

Annual operational plan

2020/21

A unique resource for Wales, creating long-term value in the Welsh economy. Enhancing a dynamic, competitive Welsh economy.



Our mission

To unlock potential in the economy of Wales by increasing the provision of sustainable, effective finance for micro-to-medium businesses



Our values

Open | Responsible | Partnership



Our strategic objectives

- Promote economic development through an adaptable delivery model that is responsive to market needs whilst providing continued value for money for public funds
- Become the Welsh Government cornerstone organisation for delivery of public sector financial instruments, supporting micro to medium businesses in Wales and increasing the supply of finance
- Deliver key Welsh Government policy objectives by achieving performance targets and providing investment management and support services across the whole of Welsh Government

Our five-year targets

20,000

jobs created or safeguarded



1:1.15

investment to private sector leverage



£80m+

annual investment



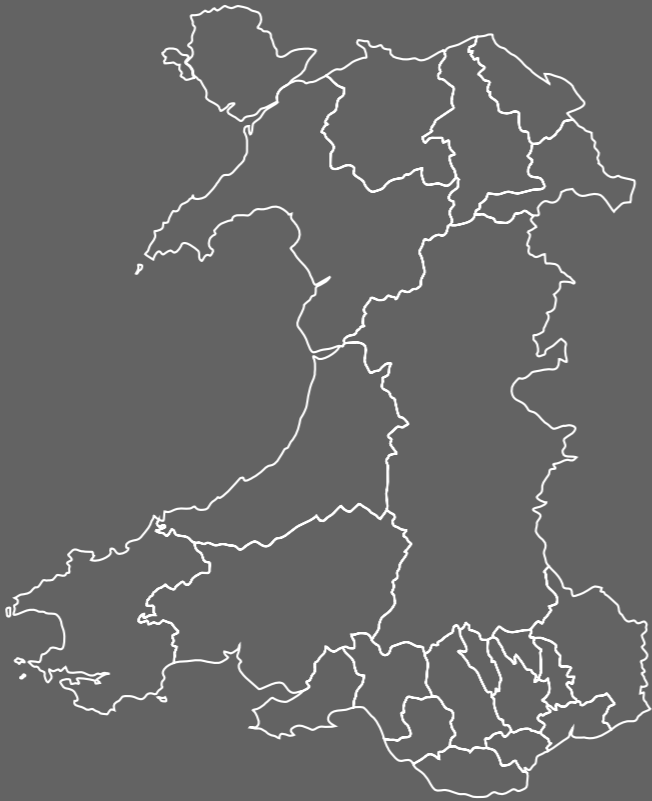
1,400

businesses supported



£1bn

of economic impact



Due to the unprecedented impact caused by the Covid-19 pandemic this 20/21 operational plan is being prepared at the mid-year point. This has allowed the short and medium term impacts to be better understood as well as ensuring our resource is fully focused on immediate response measures.

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This Annual operational plan has been produced in accordance with the Development Band of Wales plc Framework document and takes into account the requirements of the Remit Letter dated 2 June 2020.

OVERVIEW

In early March 2020 the UK went into lockdown and the business environment changed overnight. For many businesses, a strategy based on growth switched to one focused on survival. Moreover, the ongoing uncertainties brought on by the backdrop of local, and potential national, restrictions provide no clear outcome in the months ahead.

Development Bank of Wales’ role is more important than ever in these times to provide continuous and responsive financial support that allows Welsh businesses to continue to prosper. As demonstrated post 2008, it is for such periods of uncertainty that the Development Bank was created to offer Welsh businesses consistent and reliable access to finance to support their ambitions to survive and grow.

To this end we have successfully delivered the first of the proposed dedicated response packages to businesses within the first three months of 2020/21. During this period we were able to redirect and mobilise our colleagues to deliver the Covid-19 Wales Business Loan Scheme (CWBLS) totalling £92 million of investment to 1334 Welsh businesses, safeguarding over 16,000 jobs. In parallel to the delivery of this immediate Covid-19 response, we also continued to deliver on a business as usual basis investing £45 million in the first six months of the year.

As UK government schemes such as the Covid-19 Business Interruption Loan Scheme (CBILS) and Bounce Bank Loan Scheme (BBLs) draw to

a close in Q4, we continue to work closely with the Welsh Government to explore where the next phase of funding should be deployed to make the greatest impact. Critical in the shaping of future measures is clear consideration of the actions of other mainstream finance new needs stemming from long-term Covid-19 impacts and a potential second wave, as well as future UK government response. In developing future support, we will continue to recognise that each business has specific needs and unique circumstances, be it by sector or size, and therefore flexibility of offer in an evolving market is vital.

The levels of uncertainty businesses face in 2020/21 is further compounded by the UK’s departure from the EU in January 2021. With trade talks continuing and no clear understanding of the post Brexit environment we will continue collaboration with our Welsh Government partners to prepare. To do this we will use insights from Economic Intelligence Wales reports, stakeholders and feedback from our portfolio to design and deliver sustainable solutions.

For the Development Bank, the exit from Europe brings additional challenges. In the absence of ongoing structural funds from the Commission, it is now imperative that replacement sources of capital are identified. We have been working for some time with key stakeholders to shape the need and delivery mechanics of this funding need into a defined business case for development. We recognise that public funding is a scarce

resource and our role is to optimise its use in response to direct market failure, building on our range of innovative funding solutions in areas such as housing, tourism, energy, and technology using a range of financial instruments from micro debt to later stage equity – ultimately investing with a social purpose. In 2020/21 this will include establishing our role in the delivery of the Welsh Government Mutual Investment Models.

Thanks to the funding commitments made by the Welsh Government we currently operate 16 live funds which deliver against a wide range of Welsh Government priorities ultimately supporting businesses to start up, sustain and grow.

In total, this funding provides a scale of over £1 billion of investment capital, which when considered alongside private sector leverage and funding recycle mechanisms will deliver around £2.3 billion of impact on the Welsh economy.

Driven by the expertise and dedication of the Development Bank team, these commitments led to another record investment year in 2019/20, delivering £103.2 million of investment in Welsh businesses. In that year, we supported 397 businesses and assisted in the creation or safeguarding of over 4,000 jobs. However, to maintain this scale and impact, particularly as EU funding will no longer cornerstone our larger funds, creating the funding model of the future with our shareholder is now of key importance.

The Help to Buy – Wales scheme has also maintained strong delivery resulting in a further £71 million of new funding being allocated to the current scheme, taking the total fund for Wales across the two phases to £523 million. Funding has been approved for phase three which is due to run from April 2021 to March 2022, with an extension to March 2023 subject to the availability of funding from UK government.

FW Capital, the Group’s FCA authorised fund management arm has also quickly mobilised to support businesses in response to the recent global events. Firstly, by providing much needed resource to support the delivery

of Covid-19 Wales Business Loan Scheme (CWBLS) in Wales, followed by working with its partner the British Business Bank to become an accredited CBILS lender in the North of England.

The priorities, strategic direction and remit for the Development Bank are embedded in the Corporate Plan for 2019–2022 and are set in the context of the Programme for Government, Prosperity for all; the National Strategy, the Economic Action Plan, and the Well-being of Future Generations (Wales) Act 2015. In particular, this year we will look at ways to further embed the Economic Contract promotion within our investment processes.

The 2020/21 financial year also incorporates the lead up to the 2021 Welsh elections and we will stand ready to input into strategic development of economic policy both pre and post the election.

The Covid-19 pandemic has brought about profound changes to our way of life.

In addition to the personal tragedies for every life lost to the virus, many individuals and businesses now face uncertain futures. As such, we will continue to play an active role in supporting economic recovery for the long-term, facilitating sustainable growth in Wales.

DEVELOPMENT BANK OF WALES BUSINESS OBJECTIVES – 2020-2021

<p>Customers</p> <p>Delivering for our customers' needs</p> <ul style="list-style-type: none">Invest in Welsh businesses throughout the Covid-19 crisisWorking with partners, ensure Welsh businesses are supported as the UK leaves the EUEnsure capacity across Development Bank of Wales funds to support businesses to re-establish trading and growUtilise Angels Invest Wales to encourage continued angel support in Wales	<p>Internal business</p> <p>Through operational excellence</p> <ul style="list-style-type: none">Marketing scorecard to be established covering all platformsTarget and measure digital transformation deliveryIntroduce smart working roll-out across the GroupDevelop and launch a Development Bank of Wales people strategy
<p>Financial</p> <p>Providing value for money and transparency</p> <ul style="list-style-type: none">Support the delivery of Welsh Government MIM projectsMeet all HtBW SLA requirementsCreate a product development roadmap for 2020-2024 as a transparent baseline plan to inform fees, resource and funding requirementsAgree revised fee/cost base for Development Bank of Wales in light of CWBLS funds and other interventions	<p>Organisational growth</p> <p>Creating organisational impact</p> <ul style="list-style-type: none">Establish Self Build Wales operational deliveryDevelop decarbonisation/ green focused initiative (internally and externally)Roll out an approach to portfolio management for the new customers arising from CWBLSProvide the Board with plans for organisational structure to reflect growth in portfolio

During this period we were able to redirect and mobilise our colleagues to deliver £92m of investment to 1334 Welsh businesses, safeguarding over 16,000 jobs.

FUNDS

Since Development Bank of Wales launched in 2017, Welsh Government has committed over £500 million of funds to address identified market gaps creating significant impact on economic development across Wales. As an organisation, we operate a rolling programme of fund development to ensure accessibility and continuity for indigenous businesses across a range of sectors and business stages – currently offered through 16 live funds. By its very nature public sector funding should be counter cyclical, providing much needed finance when other market providers scale back. The Development Bank has also proven its ability to respond quickly, demonstrated by the launch of the Wales Flexible Investment Fund

following the EU referendum and the establishment of CWBLS to support businesses in our regions in the period before the commercial banking sector was able to adopt the UK Government support schemes. The Development Bank is now working closely with Welsh Government officials to develop the next phase of support, following the anticipated termination of CBILS and BBLS at the end of Q4, as well as the Brexit time horizon. It is vital that the shaping of this future support complements future external provision, both from UK government and the private sector, as well as creating a long-term solution.



Wider product development

We will also maintain focus on its mainstream product needs – the requirement evidenced by strong ‘business as usual’ investment performance to date.

This will include:

Recapitalisation — Ensuring Wales Flexible Investment Fund, Wales Tourism Investment Fund and Wales Business Fund are fully capitalised to fulfil their investment objectives.

New initiatives — development of investment solutions to support the decarbonisation agenda and other Government priorities.

Funding sources

The Development Bank will continue to be a key deliverer of Financial transaction capital in Wales, creating repayable models that best utilise this funding source. However, in current market conditions where support packages are aimed at a higher risk sector, we will work closely with Welsh Government to identify alternative sources of capital which will allow the greatest flexibility in the offer.

SERVICES

As a professional services organisation, we specialise in debt and equity as well as wider financial services delivery. Over the past three years the Development Bank has become firmly established as the Welsh Governments’ delivery arm for financial instruments. We have developed not only our discretionary fund management services to support government policy aims, but also innovative investment service structures that use the expertise and capacity of the organisation to create sustainable models that offer value for money, such as Angels Invest Wales (see Appendix 6 for further details). In 2020/21 investment service development will be focused on the following projects:

Over the past three years the Development Bank has become firmly established as the Welsh Governments’ delivery arm for financial instruments.

Energy Services

In 2020/21 we have committed to exploring, consolidating, and structuring a strategy in support of the decarbonisation agenda. This will involve consideration of a pilot project to assist in domestic retro-fit objectives and working with the Welsh Government Energy team to review forward delivery of their Public Sector Energy scheme.

Mutual Investment Model

In 2020/21 we will continue to carry out diligence and monitoring services in respect of public equity investment under the MIM. This will include working with: the transport team in regular monitoring of the A465 project as the construction phase commences; the education team in assessing project investment in up to five school special purpose vehicles (SPVs); the health team in preparing for the tender of the Velindre cancer care hospital.

Self Build Wales



Although the scheme became operationally active in 2019/20 the March launch was postponed due to Covid-19. This will now be considered during 2020/21 in line with the prevailing government guidelines. With the website now live, the scheme will direct focus on completing the first investments and continue to work with landowners to develop the opportunities available to the end customers.

Help to Buy Wales



Help to Buy — Wales continues to deliver an impressive investment rate with Phase II funding due to close for applications in March 2021, resulting in £523 million of funding delivered since 2014. The team are now working with our Welsh Government partners to define and prepare delivery of Phase three running from April 2021 to March 2022.

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OPERATIONS

Digital transformation

Our digital transformation programme will continue through 2020/21, streamlining and simplifying processes, driving greater efficiency and capacity to support growth. In February 2020, Microsoft Teams was implemented across the DBW Group as the basis of our communications. This allowed for the seamless transition to home working from March 2020 ahead of the national lockdown.

In 2020/21 there are four main areas of focus for this programme of work – Business Continuity Plan testing which was enacted and shown to be robust year to date; Customer application and portfolio development – working with an external provider to implement a ‘user-centred’ design approach; cloud migration – planning and implementation; loan administration system – procurement of supplier and implementation.

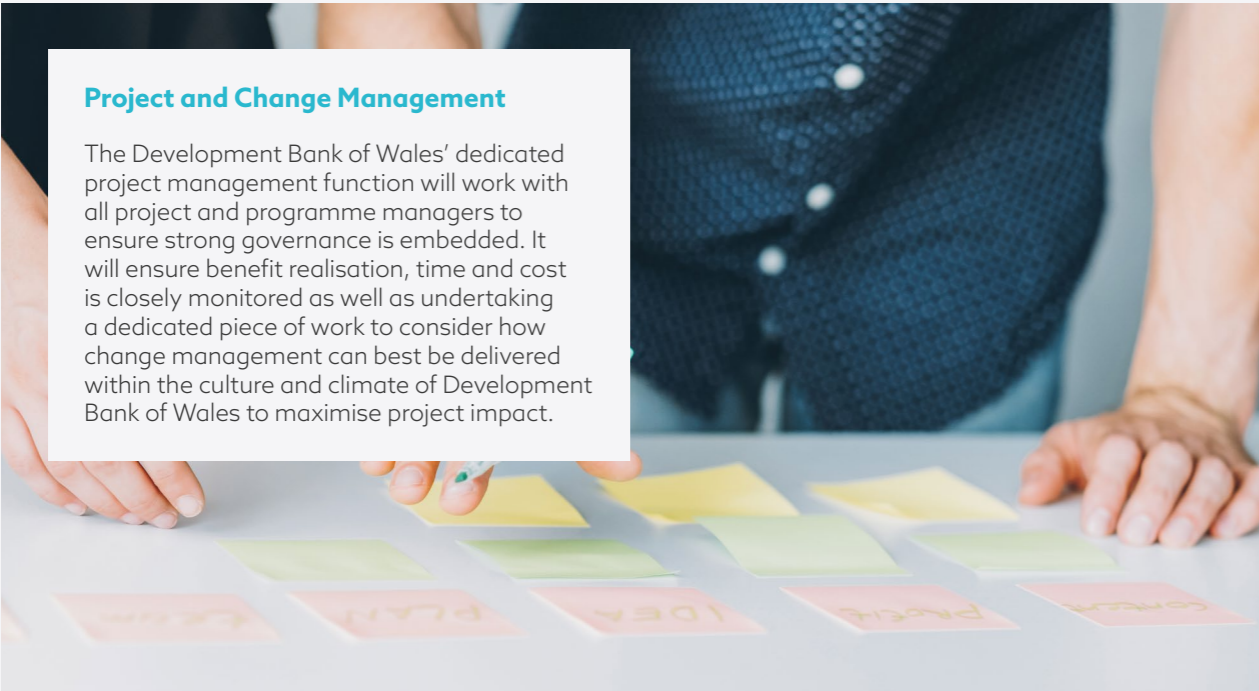
Smart working

In 2020/21, our smarter working strategy will be developed to refresh our workspace design, improve technology and create a culture that empowers staff to make the right decisions about where and when to work. The focus is about what we do and not where we do it, whether it be in the office, at home, or somewhere in between. This shift in culture will ultimately be embedded as appropriate across all of our sites with Cardiff, Billingham and Llanelli currently under review.

for collaboration, focus, privacy and wellbeing in addition to traditional desks and breakout space.

The focus is about what we do and not where we do it, whether it be in the office, at home, or somewhere in between.

In addition, we will continue to make sure our offices support the needs of our stakeholders and customers. The strategy will have a core environmental focus, supporting the Welsh Government Covid-19 reconstruction priority of a ‘greener Wales’ through reduced pollution and congestion, by facilitating home working as appropriate.



Project and Change Management

The Development Bank of Wales’ dedicated project management function will work with all project and programme managers to ensure strong governance is embedded. It will ensure benefit realisation, time and cost is closely monitored as well as undertaking a dedicated piece of work to consider how change management can best be delivered within the culture and climate of Development Bank of Wales to maximise project impact.

PEOPLE

Our focus has been on supporting our colleagues to deliver the Group's objectives throughout the Covid- 19 crisis, but also to drive forward planned

changes including launching a new People strategy, enhancing our policies and continuing to recruit as we all adapt to a new normal.

Supporting our colleagues

Like all parts of the Development Bank the focus of Human Resources shifted in March as a result of the Covid-19 lockdown. The immediate objective was to support our colleagues as they shifted to home working and this has been a constant theme since that time. The HR and facilities teams have worked very closely to ensure our colleagues are supported and kept fully up-to-date as the situation has developed. We have implemented various initiatives including but not limited to – flexible working from home, supporting those with caring responsibilities, enhancing our line manager support, regular communications to colleagues and an increased focus on mental health.

Adaptive culture

The delivery of the £92 million CWBLS fund was only made possible through the investments team implementing a highly streamlined set of processes operated with the help of volunteers from all parts of the operation. With the additional complexities of the entire business switching to home working, this adaptive approach enabled the Development Bank to deliver over £136 million to almost 1,500 business in the first six months of 2020/21. This showed the extraordinary ability of our colleagues, not only to deal with the sudden operational shifts, but at the same time to work together to help Welsh businesses at a time of crisis.

People strategy

We will continue to focus on supporting our people to ensure the delivery of the objectives of the Group. Our HR and marketing colleagues have worked in collaboration to create the Development Bank of Wales’ employer brand, which will be launched through a comprehensive people strategy by the end of the calendar year. The strategy will be used internally to communicate our values and offer, and externally to communicate our approach as an employer and aid high quality recruitment.

Career pathways

In 2020/21 we will further embed the career pathway across the investment teams to deliver a structured approach for colleagues to gain relevant experience and progress with us. In doing so, we have been able to support our colleagues to keep developing for the company, for their team, but most importantly, for themselves. Once this has been embedded, our ambition is to roll career pathways out more widely across the business.



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IMPACT

In 2020/21, we will continue to create impact on the market in which we operate from awareness and opportunity raising, to life of investment account management. In addition, we are now developing the ability to align our impact with the UN Sustainable

Development Goals as a benchmark for our future operations. At the heart of our impact generation however remains the key performance indicators of investment, businesses supported private sector leverage and jobs created or safeguarded.

2020/21 KPI overview

The table below shows the forecast outputs across the Development Bank’s product range for 2020/21. The combined investment total for the year is expected to be £177m, which compares to £103.2m in 2019/20.

We are seeing overall investment to date at a similar level to last year, but there is a clear shift

in the ratio between property and debt/equity investment. Outputs against the investment targets have been produced by looking at performance to date within each of the funds, across deal types, evidence from the first six months of 2020/21 as well as consideration for ongoing market conditions.

	Invest (£m)	Invest (no.)	Business (no.)	Jobs total	Jobs created	Jobs safeguarded	PSL (£m)
Economy and transport							
Wales Micro Business Loan Fund	3.5	171	171	305	146	159	1.4
Wales Micro Loan Fund	0.3	14	0	11	11	0	0.1
Wales Capital Growth Fund	5	4	3	9	4	5	2
Wales Business Fund	23.7	58	46	522	171	351	24.3
Wales Management Succession Fund	1	1	1	20	7	13	0.5
Wales Flexible Investment Fund	13.1	34	32	265	145	121	10
Wales Tourism Investment Fund	2	5	5	49	33	15	2
Technology Seed II Fund	2.8	15	12	82	63	19	2.8
Rescue and Restructuring Fund	2.2	9	8	183	0	183	0.6
Wales Commercial Property Fund	1.5	3	3	5	2	3	1.7
Homes and places							
Wales Property Fund II	20.5	17	14	70	29	41	8
Wales Stalled Sites Fund	9.4	8	6	32	13	19	3.6
Total	85	339	301	1553	624	929	57
CWBLS loans outcome	92	1335	1334	16,055	-	16,055	-
Overall annual total	177	1674	1635	17,608	624	16,984	57
Non targeted forecast delivery							
Angel Co-Invest	0.25	Local Energy Fund			1		
Self Build	1.5	TVI Interim Fund			0.25		

External factors for consideration in 2020/21

The Development Bank’s unique market position is in the space where the private sector is unlikely to support, unless incentivised by co-investment. However, in its response to the significant economic impacts of Covid-19, UK government schemes have supported the mainstream lenders to move into this space, guaranteed through public funds. The £1.4bn funding through these schemes to

Welsh businesses will inevitably have had a knock on effect for businesses who would typically be supported by the Development Bank. Importantly, the Development Bank must encourage the prioritisation of these schemes to ensure we do not displace other funders. The CWBLS fund would have had a similar impact on our existing fund delivery.

Property development

With mainstream lenders focusing on their increased mainstream portfolios, the Development Bank is seeing a reduced appetite to lend in the property development space. This has resulted in a significantly increased pipeline of viable property development opportunities for the bank.

Ongoing business impact

As the lockdown measures continue into the Winter the economic environment continues to be destabilised resulting in growth strategies of businesses being put on hold. As was seen in the rapid take up of our CWBLS fund, Covid-19 response funding is the priority for many businesses.

Employment

With many businesses forgoing growth for survival, we are seeing evidence of a reduced number of planned created jobs. While jobs are being safeguarded, the levels are reduced from normal market conditions.

Awareness raising

Equity investment is a catalyst for high growth and rapid business scale up. It provides a key tool to boost the Welsh economy in the long-term and create world class businesses which have a transformative effect. In addition, succession capital enables the next generation of business owners and helps preserve jobs in the region.

The Development Bank has a role to play in demonstrating the opportunity equity presents to business owners and entrepreneurs across Wales. To do this it will focus on improving awareness and perceptions of equity through a two year dedicated equity marketing strategy initiating in 2020/21.

Regional delivery

The Development Bank will continue to promote a true pan – Wales delivery model aided by its regionally based teams. We will consistently monitor ongoing impacts from Covid-19 such as local lockdowns and respond as we are able to the needs of businesses in these areas through mechanisms such as repayment holidays or dedicated response funding.

We are also working in collaboration with regional groups such as the growth deals and civic leadership groups to consider specific projects.

Portfolio approach

The Development Bank has always delivered more than just investment. Our dedicated portfolio team works with our customers to add value to help businesses succeed.

portfolio contact at a time when support is most needed. This will be achieved through the reallocation of existing colleagues to form a new tier to the portfolio structure, utilising support available for these customers through Business Wales, as well as optimising digitalised process efficiencies, benefiting from the investment in digital transformation across the DBW Group.

Impact in our communities

As a long-term provider of loans and equity investments to the micro to medium business community, we believe that small businesses and entrepreneurs rooted in the community can be part of the solution to local and global issues. As an organisation for the whole of Wales

we must maximise impact which includes our own operations. In 2020/21, we are evaluating our responsible business operations to further increase alignment to the Well-being of Future Generations (Wales) Act 2015 and extend the impact our operations have on our communities.

Capturing our impact

In 2020, we reported the first sample of our revised impact framework, built on the Well-being of Future Generation (Wales) Act 2015 and its alignment to the Sustainable Development Goals. This new framework, as shown below, extended the measurement of impact beyond KPIs such as jobs created or safeguarded, PSL and number

of businesses supported. During 2020/21, we will review the framework's structure to consider the focus of our impact under each theme. As this new framework continues into its second year, envisioned improvements in data quality will allow further impact metrics to be reported across all themes.



Prosperity and Global Opportunity

This theme helps us measure how our customers and our loans and investments impact economic growth, and the distribution of this growth, for a more prosperous Wales with a vibrant culture. Under this theme in 2020/21, we will:

- 1. Encourage growth through exporting
- 2. Raise awareness of the benefits of equity investment



Decarbonisation and Environment

The climate emergency requires action and we will work to support a more globally responsible Wales. Under this theme in 2020/21, we will:

- 1. Undertake research focused on SMEs approach to Decarbonisation
- 2. Develop new initiatives aligned to the decarbonisation agenda.
- 3. Identify areas in which we can improve in our operations



Communities, Health and Social Inclusion

We want to improve financial inclusion and make investments that address societal issues, measuring our impact on creating a more equal and healthier Wales of cohesive communities. Under this theme in 2020/21, we will:

- 1. Support female entrepreneurs
- 2. Consider barriers to entrepreneurship for people under 25
- 3. Work with representative groups from BAME



Innovation and Digital Inclusion

The metrics under this theme will help us measure how our businesses are innovating, adapting and growing for a more resilient Wales. Under this theme in 2020/21, we will:

- 1. Encourage our customers to improve their efficiency and opportunities for innovation by offering two master classes on 'Building Better Businesses' through 1) Investing in Innovation and 2) Investing in your Productivity

RESEARCH

Dirnad Economi Cymru
Economic Intelligence Wales

Economic Intelligence Wales

Economic Intelligence Wales (EIW) was set up with the purpose of collating and analysing data to create independent, robust and reliable insight to help better understand and improve the Welsh economy. Economic Intelligence Wales fulfilling its role is crucial as the economy navigates the impact of the pandemic and the recovery. To achieve this, future Quarterly reports will focus upon:

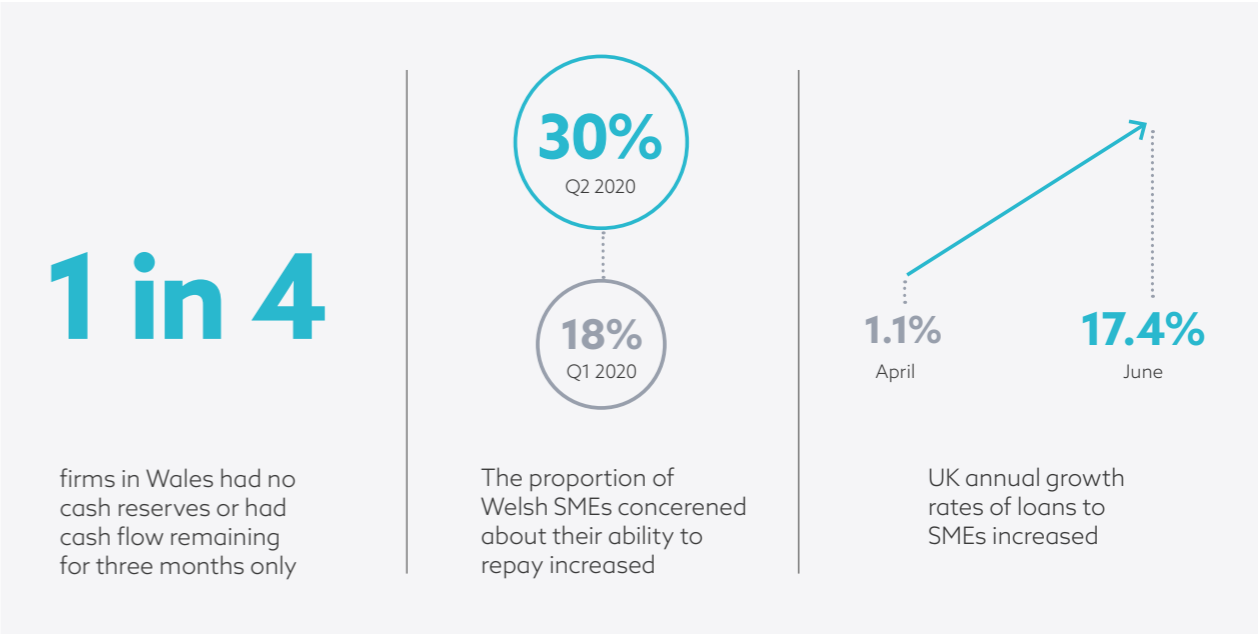
- Continuity – to incorporate emerging datasets into its established datasets as an important source of Welsh specific data
- Covid-19 – to monitor the impact of the pandemic on Welsh economy and supply and demand of finance over time, including the impact of interventions to support the recovery

- Brexit – to monitor impact of Brexit on Welsh economy and supply and demand of finance over time
- In its third year of operations, Economic Intelligence Wales will adjust to give greater coverage of the pandemic recovery and Brexit impact through its scheduled reports and bespoke report capacity, as well as consideration on the challenges of decarbonisation and inclusive growth. As part of the 2020/21 year, an external review of Economic Intelligent Wales' structure, outputs, reach and impact will be commissioned to consider new ways of working and the shape of future collaboration agreements.

Real time intelligence

Outputs from the latest quarterly report from Economic Intelligence Wales have provided valuable insights into the businesses lending landscape that will help to guide our product development in 2020/21, this includes:

- More than one in four firms in Wales had no cash reserves or had cash flow remaining for three months only
- The proportion of Welsh SMEs concerned about their ability to repay increased from 18% to 30% between Q1 and Q2 2020
- Credit is currently more easily available than during the 2008/9 economic crisis due to policy interventions such as CBILS and Bounce Back
- UK annual growth rates of loans to SMEs went from 1.1% in April to 17.4% in June



PARTNERSHIPS

We will continue to work with a host of strategic public and private sector partners to influence long-term economic growth. Examples of some of the key areas of collaboration for 2020/21 are shown below.

As our shareholder, we will continue to deliver investment solutions to support policy direction for Homes and Places and the Economy and Transport departments. In 2020/21 the Development Bank will develop closer links with the Energy and Decarbonisation teams to consider investment service solutions as well as implementation of new initiatives.



WEFO remain a key strategic partner through the Wales Business Fund. We have worked with WEFO since the start of the year to secure new funding and create additional delivery flexibilities within the fund to ensure it can continue to meet the evolving needs of indigenous businesses.



Ongoing partnership continues through the FW Capital delivery contracts as well as regular communication on opportunities to increase the flow of investment into Wales.



The Development Bank continues to target referrals both to and from Business Wales as a key objective. In addition, representation on the Business Wales advisory Board by the Investment Director further strengthens opportunity for ongoing collaboration.



Other partnerships



Clwyd Pension Fund



Landsker Business Solutions



Wales Council for Voluntary Action



Wales Co-operative Centre



Cardiff University



Federation of Small Businesses

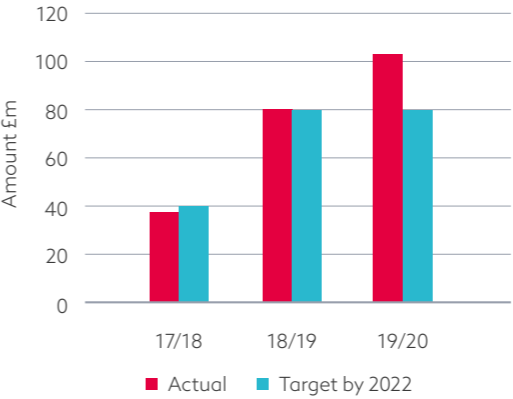
SCALE

Performance against five-year objectives

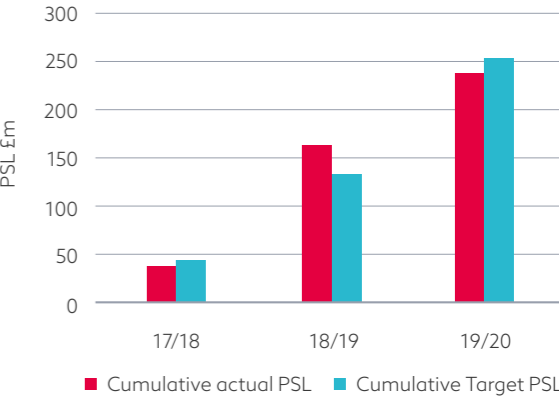
At launch, the Development Bank committed to the achievement of ambitious delivery targets to create significant impact on the Welsh economy for the

period 2017–2022. Progress against the four core areas of direct investment, Private Sector Leverage, number of investments and jobs is shown below.

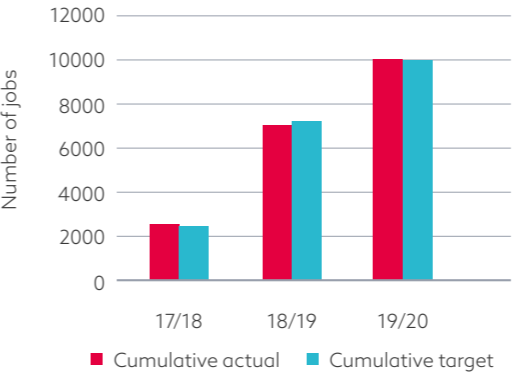
Investment



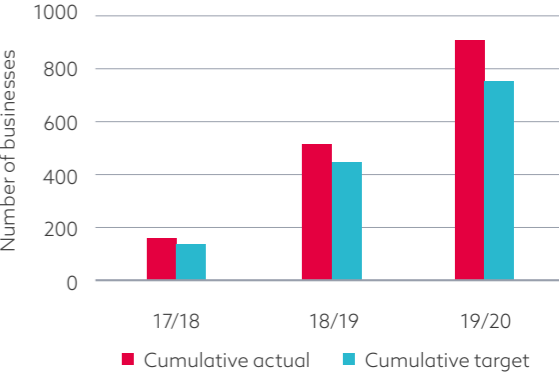
Private sector investment



Jobs



Businesses



Future funding environment

Throughout the history of our organisation, European Structural Funds have played a key role in achieving scale in our investment delivery capacity. This funding crucially creates legacy funding that can be reused to support businesses for years to come. While our current EU Fund, the Wales Business Fund, is not due to complete investing until 2023 it is imperative that the planning for its successor starts now.

The Development Bank has been working with a variety of stakeholders to shape the requirement for replacement funding following Brexit, including our shareholder the Welsh Government. This work

will continue throughout 2020/21 and beyond until a sound forward funding model is agreed, which secures the ability of the Development Bank to impact on economic development for years to come.

While the importance of ‘evergreen’ funding remains a priority, the Development Bank also offers a proven mechanism in the delivery of Financial Transaction Capital. It is through a combination of these sources that Development Bank will be able to continue to meet the needs of Welsh businesses and create an environment in which businesses can thrive.

RISK, GOVERNANCE AND COMPLIANCE

Governance

The Development Bank of Wales Group has robust governance and risk management systems which ensures clear monitoring of mitigating controls. Poor management of risks, and failure to identify emergent risks in a timely fashion, could adversely impact the Group’s performance, reputation, and longevity. Therefore, the Group adopts a layered risk management profile as demonstrated in Appendix 7. The Development Bank of Wales is a

responsible lender and fully aware of its obligations with regulatory compliance including the FCA Senior Manager and Certification Regime. We will continue to meet our obligations across internal, external, and European audits as well as providing comprehensive colleague training and development across all compliance needs. In 2020/21, specific focus will be given to the following areas.

Portfolio risk management

Recent global events have destabilised the investment market particularly that focused on support to SMEs. We have built our offering as a hands on, partnership approach that provides not just funding but also dedicated human interaction to support business success. We recognise the difficulties businesses will find themselves in as the impacts of both Covid-19 and Brexit unfold and we are therefore in 2020/21 gearing up our investment risk approach in the following ways:

- Proactive engagement between risk and portfolio monitoring teams to ensure early intervention and oversight
- Engage fully with the digital transformation project to identify where compliance solutions can be better automated
- Review of lessons learned from CWBLS delivery
- Review of the approach and benchmarking to portfolio health performance

Risk management tool

In 2020/21, the Development Bank will explore the benefits and options for bringing in a risk management software package to support this function as we continue to grow at pace.

Post Brexit environment

The Development Bank of Wales operates under the State Aid framework as the foundation for its operational investment parameters. As the UK transitions out of Europe and the oversight of this regulation transfers to the Competitions and Market Authority the implication of any changes will be carefully monitored and implemented throughout the latter part of 2020/21.

APPENDIX 1: BUDGET 2020/21

Forecast income	
Total forecast income	26,901,664
Forecast costs	
Total staffing and operational costs	
Development Bank of Wales plc	(11,029,665)
Wales Fund Management	(9,253,341)
FW Capital	(3,511,184)
HTBW	(2,874,213)
Total forecast costs	(26,668,403)
Surpluses	
Development Bank of Wales plc	(4,287,031)
Wales Fund Management	4,171,686
FW Capital	312,266
HTBW	36,340
Total surpluses	233,261

Continuing fund development has resulted in an increase in both forecast income and cost for 2020/21. This includes the rollout of the new Self Build Wales Fund, as well as increases in the Wales Flexible Investment Fund and the Wales Micro Loan Fund on the Welsh side, and the NPIF Funds on the FW Capital side. Significant recruitment capacity has been built in to support this expansion, alongside substantial investment in the Development Bank’s future via the development of IT infrastructure to implement more secure cloud-based systems and an improved digital customer experience.

The Help to Buy – Wales fund model has been revised, with fees now charged at a flat rate as opposed to being based on the retention of interest earned. Combined with little change in the cost base, this increase in fee income has allowed Help to Buy – Wales to cover its costs and move into a modest surplus position for the year.

Overall, a 1% surplus is forecast for 2020/21, with cost savings expected in future years as the efficiency benefits of investment in our systems flow through. This accrual of reserves is critical to enable Development Bank of Wales to sustain the business during future

fee fluctuations, and to continue to develop capacity to meet both regulatory and customer needs.

Continuing fund development has resulted in an increase in both forecast income and cost for 2020/21.

The group of entities included within the forecast income and costs are Development Bank of Wales Plc, Angels Invest Wales Ltd, Economic Intelligence Wales Ltd, Development Bank of Wales FM Ltd and FW Capital. It does not include the accounts of the ring-fenced holding fund companies.

APPENDIX 2: WELSH GOVERNMENT POLICY ALIGNMENT

The Development Bank of Wales was created to directly support the delivery of Welsh Government policy objectives. In December 2017, the Welsh Government launched its Prosperity for all Action plan which utilises the overarching aims of the Well-Being of Future Generation (Wales) Act 2015 to focus on interventions required to equip people, businesses and places with the tools they need to shape their own futures, and in turn the prosperity of Wales as a whole. The Development Bank of Wales in 2020/21 supports the key areas of this plan in the following ways:



APPENDIX 3: OUR FUNDS

The Development Bank currently manages 16 live funds which provide investment across the business lifecycle from early stage seed funding to succession and turnaround funding. In addition, the Development Bank operates the £523 million Help to Buy – Wales scheme which supports individuals to buy new homes across Wales. The Development Bank has worked closely with the Welsh Government to create a suite of products that directly meets the market needs.

Development Bank of Wales funds

£20m Wales Tech Seed Fund Equity funding for tech start-ups	£180.9m Wales Business Fund Generalist Equity and debt funding	£18m Wales Tourism Investment Fund Funding for strategic Tourism projects
£9.5m TVI Interim Fund Equity investment for technology businesses	£40m Stalled Sites Fund Unlocking property development opportunities	£25m Wales Management Succession Fund Funding buy-out opportunities
£25m Rescue and Restructuring Fund Turnaround funding for SMEs	£8m Wales Angel Co-investment Fund Co-investment with Angel syndicates	£12.5m Local Energy Fund Supporting community energy and decarb projects
£30m Wales Micro Loan Fund Supporting sub £50k investment needs	£25m Wales Capital Growth Fund Financing short term working capital	£32m Wales Property Development Fund Residential property funding
£55m Commercial Property Fund Funding development of commercial space	£137m Wales Flexible Investment Fund Generalist equity and debt funding	£523m Help to Buy – Wales Scheme Supporting home ownership across Wales
£92m Covid-19 Wales Business Loan Scheme Emergency response funding	£40m Self Build Fund Supporting individuals custom build their own homes	

APPENDIX 4: FW CAPITAL



Strategic overview

FW Capital is the Development Bank of Wales Group’s FCA registered Fund Management arm. It currently operates from 6 offices across the North of England with 32 staff, including 2 dedicated Fund

Directors who manage operations in the North West and North East of England. FW Capital forms a core part of the Development Bank of Wales Group strategy creating direct benefit to Wales through:

Financial

Generating revenue that can be repatriated to Wales to benefit Welsh businesses.

Expertise

Widening the scope of the Group’s investment activity and therefore increasing the knowledge base across the organisation.

Fundraising

Successfully securing and delivering contracts on behalf of third parties, including the British Business Bank.

2020/21 priorities

In 2019/20 FWC successfully secured an additional allocation of £40.6 million, for the Northern Powerhouse Investment Fund (NPIF), bringing the Fund total to £142.6 million. During 2020/21, following the impact of Covid-19, FWC achieved accreditation to deliver CBILS for NPIF with a lending limit of £40 million in total. Consideration will be given to any extension or update of the scheme following the deadline for new applications of November 2020. FW Capital will continue to prioritise the successful deployment of NPIF; BBB are putting together a proposal for NPIF2 and it is important for us to remain a key partner with

a strong track record in delivery to stand us in good stead in the forthcoming procurement exercise.

Due to an increased demand for North East Property Fund in the last six months an approach is being made to the investors in the fund (NELEP and Santander) to extend the Fund term by three years and commit further funds (£10 million) taking the Fund to £20 million. In 2020/21 FW Capital will prioritise fundraising and will develop an Investment Memorandum for a Management Succession Fund in England for launch in early 2021/22.

2020/21 target outputs

Funds	Target
NPIF – TVC and NW	£8.4m
North East Property Fund	£6m
Tees Valley Catalyst Fund	£2m

APPENDIX 5: ANGELS INVEST WALES



Strategic overview

The forward strategy for Angels Invest Wales 2020/21 is driven by the plans to expand engagement, maintain deal flow and significantly enhance an already reasonably well established brand identity. The Angels Invest Wales programme continues with an investor focused approach, seeking to continue to expand and develop the number of ‘first time’ angel investors, while ensuring that experienced investors in Wales and UK are aware of the good quality ‘investor ready’ prospects, business start up’s and entrepreneurs available in Wales through the Angels Invest Wales platform. The identification of additional experienced ‘lead investors’ for the Angel Co-investment Fund should also have a tangible impact on the growth of angel syndicates and ultimately angel deals.

The Angel Co-investment Fund

The Angel Co-investment Fund was launched by Minister for Economy and Transport in 2018 and currently has 8 registered ‘lead investors’ approved to submit investment opportunities for match funding. A priority in 2020/21 is to identify and approve an expanded cohort of experienced lead investors to support the growth of the fund deal flow and angel investment in Wales more generally.

2020/21 key performance indicators

Performance indicators	Target
Investment facilitated	£2.5m / 25 angel deals
New investors registered	40 new
ACF lead investors	6 new

Specific priorities this year;

New entrants

Encourage new entrants to the angel investment sector in Wales – maximise deal flow of angel investment in Wales.

Best practice

Cultivate experienced angel investors and advise on significant investment issues through a programme of best practice development support.

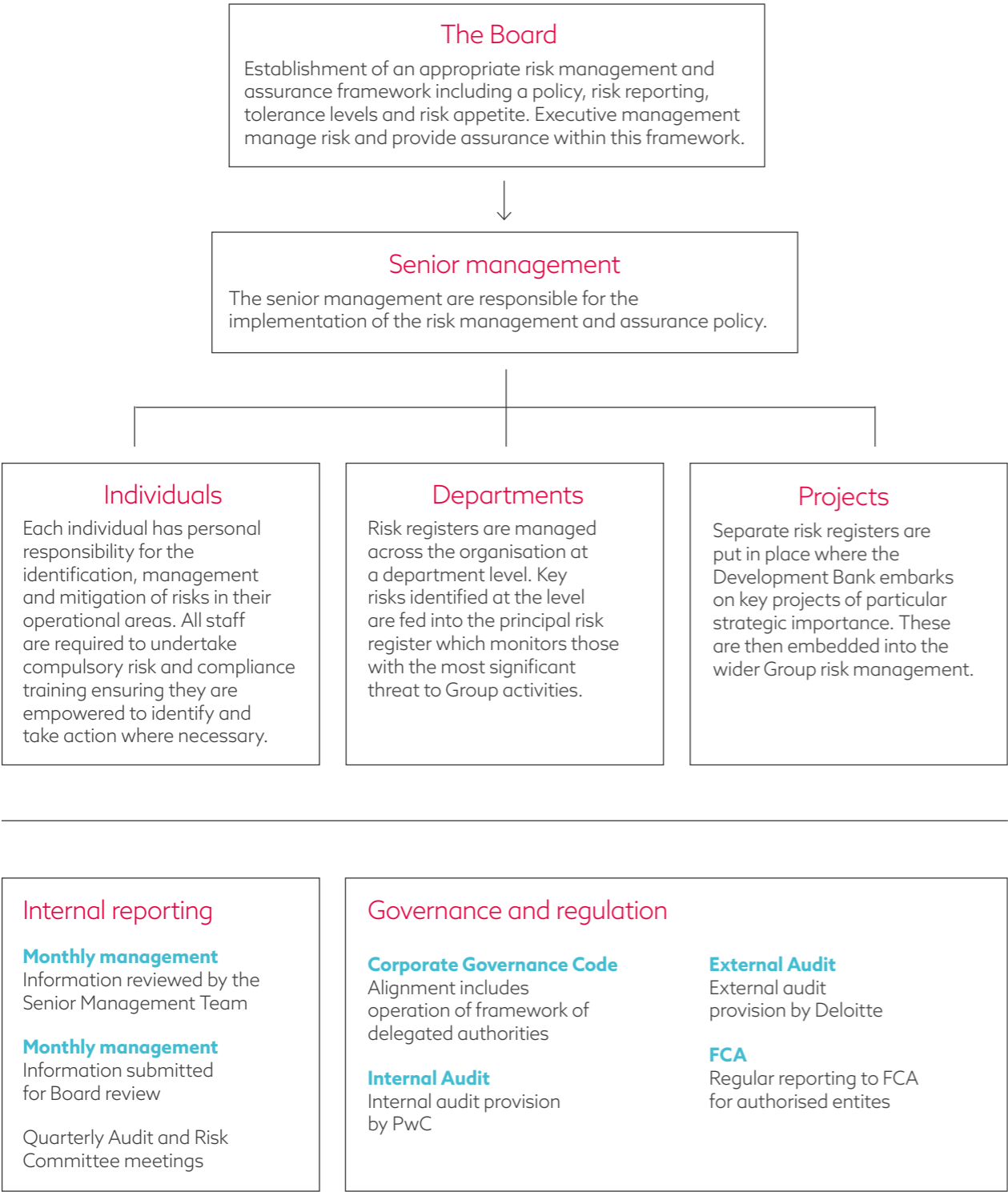
Syndication

Promote and encourage the formation of investment syndicates – identify and engage new ‘lead’ investors to expand activity supported by Angel Co-investment Fund.

Collaboration

Increase collaboration with strategic funding /equity partners UK wide on selected projects. Maintain external collaboration and play an active and effective part in supporting all business stakeholders and the Wales economic development eco system.

APPENDIX 6: RISK GOVERNANCE FRAMEWORK



APPENDIX 7: DEVELOPMENT BANK OF WALES STRATEGIC OVERVIEW

Financial	Long-term financial sustainability for ongoing economic impact					
	Transparent and accountable					
Customer	Maximise value for money	Legacy management strategy	Cost and revenue strategy			
	Wider benefit	Funding	Awareness			
Internal business	Leverage private sector investment	Delivery of stakeholder KPIs	Responsive market focused products	Flexible customer solutions	Brand and value proposition	Leading organisation market voice
	Operational	Innovation	Governance and policy			
Organisational growth	Continuous operational excellence	Continuous product development	Market leading governance standards			
	Scalability	Welsh Government investment service delivery	Full alignment with Welsh Government policy			
	Productivity	Employee voice	Pan-Wales presence			
	Technology	People	Culture			
	Invest in system efficiency through automation	Develop and progress talent	Customer focus			
	Develop greater productivity through processes	Strong employment brand	Flexible solutions			
		Competitive packages	Leading organisation			



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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.

