Committee with a detailed response on its handling of the formal complaint, which was not upheld. In that letter the Bank refuted Mr Ling’s claim about appointing advisors. The Bank’s CEO stated that:

“... Our records show that there was no requirement in the investment agreement with Finance Wales, for the company to appoint an advisor. Finance Wales exercised a right to attend board meetings as a shareholder observer but did not take up its right to appoint an investor director.”⁹⁰

84. Members had also been concerned by Andrew Ling claiming that a condition of his loan was “to employ a bank-appointed expert” on “a salary of “£150k per year”.⁹¹ With regard to the remuneration of investor directors, the Bank told the Committee that it was a matter for the company. Rhian Elston told Members “The remuneration is a discussion between the company and the investor director. They make the decision there around how much that individual should be paid.”⁹²

85. When asked about if he was happy with the way the Bank appoints investor directors, the Cabinet Secretary said “I’m not aware of specific concerns around that. It is really important that we always make sure that the people who are appointed as non-executive directors are really adding value to that company.”⁹³ Earlier in the meeting he had said that there can be internal issues with investor directors as they will be new to the company and that he thought “the attitude in Wales to equity investment might be slightly more conservative, perhaps, than elsewhere.”⁹⁴

⁸⁹ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraph 43

⁹⁰ Economy, Trade and Rural Affairs Committee, 13 June 2024, Paper to note Item 2.5

⁹¹ Economy, Trade and Rural Affairs Committee, 21 March 2024, Letter from Andrew Ling regarding the Development Bank of Wales, Paper to note Item 2

⁹² Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 181

⁹³ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 279

⁹⁴ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 271

Conclusion 4. Prior to this inquiry there was a lack of transparency around the process of sourcing and appointing investor directors. The Committee welcomes the Bank's evidence on the matter and feels this has gone some way to de-mystify the appointment process. However, the committee has heard conflicting evidence on the process from individuals who have written to the Committee about their experiences with the Bank. As some of this evidence was received anonymously or strictly in confidence, it has been difficult for Members to fully integrate it into this report. The evidence received from Mr Ling and the Bank in relation to his complaint is publicly available and has been reflected.

The Complaints process

86. Professor Dylan Jones-Evans initially brought allegations against the Bank to the attention of the Committee, and raised concerns about possible fear of 'blacklisting' of businesses if they made a complaint.⁹⁵ This fear was echoed by the complainants who subsequently contacted the Committee directly, after Members asked to see evidence to demonstrate the veracity of the allegations. Professor Jones-Evans had told the Committee:

"I've also seen instances—and I know this because I've had to intervene on a number of occasions to help these businesses—where directors have been imposed on businesses, where they feel they've been bullied by those directors, where there have been moves to basically get rid of the original founders. And the development bank as a funder has just stood there and done nothing, and I think that is quite an important element of the way that the bank is perceived. And if that does happen, and I know it does happen—. But, again, if I asked those people to come in front of the committee today, they'd say, 'Oh, I'm not putting my head above the parapet, why would I do that?' But I know, because I have documented evidence on all of this.

"And to be fair, that is really unacceptable, because if this is supposed to be something different—. And I know that there are two sides to every story and I know this is a commercial world, but I think every individual who approaches the bank and then subsequently gets funding has the right to be treated with the respect that they do when setting up that business. And that hasn't happened, on a number of occasions, to—and this is

⁹⁵ Economy, Trade and Rural Affairs Committee, 31 January 2024, Paragraph 86

what I've found strangest of all—individuals who, shall we say, have quite a considerable business reputation in Wales.”⁹⁶

87. Professor Jones-Evans suggested that an independent panel – completely separate from the Bank’s account managers and directors - should be set up to allow concerns to be raised and investigated.⁹⁷ The FSB Wales agreed that this proposal could be looked at.⁹⁸

88. The Bank provided the Committee with detail on its existing complaints process.⁹⁹ It explained that two Development Bank Group companies are authorised and regulated by the Financial Conduct Authority (FCA) for the provision of regulated consumer credit. These are the Group subsidiaries that are engaged in the provision of micro finance to business customers and the Help to Buy (Wales) scheme on behalf of the Welsh Government.

89. In order that all complainants are afforded equivalent standards of fairness and timeliness as regards complaints resolution, the Bank said that its approach to complaints handling “is consistent across all areas of the business and is aligned with the standards required by the FCA with respect to regulated activity (even though not all group subsidiaries are themselves FCA regulated).” Accordingly, the Bank aims to “provide an early resolution to complaints within 3 working days of receipt and if this is unsuccessful or not possible then we aim to resolve within 8 weeks.”¹⁰⁰

90. If a complaint is not resolved to the complainant’s satisfaction, escalation routes are available. In the case of the Group’s FCA regulated subsidiaries, eligible complainants have the option to escalate their complaint to the Financial Ombudsman Service (FOS).¹⁰¹ As regards other complaints, the escalation route is to a member of the Group’s Investment Leadership Team.

91. With regard to the scale of complaints received the Bank said:

“The number of complaints received by the Group is comparatively small. In the 2023/24 year we received 1,765 applications for business funding and at the end of the financial year our portfolio comprised 3,764 businesses.

⁹⁶ Economy, Trade and Rural Affairs Committee, 31 January 2024, Paragraphs 88-89

⁹⁷ Written evidence – DBW06

⁹⁸ Economy, Trade and Rural Affairs Committee, 22 February 2024, Paragraph 304

⁹⁹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Evidence paper - Item 3

¹⁰⁰ Economy, Trade and Rural Affairs Committee, 24 April 2024, Evidence paper - Item 3

¹⁰¹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Evidence paper - Item 3

Against this backdrop we received 11 complaints relating to our business lending and investment activity. There were a further 12 instances where customers provided feedback on our service but did not make a complaint.

We are not aware of any of these complaints having been escalated to FOS.”¹⁰²

92. Members also asked representatives of other development banks about their complaints procedures. The SNIB told the Committee that it follows FCA guidance around handling complaints and “we are pretty consistent with that process”¹⁰³, and Members also noted that the BDC, which is on a statutory footing, has its own Ombudsman.¹⁰⁴ The Ombudsman’s role is to ensure that the BDC addresses employee, client, and supplier concerns and issues that cannot be resolved through other resolution processes. Reporting to the BDC’s President and CEO, the Ombudsman oversees the application of the BDC’s Charter of Client Rights and coordinates an independent mediation process. Their services are impartial and independent of the Government and the BDC’s regular decision-making process.¹⁰⁵

93. The Bank told Members that in the financial year 2023-24 they only received 11 complaints and 12 further customers who provided feedback on their services but did not complain. The Bank’s CEO, Giles Thorley, explained that if a complaint is escalated it can be taken to a director who is “not involved in the situation”. The Bank refuted any suggestion of ‘blacklisting’ saying “there’s no basis of evidence to suggest that that is remotely true” and “merely complaining does not blacklist anyone.”¹⁰⁶

94. In a letter to the Committee responding to the allegations made by Andrew Ling, the Bank’s CEO further stated:

“Unsubstantiated allegations have been made that there are organisations that are too scared to make a complaint for fear of reprisal or blacklisting. As they stand, these allegations are unhelpful and – in the absence of any substantiating information - we are unable to establish their veracity.”¹⁰⁷

¹⁰² Economy, Trade and Rural Affairs Committee, 24 April 2024, Evidence paper - Item 3

¹⁰³ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraph 51

¹⁰⁴ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraph 318

¹⁰⁵ [Office of the Ombudsman | BDC.co.uk](https://www.bdc.co.uk)

¹⁰⁶ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 171

¹⁰⁷ Letter to the Chair from the Development Bank of Wales regarding Andrew Ling – 27 May 2024, Economy, Trade and Rural Affairs Committee, 13 June 2024, Item 2.5

95. However, Giles Thorley also said, “we also are going to strengthen our processes, so there will be a direct e-mail to our group counsel. She’s a qualified solicitor and, again, independent from us. So, she can receive confidential complaints away from the investment team or even from me, if that is what they wish to do.”¹⁰⁸

96. When asked if it had benchmarked complaint numbers against comparators the Bank said, “it is difficult for us to benchmark ourselves directly as the FCA only requires regulated activity to be reported to them.”¹⁰⁹ The Bank did not mention anything about comparisons to other development banks.

97. The Cabinet Secretary said it was important to note that the Bank has enhanced its complaints procedure recently and complied with UK-wide Financial Ombudsman Service requirements. Regarding the idea of an independent complaints panel, he said:

“It isn’t clear to me that the best way of doing that is a separate group of people trying to recreate the decision, really. But, most fundamentally, I’m not sure what that would fix that isn’t currently being addressed, and, if I understand that better, then perhaps I’d have a clearer view.”¹¹⁰

Conclusion 5. The Committee devoted significant attention to matters of governance and the Bank’s complaints handling procedures as part of this inquiry. The Committee recognises the point made by the Bank, that it is difficult to establish the veracity of allegations made without substantiating information. The Committee also notes the fact that the Bank has recently enhanced its complaints procedure to provide complainants with direct access to its General Counsel, which the Bank described as an ‘independent’ route, as Counsel can receive confidential complaints away from the Bank’s investment team or CEO. Neither the Bank nor the Cabinet Secretary were supportive of the need for a separate independent complaints process. However, access to an independent process may be a good way to address some of the concerns raised by the individual complainants who have chosen to approach the Committee, anonymously or otherwise. The Committee will maintain a close watching brief on matters relating to governance and the complaints process in its ongoing scrutiny

¹⁰⁸ Letter to the Chair from the Development Bank of Wales regarding Andrew Ling – 27 May 2024, Economy, Trade and Rural Affairs Committee, 13 June 2024, Item 2.5

¹⁰⁹ Letter to the Chair from the Development Bank of Wales regarding Andrew Ling – 27 May 2024, Economy, Trade and Rural Affairs Committee, 13 June 2024, Item 2.5

¹¹⁰ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 293

of the Bank, and will seek further assurances from the Cabinet Secretary where it considers this necessary.

Recommendation 10. The Committee acknowledges that the Development Bank of Wales has made some changes to its complaints handling process, however the Committee recommends that the issue of complaints handling is looked at within the recommended tailored review of the Bank.

Recommendation 11. 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 Development Bank before, or have applied for support and been unsuccessful. The Committee should be updated on the outcome of those deliberations.

10. An independent review of the Bank

98. The Committee’s inquiry aimed to evaluate how the Bank has met its original objectives, and the goals set by Welsh Government in its remit letter for 2021-26. Welsh Government’s written evidence provided towards the end of the inquiry states that “In the view of the Welsh Government the bank has performed well against its key performance measures”. It emphasises confidence in the Bank’s Board to guide its operations, concluding that it “has matured and evolved its practices over time” but “In a fast changing world, the bank must continue to show agility and flexibility.”¹¹¹

99. The Act that established the Scottish National Investment Bank requires Scottish Ministers to appoint a person to carry out a review of the performance of the Bank at least once every five years. There are similar requirements for undertaking reviews in the legislation that established the Business Development Bank of Canada.

100. The Bank’s remit letter states that the Welsh Government will be conducting a tailored review of the Development Bank, “during the term of this Welsh Government.”¹¹² However, in 2023 Welsh Government decided to pause tailored reviews for each arms-length body during a Senedd term, and move to a self-assessment model (SAM) first, focused on the body’s own assessment of risk overlaid with Welsh Government’s own assessment of risks. This process was examined in detail by Members of the Senedd Public Accounts and Public Administration Committee (PAPAC) in November 2023. Welsh Government officials explained that the time needed to prepare (5-6 months) and deliver (8-10 months) a tailored review made it “not feasible” to take forward the Welsh Government’s original plan to conduct a tailored review of all of its arms-length bodies in the current Senedd term.¹¹³

101. To give an idea of the scope of a tailored review, in recent years the Welsh Government has commissioned tailored reviews of the National Library and the National Museum. The review of the National Museum was undertaken by an independent panel, conducted over a 100 conversations with stakeholders, reviewed thousands of pages of documentation and visited all seven of the Museum’s sites. The panel produced two reports, the final of which, published in

¹¹¹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Evidence Paper

¹¹² <https://www.gov.wales/sites/default/files/publications/2023-11/development-bank-of-wales-term-of-government-remit-letter-2021-to-2026.pdf>

¹¹³ Senedd Public Accounts and Public Administration Committee, 29 November 2023, Paragraph 68

July 2023, included 77 recommendations for improvement. It is worth noting that this review followed another very detailed, independent review of the Museum in 2017.

102. According to Cabinet Office guidance¹¹⁴ the SAM consists of “a set of questions for departments and arm’s length bodies (ALBs) to use as a ‘health-check’ of the ALB, and to review the relationship of the ALB with the sponsoring department”. The SAM is designed to be completed by desk-based research. It is expected it will need to be completed in partnership with the sponsor team within the Department and the ALB. The guidance also states that “the outcome of the SAM should be used as one of the factors to inform the department’s decision on whether it needs to take a full-scale review or not.”

103. When asked about this in Committee, the Bank’s CEO said the Bank “haven’t been told” anything about the self-assessment process, but were “happy to do so if we are asked.”¹¹⁵ However, the Bank’s Chair Gareth Bullock specifically said he welcomed the absence of a tailored review, “not because I don’t want to be reviewed and measured—quite the opposite, in fact.”¹¹⁶ He went on to say such reviews could be very disruptive and “I might question value when these things were done without a very clear objective of what is the review, the purpose of the review, and done by people who are not experienced in the sector and its related issues.”¹¹⁷

104. When asked about the review process, the Cabinet Secretary said that the self-assessment was a new stage before a tailored review and “I’m absolutely not ruling out doing a tailored review; it’s just that we are in that process of doing that gateway first.”¹¹⁸ He also said the classification question should be resolved before any thematic review is undertaken.¹¹⁹

Conclusion 6. The Committee understands that the Welsh Government has paused full tailored reviews of other arms-length bodies. However, as the Bank is a young organisation, the Committee strongly believes that the Bank would greatly benefit from a full tailored review of its operations. This review should be done during this Senedd term as originally committed to in the Bank’s term of government remit letter.

¹¹⁴ [Guidance on the undertaking of Reviews of Public Bodies - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/guidance-on-the-undertaking-of-reviews-of-public-bodies)

¹¹⁵ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 129

¹¹⁶ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 123

¹¹⁷ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 123

¹¹⁸ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 254

¹¹⁹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 255

Recommendation 12. The Welsh Government should conduct a full tailored review of the Development Bank of Wales, during this Senedd term as originally committed to in the Bank's term of government remit letter.

11. FW Capital

105. FW Capital is part of the Development Bank of Wales Group, and is its fund management arm, providing flexible finance to businesses in the North and South West of England as well as the whole of Wales. It is the vehicle for the Clwyd Pension Fund investment in the Wales Management Succession Fund, and also manages part of the Wales Investment Fund and the South West Investment Fund for the British Business Bank under its programme of Nations and Regions Investment Funds.

106. The Term of Government remit letter for the Bank states:

"I wish DBW to continue to work with, and support the Welsh Government as it seeks to shape policy related to the replacement for European Regional Development Fund funding. 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. In this context, following the announcement by the Chancellor of the Exchequer of a £130m regional fund for Wales the Welsh Government and DBW must work together to address this opportunity."¹²⁰

107. On 23 November 2023 the British Business Bank announced the launch of the £130 million Investment Fund for Wales, which it described as “the first solely UK government-backed investment fund for smaller businesses in Wales, helping to increase the supply and diversity of early-stage finance by providing options to firms that might otherwise not receive investment.”¹²¹

108. Three fund managers have been appointed to manage the fund. BCBS Business Loans manages the smaller loans part of the fund (£25,000 to £100,000), FW Capital is responsible for larger loans (£100,000 to £2 million) and Foresight manages equity deals (up to £5 million).

109. Tegid Roberts raised concerns about the money invested in England by FW Capital, saying “That is money not active in Wales, arguably competing with Wales.

¹²⁰ <https://www.gov.wales/sites/default/files/publications/2023-11/development-bank-of-wales-term-of-government-remit-letter-2021-to-2026.pdf>

¹²¹ Investment Fund for Wales | British Business Bank (british-business-bank.co.uk)

So, if I manage a chunk of money in the north-east of England, I'm competing with Wales, aren't I? There does seem to be a soft conflict of interest there."¹²²

110. The Committee raised this concern about conflict of interest with the Bank during the inquiry. The Bank said FW Capital was a 'Welsh export success story' in terms of expertise, and set out how it brought in many benefits, including significant financial gains, for Wales.¹²³

111. Group Investment Director Mike Owen explained that in terms of "tangible, operational benefits", it had been set up to export the Bank's skill set and bring in some profits to Wales, and made £1 million contribution towards Bank overheads. The back-office staff were all based in Wales and some of the profits from FW Capital had been used to seed and supplement the risk and restructuring fund dedicated to supporting Welsh businesses in distress. He also set out benefits in terms of benchmarking against, and competing with other fund managers, noting over £30 million in funds won from the British Business Bank which would not have been possible without FW Capital as an FCA-authorized vehicle. The Bank's CEO also noted that arm of the business offered "a certain degree of flexibility"¹²⁴ to the banking group as it was an FCA-regulated entity not subject to ONS re-classification.

112. In addition to the important relationship with the British Business Bank and comparative feedback provided, Members were told market intelligence gained was also important, for example on deal structuring and pricing, as well as business introductions. Mike Owen gave an example:

"... we did a significant investment a couple of years ago in a run-down hotel that was introduced by a business in the north-west that wanted to redevelop it, and now they employ 38 individuals. We got about three-and-a-half times the private sector leverage on that deal. So, there are cross-referrals in."¹²⁵

Conclusion 7. The Committee did not come to a position on any conflict of interest in relation to the activities of FW Capital, however it notes the unique and unusual circumstances of a Welsh Government-owned body providing business support in England. Members agree that it is important for any perceived conflict of interest to be managed by the Development Bank of Wales.

¹²² Economy, Trade and Rural Affairs Committee, 31 January 2024, Paragraph 70

¹²³ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraphs 111-117

¹²⁴ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 110

¹²⁵ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraphs 111-117

12. Risk appetite

113. In the Committee’s first oral evidence session, witnesses giving a Welsh perspective were asked whether the financial structure of the Bank is inhibiting its appetite for risk, and its appetite to address the market failure that exists in certain sectors. Professor Jones-Evans replied that “in terms of the funds and the amount of resource going into those funds, yes, it is.”¹²⁶

114. Fintech Wales’ members asserted in written evidence that the Development Bank’s “overall approach is risk averse which stifles innovation and the true potential of Welsh startups”. Fintech Wales’ members suggest that “DBW needs to take a realistic approach to failure, [as] most startups will fail. DBW should be looking to identify high potential Founders and back them to form successive startups.”¹²⁷

115. FinTech Wales’ members also stated that “there is no incentive for staff to support higher risk startups and therefore the perception is that staff choose the safe option for the short term, and are not willing to investigate the longer-term, higher return opportunities.”¹²⁸

116. The Bank said that criticisms of being risk averse could stem from instances where the Bank had said no to businesses, but pointed out that it was still the most prolific equity investor in Wales, and in terms of supporting the FinTech sector, had backed “about 40 per cent of FinTech Wales’ Foundry members”, more if businesses relocating to England were included. Rhian Elston went on to say:

“... when we look at whether we’ve set the right level of risk appetite, equity is the highest risk of investments that we do, and, as I’ve already mentioned, we do a lot of those deals to young and start-up companies. We’re able to sort of balance our approach to risk through a portfolio approach. And what I mean by that is we do debt investments as well as equity investments. The debt is lower risk and, because we do a volume of those, it allows us to make more of these higher risk equity investments. But that’s a portfolio we need to manage. We have capital that we need to return to Welsh Government, so we are constantly managing where we are across that risk profile. Currently, we’re on schedule to return the money to

¹²⁶ Economy, Trade and Rural Affairs Committee, 31 January 2024, Paragraph 61

¹²⁷ Written evidence – DBW08

¹²⁸ Written evidence – DBW08

Welsh Government. We're not under, but we're certainly not significantly over, so I feel we've got the right balance at the moment of the level of risk that we're taking on the opportunities that present to us."¹²⁹

117. The Cabinet Secretary, in answering questions about the Bank's future direction and priorities, told Members:

*"... I want to make sure the bank continues to do the work that it is doing—providing finance to start-ups, providing to finance to businesses that want to grow, and taking on those transactions that mainstream lenders might find sometimes a little too high risk. I think it's important within the bounds of appropriate metrics and an appropriate lending policy, of course, that the bank is able to support those higher-risk businesses so that we can see the growth in sectors that are important for the future, which sometimes mainstream banks are a little more wary of. I think that's fundamental."*¹³⁰

118. Specifically on the context behind Fintech Wales' members' statement on risk, the Cabinet Secretary said there was a "tension" there:

*"... the need for the bank, in order to fulfil its remit, to take more risk on the one hand than mainstream lenders would perhaps typically want to take, but, on the other, we're developing an evergreen model, aren't we, where pretty fundamental to the model is the ability for those investments to make a return, which can then be reinvested in the future. And we've seen the bank do that very successfully. So, in a sense, those two priorities are, in some sense, in tension, and the task is to strike the right balance between the two."*¹³¹

119. He did not think FinTech Wales' members' view was "entirely fair", going on to explain:

"The way that we contract with the bank assumes that some investments will generate a greater return than others, and those where the return is envisaged to be less are those, I think, where the risk is likely to be higher. In fact, some of the capital

¹²⁹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 79

¹³⁰ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 203

¹³¹ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 215

that we use to fund the bank, certainly to date, is financial transactions capital, where the need to return the funding provided is at a lower rate than 100 per cent. So, it provides a margin within which the bank can take decisions that reflect that higher risk profile. But, at the end of the day, these are not grants. The bank operates on the basis of a repayable finance model. So, it is important, clearly, that, in making those judgments, it is foreseeing that the lending is repayable. So, I think you have to see the model in its entirety, really.”¹³²

¹³² Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 216

13. Global perspective

120. Part of the inquiry terms of reference was to examine examples of global best practice. The Committee took evidence from the Scottish National Investment Bank (SNIB) and the Business Development Bank of Canada (BDC), and both the Bank and the Cabinet Secretary also provided evidence for this aspect of the inquiry.

121. Mike Wedderspoon of the SNIB told Members:

“... we do engage, both with other development banks across the UK, and then across Europe and then others more broadly. As an example of which, we brought together the Connecticut Green Bank, KfW and the Canada Infrastructure Bank for a shared event that we worked on in collaboration with a Scottish-based think tank over COP26, where we could look to understand how development banks in different stages of their existence had sought to address key challenges and had sought to deliver against the mandates that they were given. So, we do have an ongoing approach to engaging with development banks and making sure that, if there are lessons that others have learned before us, we learn from them.”¹³³

122. Karen Kastner of the BDC set out her role as secretary general of the Montreal Group, an association of 12 development banks from across the world. BDC is a founder, with Bpifrance, the development bank in France, with the aim of learning from other development banks to accelerate innovation. She said:

“From BDC’s perspective, we, over the last 11 years, have learned quite a bit. BDC is mainly, or has been mainly, a direct-to-client business model, meaning that we have about 700 account managers and those account managers meet with businesses across the country and do loans. We do have an online, also, loan-application process, which is becoming increasingly important, but, mainly, our history has been built around a direct model. What we’ve found in the course of discussions with our peers in the Montreal Group is that many countries have an indirect model, so they provide capital to the SME market in their countries through guarantee programmes, for

¹³³ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraph 60

instance. That's been an area that we have been quite interested in developing. We've learned a lot from counterparts."¹³⁴

123. Karen Kastner also set out how the BDC specifically targeted support for female and indigenous entrepreneurs:

"... we do track that carefully and, in fact, have a strategy that is a long-standing strategy to reach more women entrepreneurs. We do that through our financing business, our lending business, but also through our equity business. We currently have CA\$1.6 billion in loans to women entrepreneurs, which represents about 17,000 women entrepreneurs. But we also have a CA\$500 million fund called the Thrive platform, which is delivered through our investment business, our BC business. That fund looks to invest in innovative firms that are run by female entrepreneurs. It looks to invest in innovative fund structures that then go on to on-lend to female-run businesses. It also looks to invest in other ecosystem initiatives that set out to help women entrepreneurs."¹³⁵

124. The Development Bank of Wales told the Committee it has "proactively built relationships with other banks such as the Business Development Bank of Canada (BDC), Scottish National Investment Bank, Scottish Enterprise, Finnvera, BPIFrance and KfW."¹³⁶

125. It has a close working relationship with, and is interested in becoming a direct member of, the Montreal Group. The Bank provided some strong examples of how this engagement has influenced its own practices, saying engagement with the Group gives it "direct access to other development banks as well as research into relevant areas, such as impact reporting."¹³⁷

126. Examples of collaboration given by the Bank included:

- knowledge sharing on products and services, for example discussions with BPI France on their climate plan, including their transition loan and Coq Vert community, which helped shape the Bank's Green Business Loan Scheme;

¹³⁴ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraph 323

¹³⁵ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraph 296

¹³⁶ Economy, Trade and Rural Affairs Committee, 24 April 2024, Written evidence – Item 3

¹³⁷ Economy, Trade and Rural Affairs Committee, 24 April 2024, Written evidence – Item 3

- Discussions with KfW on their support for retrofitting houses, to inform the Bank's retrofit scheme;
- An understanding of the BDC Growth Driver programme, a paid for advisory service for high growth businesses;
- Sharing expertise on technical issues, for example the National Security and Investment Act and the Subsidy Control Regime with Scottish Enterprise; and
- Research commissioned from Edinburgh University to review best practices approaches to measuring impact, which included other development banks.

127. The Bank also said it links to other organisations such as the OECD (Organisation for Economic Co-operation and Development) which commissions relevant research, and individuals such as leading economist specialising in international finance and development, Stephany Griffith Jones. It is also a member of the UK Public Financial Institutions Green Finance and Sustainability Forum¹³⁸ – a UK wide group that shares intelligence on developing common approaches to sustainability and green finance. Members include the UK Infrastructure Bank, UK Export Finance, The British Business Bank, Innovate UK, Scottish Enterprise and the Scottish National Investment Bank. It said a similar group is forming focused on the accounting treatment of Development Banks, something the Bank initiated with the UK Infrastructure Bank.

128. When asked about lessons learnt from other development Banks, from a UK perspective the Cabinet Secretary's view was that Scotland was "a little bit behind" Wales, but that "there are some interesting things we can learn from Northern Ireland, despite a "slightly different culture in the business community."¹³⁹ He made the point that with the Bank being, the first regional bank of its kind in the UK, "as well as learning from others, we can sometimes lead the way, which is very reassuring."¹⁴⁰

129. More widely the Cabinet Secretary thought the Canadian model was "rather exciting" and that the strategic approach taken in Baden-Württemberg - to align the work of government with investors, higher education institutions and the development bank - was also a good example of aligning key players against key

¹³⁸ [Press release - 30 March 2023 | British Business Bank \(british-business-bank.co.uk\)](#)

¹³⁹ Economy, Trade and Rural Affairs Committee, 21 March 2024, Paragraph 273

¹⁴⁰ Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraph 311

priorities. The Cabinet Secretary also pointed to the European Vanguard Initiative¹⁴¹ as a vehicle to ‘plug into’ a Europe-wide network for innovation.¹⁴²

Recommendation 13. The Committee welcomes the Bank’s engagement with other Development Banks and relevant organisations and fora. It encourages the Bank to work further with the Montreal Group, to ensure it is adopting best practice, and the Committee supports its aim to fully join the Group.

¹⁴¹ <https://www.euvanguardinitiative.eu/>

¹⁴² Economy, Trade and Rural Affairs Committee, 24 April 2024, Paragraphs 310-311

Conclusions

Conclusion 1. The Committee welcomes the Cabinet Secretary being open to reviewing Welsh Government’s approach to employee buyouts. Members feel that the Bank could have a greater role to play in supporting employee buyouts in the future, and would expect any review to give detailed consideration to this.

..... Page 18

Conclusion 2. Having considered the evidence received for this inquiry, the Committee considers that putting the Bank on a legislative footing could be beneficial in the long run. However, there are more pressing issues which need to be resolved first, such as the reclassification of the Bank, and so it recommends that a review of whether the Bank should be placed on a statutory footing is carried out after that. Page 27

Conclusion 3. The Bank’s response to this Committee’s questions about due diligence in relation to the Dauson loans seemed to be predicated on the company’s ability to repay being the key determinant. Although the Bank is lending on a commercial basis it is also making loans and equity investments using public funds. There is no suggestion that the Bank is not applying standard approaches to its assessment of loan applications. However, scrutiny of the loans to Dauson Environmental Group highlight the importance of robust due diligence to avoid, or at least identify, the possibility of the Bank lending to companies whose activities are in breach of key Welsh Government statutory obligations and commitments, or have been found to have broken the law. The Committee notes that, although the Bank’s latest published annual report for 2022-23 sets out how it considers environmental, social and governance issues (ESG) as part of its assessment of risk, the Framework agreement between the Bank and the Welsh Government, signed in 2017 and updated in 2021, is not explicit on this point. The Bank responded to the Committee’s request for further clarification, explaining that it has internal fund operating guidelines agreed with Welsh Government, and referring to ‘very limited’ instances of referring matters to the Welsh Government. Members appreciate the Bank’s cooperation in responding on this matter, and that there are matters of commercial confidentiality and operational independence to consider. However, the circumstances and exact process by which the Bank will refer any issues or concerns to the Welsh Government to consider is still not entirely clear. It is also not immediately clear from the response from the Bank exactly what role Welsh Ministers may, or may not, play in this process. The Committee has considered these due diligence issues in considerable detail as part of the direction its inquiry has taken. While it accepts

the Bank must be, and be seen to be, fully operationally independent of Welsh Government, it is of the view that much more clarity and transparency is needed about these due diligence processes, to provide the necessary public assurances. The Committee therefore welcomes the statement made by the new Cabinet Secretary for Economy, Energy and Welsh Language, in his evidence to the Welsh Affairs Committee, that he has asked the Bank to look at this again. The Committee expects to be kept updated on this matter by the Cabinet Secretary and the Bank in future regular scrutiny sessions. Page 31

Conclusion 4. Prior to this inquiry there was a lack of transparency around the process of sourcing and appointing investor directors. The Committee welcomes the Bank’s evidence on the matter and feels this has gone some way to de-mystify the appointment process. However, the committee has heard conflicting evidence on the process from individuals who have written to the Committee about their experiences with the Bank. As some of this evidence was received anonymously or strictly in confidence, it has been difficult for Members to fully integrate it into this report. The evidence received from Mr Ling and the Bank in relation to his complaint is publicly available and has been reflected.....Page 36

Conclusion 5. The Committee devoted significant attention to matters of governance and the Bank’s complaints handling procedures as part of this inquiry. The Committee recognises the point made by the Bank, that it is difficult to establish the veracity of allegations made without substantiating information. The Committee also notes the fact that the Bank has recently enhanced its complaints procedure to provide complainants with direct access to its General Counsel, which the Bank described as an ‘independent’ route, as Counsel can receive confidential complaints away from the Bank’s investment team or CEO. Neither the Bank nor the Cabinet Secretary were supportive of the need for a separate independent complaints process. However, access to an independent process may be a good way to address some of the concerns raised by the individual complainants who have chosen to approach the Committee, anonymously or otherwise. The Committee will maintain a close watching brief on matters relating to governance and the complaints process in its ongoing scrutiny of the Bank, and will seek further assurances from the Cabinet Secretary where it considers this necessary.Page 39

Conclusion 6. The Committee understands that the Welsh Government has paused full tailored reviews of other arms-length bodies. However, as the Bank is a young organisation, the Committee strongly believes that the Bank would greatly benefit from a full tailored review of its operations. This review should be done

during this Senedd term as originally committed to in the Bank's term of government remit letter..... Page 42

Conclusion 7. The Committee did not come to a position on any conflict of interest in relation to the activities of FW Capital, however it notes the unique and unusual circumstances of a Welsh Government-owned body providing business support in England. Members agree that it is important for any perceived conflict of interest to be managed by the Development Bank of Wales. Page 45

Annex 1: List of oral evidence sessions.

The following witnesses provided oral evidence to the committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed on the [Committee's website](#).

Date	Name and Organisation
24 April 2024	<p>Jeremy Miles MS, Cabinet Secretary for Economy, Energy and Welsh Language, Welsh Government</p> <p>Duncan Hamer, Director, Operations - Business and Regions, Welsh Government</p> <p>Jo Banks, Head of Access to Finance and DBW Partnership Team, Welsh Government</p>
24 April 2024	<p>Gareth Bullock, Chair, Development Bank of Wales</p> <p>Giles Thorley, Chief Executive Officer, Development Bank of Wales</p> <p>Mike Owen, Group Investment Director, Development Bank of Wales</p> <p>Rhian Elston, Wales Investment Director, Development Bank of Wales</p>
21 March 2024	<p>Karen Kastner, Vice President, Strategy, Prioritization and Shareholder Relations, Business Development Bank of Canada (BDC)</p>
21 March 2024	<p>Mike Wedderspoon, Director for Strategic Engagement and Delivery, Scottish National Investment Bank (SNIB)</p> <p>David Ritchie, Executive Director for Partnerships and Engagement, Scottish National Investment Bank (SNIB)</p>
22 February 2024	<p>Ben Cottam, Head of Wales, Federation of Small Businesses Wales (FSB Wales)</p>
31 January 2024	<p>Tegid Roberts Professor Dylan Jones-Evans</p>

Annex 2: List of written evidence

The following people and organisations provided written evidence to the Committee. All consultation responses and additional written information can be viewed on the [Committee's website](#).

Reference	Organisation
DBW 01	Paul Taylor
DBW 02	Cwmpas
DBW 03	Federation of Small Businesses - Wales (FSB Wales)
DBW 04	Welsh Economy Research Unit, Cardiff Business School
DBW 05	Welsh Government
DBW 06	Professor Dylan Jones-Evans
DBW 07	Nutrivend
DBW 08	Fintech Wales

Additional Information

Title	Date
Letter to the Chair from the Development Bank of Wales	24 June 2024
Letter from Development Bank of Wales regarding submission from Mr Ling	29 May 2024
Response to Chair from Development Bank of Wales	17 May 2024
Letter from the Chair to the Development Bank of Wales - follow up from meeting on 24 April 2024	2 May 2024
Evidence Paper - Welsh Government	24 April 2024
Evidence Paper - Development Bank of Wales	24 April 2024
Letter from Scottish National Investment Bank following meeting of 21 March 2024	17 April 2024
Letter from the Chair to the Scottish National Investment Bank	25 March 2024
Letter from Andrew Ling regarding the Development Bank for Wales	13 March 2024