

Development Bank of Wales plc

Pan Wales strategy

September 2017

Contents

1. Introduction	3
1.1 Pan Wales strategy	3
2. Current organisation and locations	4
3. Location strategy for the Development Bank of Wales	6
3.1 Location strategy objectives	6
3.2 SWOT analysis	6
3.3 Office locations	6
3.3.1 Wrexham HQ	8
3.3.2 Cardiff	10
3.3.3 Llanelli	10
3.3.4 Newtown, Aberystwyth and Llandudno	10
4. Other locations and approaches	12
5. Costs and operations	13
5.1 Funding	13
5.2 Operational issues	13
6. Implementation time	14

1. Introduction

1.1 Pan Wales strategy

The Cabinet Secretary stated that 'the Development Bank of Wales is a development bank for the whole of Wales and that he wanted to see the 'Development Bank have a strong presence not just in north Wales but right across Wales.' These aims are at the heart of the strategy for the Development Bank of Wales.

There has been much discussion and debate about the role of the new headquarters in Wrexham but it is important to place this firm commitment alongside the need to service businesses across the whole of Wales and not focus purely on the two main offices located in east Wales. For that reason this document will look at the 'pan Wales strategy' for the Development Bank and consider how it can effectively and efficiently provide access to its services in all parts of Wales.

In addition to physical locations it is also important to consider online access to the Development Bank and closer alignment with the support provided by the Welsh Government through its regional teams and Business Wales.

Like most regions, Wales has natural hubs of business and industry which will, to a degree, determine the spread of investment. However, the Development Bank policy will be to ensure that businesses in all parts of Wales are targeted. The Development Bank will analyse data on deals completed to support those areas currently receiving proportionately less investment based on the number of SMEs in the area, as appropriate. This is particularly important in rural areas and west Wales and the Valleys where businesses are more dispersed.

The Development Bank will aim to promote its funding and support offering in these less supported areas to encourage growth and increase prosperity. The Intelligence Unit will assist in identifying the investment trends right across Wales, which will in turn help to

inform a strong marketing strategy. Targeted communications will be crucial in meeting the objective of improving delivery in these areas. To further support this, the Development Bank will work with Welsh Government's communication team to identify opportunities to be part of a broader communications strategy demonstrating how the Development Bank and the wider WG are delivering economic, social and environmental impacts for Wales.

To materially improve the national coverage of the organisation and ensure there is a physical presence across Wales is a major challenge for the Development Bank. Investment has already been committed to make significant improvements in our IT capability to provide a suite of online processes for prospective borrowers to access Development Bank services remotely. Whilst it may well be that the technology solution will be the most impactful in the long term, the Development Bank also intends to provide the level of personal interaction which differentiates the organisation from commercial lenders. Moreover, the strategy in relation to locations of offices and headquarters will seek to address a number of opportunities so as to maximise business benefit and organisational integrity, whilst at the same time mitigating costs.

We believe this pan-Wales location strategy will deliver the primary objective of ensuring the Development Bank provides the highest level of support for the economy across all sectors and all parts of Wales.

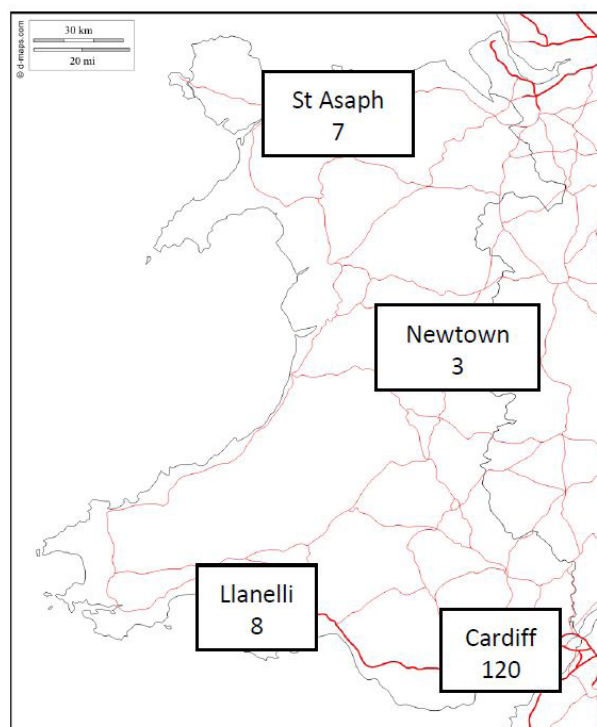
2. Current organisation and locations

Finance Wales is an SME which employs 138 personnel (August 2017) in Wales and these are in the following functions and locations across Wales:

▼
Table 1 Finance Wales employee breakdown (Aug 2017)

Function	Cardiff	Llanelli	Newtown	St Asaph
Investments	41	7	1	5
Risk, compliance and legal	15		1	2
Finance	13			
CEO office, Strategy, Communications, Support services and HR	31		1	
xénos	3	1		
Help to Buy Wales	17			
Total	120	8	3	7

The breakdown by location is shown in figure 1 below:



◀
Figure 1 Finance Wales employee spread -August 2017

2. Current organisation and locations

The nature of the investment executives' role means they will spend less time in the office than support staff. Whilst the investment teams will have a main office address they will typically spend a significant amount of time on the road, visiting businesses and providing a face-to-face service with customers. The exception to this is the Help to Buy Wales team which accounts for 17 staff that are based in the Cardiff office and are predominately office based.

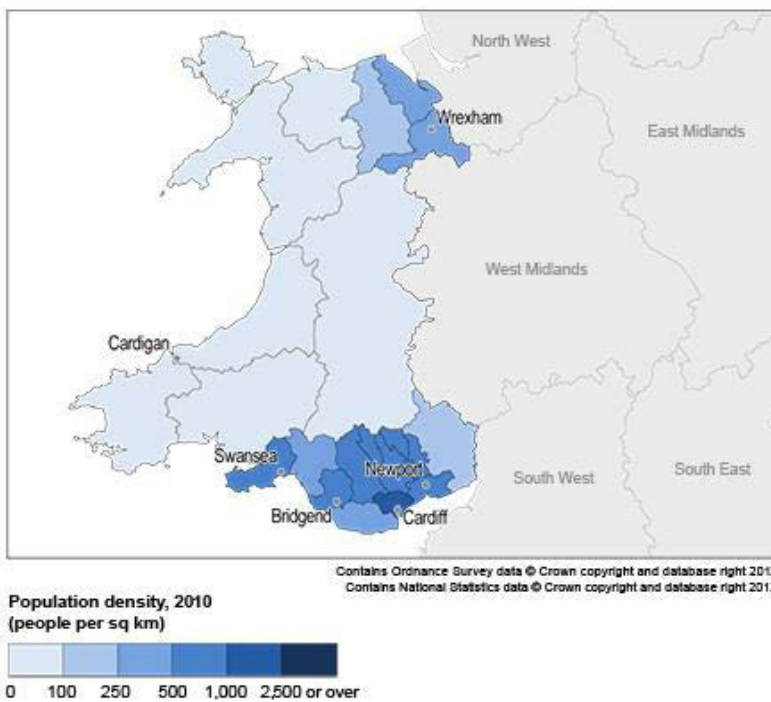


Figure 2
Wales population spread 2010

In Figure 2 above we can see that the population of Wales is most concentrated in the South East, with the next most concentrated area in the North East. In preparation for the creation of the Development Bank and recognising the need to improve access to finance for the whole of Wales, Finance Wales set a business objective as part of its 2017/18 business plan to 'increase regional coverage of investment delivery by a minimum of 10% in the bottom five under-invested Unitary Authorities'. This is being monitored closely throughout the year and showed a total overall increase across the five regions in Q1 compared to the same quarter in 16/17.

3. Location strategy for the Development Bank of Wales

3.1 Location strategy objectives

The creation of the Development Bank offers an ideal opportunity to fully consider a location strategy that meets the needs of Welsh businesses and other key stakeholders. The main objectives of this strategy will be to:

- Ensure pan-Wales coverage - including both digital and face-to-face contact with customers;
- Ensure the location strategy is affordable and offers value for money to Welsh businesses and the taxpayer;
- Enable the organisation to recruit the best available talent and continuously improve its performance;
- Support the strategic aim to better align Welsh Government support through grants and Business Wales with access to finance through the Development Bank whilst also adopting the aims of the new Welsh Government regional economic focus;
- Enable the Development Bank to respond quickly to changes in market conditions and develop new products and services to support the Welsh economy.

To achieve the above objectives, the organisation will adopt a number of strategies and projects including; the location strategy; a digital strategy; new product development work streams; the Intelligence Unit; corporate governance; a closer working project with Business Wales and many others which are being taken forward separately. All of these projects are being co-ordinated through a programme steering group. Therefore this paper only considers those elements directly related to location.

Figure 4 Anticipated Development Bank office staffing (2021)

3.2 SWOT analysis

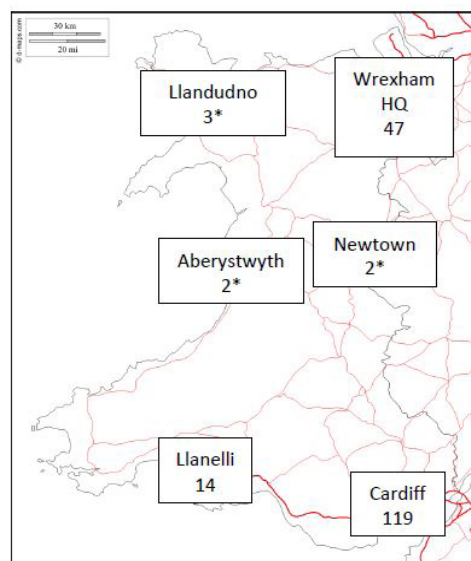
In line with the ambitions of the objectives shown above the following SWOT analysis identifies the key considerations of the pan-Wales strategy.



Figure 3 SWOT analysis

3.3 Office locations

The location of offices for the Development Bank together with indicative numbers of staff (by 2021) is shown below:



* Accommodation part shared with Business Wales staff - main office Wrexham
 - Range assumed for Wrexham of between 43 and 66

3. Location strategy for the Development Bank of Wales

The location map is based on forecast headcount of 187 in Wales by 2021. It is important to recognise that these numbers are largely based on known growth linked with funds either already approved or highly likely to be approved. It is anticipated that further growth may take place in the Development Bank as it begins to deliver new and innovative products and services to support the wider priorities of the Welsh Government. This strategy aligns with statements from the Cabinet Secretary for Economy and Infrastructure that a new headquarters for the Development Bank should be located in the Wrexham area. We have been informed by the Welsh Government that the set up and operating costs for any new offices must be contained within the Development Bank budget.

The following map in figure 5 and table show the distribution of businesses across the regions in Wales along with the distribution of Development Bank staff:

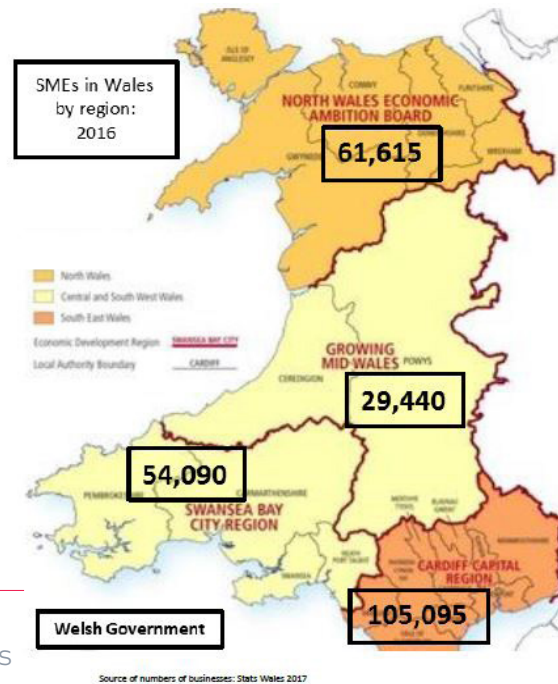


Table 2 Development Bank presence v SME distribution

Figure 5 SME distribution- Wales

Region	Total Population	Area (sq km)	People per (sq km)	SMEs per region	Development Bank Presence	SMEs as %	Development Bank Presence
North Wales	680,000	6,151	111	61,615	54	30%	29%
Mid Wales	208,000	6,966	29	29,440*			
South West Wales	668,000	4,809	139	54,090	133	70%	71%
South East Wales	1,452,000	2,808	517	105,095			

Source ONS LA Population 2010 & Stats Wales 2017 * Southern mid Wales also served partly by Cardiff Office

3. Location strategy for the Development Bank of Wales

South Wales

The whole of the South Wales region along with the most southern parts of mid Wales will be supported from both the Llanelli and Cardiff offices.

It is anticipated that Cardiff numbers will remain fairly consistent, as due to the concentration of businesses in South East Wales there will always be a need to retain a considerable number of investment executives and their direct support in, or around, Cardiff.

However, customer facing presence in Llanelli, supporting the South West, is expected to increase by over 40% to 14 by 2021. This is before consideration of the additional support to this area provided from the resource at the Cardiff office.

North and Mid Wales

North Wales and most of mid Wales will be served from the HQ in Wrexham as well as utilising co-locations with Business Wales in Llandudno, Aberystwyth and Newtown. Although staff in these areas will use Wrexham as their main office, there will be the need to occasionally work from the co -locations to effectively support businesses in these regions. Figure 4 therefore represent the average presence in those areas of Development Bank staff at any one time. The individuals working out of the Business Wales offices will be supported by the HQ in Wrexham, as well as the Cardiff and Llanelli offices, to ensure we can effectively service the rural economy of Wales.

Whilst the numbers of staff allocated to each office has been estimated, it is important to recognise the peripatetic nature of many of the job roles. Advances in technology already make working from multiple locations relatively simple and this will continue as we move towards 2023. Therefore where a member of

staff's main office is will become less relevant as more flexible working practices, supported by technology, are developed.

3.3.1 Wrexham HQ

The Development Bank of Wales will operate through a new HQ in the Wrexham area. Initial discussions are taking place on three potential office locations and it is hoped that a lease will be signed during September 2017, allowing the office to open in January 2018. This provides a great opportunity for the Development Bank to extend its presence with a significant base in North Wales.

The office will be initially staffed with a team of around 20 which will partly consist of ten staff currently operating out of St Asaph and Newtown. Recruitment is already underway for an additional four staff which includes a Regional Fund Manager, two Investment Executives and an Assistant Investment Executive. This will be supplemented with additional recruitment for office and Investment Support roles. In order to ensure there is momentum in the increased staffing of the new HQ, for all new and replacement roles, the Development Bank will first consider the suitability of Wrexham as a location.

3. Location strategy for the Development Bank of Wales

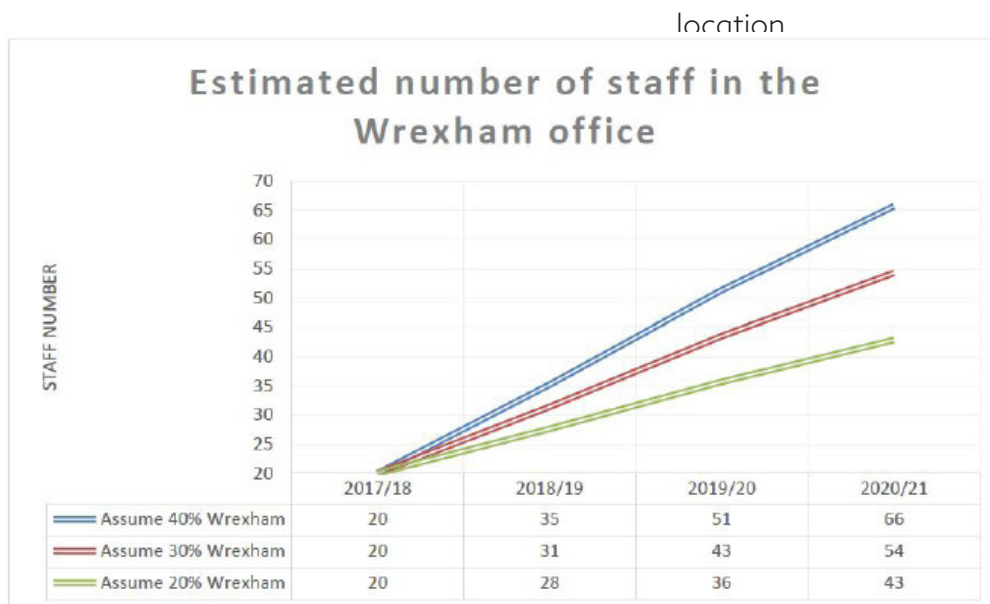


Figure 6 Forecast staff numbers in Wrexham over four years

The above analysis is based on the following assumptions: Staff turnover of 14.5% (based on last year actuals); staff growth of 49 by 2020/21; fund growth in line with Development Bank business case.

Based on this analysis and using an assumption of 30% recruitment to the Wrexham HQ, it is anticipated that there would be around 54 staff with their main office location in Wrexham by 2020/21. This is within a range of staff located in Wrexham of between 43 and 66. However we anticipate at least seven being assigned to that office but also working out of Welsh Government offices in Aberystwyth, Newtown and Llandudno.

Wrexham has excellent links to Chester, Liverpool, Manchester and Birmingham. There appears to be the potential to be able to recruit the right skill sets in the area but this is yet to be tested in relation to the levels of pay the Development Bank can offer and the specific skill sets that will be required.

The business population in North Wales is concentrated in Flintshire, Wrexham and Denbighshire which makes Wrexham an ideal

The A55 gives quick and easy access to the north Wales coast and Anglesey. To ensure wider coverage, Development Bank staff whose main office will be Wrexham will also share office accommodation with Business Wales in Llandudno, Aberystwyth and Newtown.

The Development Bank of Wales will be registered at the Wrexham office address and over time, in line with business needs and continuity if service, elements of corporate functions such as HR, strategy, communications and finance will be established there. Initially one director will be permanently based in the Wrexham office along with two regional managers. Upon opening the office will also be a regular base for the CEO and other directors and senior staff.

In addition to a number of routine and regional meetings, most board meetings and a number of senior management and strategy meetings will be held in the Wrexham HQ.

3. Location strategy for the Development Bank of Wales

3.3.2 Cardiff

Cardiff will continue to be an important office for the Development Bank as it is ideally located within the Central Cardiff Enterprise Zone. With 42% of Welsh SMEs based in the South East of Wales, a strong presence in the region remains a priority for the Development Bank.

In the transition to a Wrexham HQ, it is assumed that the number of posts working out of the Cardiff office will remain fairly consistent at 120 in 2017 and an expected 119 in 2021. However if the upper end of the range were achieved in Wrexham the Cardiff number could potentially fall to around 113. It is important to note that we are not planning to permanently transfer staff from Cardiff as the required change can most effectively and cost efficiently take place through natural staff turnover and recruitment of replacement staff, as appropriate for the business needs, to the Wrexham HQ.

Cardiff is the closest Capital to London and is a focal point for financial and professional services in Wales. For the majority of roles Cardiff is beneficial in terms of recruitment and retention, however there are difficulties in attracting and retaining certain highly market valued roles due to certain restrictions on pay.

Cardiff provides quick and easy access, along the M4, A470 and A465, to the 12 Unitary Authorities in the South East of Wales and Swansea which are together the most densely populated areas of Wales. The journey by rail to London is just over two hours and will be shortened by a further 14 minutes once electrification of the main line is completed.

Cardiff also offers proximity to Welsh Ministers and Welsh Government officials across all Departments which are particularly important as new products and services are developed and delivered to benefit businesses and citizens across Wales.

Options for rationalising office accommodation in Cardiff, to reflect these changes and to provide cost mitigation, are currently being considered.

3.3.3 Llanelli

It is anticipated that the customer facing staff based in Llanelli will increase from eight in 2017 to 14 in 2021 to service the 22% of all Welsh SMEs that are based in Carmarthenshire, Neath Port Talbot, Pembrokeshire and Swansea. The Llanelli office, located in the Beacon Centre for Enterprise, is an essential link to the growing number of businesses in West Wales for each Development Bank staff member located there.

Just five minutes off the M4 motorway, the Beacon Centre provides the Development Bank with hi-tech office space and meeting facilities, with accessibility to the clusters of business populations in the Swansea Bay City Region. Llanelli is linked closely to Swansea and Neath by the M4, to Carmarthen by the A48, Pembroke dock by the A477 and Fishguard dock by the A40. Each of these routes provides access to some of Wales' most popular tourist destinations and areas of key investment for the Welsh Government.

The Development Bank's presence in this area is increasingly important as projects from the £1.3billion Swansea Bay City Deal deliver within themes of Economic Acceleration, Life Sciences and Well-being, Energy and Smart Manufacturing. This will include support for the start-ups accessing Carmarthen's Creative Digital Cluster and IP rich enterprises using Llanelli's Life Science and Well-being village.

As the Development Bank continues improving its impact on the west Wales area, it will assist the Swansea Bay City Deal's uplift of £1.8billion in GVA of the region and generation of around 10,000 new jobs.

3. Location strategy for the Development Bank of Wales

3.3.4 Newtown, Aberystwyth and Llandudno

In Plenary on the 18th July the Cabinet Secretary stated 'I wish to see the Development Bank have a strong presence not just in North Wales but right across Wales. Indeed, rural communities often have a high concentration of microbusinesses that struggle to access finance from high-street banks. So, if anything, the Development Bank of Wales will be more relevant to some rural communities than some of our urban communities, and for that reason, I think it's absolutely essential that the Development Bank is accessible to businesspeople in our more rural areas.'

He went on to say the Development Bank would '...ensure that all of Wales is given easy access, physical access, to Development Bank advice and support, and so a piece of work is taking place at the moment with Business Wales looking at how they can ensure that they exploit mutual interests and, potentially, how they could co-locate services, because it's our view that, regardless of whether you're an individual trying to start a business or whether you're an existing businessperson trying to grow a business, you should only have one port of call for the advice and support that you need.'

To deliver this vision for Wales, the Development Bank plans to co-locate staff alongside Business Wales in the Welsh Government offices at Newtown, Aberystwyth and Llandudno. This will ensure that, on creation of the Wrexham office, the Development Bank maintains a strong presence in Newtown to ensure it can continue to meet the needs of businesses in mid Wales.

It is estimated that there would be on average around seven staff will operate out of these Welsh Government Offices at any one time. Whilst their main office will be in Wrexham, their focus will be on mid and west Wales. They will also be supported by the investment teams based in Wrexham to ensure all areas

have full access to the services offered by the Development Bank.

In addition, shared accommodation would also be encouraged for Business Wales personnel who wish to operate from Development Bank offices.

A presence in Aberystwyth, Newtown and Llandudno will assist with coverage from Gwynedd, Ceredigion and Powys, providing closer links and a face to face service to the businesses in these areas. If the Development Bank is to be for the whole of Wales, it must have a presence across West and Mid Wales to ensure it fully addresses the needs of the rural economy.

There are two specific issues that need to be resolved regarding shared use of office space with the Welsh Government. Firstly, clearing the necessary security is essential to ensure that Development Bank staff can gain easy access to the Welsh Government buildings. This may involve Development Bank staff being vetted by Welsh Government security in order to obtain the necessary passes.

The second issue relates to availability of office space for hot-desking and access to IT, printing and scanning facilities. Due to the nature of the work of Business Wales where the teams will spend considerable amounts of time on the road, it should not be a problem to find hot-desking space. IT access may be a greater challenge; however Development Bank staff will use their own secure laptops and simply need a WIFI connection. Access to printers and scanners will be essential and how this will operate is under discussion with WG.

4. Other locations and approaches

Alongside an effective physical presence across Wales, the Pan-Wales strategy will also utilise other approaches to ensure accessibility to all Welsh business.

Online accessibility

A key priority of the Development Bank is to improve the customer access and overall experience through better online presence. The first stages of this approach began 12 months ago with the introduction of a sub £10k automated online application process. Further functionality will be added as the Development Bank is launched on October with an online application tool for all business needs.

Moving forward an operational focus will be maintained on developing digital solutions to ensure the organisation consistently meets customer expectations and provides accessibility to all Welsh businesses.

Network of advisers

To give the Development Bank further scope in having a presence in all regions, consideration will be given to creating a network of 'agencies' across Wales. This would be achieved through a network of advisors who would be well versed in the online applications and the products and services offered by the Development Bank. This approach allows the Development Bank to modernise its channel access to Welsh businesses. The Development Bank will consider the best structure for this network and will consider the use of regional firms such as accountants or other intermediaries alongside the Business Wales advisors.

Co-locating with Business Wales contractors

In addition to co-locating with Business Wales staff at WG office locations in Llandudno, Aberystwyth and Newtown, the opportunity to utilise office space with Business Wales contractors, such as Winning Pitch and Business in Focus, will also be explored. This

will be considered as part of the project of work underway with Business Wales to ensure better alignment between the operations of the two organisations.

Further Development Bank hubs or satellite offices

It is envisaged that small office hubs may also be required in other areas of West Wales and the Valleys to support regional delivery. For example, to support the strategic focus on micro business funding, a further office will be considered in the Rhondda Cynon Taff area, which is home to a high proportion of micro businesses and also would service the surrounding Unitary Authorities of Torfaen, Caerphilly and Blaenau Gwent. In determining the optimal solution, timing will be a critical factor so a staged approach to opening new offices is likely to deliver less disruption and better value for money.

5. Costs and operations

5.1 Funding

The Welsh Government has determined that the Development Bank must manage the transition to its new HQ in Wrexham within its forecast budgets. The model for the Development Bank business case predicts a small surplus in operating costs over its first five years and costs for Wrexham have been included based on a phased transition over that period.

Initially the Development Bank business case only reached a point where Welsh Government support for operating costs would no longer be required if significant new funds were approved and therefore the fee income would replace Welsh Government direct support. Due to the approval of a number of new funds and the increase in the EU financed Wales Business Fund, the Development Bank will now not require Welsh Government support for operating costs and the costs of a phased transition to the new location strategy can be contained within existing budgets.

Following a review of the implications to the organisation of a phased or 'big bang' approach to the creation of the Wrexham HQ, the latter has been discounted due to cost (estimated as at least £5m) and an unacceptable risk to business delivery.

The Development Bank is charged with delivering a number of significant funds to support SMEs during uncertain economic times. The Development Bank cannot afford to disrupt the £170.9m EU financed Wales Business Fund at a critical stage in its delivery. It also has to scale-up to deliver much needed access to finance for businesses through the new £100m Wales Flexible Investment Fund and other funds that are yet to be announced. The costs of a 'big bang' approach would be considerable, would not be able to be contained within existing resources and would present no discernible long term gain.

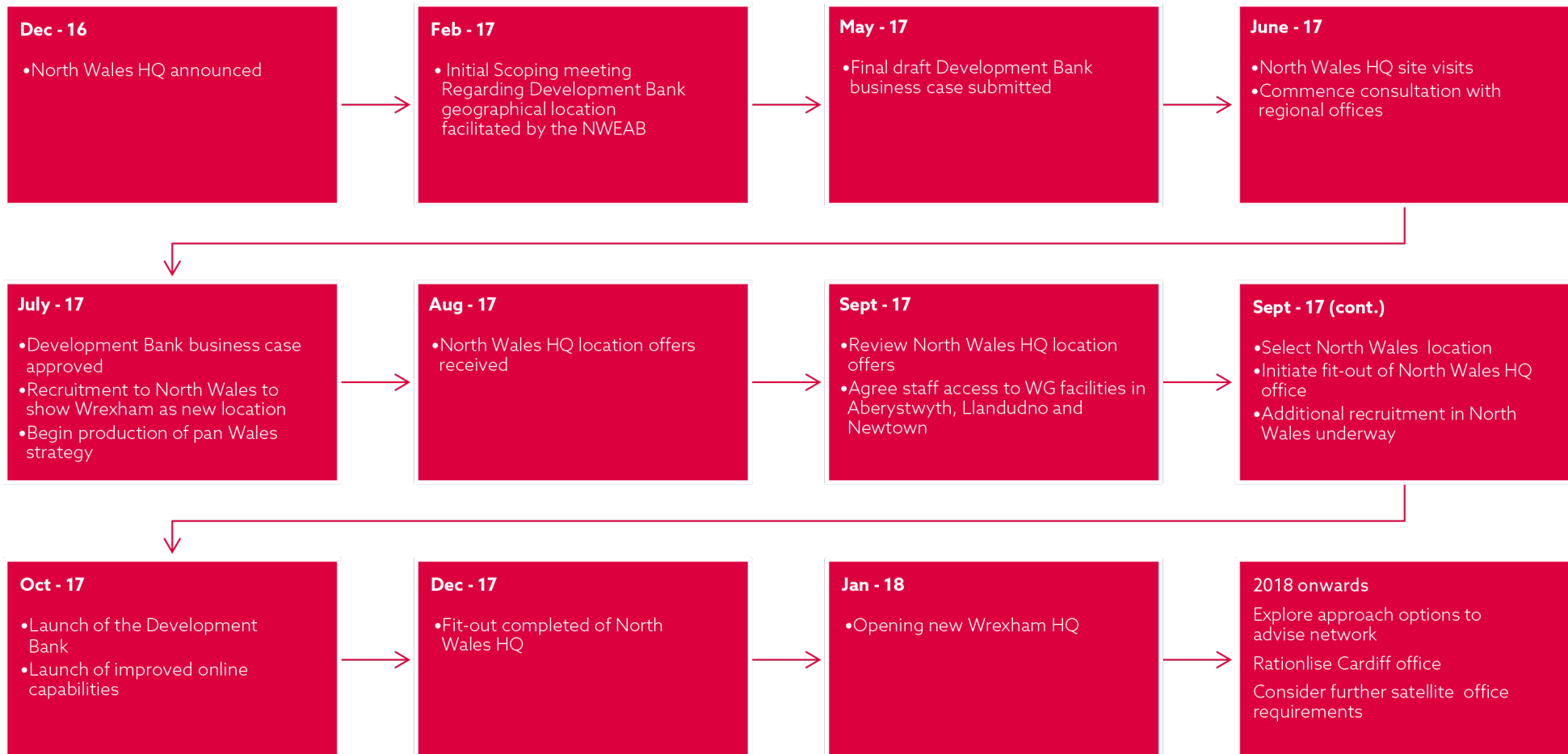
5.2 Operational issues

It is critical that operations are not interrupted during the transition phase and that all funds and services continue to be effectively and efficiently managed. Where teams are operating in two locations, it is essential that communications are fully maintained particularly in the early stages of transition. To assist with this, Telepresence will be introduced at each main location to allow reliable, accessible face-to-face communication between the sites.

Senior management oversight in each office location will be maintained with a particular focus on ensuring a consistent presence of directors at the Wrexham HQ, in addition to the director who will have their permanent base there.

Like Finance Wales, the Development Bank will operate a performance management system where progress towards more detailed key performance indications is fully delegated and closely managed. Specific attention will be focused on functions or part functions which are in the process of transferring to the new HQ to ensure, not only that service standards are maintained but also, that service standards continue to rise in line with the strategic aims of the Development Bank.

6. Implementation time





bancdatblygu.cymru
developmentbank.wales

Development Bank of Wales Plc (Banc Datblygu Cymru ccc) is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at developmentbank.wales.

