

Development Bank of Wales

Purpose

1. The purpose of this paper is to update the Council on progress with the Development Bank of Wales (DBW).

Current Position

2. Finance Wales has submitted a business plan outlining the case for the DBW. Welsh Government officials are in the process of engaging with key stakeholders across Wales to ensure that this plan meets the needs of businesses. Subject to regulatory approval, the bank will be launched in . by the summer of 2017.

Location

3. Current thinking is that the DBW may be headquartered in North Wales and 2 options are being considered. One comes with a cost—estimated at £5 million; the other is yet to be costed but when it has been the figures will be scrutinised.

Key Priority

4. The DBW would have three core objectives which would build on and improve the current WG provision of investment support to Welsh business:
 - To become the cornerstone organisation for delivery of public sector financial instruments, supporting micro to medium businesses in Wales and increasing the supply of finance
 - To promote economic development through an adaptable delivery model that is responsive to market needs whilst providing continued value for money for public funds
 - Deliver key WG policy objectives by achieving performance targets and providing investment management and support services across the whole of WG

Background

5. The DBW signals the strategic approach the Welsh Government is taking to focus its interventions on delivering greater financial security for businesses so that they can create and retain high-quality jobs by strengthening the financial ecosystem in Wales. Working alongside other financial providers, the bank will seek to maximise private sector leverage and will provide a range of support services and management advice.

6. The DBW will not seek to crowd out or compete with other financial providers, but rather work with them to support their funding for businesses. It will operate where the private sector will not intervene, or where there is an undersupply of finance in the marketplace.
7. The DBW will price its investments at a level that is commensurate with the risks that it takes and in areas where the private sector largely does not operate. Interest rates will remain competitive.
8. The DBW will host an angel investor network across Wales and will aim to encourage equity investment in growing Welsh businesses through a joint angel co-investment fund. As medium-sized businesses plan their growth, the bank will facilitate links to larger equity houses in London. It will also help Welsh businesses access crowd-funding and other innovative sources of funding.
9. It will work closely with Business Wales to ensure that funding support comes with the necessary leadership, mentoring and training support to help entrepreneurial and growing businesses be successful. It will work with Business Wales to create a single point of access gateway and increase the number of businesses that receive advice from the Welsh Government from the current level of 30,000 per year.
10. As a not-for-profit organisation, the DBW will have an affinity with mutual and social enterprises, including co-ops, employee buy-outs and credit unions. It will shadow the National Infrastructure Commission to identify opportunities for partnership working.
11. The DBW will establish a dedicated Intelligence Unit that will monitor market conditions and changing business needs, responding accordingly with new products and new approaches.
12. Finance Wales will be improving its digital gateway and digital services as it evolves into the DBW. This will ensure the bank is seen as a facility and an institution that will be able to support businesses right across Wales.

Targets

13. The DBW will provide investment support in excess of £1 billion over the next five years. It will create and safeguard over 5,500 jobs per year by 2022 and will be tasked with increasing direct investment levels to £80 million per year. It will be challenged to continuously improve its value for money, and to work towards ambitious private sector leverage to reduce cost per job.

Funding

14. The DBW will support programmes across a number of Welsh Government portfolios, for example Housing and the successful Help to Buy—Wales scheme. There is also the new £136 million Wales Business Fund, jointly backed by the Welsh Government and the European Union. This will be a mainstay of the DBW as it will offer flexible funding solutions to hundreds of Welsh SMEs over the next seven years.
15. A new fund is currently under development with Finance Wales, and, subject to approval by the Cabinet Secretary for Finance and Local Government, the fund size could be almost £78 million, with an aspiration to reach a total of £100 million. The intention would be to launch that particular fund by March 2017.
16. The establishment of the DBW acknowledges the recommendations of two former National Assembly for Wales committees., The first from 2014 when the then Finance Committee published its report on Finance Wales stating that it found that Finance Wales, on the whole, was making a positive contribution to the Welsh economy. It urged that what was needed was a clarification of their role and remit rather than a full-scale overhaul. In 2015, the then Enterprise and Business Committee and the Finance Committee both stressed the importance of building on the expertise and experience of Finance Wales as the basis for the development bank model.

Recommendation

17. The Council is invited to note the current position in respect of the establishment the DBW