



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

[Pwyllgor yr Economi, Seilwaith a Sgiliau](#)

[The Economy, Infrastructure and Skills
Committee](#)

25/10/2017

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Weddill y Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Remainder of the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle y mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Hannah Blythyn Bywgraffiad Biography	Llafur Labour
Hefin David Bywgraffiad Biography	Llafur Labour
Russell George Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Vikki Howells Bywgraffiad Biography	Llafur Labour
Mark Isherwood Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Jeremy Miles Bywgraffiad Biography	Llafur Labour
Adam Price Bywgraffiad Biography	Plaid Cymru The Party of Wales
David J. Rowlands Bywgraffiad Biography	UKIP Cymru UKIP Wales

Eraill yn bresennol
Others in attendance

Gareth Bullock	Cadeirydd, Banc Datblygu Cymru Chairman, Development Bank of Wales
Kevin O'Leary	Cyfarwyddwr Cyllid, Banc Datblygu Cymru Finance Director, Development Bank of Wales
Michael Owen	Cyfarwyddwr Buddsoddi Grŵp, Banc Datblygu Cymru Group Investment Director, Development Bank of Wales

Giles Thorley Prif Weithredwr, Banc Datblygu Cymru
Chief Executive, Development Bank of Wales

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Gareth Price Clerc
Clerk

Robert Lloyd-Williams Dirprwy Glerc
Deputy Clerk

Ben Stokes Y Gwasanaeth Ymchwil
Research Service

Dechreuodd y cyfarfod am 09:30.
The meeting began at 09:30.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest

[1] **Russell George:** Good morning. I'd like to welcome Members and members of the public to the Economy, Infrastructure and Skills Committee.

Craffu ar Gyllid Cymru
Finance Wales Scrutiny

[2] **Russell George:** This morning we have colleagues in regard to our scrutiny of Finance Wales. I was going to say 'colleagues from Finance Wales', but now colleagues from the Development Bank of Wales. This session is in regard to Finance Wales and in regard to scrutiny from the previous financial year, as well as looking forward. We have a series of questions this morning. We're very grateful to you for being with us. Perhaps you would like to introduce yourselves and your roles, just for the record. If you could start from my left.

[3] **Mr Owen:** I'm Michael Owen. I'm the group investment director for the Development Bank of Wales.

[4] **Mr Thorley:** Bore da, good morning. My name is Giles Thorley. I'm the chief executive of the Development Bank of Wales.

[5] **Mr Bullock:** Good morning. Gareth Bullock, chairman of the Development Bank of Wales.

[6] **Mr O'Leary:** Good morning. Kevin O'Leary, finance director at Finance Wales—the Development Bank of Wales.

[7] **Russell George:** There we are.

[8] **Mr Bullock:** We're still transitioning, as you can see. [*Laughter.*]

[9] **Russell George:** Absolutely. Well, if I can ask: what are your main achievements of the last financial year, 2016–17?

[10] **Mr Thorley:** Yes, thank you, Chairman. We've had a very active year. We've been extremely busy in terms of developing the bank, but also in terms of making sure that we continue to deliver for the Welsh economy. In terms of some sort of guidelines, we've been instrumental in the investment of £136 million in the Welsh economy, of which Finance Wales provided just over £56 million. That's up by over £10 million on last year. That money safeguarded or created over 3,700 jobs. So, the difference is the almost £80 million that we've leveraged from the private sector. In total that was 267 investments to over 240 companies across Wales.

[11] I think I should add that what we did—and I think I mentioned this last time—was that when I was brought in in April of last year with the objective of creating the development bank, my colleague Mike and I agreed that we would effectively split our responsibilities, so that Mike could continue to look after the ongoing operations of Finance Wales and I could then make sure that we delivered on the commitment to the Welsh Government of creating the development bank, as a result of which it's been a highly successful year and we've continued to grow in line with our objectives.

[12] **Russell George:** Can I just ask you about jobs created and safeguarded and how they compare with your targets? I notice in your report on page 5 that you say that you've exceeded your principal targets of jobs created and safeguarded. Does the report specify at all what those targets were? I just couldn't see that in the report.

[13] **Mr Thorley:** Yes. We do agree targets every year and we differentiate between both jobs—. So, it was 1,163 jobs created and 2,555 jobs

safeguarded. Kevin, can you remember the actual target? I think it was 3,000 in total, wasn't it?

[14] **Mr O'Leary:** It was 3,000, yes.

[15] **Mr Owen:** So, that was a record for us last year, which was 22 per cent up on the year before, which was the previous record for jobs created and safeguarded.

[16] **Russell George:** Okay. I'll just bring in Jeremy Miles.

[17] **Jeremy Miles:** Can I just ask one question on jobs safeguarded? How do you define that? How do you recognise that the job requires safeguarding, if you like, in the business case that you get, and how do you evaluate whether, as a result of your intervention, it has actually been safeguarded? What's your process for that?

[18] **Mr Thorley:** Well, the majority of the jobs safeguarded come out of our activity of the rescue and restructuring fund, and that is specifically targeting investments in businesses that are in severe financial difficulty and in urgent need of a short-term solution. Therefore, the measure is actually relatively easy, because it is a matter of life or death in the sense of the company's existence that, if we don't put the funding in, there's a high likelihood that the company will fail. An example I can give you would be Talgarth Bakery, for example. I think that was over 90 jobs that were at risk at the time. We put in a relatively small investment, just simply to tide them over with a cash flow challenge. That would be an example. But I should add that we have an individual member of the team, Neil Maguinness, who is responsible for evaluating all of these exercises, and there are clear criteria to define what the safeguarding measure is. If you'd like more details on that, I'm happy to provide that after the event.

[19] **Jeremy Miles:** No, so it's essentially the nature of the fund to which the application is made is the kind of short-term—

[20] **Mr Thorley:** Absolutely, yes.

[21] **Jeremy Miles:** Okay, fine.

[22] **Russell George:** Mark Isherwood.

[23] **Mark Isherwood:** Thank you. Bore da, good morning. Following a £1.3 million loss in the previous year, you reported a headline profit of £13.4 million for 2016–17. However, I think as the explanatory note to your accounts states—. Sorry, that was after the addition to the income side of your income expenditure account of £17.9 million European regional development fund moneys. Can you therefore, or will you therefore, set out your financial performance excluding those ERDF additions on the income side?

[24] **Mr Thorley:** Absolutely. Can I refer to Kevin, our group finance director, to discuss those numbers?

[25] **Mr O’Leary:** Last year, I was asked at this committee about the £1 million loss and whether the committee should be concerned about that. I would say similarly about the surplus this year that it isn’t anything really to be celebrated. As you point out, the majority of that is covered by the ERDF cash coming to us for investment. The actual business, if you like—the fund management business and the back-office functions—are basically exactly the same, year-on-year, as they have been for probably the last three or four years, and the overall surplus is probably something like £100,000 on those. What you are seeing in the bottom line is purely to do with the progress of the funds themselves as they are being invested, as we are looking at the quality of those investments over time, whether we’re going to be repaid or not and impairing accordingly. So, as I think was pointed out in the note, the key differences between this year and last year are the levels. We’ve got much higher provisioning this year. We’ve got £13 million of debt that we think is doubtful, and, obviously, there’s a judgment call in there. I would say that is probably very much in line with what we’ve seen over the last four or five years. Last year was an aberration; we had a very low level of default in the book.

[26] The other things in there: there’s £4 million-worth of profit on equity sales. Again, those will happen during the lives of these funds at various points. The other more tricky subject, shall we say, is the work that we’ve done with Help to Buy. It’s very—I’m sorry, I’ll use the word ‘interesting’, though other people may disagree—the fact that we have security over people’s property or that the Welsh Government, because we manage the fund for them, has security on people’s property. As the value of that security increases, that, in accounting terms, gives us a profit. Well, of course, it’s not real money at all; it is dependent on the property market. Very, very few of those houses have been sold, so that profit is completely

notional. But we are forced, for one reason and another, to run that through our profit and loss statement, which gives us a whack of an increase there and a problem in that that increase would be taxable because it's related to loans. We are currently working with our auditors and our tax advisers to look at a way that we can actually pass that notional profit to the Welsh Government because it is theirs; it will not reside with Finance Wales when it gets realised. I don't know if that answers your question, but—.

[27] **Mr Bullock:** Might I just add a rider to that? I think, you know, with apologies to those amongst us who are accountants and not, sometimes accounting treatment can—whilst you could define it as transparent, it's sometimes not clear, and I think one of the ways I look at it, and I think it's the way you were looking at it, is that, if you look at what we get in revenue and what we have as our operating costs, our revenue are fees and interest that we get from the investment and loans we make, and then our costs of staff, establishment, rents, what we try to do there, we try to, if you like, just cover our costs. That will not show a big surplus or, indeed, a big loss. And then it's the below the line issues, which accounting treatment requires us to do in particular ways, and what you will see there are the main elements there are, 'What have we actually sold out of during the year at a profit or a loss?', 'What do we have in our portfolio which is then revalued every year?', and that could show, you know—relative to cost—a profit or a loss, then the things like the recognition of the ERDF moneys as well. And those, if you like, tend to be much bigger items than the ones that are above the line. The ones above the line we can very, very much control; the ones below the line are much, much less easy for us to control because often, if a company goes to float or sells itself, it's a decision of the management. So, I would just draw that distinction, which I think, hopefully, is helpful.

[28] **Mark Isherwood:** Thank you. You've mentioned help to buy, which is a Treasury recycled loan model, I understand. Might there be a way of showing that in a similar way that a commercial mutual bank might, as an asset, where the taxable liability would only apply to any income derived, such as interest payments on that loan?

[29] **Mr O'Leary:** The difficulty for us is because the derivative—the actual element that relates to the property increase—is inherently tied to the loan we make. So, if it were that we were holding those assets for investment purposes, then, indeed, that income would only be recognised as taxable when it crystalized. Because it's linked to a loan, the tax advice we've had—and this has, I'm afraid, gone to the highest level—is that, because it's linked

to a loan, that income, that notional income, becomes taxable the second it goes to our profit and loss, and we—. I was horrified, because my understanding is you pay tax on money when you receive it, not when it is notionally recognised, but this is quite a peculiar circumstance, and our advice is that that is how it is. We are not in the same position as a commercial bank in those terms and that's the advice we've had.

[30] **Mark Isherwood:** Perhaps, given the further roll out of help to buy, that might be something we need to be referring to the Treasury, as it's ultimately their role.

[31] **Mr O'Leary:** Well, I think—. Sorry, I think that what we're working on now is actually basically just creating a creditor each year that matches that increase. That creditor will then pass to the Welsh Government, and, of course, our accounts are consolidated to the Welsh Government anyway, so they would net out, but—. And the Welsh Government itself would not be liable for the taxes, I understand. So, it would take it out of here; there would be no tax payment to the Treasury and it would basically square this off.

[32] **Mark Isherwood:** Okay. What have been the least and most profitable areas of activity—if I can use the word profit—during 2016–17? And, given your previous answers, can you explain how you differ from commercial and mutual banks in the need, perhaps, to generate return on capital, or not to generate return on capital, given the specific role that you have appointed by Government?

[33] **Mr O'Leary:** Well, we're certainly not captured by Baa2 or Baa3 in that we are very much an instrument of Government for a very specific set of purposes. So, I think, you know, we would not—. Our advice, both from the Financial Conduct Authority and our own advisors is that we are operating within the correct parameters for that. Sorry, the other—

09:45

[34] **Mark Isherwood:** What were the most released?

[35] **Mr O'Leary:** Oh, property.

[36] **Mark Isherwood:** And also what would trigger the red flashing light? What would be the performance level that would indicate something might be going wrong?

[37] **Mr O'Leary:** Well, I think—. There are two areas, I would say. One—as Gareth alluded to earlier—is the above the line where we make sure that we cover our costs but we don't make an excessive surplus there because that would be taking money out of the economy for no good reason. Otherwise, I think we tend to look at individual funds, so each fund will have its own risk appetite, it will have its own performance criteria, and, if a particular fund started to approach its own warning level, then obviously that would trigger an intervention. It's certainly something that our audit committee looks at every quarter: the risk appetite for each fund, and our performance against those risk appetites. In terms of the most profitable fund, I think probably—

[38] **Mr Thorley:** Property.

[39] **Mr O'Leary:** Well, the property fund, which was a £10 million fund—I think we've actually invested £30 million, if you like. So, that £10 million has gone out, come back, gone out, come back.

[40] **Mr Bullock:** And I think, actually, in terms of financing the gap, which we—[*Inaudible.*—our *raison d'être*, which is to operate where there's market failure and fill that gap, that property fund is probably one of the best examples, I would say, of certainly the last year and probably the year before in the sense that the private sector banks have really withdrawn, I think, almost completely from small and medium-sized local housebuilders, and we have very effectively filled that gap. It's very gratifying that that fund has actually been increased and it has revolved in the way that Kevin has described. So, it's been very effective. I would certainly say that's a big tick last year.

[41] **Russell George:** Last question, Mark.

[42] **Mark Isherwood:** And the worst: what hasn't performed so well?

[43] **Mr O'Leary:** Well, I could give an old example. We had a creative fund for a while, which was basically about investing in creative industries, and, albeit the main targets Welsh Government were interested in when that fund was set up were the number of jobs created and private sector leverage, that fund did perform remarkably badly and I think our actual return on that fund was something less than 40 per cent.

[44] **Mark Isherwood:** That was 2016–17?

[45] **Mr O'Leary:** Oh, no. Sorry—in the year? Oh no, that was an historic one. In the year?

[46] **Mr Thorley:** In the year, I think the overall performance has been fairly benign, to be perfectly honest. There are no outliers in terms of underperforming funds. In fact, there's some encouraging signs that—. One of the things that I think is worth noting is that, as the organisation has got bigger and our portfolio has got bigger, therefore we have a much more diversified risk profile. We have very many more investments and we have over 1,000 clients, as a result of which I think we're also getting very much better at managing situations where some of our clients do get into financial difficulties. So, there are no major outliers. And, as Kevin and the chairman have said, our objective is to break even operationally, and so, therefore, there are no real winners and losers as such in terms of the way we operate.

[47] **Mr Owen:** Just to add some historical context, the first fund that we ever had across Wales was the Objective 1 fund, and that's going back to 2002. So, the gross internal rate of return on that fund is a loss of about 6 per cent. The nearer vintage, the more recent funds that we've operated as we've made those operational improvements and got more experience and better people—the story very much shows break even, small internal rate of return, and we're forecast now on our most recent funds to make 5 per cent or 10 per cent IRR. And when we say 'profitable', let's be clear: the profits on funds go straight back into the next fund to be invested again in Welsh businesses.

[48] **Russell George:** Adam, are you happy to come in now on your section?

[49] **Adam Price:** Yes.

[50] **Russell George:** Adam Price.

[51] **Adam Price:** In the annual report, you refer to six profitable exits that you achieved during the year. I note in the notes to us you refer to eight exits in total, so can I presume that the other two were non-profitable exits, then?

[52] **Mr Thorley:** Yes, that is correct.

[53] **Adam Price:** My logic class in university has been a good investment on my part. [*Laughter.*]

[54] **Mr Thorley:** Thank you very much for doing—. The extensive research that's been done is correct. Yes. The six profitable exits were very wide-ranging—and by the way, I'm not avoiding the two exits; we'll talk about those in detail as well. Some of you will know that some of these companies—. Given that these businesses have—. These have all been in the public domain, so, you know, I'll be—. To the extent there are issues in relation to companies that we can't talk about, then we will take those offline. Wales Environmental was a business where we have retained an investment. We sold the business to BGF, is that right?

[55] **Mr Owen:** Yes. That's the business growth fund.

[56] **Mr Thorley:** The business growth fund, yes, sorry. We retained a small stake in the enlarged business. BGF put in an additional amount of capital to continue to grow the business. Then a couple of tech businesses: Impax and SIPHON Networks—relatively small investments but very nice returns. In fact—. Well, actually, sorry, SIPHON Networks was an almost £3 million return on our investment. Midatech and Contech: they were, again, over £0.5 million each. And then, finally, Forest Support Services: that was a £1.2 million exit. So, our total exit return for this year is over two times—just above that, 2.1 times—IRR, and we could talk about the two where they were negative—[*Inaudible.*]

[57] **Mr Owen:** Yes, absolutely. So, overall, the return on equity that we disposed of last year was 2.2. That includes those where we lost money, and actually you have me at a disadvantage, Adam; I've only got seven, not eight, and the one where we lost the bulk of the cash—actually, we haven't lost the cash—is a quoted investment. And that was—. We made a profit on some of the shares that we sold—1.3 times—and that was about 60 per cent of our holding. We still have about 40 per cent of our shares in that business. Unfortunately, this stock market, the AIM index, went against us, so the shares dropped in price. So, it's a paper loss at the moment. If those shares rebound, we could sell those shares in the future; we may make a profit on them. So, it's not actually a cash loss, and that was on Midatech. That's a quoted investment, so it's out there in the public domain. So, we haven't actually lost that cash.

[58] **Mr Thorley:** We'll find the missing—

[59] **Mr Owen:** We'll find the eight, because I've got seven as well, so—. I

gave you seven. The loss on Midatech, on a PnL basis, was just under £95,000.

[60] **Adam Price:** How do those, the return on equity figure that you've just quoted, and also—? This is more the art rather than the science, I suppose, of investing, but, in terms of that proportion of profitable exit versus non-profitable exit, how does that compare with industry comparators?

[61] **Mr Thorley:** Well, we're doing over—. As I mentioned, we did 270-odd investments last year. Around 60 per cent—well, 70 per cent—of those were debt. So, generally, the return on debt investment is—. The objective is to get your money back plus the interest, and so it's the 30 per cent where the equity returns are that are the ones that are the most volatile. Our risk appetite and our risk profile is very much at the extreme end, so to compare us directly with market comparables is quite difficult. Having said that, I think it's quite exceptional that the organisation therefore returns its capital. Our objective is to return our capital and a little bit—for a number of reasons. Firstly, I think it shows that we're proactively supporting our investments and following that investment across a diversified portfolio where some will lose and some will gain. But also it means that the money is therefore coming back into the development bank and then, subject to agreement with the Welsh Government, can then be reinvested. What we're trying to do is to create a perpetual model that allows us to invest, going on long, long into the future.

[62] **Adam Price:** Turning to the provision for bad and doubtful debt, I think, in the note to the committee and in your comments just now, you said that it had gone up, but, essentially, that was a return to a more normal situation. But, in the report, though, you attribute the increase to the particular challenges and circumstances of several individual businesses. Am I misreading a slight contradiction there? There is a reference in your report to the challenges of individual businesses, which suggests that it isn't just a return to normal weather—it's actually something specific.

[63] **Mr Thorley:** Well, no. If you look at the last four years of provisions, the budget of provision for the last four years, going backwards from 2016–17, was £11 million, £14 million, £14 million and £11.3 million. The actual performance this year was £12.1 million, £2.8 million—as Kevin puts it, 'the aberration'; I would say that's a positive, but there we are—£12.5 million and £9.3 million. As for the concentration, I can't give you the exact breakdown of concentration because a number of those companies—. We've already

mentioned Midatech, which was a business where—. It's a provision based upon a stock market valuation, so it's a straight translation of the public quote.

[64] I know three of the other businesses quite well. One of them has just, in fact, as recently as last week, completed a refinancing—a substantial refinancing—which will take the business forward with new owners. So, the fact that we've made a provision doesn't necessarily mean that we've lost the money on the investments. But, by their nature, there will be a lot of investments where we've decided to take provisions, but there will be some larger than others. I don't think it's anything particularly different in the year.

[65] **Mr Owen:** And just to add a couple of footnotes there, last year's budget was £11 million. We expected a raise in provisions, and that's built up from across the breadth of our funds what we expect to see. So, we did go over that budget by 10 per cent at £12 million, but that was only because, again, of an accounting adjustment around accrual of interest. I won't bore you with all the details, but we had to accrue interest, our auditors told us, on provided assets, which was something we hadn't been doing, so, again, book loss rather than cash. If we hadn't had to do that, we would have been under the budget, and to give you a feel for this year's defaults—provisions, rather—£12 million. So, 10 investments accounted for about 80 per cent of that number. As Giles has just said, one of those has just received a substantial investment from private equity that we introduced and brought into Wales, and we expect to release that provision, and another business has stabilised significantly, and Midatech, as we've already discussed, one of the five, that's a paper provision, because those shares could go up. So, just to put it into some sort of context.

[66] **Adam Price:** I know it's impossible to predict these things with any degree of accuracy, but you wouldn't expect to see that huge increase, then, proportionately, for provision for bad debt to be reflected next year.

[67] **Mr Thorley:** No. The way we operate is we have, as I mentioned—and he's going to be mentioned again in proceedings, so we'll bring him along next time—Neil Maguinness as a risk director. He monitors the performance of the portfolio, and we have a measure, which is an internal measure of portfolio health, and the portfolio health measure is probably one of the key KPIs that we operate to, looking across the entire investment portfolio. Now, we have over 1,000 investments these days, and assets under management of almost £1 billion, so we're monitoring all of those investments, and, at

any point in time, there is a decision taken and we have an asset review, as I think was stated, on a quarterly basis to go through the entire portfolio, and I should say that that is ad hoc meetings in between times.

[68] **Adam Price:** Very briefly, is that portfolio health KPI public?

[69] **Mr Thorley:** I don't believe so, but there's nothing particularly controversial about it.

[70] **Mr Owen:** I suppose we can share that.

[71] **Mr Thorley:** We can share that, yes.

[72] **Mr Bullock:** We can write and send that.

[73] **Adam Price:** And maybe if we could see some trend data over a number of years.

[74] **Mr Thorley:** Yes.

[75] **Adam Price:** Finally, on page 95 of the report there are the figures for pension costs, and, yes, you can see where we are going with this one. Pension costs rose from just over £500,000 last year to £815,000 this year, excluding directors—that's that figure there. Could you give a bit of an explanation of that?

10:00

[76] **Mr Thorley:** Yes, I'll just give you the global picture of the organisation. So, almost a third of our staff and, because of longevity of service generally, some of the more senior staff are still members of public sector pension schemes by reason of their historical position as civil servants. That is managed by the Rhondda Cynon Taf pension fund, and that is probably the most significant impact because, of course, the funding requirements of all defined benefit pension schemes are subject to constant change. Kevin is actually the person responsible for monitoring it, so he could probably provide more detail.

[77] **Mr O'Leary:** Yes, we've got I think just less than 40 per cent of our staff in the defined benefits scheme. So, 60 per cent are in the defined contribution scheme, which is a cost to the company of approximately half as

much. The company has grown in numbers quite significantly. So, that will be certainly a significant amount of the increase.

[78] **Adam Price:** Just on that, the staff numbers, though, cited go up by just four over the period in question.

[79] **Mr O’Leary:** Right, okay.

[80] **Adam Price:** So, that can’t be the explanation for the increase.

[81] **Mr O’Leary:** So, this would have included—. I’m just trying to work out—. So, this would be 2016–17. Why that figure? I can’t give you a cogent answer. Can I come back to you, to the committee, with an answer to that?

[82] **Adam Price:** Yes, of course. You can write to us.

[83] **Mr O’Leary:** I don’t want to guess.

[84] **Adam Price:** Of course.

[85] **Russell George:** No, that’s fine. If you drop us a note after the committee we’d be grateful for that. David Rowlands.

[86] **David J. Rowlands:** Can I discuss transparency and accountability? The transition to a development bank presents an opportunity to make improvements to transparency and accountability. Our previous committee made comments to the fact that they couldn’t get fully-costed business plans from—I think it was Finance Wales, your predecessor. Now, according to the strategic overview document, development banks are known as institutions with high standards of transparency and accountability. So, what specific improvements does the Development Bank of Wales intend to make on the practice followed by Finance Wales in this regard?

[87] **Mr Thorley:** Well, thank you very much for the question. I hope you will recognise that, certainly since I’ve been involved, and prior to that my chairman, we’ve made significant strides to improve the contact with the Assembly, with Members of the Senedd and also with the wider public, and it’s an ongoing programme. So, I think we’ve done some of the work. We held a briefing session, for example, here last week, and I was grateful to some of you for attending, but we think that we’re going to do significantly more. So, as part of the launch programme of the development bank we’re

doing launch events across Wales. Prior to the launch we did a briefing session, as I said, here. We also did the launch event last week. We've launched a brand new website, which has got significantly more detail on it, and we will continue to provide information on that. I should also add that we monitor how well recognised as an organisation we are. We've published the strategic business case on our website for the development bank. This will be followed up next week by the location strategy—that's just being translated, but it will be on the website next week, which we'll talk about, and I'm sure you'll be asking questions about that in due course. In terms of some of the more specific items, so, interest rates—a topic that is often debated—we do an annual review of interest rates with a third party who does an annual review. We will be publishing the summary of that on our website each year. We've written to AMs twice since I've been a Member, providing details. Specifically, for any AM who wishes to receive information on the performance of the organisation within their constituency, we can provide that information to you. I know that we've done that for a number of you. We produce that information not only on constituency but on region, local authority and Westminster constituency as well. The final thing I would say is that I've tried, wherever possible, to deal directly with any specific enquiries coming from Members of the Assembly in relation to constituents or constituency businesses, with an effort to try and get to the bottom of where we can provide support.

[88] **David J. Rowlands:** Thank you for that. Obviously, it's very gratifying to the committee that you seem to be embracing this whole idea of accountability. So, perhaps we could twist your arm just a little bit and ask you to give us a full case that supported the establishment of the development bank, which we really haven't seen up to this point.

[89] **Mr Thorley:** Yes, I think you were referring to the business case document that's the Welsh Government's.

[90] **David J. Rowlands:** Yes, exactly.

[91] **Mr Thorley:** It's a Welsh Government document. They asked us to produce the summary, which is this document here, which I believe we put in the pack. In relation to the business case, what I would say is it's a pretty soporific read, so I wouldn't recommend it other than for dealing with your insomnia. But that would be a decision of the Welsh Government as to whether it's published. It is actually a very technical document because it's written as a five-case business model as opposed to a conventional business

case. I think this does it, but I'm happy to answer any questions that I'm able to on it, to the extent that you have any concerns or questions.

[92] **David J. Rowlands:** Okay. Your current approach to presenting the annual report and accounts: do you honestly feel that that allows businesses and stakeholders to easily access the Finance Wales—now the Development Bank of Wales—performance?

[93] **Mr Thorley:** Well, I think that this is only part of a suite of pieces of information. So, we produce a factsheet, normally on a quarterly basis, providing a background. I think we're going to make sure that that is done consistently. We are also—. So, there's that. There's this hearing. There's the annual report. We also produced a kind of an annual statement, which was a summary of our performance, and I'm readily available to anybody who has any other questions beyond that.

[94] **Mr Bullock:** If I might just add a rider to that, I think it's a very interesting example of where, in the past, I think the annual report and accounts really were the main vector of communication between a company and its stakeholders. Really, as we found in the answer to the first question today, a little of the problem is that technical accounting actually gets in the way of what I might call the ordinary, day-to-day understanding of what we do. I think all of the measures that Giles has just described, to the modern company today, are very, very important—that personal engagement, putting things into plain language so that people can understand it. That's something that we've been very committed to, and I think you may have seen, through the two chairman's statements that I've done since I've been in the chair, I've tried to use plain language and be very clear about what—in the case of Finance Wales those were—it was and what it did. To get to the granular data, sometimes you need other interventions than just reading the annual report, which is essentially an accounting document. I think that what we're trying to do there in those things that Giles has described is really improve both the quality, quantity and regularity with which we communicate that detail.

[95] **David J. Rowlands:** Well, thank you very much for your comprehensive answers to that question. Thank you.

[96] **Russell George:** Thank you, David. In regard to the full business case, I know that you've said it's a very technical document and perhaps a little bit dull. But, for us as committee members, we'd certainly like to see that

document. I appreciate that your answer is that it's for the Welsh Government—it's produced for them. Is there any reason why you think that Welsh Government would not want us to see that document?

[97] **Mr Thorley:** Well, to the extent that there's any concern that there's some sort of smoking gun in the document or something like that, something hidden, I can promise you there really isn't—in all 150 pages of it or so. But I really can't say as to why or whether it should be published or not. All I would say is that we did a lot of work on the technical and legal structuring of the development bank, which I think has put us in an extremely good position in terms of the way that we operate. I think the Welsh Government are suitably proud of that work and possibly don't necessarily want to share it at this stage, but I genuinely can't say as to whether there's anything—there's certainly nothing that you should be worried about.

[98] **Russell George:** That's fine. As politicians and as committee members, when we're told we can't see something, it makes us want to see it.

[99] **Mr Thorley:** Indeed.

[100] **Mr Bullock:** I understand that, but it's not in our gift.

[101] **Russell George:** I understand, absolutely. Vikki Howells.

[102] **Vikki Howells:** Thank you, Chair. If I had a business and I was approaching the Development Bank of Wales today for assistance, in what way would the help that I'd be given be different to Finance Wales?

[103] **Mr Thorley:** First and foremost, we've got more firepower. Materially, we've worked very closely with the Welsh Government to—. I think I should state here that the one thing that's probably not as apparent with the launch of the development bank is that, whilst it was an idea that preceded any of the discussions about Brexit, actually, Brexit has resulted in a fundamental rethink of the way that the bank had to operate. Because, as recently as five years ago, effectively, Finance Wales was solely an organisation set up to deliver European funds—funds from the ERDF. In fact, that was 90 per cent of the funding. Today, we have only one fund that is funded by ERDF and the balance of funds are funded by the Welsh Government. The majority of those have been set up as part of the launch of the development bank.

[104] So, for example, I'm sure your business is much more ambitious and more substantial, but, if it was a microbusiness, we've increased the funding by threefold for microbusinesses in the last 12 months. We have, again—as part of the launch of the development bank, on our website now, the majority of applications can be made online. Even in the last week, we've seen, I think, 17 applications made online in our first week of operation. For microbusinesses, for loans up to £10,000, we have a 48-hour turnaround timescale. We aim to respond within 48 hours on a proposal. The vast majority of those are positive, I should say.

[105] The next stage, of course, is that we are still an organisation with real people. So, if you are to take out a loan from us, or an investment, you will have a person who will be directly responsible to you and keep contact with you. So, we like to say we want to keep ourselves as efficient as possible administratively, but at the same time have a personal face.

[106] And the finally, in relation to—. We've materially strengthened our links with Business Wales, such that if you need business support then we can direct you to the appropriate person in Business Wales, or one of the Business Wales providers, to provide you with the business support that goes along with the growth of your business. So, good luck.

[107] **Vikki Howells:** Thank you. [*Laughter.*] I'm particularly interested in that angle of working with Business Wales as well. I think that's got real potential. I noticed in your evidence to us, Mr Thorley, that you specifically say that the Development Bank of Wales can play a role in securing higher-quality jobs. Statistically speaking, in Wales, we've got practically full employment now, but the problem with poverty is around in-work poverty. I just wonder whether you'd be able to expand for us on how you see the Development Bank of Wales being able to assist in delivering those really important higher-quality jobs.

[108] **Mr Thorley:** I think we already do, to a certain extent. We've talked about the jobs created and safeguarded. If we were trying to play with statistics, then the objective would be to only fund businesses with large numbers of employees. The reality is that many of the businesses that we support, the vast majority of the businesses, have less than eight employees. So, they're very small businesses, generally.

[109] The objective of working with Business Wales is to have a seamless structure so that if you need financial support then you can get it from the

Development Bank of Wales, and if you need business support, you can get it. We can find you the person at Business Wales who will be the best source of support.

10:15

[110] The programme that really focuses on the best quality of jobs would be the accelerated growth programme, which is a Business Wales initiative. There are, I think, around 400 businesses in the accelerated growth programme, and we are involved in about a quarter of those as investee businesses. And given that half of those are either financed elsewhere or don't need finance, we're really tapping half of the balance. So, we do try to make sure that we put a significant amount of effort into the highest growth opportunities.

[111] **Vicky Howells:** Thank you. And just finally to drill down into the difference between the development bank and Finance Wales, is there anything that the development bank will be able to achieve in future that Finance Wales wouldn't have if it had had a similar amount of funding at its disposal?

[112] **Mr Thorley:** I mentioned the changes that we've made to evolve in anticipation of Brexit. So, we've changed the funding structure. One of the funds that we put in place specifically for the launch of the development bank, the Wales flexible investment fund, can invest longer—so, longer term. So, the investment time horizon for WFIF is 10 years. There's been a lot of dialogue or discussion in the press. Mr Price has been very vociferous about patient capital, and this is an effort on our part to put in longer-term capital. And then, also, the size of the businesses that we can invest in is slightly larger, with businesses of up to 1,500 employees. And then, the final piece, or one of the other significant differences, is the Economic Intelligence Wales operation. This is a joint venture between ourselves, Cardiff Business School and ONS to create an economic research unit that provides us insight into how we perform, how the Welsh economy performs, but also to look for gaps in the marketplace where finance is found wanting and we need to provide future support.

[113] **Vicky Howells:** Thank you.

[114] **Russell George:** Mark, did you have a question on this issue?

[115] **Mark Isherwood:** Just very briefly. You mentioned earlier debt finance, which sounds a bit like factoring to me. Responsible Finance and Social Finance have told me that they can generate—and they do support small and new businesses to generate jobs at lower cost than Finance Wales certainly did. How do you ensure that where you are considering interventions, you have first ensured that other potential sources that might be lower cost or offer a better return aren't also available to the client?

[116] **Mr Thorley:** I should just clarify that we don't do factoring. So, factoring finance is available in the marketplace, and there are very efficient organisations that do that. So, you know, that's not an area where we feel there is a gap in the market, for example. Likewise, equipment finance and equipment leasing. As recently as this week, Lloyds announced a £100 million fund to provide equipment leasing finance for smaller businesses. So, again, it's sector of the market where there is a more efficient alternative. That is the key, and I think it's a very important point that you pointed out, that we are not hear in the market to compete; we are in the market to facilitate. And if we can provide, even if it's only providing a proportion of the finance that others provide—the bulk of the finance—then that is a successful intervention on our part, because that has maybe got the transaction over the finish line.

[117] I gave an example of one of the businesses that we have provided for. That business is a phenomenal—. You know, I can't give the details, but it's a phenomenal business, growing at an extraordinary rate, and, actually, it is a hugely successful business, but it's been growing so quickly, it's just been running out of capital, because of the pace of its growth. We've been working with that company almost non-stop for 12 months, trying to support their stages of growth. Two very entrepreneurial guys, quite vociferous chaps, who have spotted a missing operation in the marketplace and have decided to build a business almost from scratch, and they now have an order book of—I think it's £30 million, or something like that. So, a good example where—. We worked right up to the wire last week with one of the advisers, based in Cardiff, who put together the transaction that was successful. I think it happened, actually, the week before last.

[118] **Mr Owen:** And a final point there is, of course, that everybody who applies to us completes an application and on the application form they have to declare that they're unable to get the funding through private sources. So, it's a conscious decision on their part.

[119] **Mr Bullock:** Just on terminology, we use the phrase ‘debt finance’; we tend to use that just to contrast it with equity finance, because we are an organisation that is quite—I’m not going to say ‘unique’, but relatively singular in that we can do both. That is one of the great strengths of the development bank, which is that we can do both loans—debt finance—as well as equity investments as well.

[120] **Russell George:** Hannah Blythyn.

[121] **Hannah Blythyn:** Thanks, Chair. I’m going to turn now to the location of the bank—*[Inaudible.]*—the regional presence of the bank throughout Wales. Before I go into more detail, obviously it was the bank’s launch last week and then news came out about where you yourself were going to be based. I just want to ask: will you be predominantly in one place or will you be travelling around Wales as part of it? How does that work for the other senior executives in the bank?

[122] **Mr Thorley:** Thank you. I actually live in Worcestershire, so apologies—I’m two quarters Welsh, but live in Worcestershire. So, from my perspective, I see my role as being to a certain extent peripatetic. So, I will be in Wrexham as and when I need to be, and I’ll be in Cardiff as and when I need to be. To a certain extent, we’re making sure that the whole organisation is like that, because our responsibility is to provide a service to the whole of Wales.

[123] At the moment, we have offices in Llanelli, in Newtown, in St Asaph and in Cardiff. Longer term, the Newtown and St Asaph offices will be migrating to the headquarters in Wrexham. We have set about a plan to grow the Wrexham headquarters over the next three to five years, and it was a simple economic and commercial decision, really. I think that the headquarters in Wrexham is a legitimate and sensible strategy for the Welsh Government to take its businesses across the nation. However, we have a very long-standing and experienced team in Cardiff and the cost and displacement to move large numbers of those people would have been prohibitive—around £7 million; I think we gave that number last year. Therefore, we agreed with the Welsh Government a strategy whereby we would build up the development bank headquarters in Wrexham over the next few years to around 50 people by 2021. We have reached heads of terms on a site, and we hope to be in and operating before the end of the financial year, if not sooner. Half of all meetings will be held in Wrexham; half will be held elsewhere in Wales—in Cardiff or elsewhere. We’ve already held board meetings in Swansea and St Asaph, so we’re travelling around.

We've also come to an arrangement with the Welsh Government to provide what I would call 'set-down offices' in Welsh Government buildings in Aberystwyth, in Llandudno Junction and in Newtown so that we cover mid Wales, west Wales and north-west and north-east Wales.

[124] **Hannah Blythyn:** If I may ask some other questions—just a very quick technical point: how many people are currently employed in St Asaph and Newtown?

[125] **Mr Thorley:** I've got three in Newtown and I think it's seven in St Asaph. I can—

[126] **Mr Owen:** Eight.

[127] **Mr Thorley:** It's eight, is it? Eight, sorry. In addition to that, we are looking at ways to use the offices for FW Capital, the English operation that is owned by the Development Bank of Wales. The team provides funds in the north-west of England and, actually, it's a stated policy of the Cabinet Secretary to look at ways of extending the links between north Wales and the Northern Powerhouse. So, given that we make investments on both sides of the border, Wrexham is actually an excellent place to be centred.

[128] **Hannah Blythyn:** Just turning to how you hope to consolidate the north Wales offices in Wrexham and build up the team to around 50 people, I think that, particularly, I should declare an interest from my perspective as a Member representing a constituency in that area. But the Cabinet Secretary has given his reasons behind actually making sure that we have those institutions of Government across the country. Bearing in mind what you said about the cost of relocating staff from Cardiff to Wrexham, I'd be keen to think—. How could you see the bank would be able to reach out in terms of offering opportunities and decent employment for people in that area of north-east Wales as well?

[129] **Mr Thorley:** Absolutely. The majority of the growth for the organisation, going forward, will be based in Wrexham. We're already advertising for roles in both locations. The only challenge we have—and it's an immediate challenge—is simply that we don't have the office secured yet, but as soon as we do have the office secured, we will be building the team there. There are a number of reasons why it works more efficiently. As with all organisations, there's natural wastage as people retire or resign and go on to do different jobs, and the presumption is that we would generally

replace the roles lost with roles in Wrexham. I think the point you're making, which is a very valid one, is we have to get to a critical mass, and then it's relatively straightforward, about continuing to hire. In the area between Wrexham and Chester, there is a reasonably significant financial services community, so we don't feel that there's any particular issue in terms of building that team.

[130] **Russell George:** Can I ask, Mr Thorley—? Your desk is situated in Cardiff.

[131] **Mr Thorley:** It's in my car, I think, isn't it? Didn't I just say that?

[132] **Russell George:** Your main desk is situated in Cardiff. What about the rest of the directors and the chair? Where's your office base? Will your main desk be in Wrexham or Cardiff?

[133] **Mr Bullock:** You'll be pleased to know—

[134] **Russell George:** You haven't got one?

[135] **Mr Bullock:** —that with suitable parsimony, I don't have an office.

[136] **Russell George:** I thought you might say that.

[137] **Mr Bullock:** Actually, I make a serious point, because, actually—. I've seen all the press comment about this, but it's actually missing the development of the modern office and modern working practices. Actually, Giles doesn't have an office. He has a desk. He has a place at a table. When I come down to Cardiff, so do I, and a lot of our people are constantly on the road. Mike will tell you how many miles he does a year, and we're all completely open plan. So, we will be where we need to be. I think the best way to look at the Development Bank of Wales, going forward, is that we will have, essentially, a Cardiff office, which will have quite a lot of the investment people there, because this is where there are a lot of skills in that particular area, but at the same time we will grow, as Giles has described in detail, the Wrexham office for the skills that are required there. We will have more and more of our head office functions there. And I think, when you look forward, we'll probably have a mix of people in south Wales and north Wales, which effectively—our staff members, the split—will reflect pretty much the GVA of those regions within the entire economy anyway. The most important thing, I think, is that we have to be efficient, and I think the first

task, and Giles has described it well, is to build the critical mass in the new Wrexham headquarters, and that's what we'll be doing over the next one, two, three years.

[138] **Russell George:** So, what I'm reading is that all of you—all four of you, here—haven't got a permanent desk in any location and you hotdesk. So, if I, say, want to meet one of you in your office, you're going to say to me, 'Which office do you want to meet in?'

[139] **Mr Thorley:** Indeed, but to be clear, in terms of—. One of the team, Neil Maguinness, as I've so often mentioned, is based in the Newtown office at the moment. His primary office will be in Wrexham. We're working on the principle that there are 10 members of the senior management team and that there will be at least one of the 10 every day in Wrexham, so that it's effectively on rotation, at least. It really is no issue, from my point of view. I should add that when I was running a pub company, I did over 50,000 miles in a car, so this is a doddle, really. I had an office in Stirling, an office in Burton-on-Trent, an office in London and I lived in Cheltenham. So, the modern era is that you travel to where the business needs to be, and actually, the most important thing is, 'Where are our clients?', and our clients are all over Wales. The chairman's made a valid point about the distribution, and therefore we will have people distributed according to where the businesses are, but most of the meetings we hold, we hold at the client's premises, and those are the most important meetings that we do—

10:30

[140] **Russell George:** I suppose we'll be moving to an era where we don't need a head office. What is different about the Wrexham office?

[141] **Mr Thorley:** Well, actually, no—. But it's not—. To be clear, it's not a classic bank building with Doric columns and a banking hall.

[142] **Mr Bullock:** It's not?

[143] **Mr Thorley:** No. [*Laughter.*] No; apologies for that. Even the new office in Wrexham, we're not building the columns in the front of the entrance. It's a—

[144] **Russell George:** Why not? That's terrible. [*Laughter.*]

[145] **Mr Bullock:** And I'd also bear in mind that, actually, when you look at companies, the head office is not normally the biggest office. I worked my executive career in a company that had 75,000 employees, and its head office had barely 2,000. The head office doesn't have to be the biggest office.

[146] **Russell George:** Right, it's a question for us to think about what a head office is. Right, Jeremy Miles.

[147] **Jeremy Miles:** Thank you, Chair. Can I ask some questions about the future investment strategy? There's the ambition to get investment up to £80 million a year over five years. If you compare that to 2016–17, that was about £56 million. So, does that increase tell us something about the kind of business you're going to be looking to invest in, or the kind of transaction you're going to be looking to do, or is it just a question of volume? What's your—

[148] **Mr Thorley:** What I'll do is I'll give an overview, and then I'll ask Mike to actually give you some detail on the operational level. I've already mentioned the Wales flexible investment fund. That fund is £100 million fund. It can make investments over 10 years, but particularly can make slightly larger investments up to £5 million. So, the Wales flexible investment fund is going to be interesting in that there will be, I would say, a handful of larger investments and then a large number of smaller investments. But it gives us the firepower to meet that £80 million objective, or certainly one piece of the firepower. We also increased, working with the Welsh European Funding Office, the size of the Wales business fund from £130 million to over £170 million. So, again, we've put in place the resources to do that. And if you look, we went from £46 million last year to £56 million this year, so this is a steady progression in terms of the growth. And we're putting in place the personnel to actually make those changes, and to give ourselves the resources to do that. Mike maybe can give the details of where we're looking for these.

[149] **Mr Owen:** Yes, it's a good question and a big challenge for us. But I look at the event that we went to last week, where I outlined where Finance Wales came from. So, back in 2001–02, Finance Wales had around about 80 staff, I think, and did £2 million and had one fund. The key thing for me is not the staff numbers necessarily, because they won't necessarily grow by 30 per cent, as we're expected to do in terms of investment money; it's more about the breadth of the offering and how efficient we are.

[150] We talked about it earlier, briefly, that Giles instigated a fit for DB programme, where we looked at our processes, about getting deals done quicker. To come back to the earlier question, one of the differences between the development bank and Finance Wales is if you apply today, you will get a quicker answer, and you will get a quicker answer by some significant margin. So, just to give you a quick example: portfolio businesses were taking roughly about the same time as a new business to us to get a decision, which was about 40 to 50 days, I'm embarrassed to say. Now, portfolio businesses get those decisions, once we get the information—let me caveat it—within five days. So, a massive difference, and Giles has already mentioned the two-day turnaround on micro loans, streamlined. We did very few of them until we changed the process because people don't want to wait two to three weeks to get a £10,000 loan. That's opened up whilst not a whole new market, it has exponentially grown our numbers of those businesses.

[151] Those smaller investments won't move the dial in terms of quantum of investment, but the fund that will—so, that breadth I'm talking about—is the property fund we talked about earlier. That was a £10 million fund, which we've invested three times, and that feels like being air traffic control—we're holding back the property developers, waiting for some cash to come in to fund them. So, we quadrupled the size of that fund. We do about £10 million a year now into property investments. That will grow substantially with a £40 million fund, and that is high-velocity capital. So, that cash comes back within 18 months. That will move the dial significantly, and it's such a rich area for us for deals because—again, we mentioned it earlier—the high-street banks are not doing sub-£3 million property development deals. We've got a separate team now that looks after that, so they're focused—they're not doing other deals. So, that will grow significantly.

[152] The flexible fund, Giles has mentioned. That opens up those larger business for us, so we can help out with that—the missing middle, if you like. So, about 30 per cent of our businesses are just under that middle, 50 employees, and this fund will help to grow that part of the Welsh economy. They're much larger investments—up to £5 million; much larger companies. That's almost the last piece of the jigsaw for the development bank in terms of the breadth of funding.

[153] One other important one is the management succession fund, which has been difficult. We've made some management buy-out deals down the

years, and they've been very good for us, but it's difficult to do because we have to do it from our own recycled capital, because most of our funds were devolved from the European Union, and it's very difficult to do succession deals. We all know we've got the challenge in Wales—a ticking time bomb, I think the Wales Co-op called it—of the ageing business owners. How do they pass on to the next generation? That fund is aimed squarely in that bracket, and this again is a new product, effectively, for us. So, breadth and availability of funding and slicker processes will get us to that number.

[154] **Jeremy Miles:** Okay. Thank you for that. So, that five-year horizon to get to £80 million, do you think it will take five years? I presume you're hoping it'll be faster, but what's your sense at the moment?

[155] **Mr Thorley:** Well, we're ahead of schedule now, so we've exceeded our target for this year. We will obviously strive to achieve that number as soon as we possibly can. One of the virtues of the launch exercise of the development bank is really getting out there and telling businesses what we're up to. So, we're doing launch events across Wales, from Newtown, Aberystwyth, Llandudno, in Wrexham, we're doing Cardiff and Swansea, and we have events in the Valleys as well. So, these are opportunities; the website, accessibility, they're all chances for us to get the reputation and the organisation out, and for people to come to us.

[156] **Jeremy Miles:** If you put that in the context—just to move it on a little bit—of the broader economic strategy, and the change in the sectoral focus that the Welsh Government is making from the nine priority sectors down to three, does that present an obstacle or an opportunity for you in the context of what you've just said to us?

[157] **Mr Thorley:** No, because I think the three are reasonably wide, and therefore they cover a majority of the businesses that we're seeking to address. So, I don't think it particularly changes our strategy. I think it leads to another point that you're alluding to, which is that we're constantly keeping an eye on where the market is going. Now, we're going to be able to take advantage of Economic Intelligence Wales to provide us with some insight into where there are shortages in capital, but we also spend our time talking to a number of people, both within the Welsh Government and elsewhere, about where there are challenges. So, one of our directors is very active in the tourism industry in Wales and we constantly look to whether we can provide support to tourism. We've also had very exploratory discussions about export finance, particularly in light of Brexit, whether there is an issue

with export finance, not for larger businesses, because that already exists, but for smaller businesses with relatively large—by their standards, but small by export finance terms—financial requirements, cash-flow funding, et cetera.

[158] **Jeremy Miles:** Okay. Can I just ask you, then, in the context of your ambitions to lever in additional private investment to complement the public funding that you have, you're looking for that figure to be £460 million over the next five years, which again, is a reasonably significant increase from the Finance Wales level of performance. So, just some observations on that strategy—how that looks different under the development bank from Finance Wales. That is the first question.

[159] The second question is that you've said that you'll encourage private sector investors to invest in individual businesses and in the fund levels. So, can you just give us some reflections on those two aspects?

[160] **Mr Thorley:** The main measure that you're talking about is the business-by-business type investment. So, these are situations where people are investing alongside us in a specific transaction. That is all about making sure that we are better represented or better known in that financial community. Sometimes that investment comes because we are bringing partners in alongside us. At other times, actually, and in the majority of cases, it's the partners themselves who are coming to us and saying, 'We would like to do this transaction with this company.' Either the company does, and they're having a conversation with their financial providers, or the financial provider themselves comes to us and says, 'There's a missing link here. If this company had an extra £1 million, we'd get this through credit committee.' That's a perfectly reasonable use of our resources, and that a very large proportion of what we do.

[161] The second piece, which is funds, is a more complicated one. I believe that the Development Bank of Wales, and Finance Wales before it, has developed an extraordinary reputation as one of the foremost specialist lenders in the marketplace. In fact, it was picked up in a recent report that we are one of the most proactive equity investors in the UK; this is an independent report that I can provide the committee. From my previous roles in private equity and investing, investors are constantly looking for people who are investing in a slightly different way. Now, that could be through corporate social responsibility-type funds where people are looking to provide support-type investment, private family offices or through

commercial or private sector investors, all of whom are looking for different places to put their capital. The biggest challenge with those organisations is generally the size; they are so awash with money that they have to make sizeable commitments, but we think that there are at least a number of potential sources of capital where the size wouldn't be a problem and their willingness or their interest in investing in Wales specifically is relevant. We've already had very, very exploratory conversations with the local authority pension funds, for example, as one source of potential capital.

[162] **Jeremy Miles:** So, they're given at the fund level, because—

[163] **Mr Thorley:** At the fund level, yes.

[164] **Jeremy Miles:** —their appetite is bigger than going for individual deals.

[165] **Mr Thorley:** Yes, and that could be a fund specifically agreed with them, or it could be a fund working jointly with Welsh Government funding as well.

[166] **Jeremy Miles:** Okay. Thank you very much.

[167] **Russell George:** Hefin David.

[168] **Hefin David:** To what extent are you prepared to live without Welsh Government revenue funding?

[169] **Mr Thorley:** Well, we've already structured the organisation to be on that basis. There was a small amount of funding this year for the residual costs of Finance Wales, but, going forward, the business case was made on the principle that we will be self-financing so that the business will find itself through the fee income generated from its fund management activities.

[170] **Hefin David:** But the Finance Wales fee income dropped by 16 per cent between 2015–16 and 2016–17, is that right?

[171] **Mr Thorley:** That was simply, I think, because one of the funds went into run-off, what's called 'run-off', so that stopped investing in the fund; levels drop at that point. But the funding that we have budgeted takes into account all of the funds that we have in place, going forward, for at least the next five years.

[172] **Hefin David:** So, the ending of Welsh Government revenue funding isn't going to have an impact on your acceptance of risk.

[173] **Mr Thorley:** No, not at all. Our fund management activities are—you, know the way we structure—. As we started at the very beginning, we said, 'We aim to break even in terms of our fund of management operations.' The risk profile is determined by the agreed rules of each fund, and those are agreed on a fund-by-fund basis.

[174] **Hefin David:** Okay. Thank you.

[175] **Russell George:** Adam Price.

[176] **Adam Price:** Turning to—you mentioned Finance Wales capital—

[177] **Mr Thorley:** FW Capital.

[178] **Adam Price:** Yes, FW Capital. Sorry, I stand corrected. I think we've crossed swords on this on previous occasions, Giles, but could you just say a little bit about how you see that side of the business developing and how it contributes to the global objectives of—maybe the global ambitions of—the Development Bank of Wales?

10:45

[179] **Mr Thorley:** Global ambitions. [*Laughter.*] I don't think we crossed swords; I think I raised a shield rather than crossed a sword. [*Laughter.*] But I was grateful to the Cabinet Secretary for reminding us of a quote from the former First Minister Rhodri Morgan about the impact of Finance Wales. Essentially, that was the dialogue we had last year, about the fact that FW Capital has really taken the experience and skill that I've mentioned in my previous answer, as a specialist investor and provider of funding to micro to medium-sized businesses, and has won contracts in England to do that. Originally, it was in the north-east of England, but, at the time of the last hearing, we were in the process of seeking funds out of the new Northern Powerhouse investment fund—NPIF as it has been called. And, in fact, FW Capital was phenomenally successful, because it was granted responsibility for £100 million-worth of funding for NPIF, available to be invested across the entire NPIF region, but with specific targets in Tees Valley and Cumbria. And that really reflects what the organisation has become very good at. We've become a very, I think, well-respected partner of the British Business

Bank in executing some of their economic strategy, and we're called upon on a number of occasions to provide assistance.

[180] In terms of its impact, FW Capital has generated over £2.6 million-worth of revenue or gains that have been received by Finance Wales and now by the development bank. So, it is cash-positive, and, in fact, we are in the process of transferring £1 million of that £2.6 million into the rescue and restructure fund, which is specifically targeted at the most needy of Welsh businesses.

[181] **Adam Price:** Just moving on to a couple of other things, briefly—the Arthurian Life Sciences Ltd fund, there was some role for Finance Wales, as I understand, in that process, and, as a result of a critical Wales Audit Office report from last year, I think you were going to review your whole involvement in that fund. Could you just update us on where you are with that?

[182] **Mr Thorley:** Yes. It's been a point that's been made by a number of people that we should also encourage specialist fund managers to participate in investing in Welsh businesses. The Welsh life sciences fund is a good case in point in that. So, Arthurian Life Sciences is a fund manager specialising in the medical sector. We are the fund holder, and so, technically, we simply receive the money from the Welsh Government, but the fund manager, in that case—. In our structure, we have a fund holding company within the group and then we have a fund management business, which is run by Mike. In the case of the Welsh life sciences fund, we're the fund holder, so we look after the fund, but the fund manager is an independent organisation with their own specialisation.

[183] We monitor that on behalf of the Welsh Government, and we continue to keep a close eye on that investment, but we make no investment decisions in terms of the way the fund is operated.

[184] **Adrian Price:** And, as a result of the review that you and it took—there were some issues about process when investment decisions had been made, and I think there was some criticism there—have you undertaken any changes in terms of your role?

[185] **Mr Thorley:** No specific changes. We just make sure that we take our responsibility seriously in terms of notifying the Welsh Government to the extent that there are any changes in the way that the fund is operating, and,

when Arthurian come to us with any things that they want to do, then we provide advice to the Welsh Government as to whether that should be accepted or otherwise.

[186] **Adam Price:** Two final small supplementaries, Chair—you mentioned the local pension funds, and, in fact, of course, you have an involvement in the Rhondda Cynon Taf pension fund. Are you discussing with them the potential of the RCT pension fund being one of those funds that invest in Wales through the development bank, so, effectively, you'd be investing in yourselves, I suppose?

[187] **Mr Thorley:** Well, we haven't at this stage, partly because of that, I believe. Mike was actually at the meeting, so maybe he can give us a little outline.

[188] **Mr Owen:** Yes. We saw them a couple of years ago, actually, as we saw many of the local pension funds in Wales, but some have greater appetite than others for alternative assets. I won't mention the two, but we're talking to two who are very interested and they have more autonomy over investing in smaller schemes, because, as Giles mentioned earlier, we're looking for around about £10 million into the management succession fund and they like the returns, they like the story, importantly, around Welsh businesses. But, even for those pension funds, the two we're talking to are quite small. Normally, they would have a £10 million minimum investment. So, it makes it difficult. So, we're talking to all of the pension funds, but some more than others will have an appetite for these types of investment schemes.

[189] **Adam Price:** Right. And probably RCT isn't one of them at the moment, but—. Okay. Finally, the Scottish Government actually just announced a consultation on creating a version of the Development Bank of Wales, the Scottish national investment bank. The consultation—it's being led by the chief executive of the Tesco Bank. One of the areas that they're looking at—a potential role for their version of a development bank—is infrastructure finance, infrastructure projects, where there is also a market gap, potentially. Is that an area where, as the development bank begins to grow and mature—that you could see a potential role for infrastructure investments by the bank?

[190] **Mr Thorley:** Our position, as it was with Help to Buy–Wales, is that we are a resource that the Welsh Government can take advantage of, and, to the extent that they have conundrums or there are challenges that they believe

are available, or need to be addressed, then we're willing to look into how we can provide that resource. We don't have any infrastructure investment professionals, but the example of the property fund is a really good case in point.

[191] In this case, the property fund—and I should say, for those not initiated, this provides short-term finance to property developers, small and medium-sized property developers across Wales, to build, generally, residential, smaller residential, developments. And that fund, as we said, has now—. We've spent £30 million providing that support. We've now built a team with a fund manager, Cen Rowlands, and we've now got regional fund managers in all of our regional offices looking specifically at making and investing the latest fund that we've put into that place. Now, we've built that resource over the last two years, and, at the same time, spent £30 million. So, if that was an opportunity, or that was something that the Welsh Government felt needed a different approach, then we would be willing to work out how to best provide that.

[192] **Mr Bullock:** Just if I might, as a rider to that—. Infrastructure in that sort of generally accepted sense of the word, tends—certainly, the way I see it is very big ticket, long term, particularly urban infrastructure. That's not in our remit, so we don't look at it. And, as Giles says, we don't have those professionals. If it was felt that that remit needed changing, I think we're a vehicle that has a relationship with Welsh Government that might be appropriate for that. But, in order to do that, it would need some significant changes.

[193] And one last thing I would add: where there are issues, and I've said this to one or two of the Ministers as well, we do actually have a very experienced set of executives and board at the development bank, and, where ideas come and where people, particularly AMs, have ideas in their minds about something and are trying to think those through, we'd be very happy to engage and provide the benefit of our experience to think through what the right approach might be to something. So, I think that is something that is a resource that we can make available.

[194] **Adam Price:** Thank you.

[195] **Russell George:** And, lastly, can I ask—? In terms of your revenue funding, you've explained, obviously, your revenue funding from Welsh Government is coming to an end and you'll be—. Going forward, your

revenue funding will be based on the fees that you earn yourselves. Are you content that you'll be able to secure the funding that you need?

[196] **Mr Thorley:** Certainly, going forward, we've built a business case on the basis of the next five years, so we have visibility going forward five years. Of course, you can never build a business case going forward indefinitely, but certainly that funding is—you know, we're very comfortable with that funding. And I should say that we don't rest on our laurels. There was a question about Wrexham and location, but, as part of the strategy for creating the headquarters in Wrexham, we also looked at the cost base of all of our offices. At the moment, we operate out of three floors of a building in Cardiff, and we're looking to see whether we can reduce that to two and change the way we operate to make sure our cost base is as tight and as efficient as possible.

[197] **Russell George:** So, in all reasonable terms, you're happy that you've got enough funding to meet your needs over the next five years.

[198] **Mr Thorley:** Yes.

[199] **Russell George:** And I notice in your strategic overview you said:

[200] 'The most critical risk the new Bank faces is securing the funding it needs'.

[201] So, can you just expand on that?

[202] **Mr Thorley:** Well, I think—I've already touched on it. It started in June of last year. So, when the Brexit vote came through we immediately set about looking at ways to change our funding structure so that it wasn't reliant solely on ERDF, and we have done that. The business case that is in place takes into account all the funds that exist today, and doesn't assume any new funding. So, we've done a significant amount of work to put those funds into place as part of the launch of the development bank.

[203] **Russell George:** Okay, thank you. Adam Price.

[204] **Adam Price:** Sorry, I just want to move briefly to my favourite subject, which is FW Capital, and just present a scenario to you and I'd be very interested in your response. I'm a company in Newcastle and I'm applying for a £500,000 loan. My major competitor is a Welsh company, which may or

may not be a client of the development bank. Would you fund that company knowing that that loan will directly harm the Welsh business, and therefore harm the Welsh economy because I'll be able to grab market share?

[205] **Mr Thorley:** Well, you're jumping from one assumption to another, which is that providing finance of £500,000 to a business in Newcastle will directly and adversely affect a competitor. It may be—

[206] **Adam Price:** That's the scenario—. I'm choosing the scenario. That is the scenario. [*Laughter.*] So, I'm telling you I'm the guy in Newcastle. I know what I'm doing with this £500,000 loan—I'm grabbing market share, and my competitor is a Welsh company. What do you do?

[207] **Mr Thorley:** The investment decisions made by the team in FW Capital of that size would come to an investment committee, and all those elements would be considered. So, the answer is, 'It's possible', but I would challenge your assumption on the basis that to suggest that any company is in a market where they can ignore or they should be given a competitive advantage is unreasonable, because all businesses—. That £500,000 prime loan could come from somebody else and could go into direct competition with a Welsh business. It really is a matter of making sure that the Welsh business is properly funded and businesses in the UK are properly funded.

[208] **Mr Bullock:** If I might, I think the scenario that is more likely, rather than the particular one there, is that, actually, lending £50 million to £100 million across north-west/north-east England will probably, in terms of economic multipliers, feed into the Welsh economy. That's much more likely to happen, actually, in a positive sense than the specific one-off, I would suggest.

[209] **Mr Owen:** Can I just make two small points, sorry? Firstly, can I cheat a little bit as well? We couldn't do it if it was £0.5 million in Newcastle; we haven't got funds for Newcastle. But, secondly, actually, the opposite occurred last week.

[210] **Adam Price:** Other Newcastles are available. [*Laughter.*]

[211] **Mr Owen:** The opposite occurred last week where a proposition was brought to my team—FW Capital running Northern Powerhouse—of £1.5 million. They can't do that size of investment. It was a business that can relocate. It was approved last week to relocate to Wrexham, and it will create

50 jobs. It's already a business in existence; it's not a start-up. So, that deal came directly to us through FW Capital and there will be 50 jobs in Wrexham as a result—a very successful business.

[212] **Adam Price:** Just—. Sorry, Chair. I just want to press you just—. You kind of half answered, Giles, I think, but would the potential adverse impact of an investment or a loan to an English business through Finance Wales—

[213] **Mr Thorley:** FW Capital.

[214] **Adam Price:** —through FW Capital, would that be a material factor that would weigh upon a decision by the investment committee, i.e. would you take it into consideration, at least, and might you not decide to proceed on that basis, or are you completely blind to that potential adverse impact?

[215] **Mr Owen:** We couldn't, because we have an obligation to the British Business Bank, who administer those funds; we have to make the investment decision in accordance with the investment operational guidelines for that fund.

11:00

[216] **Adam Price:** Right. So, you wouldn't take it into consideration. You can't, actually, because your hands are tied.

[217] **Mr Thorley:** Yes. But, you know, I come back and say no business should be afraid of competition and all businesses should be prepared to deal with competition in a normal market, whether it's funded by FW Capital, by Maven or by any of the competitive businesses that exist. The object of the Development Bank of Wales is to provide to Welsh businesses at least as efficient a source of capital as anywhere else in the UK.

[218] **Russell George:** Thank you. Can I thank you for your evidence to us this morning, our colleagues from the now Development Bank of Wales? I'm very grateful for your time. Thank you very much. Diolch yn fawr.

[219] **Mr Thorley:** Diolch yn fawr.

11:00

**Papurau i'w Nodi
Paper(s) to Note**

[220] **Russell George:** I move to item 3, and there's one item to note under papers to note. Are Members content to note that paper? Thank you.

11:01

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o
Weddill y Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Remainder of the Meeting**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd o weddill y exclude the public from the
cyfarfod yn unol â Rheol Sefydlog remainder of the meeting in
17.42(vi).*

*accordance with Standing Order
17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[221] **Russell George:** I move to item 4, and a motion under Standing Order 17.42. I move to exclude the public from the remainder of the meeting. Are Members content with that? Thank you.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 11:01.

The public part of the meeting ended at 11:01.