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Llywodraeth Cymru
Welsh Government

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Paul Davies, MS
Chair
Economy Trade and Rural Affairs Committee

28 August 2024

Dear Chair,

Thank you for the Economy, Trade and Rural Affairs Committee's report into the work of the Development Bank of Wales.

The Committee's conclusions and recommendations are constructive and will inform the ongoing operation of the Bank. Please find attached the Welsh Government's response to each of the recommendations made by the Committee.

Yours sincerely

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



The Development Bank of Wales

Response to the ETRA Committee Report (July 2024)

16/08/2024

In July 2024, the Economy, Trade and Rural Affairs Committee submitted its report on the Development Bank of Wales.

The report includes 13 recommendations. This is the Welsh Government's response to those recommendations.

Contents

Introduction.....3

Response to the 13 recommendations.....3

Recommendation 1.....3

Recommendation 2.....4

Recommendation 3.....5

Recommendation 4.....5

Recommendation 5.....5

Recommendation 6.....6

Recommendation 7.....6

Recommendation 8.....7

Recommendation 9.....7

Recommendation 10.....7

Recommendation 11.....7

Recommendation 12.....8

Recommendation 13.....9

Introduction

The Development Bank of Wales (DBW) supports growth across the Welsh economy through provision of loans or equity investments covering all stages of business development. Filling the space between business' need for finance and the supply of finance in the market, DBW addresses the 'gap' where the risk appetite and products of private sector funders cannot meet the needs of finance-seeking businesses.

Since 2017, DBW has matured and proven itself a stable and credible organisation which continues to show progress against strategic objectives within the policy and resource framework determined by Welsh Ministers. 2024/25 will be the eighth year of operation of the Development Bank and third in the current five-year strategic phase. Over that time, DBW has made an economic impact of over £1.7bn through direct investment, co-investment and delivery of investment services such as the Help to Buy Wales scheme.

DBW continues to demonstrate a clear contribution to economic development in Wales, as well as continual improvement across its functions. The ETRA Committee has constructively highlighted areas of challenge for the Bank and made valuable conclusions and recommendations which will shape DBW's future activities. The following report responds to the Committee's recommendations in the same spirit.

Response to the 13 recommendations

Recommendation 1

The Committee recommends that;

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.

Response: Accept

In addition to our existing annual review of all funds, consideration will be given to the bank's role in providing accessible finance to support succession planning and employee buyouts when developing the next term of government remit letter. The £25m Wales Management Succession Fund continues to play an important role in

helping businesses remain rooted and owned in Wales. This fund completes its investment term in 2026 and it will be timely for the 2026 Remit Letter to set out future expectations regarding this important area of delivery. The bank has followed the direction set out in the current remit letter to actively support employee buyouts.

Financial Implications: None

Recommendation 2

The Committee recommends that;

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.

Response: Accept in principle.

The Welsh Government will set out additional details on the processes through which it updates the Development Bank on any changes to economic development priorities or other changes it requires the bank to address via an update to the current Framework Document. The Framework Document sets out the working relationships between the Welsh Government and the bank. The primary means of updating the bank of any significant change to priorities within a term of government will be via written communication from the Welsh Government to the Chair of the Board. Should any new directions necessitate changes to contracts currently in place between the Bank and the Welsh Government these will be revised accordingly.

The Development Bank has demonstrated that it is able to respond with pace and professionalism to new opportunities and changing circumstances. The bank's response to Covid-19 and more recently the introduction of the Green Business Loan Scheme and Help to Stay products are examples of this. The bank's annual report provides updates on how the bank continues to respond to prevailing economic conditions.

The move to provide Arm's Length Bodies with 'term of government' remit letters has been intentional and designed to assist ALBs by providing the stability needed for them to develop and deliver high quality corporate plans. The Welsh Government believes that 'term of government' remit letters are appropriate and fit for purpose. It is the view of both Welsh Government and the bank that this approach supports longer-term planning and organisational effectiveness. Therefore, it will continue to reflect changes in economic conditions through its current processes including biannual meetings between the Chair, CEO and Cabinet Secretary, its regular fund meetings with the Bank and, through the Bank's strategy reviews which take place every two years. Any substantive updates to the remit will be initiated when required within a term of government.

Financial Implications: None

Recommendation 3

The Committee recommends that;

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 because of direct investments by the Bank.

- **Response:** Accept.

The Welsh Government will task the Development Bank with directly undertaking or commissioning research to understand the economic impact of the private sector investment which is induced by the Bank's investment. This should build on the existing work undertaken as part of the Economic Intelligence Wales research collaboration which has analysed the economic impact of the Development Bank's investments.

Financial Implications: None

Recommendation 4

The Committee recommends that;

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

Response: Accept:

The Development Bank of Wales supports local ownership in renewable energy projects through commercial finance provided from the £12.5 million Local Energy Fund.

The funding is provided by the Welsh Government and is managed by the Development Bank in conjunction with the Energy Saving Trust, directly supporting the Welsh Government's policy for 1 GW of renewable energy generation capacity to be locally owned by 2030. This fund can support a range of local ownership models including community groups and social enterprises to develop renewable energy projects.

As at March 2024, the fund has invested £11.6 million to 14 projects across Wales through project development loans, and capital expenditure loans. To date the fund has typically supported solar and wind projects developed by local community groups through patient capital. Support takes the form of long-term loans of up to £2m (larger by exception) and 9.37MW of capacity been recorded across projects supported.

For FY25 the Development Bank is exploring whether a Subsidy Control registration of the scheme might increase the number of viable projects it is able to support. In addition, the Development Bank will explore working with the newly formed Ynni Cymru to maximise the availability of capital for local energy projects across Wales.

Financial Implications: None

Recommendation 5

The Committee recommends that;

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 consequently.

Response: Accept in Principle

This recommendation is accepted in principle on the basis that future reviews of Business Wales and the Development Bank will consider where any further strengthening of the interface between the services is required and opportunities for service integration where appropriate. Welsh Government remains open to exploring options while seeking to secure the stability, quality and impartiality of established service delivery.

Financial Implications: None

Recommendation 6

The Committee recommends that;

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.

Response: Accept in principle:

The Welsh Government will continue to work constructively with HMT with the goal of concluding an outcome to the reclassification of the Development Bank which is 'budget neutral' on the bank and Welsh Government in accordance with HMT guidance.

Financial Implications: None

Recommendation 7

The Committee recommends that;

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.

Response: Accept

Recognising the long-term nature of work undertaken by the Development Bank and the importance of stability in carrying confidence in the market, a review will take place in line with the recommendation once matters arising from the reclassification of the Development Bank have been resolved.

Financial Implications: None

Recommendation 8

The Committee recommends that;

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.

Response: Accept

The Development Bank will be asked to conduct a due diligence review in line with the recommendation. An update on progress will be shared with the Committee.

Financial Implications: None

Recommendation 9

The Committee recommends that;

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.

- **Response:** Accept in principle.

The Framework Document underwent a significant revision in 2021 and all versions from this date forward have been placed in the Senedd Library. Future updates will be lodged with the Senedd Library.

Financial Implications: None

Recommendation 10

The Committee recommends that;

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.

Response: Accept in Principle

The Welsh Government intends to commission an independently led Project Assessment Review (PAR) on aspects of delivery and assurance provided by the bank in 2025. Complaints handling by the bank will be included in the terms of reference for that review. A summary report on the recommendations and actions arising from the independent PAR will be provided to the Committee to support future scrutiny of the bank.

Financial Implications: None

Recommendation 11

The Committee recommends that;

The Welsh Government and the Development Bank of Wales should both give consideration to how views of businesses can be collected in a confidential and/or anonymous way, including from those businesses that either haven't used the Development Bank before, or have applied for support and been unsuccessful. The Committee should be updated on the outcome of those deliberations.

Response: Accept

The Development Bank undertakes an annual stakeholder survey where responses are anonymous. This survey also captures the views of membership organisations such as the FSB, CBI, the UK Business Angel's Association and Chambers of Commerce. To ensure independence, the survey is undertaken by a third party. The Bank will give further consideration as to how it may use other methods to encourage and gather feedback in a confidential way and update the Committee.

Financial Implications: None

Recommendation 12

The Committee recommends that;

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.

- **Response:** Reject

Tailored reviews of individual organisations have been paused following a decision by the Public Bodies Reference Group chaired by the Welsh Government Chief Operating Officer. The UK Government has also ended the tailored review process and moved to Focussed Reviews. The Welsh Government recognises that regular review is required, however, it will not be possible to undertake a tailored review within the recommendation's timeframe.

A tailored review, when required, is used to consider whether a mature organisation remains fit for purpose. As a young organisation, this approach is less relevant to the Development Bank. There are, however, alternative methods of reviewing an arm's length body that may be considered such as Project Assessment Reviews. A PAR was undertaken in 2021. This considered the controls, oversight and governance processes formally agreed and applied in practice between the Welsh Government and the Development Bank, giving an overall amber/green assessment.

The Welsh Government intends to commission an independently led PAR on aspects of delivery and assurance provided by the bank in 2025. The ETRA report will be used to inform the terms of reference for a further PAR and will include elements of the recommendations within the Committee's report.

The Welsh Government uses the three lines of defence approach to provide assurance as to the finance and operations of public bodies, and as such we are confident that the bank has a robust control and management system in place, through continued scrutiny by its Partnership Team, Board, Audit and Risk Committee, and both internal and external auditors.

The Welsh Government will be adapting and implementing the UK Cabinet Self-Assessment Model (SAM) risk model so that any future reviews will be based on a risk assessment done by both the Partnership Team and Public Body. The SAM reports on the efficacy, efficiency, governance and accountability of the organisation. Based on this holistic review, the next steps might include further support, evaluation, or a review which will be focussed on the identified area(s).

A working group will be put in place to implement the SAM model during 2025. The Welsh Government will work with the Development Bank as one of the organisations to pilot this model with a view to then conducting a focussed review which will be informed by the Committee's report and recommendations during 2026.

Financial Implications: None

Recommendation 13

The Committee recommends that;

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.

- **Response:** Accept

Since the Committee published its recommendations the Development Bank has begun the process of formally joining the Montreal Group. The Welsh Government will continue to require the Development Bank to demonstrate that it is engaging appropriately to draw on best practice.

Financial Implications: None