

Agenda – Economy, Trade, and Rural Affairs Committee

Meeting Venue:

Committee room 5 – Tŷ Hywel
and video conference via Zoom

Meeting date: 24 April 2024

Meeting time: 09.30

For further information contact:

Robert Donovan

Committee Clerk

0300 200 6565

SeneddEconomy@senedd.wales

Hybrid

Private pre-meeting

(09.15–09.30)

Public meeting

(09.30–12.00)

1 Introductions, apologies, substitutions, and declarations of interest

(09.30)

2 Papers to note

(09.30)

2.1 The Environment and Rural Affairs (Revocation and Consequential Provision) Regulations 2024

(Pages 1 – 2)

Attached Documents:

Letter from the Minister for Rural Affairs and North Wales, and Trefnydd – 15
March 2024

2.2 The Biocidal Products (Health and Safety) (Amendment and Transitional Provisions etc.) Regulations 2024

(Pages 3 – 4)



Attached Documents:

Letter from the Minister for Rural Affairs and North Wales, and Trefnydd – 18 March 2024

2.3 Drainage Districts

(Pages 5 – 14)

Attached Documents:

Letter from the Minister for Rural Affairs and North Wales, and Trefnydd – 19 March 2024

Letter from Natural Resources Wales – 21 March 2024

Letter from Farmers' Union of Wales – 22 March 2024

Letter from the Cabinet Secretary for Economy, Energy and Welsh Language – 08 April 2024

2.4 Future of Welsh Steel – Tata Steel UK

(Pages 15 – 23)

Attached Documents:

Letter from the Chair to Tata Steel UK – 19 March 2024

Letter from Tata Steel regarding Morfa Coke Ovens – 06 April 2024

Letter from the Chair to Carwyn Jones – 21 March 2024

Letter from the Chair to Carwyn Jones – 15 April 2024

Letter from the Chair to the Minister of State for Business and Trade – 21 March 2024

2.5 General Ministerial Scrutiny session – 6 March 2024: Follow up

(Pages 24 – 26)

Attached Documents:

Letter from the Chair to the Minister for Rural Affairs and North Wales, and Trefnydd – 21 March 2024

2.6 Hybu Cig Cymru

(Pages 27 – 28)

Attached Documents:

Letter from the Chair to the Cabinet Secretary for Climate Change and Rural Affairs – 22 March 2024

2.7 Welsh Government Draft Budget

(Pages 29 – 31)

Attached Documents:

Letter from the Chair of Finance Committee – 22 March 2024

2.8 Development Bank of Wales inquiry: Follow up to evidence session on 21 March 2024

(Pages 32 – 33)

Attached Documents:

Letter from the Chair to the Scottish National Investment Bank – 25 March 2024

2.9 The Official Controls (Miscellaneous Amendments) Regulations 2024

(Pages 34 – 35)

Attached Documents:

Letter from the Cabinet Secretary for Climate Change and Rural Affairs – 18 April 2024

3 Development Bank of Wales inquiry: Panel 4 – Development Bank of Wales

(09.30–10.40)

(Pages 36 – 52)

Gareth Bullock, Chair, Development Bank of Wales

Giles Thorley, Chief Executive Officer, Development Bank of Wales

Mike Owen, Group Investment Director, Development Bank of Wales

Rhian Elston, Wales Investment Director, Development Bank of Wales

Attached Documents:

Evidence paper – Development Bank of Wales

Break

(10.40–10.50)

4 Development Bank of Wales inquiry: Panel 5 – Cabinet Secretary for Economy, Energy and Welsh Language

(10.50–12.00)

(Pages 53 – 73)

Jeremy Miles MS, Cabinet Secretary for Economy, Energy and Welsh Language, Welsh Government

Duncan Hamer, Director, Operations – Business and Regions, Welsh Government

Jo Banks, Head of Access to Finance and DBW Partnership Team, Welsh Government

Attached Documents:

Evidence paper – Welsh Government

Research brief

5 Motion under Standing Order 17.42(ix) to resolve to exclude the public from the remainder of the meeting

(12.00)

Private

(12.00–12.30)

6 Consideration of evidence following the meeting

(12.00–12.10)

7 Future of Welsh Steel: Key issues paper

(12.10–12.25)

(Pages 74 – 89)

Attached Documents:

7 – Future of Welsh Steel Key Issues Paper

8 Budget Scrutiny Process

(12.25–12.30)

Lesley Griffiths AS/MS
Y Gweinidog Materion Gwledig a Gogledd Cymru, a'r Trefnydd
Minister for Rural Affairs and North Wales, and Trefnydd



Llywodraeth Cymru
Welsh Government

Paul Davies MS
Chair
Economy, Trade and Rural Affairs Committee
Senedd Cymru
Cardiff Bay
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SeneddEconomy@senedd.wales

15th March 2024

Dear Paul,

I refer to my letter to you of 29 February 2024. I am writing to inform the Committee I have given my consent to the Minister for Biosecurity, Animal Health and Welfare to lay the The Environment and Rural Affairs (Revocation and Consequential Provision) Regulations 2024 (“the Regulations”) in relation to Wales. I have laid a Written Statement which can be found at: [Written Statement: The Environment and Rural Affairs \(Revocation and Consequential Provision\) Regulations 2024 \(15 January 2024\) | GOV.WALES](#)

The Regulations intersect with devolved policy and will apply to Wales.. The Regulations extend to Northern Ireland, England, Scotland and Wales. The Statutory Instrument (SI) is subject to the negative procedure and was laid before Parliament on 13 March 2024.

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Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

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Correspondence.Lesley.Griffiths@gov.wales

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

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

I have written similarly to Llyr Gruffydd MS, the Chair of the Climate Change, Environment and Infrastructure Committee and Huw Irranca-Davies MS, Chair of the Legislation, Justice and Constitution Committee.

Yours sincerely,

A handwritten signature in cursive script that reads "Lesley Griffiths". The signature is written in a dark ink and is positioned centrally below the "Yours sincerely," text.

Lesley Griffiths AS/MS
Y Gweinidog Materion Gwledig a Gogledd Cymru, a'r Trefnydd
Minister for Rural Affairs and North Wales, and Trefnydd

Paul Davies MS Chair,
Economy, Trade and Rural Affairs Committee
Senedd Cymru
SeneddClimate@senedd.wales

18 March 2024

Dear Paul,

I refer to my letter to you of 5 February. I wish to inform the Committee I have given my consent to the Secretary of State to lay The Biocidal Products (Health and Safety) (Amendment and Transitional Provisions etc.) Regulations 2024 in relation to Wales. I have laid a Written Statement which can be found at [sub-ld16411-e.pdf \(senedd.wales\)](#).

The Regulations intersect with devolved policy and will apply to Wales. The Regulations extend to England, Scotland and Wales.

The Regulations were made in exercise of the powers delegated to the Secretary of State in Article 85 and Article 83A(2) of Great Britain Biocidal Products Regulation (EU) No 528/2012 (GB BPR) (adaptation to scientific and technical progress). The Statutory Instrument was subject to the negative procedure and was laid before Parliament on 13 March 2024 with a commencement date of 6 April 2024.

Currently legislation provides a power for the Secretary of State only to make regulations but there is a consent requirement and although the Welsh Government's general principle is that the law relating to devolved matters should be made and amended in Wales, on this occasion, it is considered appropriate for the substance of the amendments to apply to Wales as the Regulations are technical in nature and contain no change of policy. There is no policy divergence between the Welsh and UK Government in this matter. Under the current legislation, there is no provision allowing me to legislate separately for Wales.

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I have written similarly to Huw Irranca-Davies MS, the Chair of the Legislation, Justice and Constitution Committee.

Yours sincerely,

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Lesley Griffiths AS/MS
Y Gweinidog Materion Gwledig a Gogledd Cymru, a'r Trefnydd
Minister for Rural Affairs and North Wales, and Trefnydd

Paul Davies MS
Chair
Economy, Trade, and Rural Affairs Committee

19 March 2024

Dear Paul

Thank you for your letter of 29th February relating to the important work undertaken in Internal Drainage Districts (IDD), including to protect productive agricultural land across Wales.

Natural Resources Wales (NRW) carries out all Internal Drainage Board (IDB) functions in Wales and also manage risks from ordinary watercourses, surface water and groundwater in those drainage districts. This is an established function, however, we recognise there are challenges including the viability of sustainability for the IDBs specifically with climate change.

My officials and NRW acknowledge there is a need to discuss wider the functionality and effectiveness when it comes to flood defences. Affordability also must be a consideration and will be discussed when considering our longer-term investment needs for Flood and Coastal Erosion Risk management.

Due to wider legislative commitments, the proposed scheme which would have altered the IDD boundaries, has not yet progressed. This is again being considered and my officials are in direct dialogue with Welsh Government Legal Services and NRW to ensure a resolution to this outstanding amendment can be sought.

Regards



Lesley Griffiths AS/MS
Y Gweinidog Materion Gwledig a Gogledd Cymru, a'r Trefnydd
Minister for Rural Affairs and North Wales, and Trefnydd

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Internal Drainage Districts in Wales

NRW Response to Economy, Trade and Rural Affairs Committee, Senedd Cymru

March 2024

Background information and context

1. The role and purpose of Internal Drainage Boards (IDBs) and Internal Drainage Districts (IDDs) are defined in the Land Drainage Act 1991. The primary purpose of an IDB is to manage water levels in an area (the IDD) where there is a special need for drainage. IDDs are defined areas that “will derive benefit, or avoid danger as a result of drainage operations” (Part 1 section 1 sub-section 1 (a) of the Land Drainage Act). IDBs have powers to “exercise a general supervision over all matters relating to the drainage of land within their district” (Part 1 section 1 sub-section 2 (a)). IDBs are also a Risk Management Authority under the Floods and Water Management Act, with shared responsibilities to manage the risks of flooding alongside other RMAs.
2. There are 13 IDBs in Wales (see Figure 1) and Natural Resources Wales is the sole Internal Drainage Board for these 13 IDBs.
3. The drainage work in IDBs is funded through a combination of, drainage rates and special levies. All land and properties within a Drainage District are deemed to derive benefit from the activities of an IDB and therefore to contribute to its running costs. Local Authorities are charged a Special Levy by the Board in proportion to the annual value of non- agricultural land. Drainage Rates are paid by landowners, farmers and tenants in proportion to the annual value of agricultural land. A precept, as outlined in Section 141 of the Water Resources Act 1991, also applies, and this enables NRW to seek a contribution from IDBs for works essential to the Main River within, adjacent or flowing from or into an IDB.
4. Part of NRW’s role is to set our precept on the IDBs and to agree the special levies and drainage rates required to fund the work of the IDBs. NRW Board, in the role of the IDB, sets the rates and levies.
5. We have two non-executive Advisory Groups for Powysland and Gwent IDBs. The Gwent IDB comprises of Lower Wye and Caldicot & Wentlooge. We have a further five non-executive Advisory Groups for the eleven Districts located in north-west Wales.

6. The purpose of the IDD Advisory Groups is to engage with stakeholders and customers providing representative and independent advice to help inform NRW's executive decision making. Also, part of the purpose of the seven Advisory Groups is to recommend Drainage Rates and Special Levies for the NRW Board to consider and approve.

The current effectiveness of work undertaken within Drainage Districts

7. In its role as IDB, NRW undertakes operational activities within the IDBs to maintain watercourses and water management structures. These activities are funded from the rates and levies, with the precept being utilised for works on any designated Main Rivers in the area. NRW may also undertake flood risk management related work in these locations in its capacity as a Risk Management Authority.
8. These activities are undertaken in line with NRW's policies and procedures that apply in all locations, taking due account of regulatory, environmental, health and safety, procurement and accounting requirements. There are work schedules that are followed, and these are periodically reviewed.
9. We do at times receive feedback for more work to be done in the IDBs, but we must work within the ring-fenced budgets available (from the rates and levies). We are reviewing the costs we recover against each of the IDBs – we are aware of certain type of costs within certain IDBs where we are not covering all our costs and we plan to put proposals to our Board next winter to rectify that. The rates and levies in recent years have mostly been set at standstill, or below inflation, though we have had some IDBs request more work with charge payers willing to pay through greater increases in levies and drainage rates. The costs of our work have inevitably increased, whilst at the same time the drivers for doing more work are also increasing (e.g. increased rainfall rates, erosion rates and at times vegetation growth rates, all due to climate change). We do want to review our charges to ensure full cost recovery.
10. We also, at times, received feedback that our 'unit rates' for work is too expensive, but we have to work to the required standards and regulations, and to accounting and procurement rules.
11. We welcome feedback, and we work with and through the advisory groups to optimise our delivery, within the available budgets and within the remit of IDBs/IDBs.

The sustainability of the Drainage Districts approach in the long term

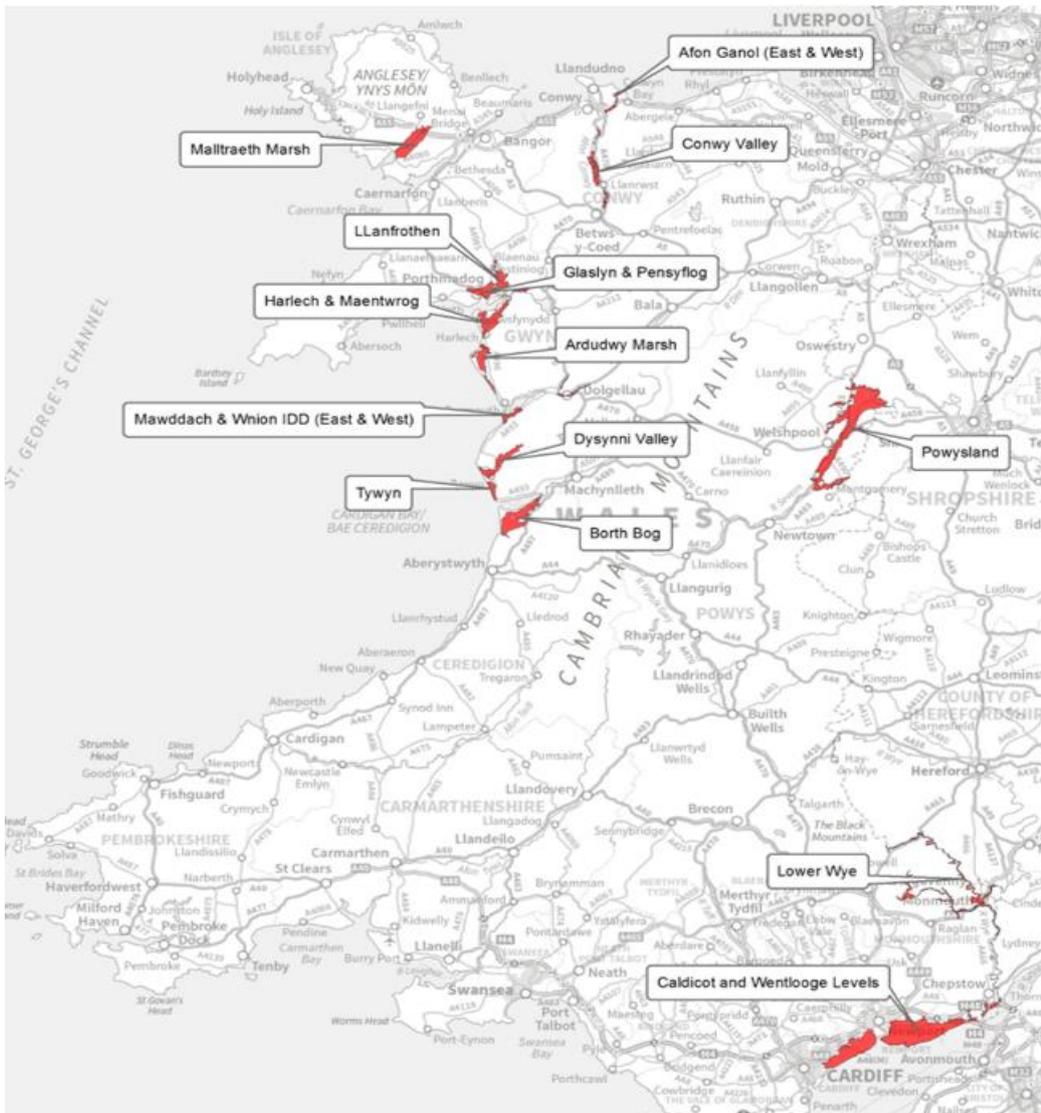
12. The evidence for global warming and the impacts of our changing climate are well documented. The impacts across the world are significant, and Wales is no different from anywhere else in seeing these impacts now, with the prospects of more frequent extreme weather events to come. Low-lying areas (inland or on the coast) are particularly susceptible to these impacts, including erosion and more frequent and

severe flooding, and (in coastal/tidal areas) sea-level rise. The size and scale of climate change impacts make it impossible to expect to be able to keep the status quo everywhere, and hold back these forces of nature. Even if we could, the costs of doing so will be huge.

13. NRW is required to follow UK Treasury investment rules, including when progressing its flood risk management work. This means that our flood risk management interventions need to be economically cost-beneficial. Government investment rules mean that the benefits are mostly valued in economic damage avoided to properties. It follows that locations with no or few properties that would benefit from flood risk management work have low cost-benefit, and in many cases the costs outweigh the benefits, meaning that investment is not economically justifiable.
14. We also need to follow Government requirements on prioritisation of our work. We are required to work on a prioritised risk basis, with flood risk being governed by the risk to properties. This means that our interventions will be prioritised to locations with the greatest levels of risk, heavily influenced by the number of properties at risk. The available budget is a limiting factor as to what is affordable, which means that interventions in locations with lower cost-benefit may not progress, on affordability and prioritisation grounds.
15. Combined, these economic and affordability considerations mean that areas with no or few properties benefitting are lower in the prioritisation for investment. This inevitably means that rural areas are less likely to receive flood risk management investment. If budgets are constrained further, then we will need to increasingly prioritise higher risk locations. Our recently published Long Term Investment Requirements work has drawn attention to the investment challenges ahead – see [Natural Resources Wales / Long-term Investment Requirements for Flood Defences in Wales](#)
16. The location of the 13 IDD areas are shown in Figure 1. Whilst they are often historically important agricultural land areas, they are typically in low lying flat land, next to a river and/or the sea. They are therefore in locations that are particularly susceptible to the impacts of climate change e.g. from flooding, erosion and/or (in coastal/tidal areas) sea level rise. They also will typically have fewer properties within them, and less likely to be prioritised for investment (see paras above). These two factors inevitably mean that the sustainability of these areas in the medium to long term is therefore uncertain; significant investment would be needed to prevent the impacts of climate change, and that investment is not likely to be prioritised under present Government rules.
17. It follows then that these IDD areas, like many locations across Wales and wider, will need to adapt to the changing climate. It calls into question the viability of continuing to focus on drainage in these areas and defending these areas from flooding. They are also often in environmentally designated or sensitive areas, which need careful consideration and management.

18. Equally, we are not saying that these areas are to be abandoned, with no investment. Nor are we saying that we are concluding that it is not viable to continue with drainage activities. But we cannot assume that the right approach is to keep the *status quo*. We are of the opinion that there should be a review of the purpose and role of IDBs/IDDs, and the operating model, and would be happy to play our part in such a review alongside all stakeholders. This sits within the need to continually review our collective flood risk management responses and future plans in all areas of Wales, and not just IDBs, as we respond to the significant challenges from the climate and nature emergencies.

Figure 1: Location of IDD in Wales (note that Caldicott & Wentlooge and Lower Wye areas are one IDD – the Gwent IDD)





Paul Davies MS

Chair Economy, Trade and Rural Affairs Committee

Senedd Cymru

Bae Caerdydd

CF99 1SN

22/03/2024

Dear Paul,

Thank you for your correspondence enquiring our views on the current effectiveness of operations within Drainage Districts in Wales. Please find our response below;

Feedback from our members that farm in and around Internal Drainage Districts (I.D.D) state the current management of drainage districts, which lies with Natural Resources Wales (NRW) is unacceptable and distressing for many.

As mentioned in your letter, the health of I.D.D are important to maintain the productivity and fertility of agricultural land across Wales, therefore the effectiveness of their management is vital. However, due to the recent poor management, long-periods of flooding is now a common sight in these areas resulting in decreasing biodiversity and reduced agricultural productivity. In addition, overgrown weeds and collapsed ditches that block water flow are a consequence of the lack of maintenance of I.D.D's, the resulting effects can be seen at locations like the Aber Dysynni, where water levels are unable to return to their intended state which prevents wading birds from foraging.

NRW have not been commencing maintenance work on the I.D.D until much later in the season, as late as November. It is felt that I.D.D management should start sooner in the calendar year due to seasonal wet weather during the Autumn months resulting in severe damage to the land and soil structure. The difficult working conditions pose a barrier to maintenance completion with ditches being left without being cleared.

It was also highlighted that NRW should be using appropriate sized machinery for the conditionals at specific locations. Members commented that large heavy machinery was used to undertake maintenance work on an I.D.D which caused unnecessary damage to land in that area.

Members who farm on the Malltraeth I.D.D, Ynys Môn, have extreme concerns on a breach in an embankment since 2017, meaning part of the I.D.D is under water for the majority of the year. There is no funding available to restore the embankment and farmers have been refused the licence to repair the breach themselves. These members are frustrated with having to face increasing business costs due to purchasing additional forage as their silage fields are under water, even during the summer months.

They, therefore, have to change their farming practices and potentially have to rent more land due to loss of productive land.

Moreover, the lack of management on I.D.D by NRW has negative impacts on local non-agricultural businesses like Clwb Gold Aberdyfi, who are forced to close areas golf courses due to flooding, once again losing potential earnings.

Regarding funding for the management of these I.D.D, FUW members are questioning the high administrative costs, compared with the insufficient amount spent on the I.D.D. themselves. Members felt that there is no value to be seen from the current funding and that funding intended to keep I.D.D'S in good condition is not being spent effectively.

The Land Drainage Act 1991 Section 14 declares that the duties of NRW with the management of I.D.D should include;

- to maintain existing works, that is to say, to cleanse, repair or otherwise maintain in a due state of efficiency any existing watercourse or drainage work
- to improve any existing works, that is to say, to deepen, widen, straighten or otherwise improve any existing watercourse or remove or alter mill dams, weirs or other obstructions to watercourses, or raise, widen or otherwise improve any existing drainage work;
- to construct new works, that is to say, to make any new watercourse or drainage work or erect any machinery or do any other act (other than an act referred to in paragraph (a) or (b) above) required for the drainage of any land.

Members felt strongly that NRW are currently neglecting their responsibilities in relation to The Land Drainage Act 1991 and facing no reprimand or consequences to their inaction, with the land-owners having to pay the price.

The land value of I.D.D in Wales is decreasing continuously with farmers having to deal with a constant drop in their profitability and land quality. Members clearly expressed their dissatisfaction on the management of this long standing issue and the inaction of NRW and unwillingness to co-work with land-owners to reach a practical solution to the situation.

FUW members have repeatedly called on NRW for better management for I.D.D. and communication with the land-owners stating that it is frustrating to report that there has been no direct meeting to discuss the dire situation of I.D.D since before the Covid-pandemic.

I trust due consideration will be given to the above comments and examples, I look forward to receiving any developments related to I.D.D.

Kind regards,

Elan Evans

Policy Officer

Farmers' Union of Wales

Huw Irranca-Davies MS
Cabinet Secretary for Climate Change and Rural Affairs

08 April 2024

Dear Huw

Internal Drainage Districts (IDDs)

On 19 March I received a response from the previous Minister for Rural Affairs to a request for information about the effectiveness and sustainability of the current approach to managing IDD, and whether funding and capacity was sufficient to support that work. I informed the Minister that the Committee was also writing to NFU, FUW and NRW for their views.

The Minister's response was brief and lacking in detail or timeframes for action. It indicated that work to alter IDD boundaries has stalled due to other legislative commitments but did not address the continued sustainability of the current IDD regime. The responses received from NRW and FUW indicate there are significant issues to be addressed, including around NRW's ability to effectively fulfil its role as Internal Drainage Board for the 13 IDDs in Wales. This is particularly important in light of climate change and the need to protect fertile and productive agricultural land. NRW's response calls for a review:

"We are of the opinion that there should be a review of the purpose and role of IDBs/IDDs, and the operating model, and would be happy to play our part in such a review alongside all stakeholders. This sits within the need to continually review our collective flood risk management responses and future plans in all areas of Wales, and not just IDDs, as we respond to the significant challenges from the climate and nature emergencies."

The responses are attached and will be published as papers to note at the Committee's next meeting on 24 April. I would be grateful if you would review them and provide the Committee with a more full explanation of Welsh Government's plans in this regard, and clear timescales for further action. The

Committee has been asked to undertake an inquiry into this issue, and would like a fuller response from the Welsh Government before proceeding further.

I look forward to hearing from you.

Kind regards,

A handwritten signature in black ink that reads "Paul Davies". The signature is written in a cursive style with a large initial 'P' and a long, sweeping underline.

Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

We welcome correspondence in Welsh or English



Rajesh Nair
Chief Executive
Tata Steel UK

19 March 2024

Dear Rajesh

Morfa Coke Ovens

I am writing regarding Tata Steel UK's **announcement** about the cessation of operations at Morfa Coke Ovens from Wednesday 20 March "as a result of significantly deteriorating operational stability". As part of the Committee's ongoing work on the future of Welsh steel I would like to seek some further detail and clarifications from you. Please can you respond to the following points?

- The press reports around 200 workers will be affected. Is that number correct? Can you tell us whether the workforce employed in the coking ovens and adjoining By-Products plant will be redeployed to other roles, and whether there will be scope for them to be employed to decommission the coke ovens?
- Can you confirm that Tata will now import coke to support blast furnace 5, and if so how long do you anticipate importing coke for? How do you expect this development to impact on the operation of blast furnace 5?
- Can you confirm your expected timescales for ceasing operations at the By-Products plant which adjoins the coking ovens?
- The unions have said that while they were aware the coking ovens were in a state of disrepair, Tata had not indicated in recent discussions that they were at risk of imminent closure. Unite also **claims** that Tata had recently "told the unions that it hoped to increase their capacity in the near future". How would you respond to these points?
- Tata has said the coke ovens will close due to concerns around their operational stability. Can you tell us what role health and safety considerations played in your decision to close the coking ovens, following these being **raised** by the unions at the Committee's meeting on 29 February?

- How would you respond to the **comments** by the Unite union in our evidence session with them on 29 February that "it's been the lack of investment, over the last 15 years, in the coke ovens that has led it to deteriorate to the situation it is"?

I look forward to hearing from you in due course.

Kind regards,



Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

CC:

We welcome correspondence in Welsh or English

Mr. Rajesh Nair
Chief Executive Officer
Tata Steel UK Ltd
Port Talbot
SA13 2NG

Paul Davies MS
Chair, Senedd Economy, Trade & Rural Affairs Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1NA

6 April 2024

Dear Mr Davies,

Thank you for your letter dated 19 March regarding Tata Steel UK's decision to cease operations of the Morfa Coke Ovens on 20 March. Apologies for the delay in responding to you.

The performance of the coke ovens had been deteriorating over many months, despite the best efforts by our workforce to maintain operational stability. Last month, the condition of the ovens worsened to a level making continued operation untenable. It was a sad moment and one which the business did not take lightly.

I have addressed the questions posed in your letter individually below:

The press reports around 200 workers will be affected. Is that number correct? Can you tell us whether the workforce employed in the coking ovens and adjoining By-Products plant will be redeployed to other roles, and whether there will be scope for them to be employed to decommission the coke ovens? Overall, 208 people have been affected by the closure of the Coke Ovens. All impacted staff have been either retained in the By-Products Plant, engaged in decommissioning or seconded into roles in Coke Sinter and Iron, Steel and Slab, Hot Rolled Products, Fire and Rescue, Energy or Stores.

We have now begun the voluntary redundancy aspiration process for Coke, Sinter and Iron, and will have further updates in due course.

Can you confirm that Tata will now import coke to support blast furnace 5, and if so how long do you anticipate importing coke for? How do you expect this development to impact on the operation of blast furnace 5? Tata Steel has been importing coke to underpin our operations for some time due to the operational challenges of maintaining our Coke Ovens. The business is working hard to secure sufficient coke to ensure continued operation of both blast furnaces to our proposed timelines and are confident that this will be achieved. To date, we have secured 280kt of imported coke during the first quarter of FY25 (Apr-June). For Q2 we have secured 50kt, with a further 70kt in progress.

Mr Rajesh Nair, Chief Executive Officer, Tata Steel UK

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Sensitivity: General

Can you confirm your expected timescales for ceasing operations at the By-Products plant which adjoins the coking ovens? The gas driven off the coal during the coking process is cooled, cleaned and stored at the By-products plant, ahead of being either reused or sold. Clean gas is recycled within the site as fuel for heat or electricity production. Given the nature of this process, and the value of the gasses stored, we expect the By-Products plant to continue operating for around three-months, following the closure of the Coke Ovens. The estimated closure is mid-June 2024, but this is subject to change.

The unions have said that while they were aware the coking ovens were in a state of disrepair, Tata had not indicated in recent discussions that they were at risk of imminent closure. Unite also claims that Tata had recently “told the unions that it hoped to increase their capacity in the near future”. How would you respond to these points? We have been in regular dialogue with the trade unions over several months about the critical operating condition of the Morfa Coke Ovens and provided frequent updates. Members of the UK Steel Committee visited the Coke Ovens on 6 March to see the condition of the asset for themselves and have been informed about the risk of premature closure. Tata Steel UK did not discuss increasing Coke Oven capacity with the UK Steel Committee as part of our ongoing dialogue.

The situation at the Morfa Coke Ovens was fast moving. The Ovens had been facing significant operational challenges for a long time and on Monday 18 March, following a drop down to 25 of 84 ovens, a decision had to be made. There was increasing concern regarding the safety of the assets which had to be a priority. As previously noted, this was not a decision that we took lightly – but was ultimately the right one.

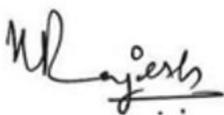
Tata has said the coke ovens will close due to concerns around their operational stability. Can you tell us what role health and safety considerations played in your decision to close the coking ovens, following these being raised by the unions at the Committee’s meeting on 29 February? The operational challenges at the Coke Ovens meant that health and safety concerns increased. By dropping to 25 ovens, we breached the gas main integrity and caused multiple by-product trips with increased safety risks. Tata Steel has been clear that health and safety is an absolute priority – and we took the decision to cease operations, following operational challenges, before health and safety became a significant risk.

How would you respond to the comments by the Unite union in our evidence session with them on 29 February that “it’s been the lack of investment, over the last 15 years, in the coke ovens that has led it to deteriorate to the situation it is”? Tata Steel has invested £4.7 billion in the UK business since 2007. This investment has been across our sites and assets. We did not take the decision to close the asset lightly, but ultimately the continued operation became untenable, not as a result of a lack of investment but due to the nature and age of the asset.

I hope the above has sufficiently answered your queries. If we can be of any further help to the Committee please do not hesitate to get back in touch.

We appreciate the ongoing engagement with yourself and Committee members.

Yours sincerely,



Rajesh Nair

Mr Rajesh Nair, Chief Executive Officer, Tata Steel UK

Port Talbot Works, Port Talbot SA13 2NG

T: +44 (0) 1639 891111. Email: rajesh.nair@tatasteel.com

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Sensitivity: General

Carwyn Jones

21 March 2024

The Future of Welsh Steel – Committee scrutiny

Annwyl Carwyn,

I am writing to you in relation to the Committee's ongoing work on the future of Welsh steel. Following Tata's announcement in January of their intention to close the blast furnaces in Port Talbot, the impact of job losses on the workers, the community and the wider Welsh economy has been at the forefront of Members' minds, and high on the Committee's agenda.

As part of our private discussions on the matter we have looked back at the Welsh Government's handling of the 2016 steel crisis, including your personal approach to engaging with Tata Steel in Wales and India. We would be very interested to hear your views on the current situation; particularly if you have any personal insights or lessons learnt from 2016 that you feel would be relevant to the handling of the current crisis.

If you would be willing to put your thoughts on this in writing it would be greatly appreciated by the Committee, which next meets on Wednesday 24 April.

Cofion cynnes,



Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

We welcome correspondence in Welsh or English

Carwyn Jones

15 April 2024

Annwyl Carwyn

The Future of Welsh Steel – Committee scrutiny

Thank you for your response and offer to answer specific questions or to attend Committee. As you will appreciate, the Committee is currently working to tight timescales on this issue, so I would be grateful if you could assist us in our work by providing a written response to the questions below.

Were there any approaches you found particularly effective when leading Welsh Government's engagement with Tata during your time as First Minister, particularly in the 2016 crisis?

Members noted that during the last crisis you prioritised visiting Tata's HQ in Mumbai. What impact do you feel this had on Tata's own approach and their decision-making? Is there anything from your approach that the Welsh Government could apply to the current situation, including any ways it could make the most of opportunities arising from the Wales in India year? .

Are there any lessons that could be learned from the approaches of the UK and Welsh Governments to joint working in the 2016 crisis that could be applied to the current situation?

I am mindful that this is the second serious financial crisis that Tata's Port Talbot plant, and the downstream plants, have faced in a decade. Bearing in mind your experience in 2016 do you believe the current proposals are suitably future proofed or do you foresee Tata requiring further substantial support from the public purse for its operations in South Wales?

As you will be aware, a Transition Board has been established to support the people, businesses and communities affected by Tata's proposals. Do you have any views on what actions the Board should prioritise and how a fair transition can be achieved?

I would also be very interested in any other lessons learnt from handling of the situation in 2016 that you think may be relevant today, or any other views you have on the future of Welsh Steel and the transition.

Thank you again for your offer to help with this inquiry. To support the Committee reporting on this urgent matter as soon as possible, would you be able to respond by 1 May? This will also allow us to publish your response in papers for our planned meeting on 9 May.

Cofion cynnes,

A handwritten signature in black ink that reads "Paul Davies". The signature is written in a cursive style with a large initial 'P' and a long, sweeping tail on the 's'.

Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

We welcome correspondence in Welsh or English

Nusrat Ghani MP

Minister of State for Business and Trade

Department for Business and Trade

21 March 2024

Tata Steel – consideration of policies to secure scrap steel supply

Dear Minister,

At its meeting on 14 March the Committee took evidence from the Secretary of State for Wales, David TC Davies MP, on the Future of Welsh Steel. During the session, in relation to future plans for an electric arc furnace at Port Talbot utilising scrap steel, he was questioned on the potential use of surplus UK scrap steel in Tata's proposed electric arc furnace.

There have been calls for the UK Government to develop policies to ensure a sufficient supply of domestic scrap steel for use by UK steelmakers in the context of potential rising future demand. When asked what discussions the UK Government have had on this issue, the Secretary of State suggested we write to the Department for Business and Trade to seek more detail.

I would be grateful therefore if you could tell us more about the discussions that have been held, and what consideration has been given to developing policies to secure sufficient domestic scrap steel for use by UK-based steelmakers.

The Committee has been prioritising scrutiny of ongoing developments at Tata Steel due to the dire implications for the workers, community and wider Welsh economy. We look forward to your response.

Kind regards,

A handwritten signature in black ink that reads "Paul Davies". The signature is written in a cursive style with a large initial 'P' and a long, sweeping tail on the 's'.

Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

We welcome correspondence in Welsh or English

**Economy, Trade, and
Rural Affairs Committee**

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Lesley Griffiths MS

Minister for Rural Affairs and North Wales,
and Trefnydd

21 March 2024

Follow up to General Ministerial Scrutiny on 6 March 2024 – National Minimum Standards and next steps with the Sustainable Farming Scheme

Dear Minister,

Thank you for your time answering Members' questions on Wednesday 6 March. I am writing to seek some further clarification from the Minister responsible for Rural Affairs on the answers given regarding National Minimum Standards (NMS) and future agricultural support under the Sustainable Farming Scheme (SFS).

National Minimum Standards and "the regulatory baseline"

In the White Paper for the Agriculture (Wales) Bill published in December 2020 you said that you intended to consolidate existing rules, including cross-compliance, to make up NMS. Responding to the consultation outcomes you said that "further work will need to be carried out on the development of NMS proposals, including exploring both legislative and non-legislative options for delivering our ambitions".

During Stage 2 of the scrutiny process for the Bill, in March 2022, you said the Welsh Government was considering the need for legislation to consolidate rules and confirm the regulatory baseline. Legislation was not brought forward, and at our meeting on 6 March you told the Committee that the rules are on the Welsh Government website and that they include cross-compliance – complying with both statutory management requirements (SMR), which would apply whether or not a farmer receives BPS support, and Good Agricultural and Environmental Conditions (GAEC), which only apply to farmers currently receiving support. You stated:



"the regulatory baseline for agriculture, which is what we refer to as NMS, already exists, and what that does is establish the minimum requirements every farmer must comply with and the associated criminal offences for any serious contraventions. So, as I say, that's already there; it's not part of the consultation. Obviously, NMS, or the regulatory baseline, is kept under review, and if there are any changes required—agricultural pollution regulations is an example—we always, obviously, consult before we bring them in."

The Committee would appreciate further clarity on whether or not a farmer who does not subscribe to the SFS would still have to apply GAEC, i.e. is the regulatory baseline the same for farmers who remain outside the scheme?

Stakeholders' expectations about a consolidated new set of standards, whether statutory or otherwise, have been raised during recent consultations, and stakeholders from across the board have called for these to be implemented. The scale of recent protests by farmers also underlines the need to ensure the sector fully understands Welsh Government's approach. Given Welsh Government has now taken a position on what constitutes 'National Minimum Standards' and 'the regulatory baseline', it would therefore be helpful if you could explain how you intend to communicate that clearly to all stakeholders.

UK Committee on Climate Change (UKCCC) recommendations and the rationale for the 10 per cent tree cover target

The UKCCC's 2023 Progress report: Reducing emissions in Wales recommended the Welsh Government should:

"Maintain and enhance incentives to support agroforestry and hedgerows in the Welsh farmed landscape over the transition to the new post-CAP framework. Plant trees on 2% of farmland by 2025 while maintaining its primary use, rising to 5% by 2035, and extend hedgerows by 20% by 2035 and better manage existing hedgerows."

Following recent farmer protests, you made a joint statement with the First Minister on 27 February setting out some potential next steps including:

"Ensuring actions within SFS are appropriately targeted at improving the economic resilience of farms. This includes ensuring woodland and habitat requirements do not make farms unviable."

You were asked in Committee about why Welsh Government had set a 10 per cent tree cover target for the SFS when the UKCCC recommendation was 5 per cent by 2035. In response you referred to a requirement for "43,000 hectares of new woodland by 2030" but also to other targets set by the

UKCCC for 2035, including an increase in annual tree planting rates from at least 4,500 hectares per year by 2030 to 7,500 hectares by 2035, for agroforestry to plant trees on 2 per cent of farmland by 2035, and for an extension of hedgerows by 2035. In light of the degree of concern and unrest in the farming sector over the tree cover target it would be helpful if you could set out in detail the rationale for coming to the 10 per cent tree cover target for farmers arising from these different UKCCC recommendations.

Review of the consultation process and next steps

The Welsh Government has been consulting on the SFS scheme for years and has carried out co-design exercises and established specialist working groups. Despite this level of engagement we have seen strong protests from farmers, and so what in your view has not worked in terms of the process and how do you think this can be rectified going forward?

There was frank discussion in Committee of the possibility of needing to delay the introduction of the scheme in 2025 as you repeatedly stressed the importance of “getting it right”. What would be the implications of the scheme not being introduced in 2025 - in terms of farm businesses but also the environment, given Welsh Government’s net zero and biodiversity commitments?

Given that there will be further “more meaningful” economic modelling with a different set of assumptions, and that you have said there will definitely need to be changes to the scheme, can we expect further consultation to take place, and if so can you provide details of how and when you expect this to happen?

It is also expected that further engagement will take place with specialist groups, for example through the Commons working group. The need to find solutions for groups such as tenant farmers, young farmers and new entrants and farmers on common land was something the Committee raised early on in scrutiny of the Agriculture (Wales) Bill. It would therefore be helpful to receive more information about what policy changes and practical actions are planned or being implemented to address the concerns raised with us and in response to Recommendation 6 of our Stage 1 Bill report published in January 2023.

Thank you for continuing to engage with the Committee on these important issues for the rural economy in Wales and we look forward to your response.

Kind regards,



Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee



Huw Irranca-Davies MS
Cabinet Secretary for Climate Change and Rural Affairs
Welsh Government

22 March 2024

Dear Huw,

Hybu Cig Cymru

I am writing in response to a letter your predecessor Lesley Griffiths MS sent to Llyr Gruffydd MS on 15 February regarding Hybu Cig Cymru (HCC).

Members have considered Lesley's response. We understand and accept that a Minister cannot comment on an ongoing HR matter. However, the Committee would like to be kept informed of the progress on the 'due process' HCC is undertaking.

Initially we would welcome detail on the anticipated timeline for the ongoing due process. Please can you provide this as soon as possible?

Once the process is concluded, Members would be keen to hear your views. At that point, please could you write to the Committee with an outline of the said process, the findings and your views on the matter. When we receive this Members will decide if the Committee wishes to proceed with formal work on this issue.

I look forward to hearing from you.

I have copied this letter to Llyr Gruffydd MS due to his interest in the matter.

Kind regards,

A handwritten signature in black ink that reads "Paul Davies". The signature is written in a cursive style with a long, sweeping tail on the letter 's'.

Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

We welcome correspondence in Welsh or English

CC: Llyr Gruffydd MS



Chair, Children, Young People, and Education Committee
Chair, Climate Change, Environment, and Infrastructure Committee
Chair, Culture, Communications, Welsh Language, Sport, and International Relations Committee
Chair, Economy, Trade, and Rural Affairs Committee
Chair, Equality and Social Justice Committee
Chair, Health and Social Care Committee
Chair, Legislation, Justice and Constitution Committee
Chair, Local Government and Housing Committee

22 March 2024

Dear Committee Chairs,

Scrutiny of the Draft Budget

You will recall that I wrote last year inviting Committees to express views on improvements that the Welsh Government could make to the documents it produces alongside its Draft Budget and in ministerial written evidence provided to Committees.

Your responses were considered by the Committee on 21 June 2023 and I subsequently wrote to the Minister for Finance and Local Government (the Minister) on 23 June 2023 asking for the concerns raised to be taken into account ahead of the 2024-25 budget round. These related to:

- the late publication of the Draft Budget leading to truncated scrutiny;
- a lack of transparency regarding the impact that the Draft Budget has on policy areas within each Committee's remit;
- the poor quality of written evidence provided by the Welsh Government; and
- the Welsh Government not providing responses to certain Committee recommendations ahead of the Final Budget debate.

These issues were raised again during the consideration of the Welsh Government Draft Budget 2024-25 earlier this year. Our report made the following recommendations and conclusions building on the views previously expressed:

***Conclusion 2.** The Committee will consult Senedd Committees involved in budget scrutiny ahead of the 2025-26 budget round to gain a better understanding of the evidence provided by the Welsh Government in support of the Draft Budget, and to explore ways to maximise budgetary scrutiny throughout the year*

***Recommendation 1.** The Committee recommends that the Minister publishes ministerial evidence papers at the same time as the Draft Budget in order to provide clarity on the criteria and priorities behind ministerial decisions, with the aim of enabling stakeholders to engage in the scrutiny process more effectively and at an earlier stage.*

***Recommendation 2.** The Committee recommends that, if the Draft Budget is delayed again in future years:*

- *the Minister and officials continue to attend a pre-scrutiny session with the Finance Committee; and*
- *the Minister works with the Finance Committee to identify approaches that can enhance scrutiny opportunities, including providing documentation relating to the Draft Budget, at an earlier stage.*

These recommendations were accepted in principle, with the Minister highlighting the practical difficulties in responding to the quantity of information requested by individual committees, at the same time as the publication of the Draft Budget.

We therefore ask you to consider the following issues, and to provide a response by Friday 24 May 2024.

- What improvements, if any, have you seen in the documentation provided by the Welsh Government alongside the Draft Budget 2024-25?
- Have you identified any further improvement that could be made to the information provided alongside the Draft Budget?
- Given the short time available for scrutiny, what consideration, if any, have you given to scrutinising budgetary matters within your remit at an earlier stage, for example considering longer terms strategic planning, following up on previous scrutiny recommendations or pre-scrutiny of decision making processes before the Draft Budget is published?



- The Committee is also currently working with the Minister and other stakeholders to review the Budget Process Protocol to ensure that the Senedd's budgetary processes reflect custom and practice developed in the Sixth Senedd to date. Do you have any views regarding the Senedd's budget procedures more widely?

We are grateful to you for your ongoing engagement with us on these matters and welcome any further correspondence responding to the points above.

Our aim is to raise these issues on behalf of Committees with the Minister in advance of the Plenary debate on budget priorities for 2025-26 that will take place before summer recess.

Yours sincerely,



Peredur Owen Griffiths MS
Chair, Finance Committee

Croesewir gohebiaeth yn Gymraeg neu Saesneg.

We welcome correspondence in Welsh or English.

**Economy, Trade, and
Rural Affairs Committee**

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Mike Wedderspoon

Director for Strategic Engagement and Delivery

Scottish National Investment Bank

David Ritchie

Executive Director for Partnerships and Engagement

Scottish National Investment Bank

25 March 2024

Dear Mike and David,

Development Bank of Wales Inquiry – follow up to 21 March evidence session

Members were very grateful to you for giving evidence to us last week, in what was a very useful session.

Following the session the Committee is keen to understand in more detail the 31 investments that Scottish National Investment Bank (SNIB) has made to date. The Committee would be very grateful if you could provide the following information for each of the 31 investments:

- Amount invested by SNIB (along with total size of investment if appropriate)
- Size of business invested in
- Sector of business invested in
- Number of jobs to be created



The Committee's final oral evidence sessions for this inquiry will be on Wednesday 24 April, so a response before then would be particularly helpful. If received after that date the information can still help to inform the Committee's reporting.

Thank you again for your time engaging with our work.

Kind regards,

A handwritten signature in black ink that reads "Paul Davies". The signature is written in a cursive style with a large initial 'P' and 'D'.

Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee

We welcome correspondence in Welsh or English



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MA/HIDCC/5010/24

Paul Davies MS
Chair
Economy, Trade and Rural Affairs Committee
Welsh Parliament
Cardiff Bay
Cardiff
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18 April 2024

Dear Paul,

I am writing to inform the Committee of my intention to consent to the UK Government making and laying the Official Controls (Miscellaneous Amendments) Regulations 2024 ('the 2024 regulations').

I have received a letter from the Minister of State for Biosecurity, Animal Health and Welfare, Lord Douglas-Miller, asking for consent to these Regulations. The Regulations intersect with devolved policy and will apply to Wales. The Regulations will extend to England, Scotland, and Wales and a similar request for consent has been sent to Scottish Ministers.

The Regulations will be made in exercise of the powers conferred under:

- Articles 72(3), 73(2), 76(4) and 105(6) of Regulation (EU) 2016/2031 of the European Parliament and of the Council on protective measures against pests of plants ("the Plant Health Regulation"), and
- Articles 22(2), 48(h), 54(3), 77(1), 90 and 144(6) of, and paragraph 3(2) of Annex 6 to, Regulation (EU) 2017/625 of the European Parliament and of the Council on official controls and other official activities performed to ensure the application of food and feed law, rules on animal health and welfare, plant health and plant protection products ("the Official Controls Regulation").

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1SN

Canolfan Cyswllt Cyntaf / First Point of Contact Centre:
0300 0604400

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

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

The purpose of the 2024 Regulations is to implement the second milestone of the Border Target Operating Model (“BTOM”), that comes into effect by 30 April 2024, to protect biosecurity and support trade between Great Britain (“GB”) and third countries. It introduces a new global risk-based import regime for goods from both the European Union (“EU”) and the rest of the world (“RoW”) from the end of April 2024. The changes made by the 2024 Regulations relate to controls on imports to England, Wales and Scotland for the set of commodities known collectively as sanitary and phytosanitary (“SPS”) goods.

These Regulations include provisions which exempt goods arriving from the island of Ireland from the requirement for identity and physical checks.

The Regulations do not commit Welsh Ministers to adopting any future UK Government position on biosecurity. The Regulations do not diminish or undermine the powers of Welsh Ministers in any way.

Although the Welsh Government’s general principle is that the law relating to devolved matters should be made and amended in Wales, on this occasion, it is considered appropriate for this instrument to apply to Wales as there is no policy divergence between the Welsh and UK Government in this matter. This ensures a coherent and consistent statute book with the regulations being accessible in a single instrument. I consider that legislating separately for Wales would be neither the most appropriate way to give effect to the necessary changes nor a prudent use of Welsh Government resources given other important priorities.

I am writing in similar terms to Sarah Murphy MS, Chair of the Legislation, Justice and Constitution Committee.

Yours sincerely,



Huw Irranca-Davies AS/MS

Ysgrifennydd y Cabinet dros Newid Hinsawdd a Materion Gwledig
Cabinet Secretary for Climate Change and Rural Affairs

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Gohebiaeth.Huw.Irranca-Davies@llyw.cymru
Correspondence.Huw.Irranca-Davies@gov.wales

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

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

Introduction

The Development Bank of Wales provides financial support to stimulate economic growth, innovation, and entrepreneurship, often operating in the market gap where viable businesses are not supported by the private sector. We help ambitious and promising businesses in Wales access sustainable finance to achieve their potential.

The products and services we offer ensure continuity of access to finance for micro to medium businesses. When other sources in the market are retrenching, we take on a counter-cyclical role and this has proved essential in the economic recovery from the Covid-19 pandemic. Our financial scale, skills, and fund structures are critical in doing this, enabling us to be agile and flexible in the way we respond to the market.

We offer a broad range of funding options, from smaller-scale micro lending through to property development and large-scale equity for growth. This range ensures we can play an essential role in meeting the ongoing needs of business including access to patient capital. The quantum and flexibility in our core funding offer, particularly through the Wales Flexible Investment Fund allows us to create tailored finance packages to suit customers' individual needs, enabling them to startup and grow.

Our investment principles underpin how we work to support economic development in Wales. They are designed to meet our shareholder's ambitions, taking account of the capacity of our operations and market regulation.

- We operate where there is **market failure**, supporting economic opportunity by making finance available to viable businesses and responding to evolving market and customer needs.
- We invest on **commercial terms**, pricing the investment fairly to reflect the risk. This ensures we are not displacing the private sector. It also means we generate returns that can be recycled into new customers, creating a long-term, value for money asset for Wales.
- An exception to this principle can be found in **emergent sectors** such as **green finance** where we have identified a need to incentivise change.
- We are a **patient investor**, providing accessible funding to support the long-term sustainability of the businesses we fund.
- We work in close collaboration with the private and public sector and **crowd-in private sector co-investment** wherever possible to increase the flow of funds in Wales.
- We invest for positive financial and non-financial impact in the regional communities we serve. **Environmental, social and governance** are considerations proportionately embedded in our investment decision-making.

Economy Trade and Rural Affairs Committee

Development Bank of Wales inquiry

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- We are a responsible investor, delivering **expert, independent investment management services**. Our experienced team adds value to the businesses we work with, for the life of the relationship.

While demand in Wales continues to be predominately for debt-based finance, we develop the market by encouraging suitable businesses to consider equity as a route to achieve growth. We have seen demand for equity fluctuate since the launch of the Development Bank reflecting the appetite for this type of funding.

We use both General and Financial Transaction Capital (“FTC”) on behalf of the Welsh Government. The restrictions that accompany FTC mean that the Development Bank is one of the few public bodies that can make use of this finance, reducing the pressure on General Capital. We can structure the funding within repayable funding models into the private market which satisfy the conditions set by His Majesties Treasury. Currently we invest c. £1.3 billion of FTC across our product suite.

Alongside our core debt and equity products, we also support the Welsh Government to deliver a number of specialist investment services including over £700m through the Help to Buy - Wales scheme and two homeowner support schemes - the Leaseholder Support Scheme and Help to Stay, for customers in difficulty as a result of fire safety issues or cost of living impacts respectively.

Furthermore, we provide portfolio management services for certain of the Welsh Government’s strategic investments as well as the Recovery Support Group, which offers access to expertise for business in difficulty that may include funding support if appropriate.

The Development Bank does this through a unique business model that does not require ‘grant in aid’ from the government for operational costs. Our economies of scale (supported by a continuous focus on efficiency with the benefit of improved technology) allow for cost effective delivery funded by returns on the funds under management, with the ability to recycle capital back into the economy over the longer term.

Importantly, we maintain a strong regional presence and customers and stakeholders benefit from local relationships with people embedded within communities across the whole of Wales. Feedback from stakeholders through our customer surveys tells us that working to find solutions which deliver positive outcomes, and our understanding of regional economic dynamics is as valued as the funding we offer.

Performance

Performance against both corporate plans and each of the supporting annual operational plans are outlined in detail within published annual reports and has been subject to annual scrutiny by Senedd committees. Headline outturn against top line targets is summarised below.

Economy Trade and Rural Affairs Committee
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We work with the colleagues in the Development Bank of Wales Partnership Team within the Welsh Government to set forecast targets and objectives across five-year phases for each corporate plan. Targets are based on the investment profiles of the funds to be invested during that period.

The primary target is the investment to be delivered with associated economic outcome targets set against the mix of products profiled in the period such as co-investment, jobs created and safeguarded, homes built and square footage of commercial property.

The achievement of targets over five years is influenced by three factors. Firstly, the activity of the Development Bank in promoting the funding available together with the mix of the specific products offered to the market in a given period. Secondly the prevailing economic conditions which impacts business confidence which in turn shapes demand, or inflation which shapes metrics such as job creation or property measures. Finally, the credit risk appetite of other lenders and investors which determines market competition and shapes co-investment.

The economic uncertainty as a result of shifting regulation following Brexit, post-covid recovery and the more recent cost of living crisis, has created a volatile market that has challenged the way we work. Ultimately, our role to provide liquidity is ever more important in a challenging environment particularly when traditional lenders and investors are changing their risk appetite. Given this overriding responsibility, our primary objective is to find a commercially satisfactory solution for the client whether or not this enhances our overall KPI measures.

One learning from our first corporate plan and reflected in the second, is the impact that increased property development activity has had against some outcome measures. This activity stimulates a wider range of impact measures such as homes built. Other lenders have retrenched away from supporting speculative development and typically the positive economic benefits of these funds are in sub-contracted work and much needed new housing and commercial property. Work is underway to review these and other measures in line with the way in which other public sector organisations track and ensure the true value is represented and not understated.

Headline KPI achievement

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Total economic impact (£'m)	212	280	251	330	228	258	1,563
Direct investment (£'m)	68	80	103	205	110	124	694
Co-investment (£'m)	70	126	76	60	64	114	510
Jobs created and safeguarded	3,909	3,660	3,964	19,347	3,540	4,669	39,089
Housing units	220	285	322	403	223	191	1,644
Commercial premises (sq. ft.)	28,977	20,204	29,601	70,892	73,350	67,407	290,431
Business supported	285	352	391	1,696	468	435	3,627
Help to Buy - Wales (£'m)	74	74	72	65	54	20	359

“The Development Bank of Wales - a strategic asset for a more prosperous Wales”

This prospectus was issued in July 2017 ahead of the launch of the Development Bank. Its aim was to outline the ambitions of the organisation prior to the release of the Corporate Plan and the more detailed five-year objectives.

The goals of both remain the same and we have achieved the following ambitions:

- To make more money available to Welsh businesses which has increased from £700 million in 2017/18 to £1.2 billion in March 2024.
- Develop new products and services with 15 launched since 2017.
- Offer tailored packages alongside ongoing customer relationship support.
- Establish Economic Intelligence Wales, a research unit which launched in 2018
- Moved our headquarters to Wrexham and expanded our physical presence across Wales.
- Exceeded the specific commitment to increase our capacity for dedicated micro lending from a £6 million fund to £40 million. Achieved by raising a further £42m for a total lending facility of £48m. These funds outsourced contracts to social enterprise specialists to ensure this

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sector had access to funding and our working relationship with the Wales Council for Voluntary Action over this period has been positive.

- Maintained focus on 'micro businesses' which makeup over 88% of the businesses supported and 55% of the value.

Corporate plan 2017/22

The first five-year corporate plan for the Development Bank centred on building our brand, scale and breadth. Setting in place long-term foundations, developing new working partnerships and practices such as embedding our early impact investment approach, which aligns with the Wellbeing of Future Generations Goals and the UN's Sustainable Development Goals. This has informed our priorities, enabling us to build a suite of enhanced products and services designed to meet the ongoing needs of the Welsh market.

2021 remit letter

The 2021 remit letter forms the basis of our corporate plan for 2022/27.

We welcomed the move by the Minister towards longer term planning, aligned to the term of government, recognising the reality of developing and implementing the corporate and annual plans while maintaining the level of stability necessary to maintain market confidence and meet our fund management obligations.

The remit letter tasks the Development Bank with meeting the high expectations and ambitions of Ministers within the Welsh Government and is the primary mechanism by which we align corporate strategy with economic development policy. These are broadly grouped into seven themes and headline progress against each is summarised at Appendix 1 with further detail available within each annual report.

Corporate plan 2022/27

Our objectives for the current corporate plan have progressed to further focus on our impact and role as a responsible investor through improved environmental, social and governance goals. We continue to facilitate an entrepreneurial culture in Wales, delivering over £258 million of economic impact in the first year.

We are developing new financial solutions with the Welsh Government to support the priorities set by the Minister in the Economic Mission, Net Zero transition plans and housing requirements having launched four new schemes in the period. The initiatives the Development Bank can undertake, particularly at a time of heightened pressure on public sector finances, offer cost effective options for government through repayable (non-grant) structures. We believe it is critical that hybrid funding structures and patient capital options are considered against all funding needs to ensure we maximise value from every pound of public sector funding, enabling it to go further.

An industry standard measure to track customer loyalty and satisfaction has been introduced, which we also use to measure and track employee engagement. Net Promoter Score¹ (“NPS”) asks a single question—how likely a customer or employee is to recommend a business. This clear focus on advocacy reflects our organisation culture which promotes customer satisfaction and reputation as of paramount importance. Tracking this measure, alongside other customer feedback routes, supports our understanding of real-time customer sentiment.

Alignment with economic development strategy and the wider business support ecosystem

As discussed above, the remit letter is the primary mechanism by which ministers align the priorities of the Development Bank to government policy and strategy and progress is further summarised at Appendix 1. While the core of our mission to provide finance to viable businesses who might otherwise be unable to raise capital is unchanged, the themes in the remit letter and wider government policies inform our activity in several ways. These include:

- The development of funds and services to address particular sectors such as the Wales Tourism Fund or segments such as decarbonisation.
- Activity which stimulates market appetite such as for equity investment.
- Changes to the way we develop and assess new investment proposals such as applications from younger entrepreneurs.

Programme for Government

Community, equality and social justice are the values which underpin the Programme for Government (PfG) and are embedded within the objectives of the Development Bank. Activity addresses a number of government policy areas such as building new homes, stimulating job creation, financial inclusion of underrepresented groups, decarbonisation and community owned renewable energy projects.

There are two key areas in the PfG which refer to commercial investment activity:

Expanding patient capital funds

Since the start of this term of government we have extended the quantum of patient capital from £30 million per annum to over £46 million per annum including extending the maximum term for debt finance to up to 15 years.

Increase the use of equity stakes in business support.

As the largest equity investor in Wales and one of the most active in the UK (350 investments between 2013 and 2022) we are capitalised to support innovative technology businesses, companies

¹ [Net Promoter Score \(NPS\) & System | Bain & Company](#)

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with ambitious growth plans and equity to support succession transactions. We monitor this investment on a rolling three-year average to help account for the volatility in demand for equity in the region. During the current term of government there has been a c. 12% increase in equity delivery (on a three-year rolling average basis), currently at an average of £15.5m per annum.

Economic Mission (Resilience and Reconstruction)

The four national priorities within the updated Economic Mission are reflected within our corporate plan. For instance, alignment with Priority 2 which sets out an ambition for young people, has resulted in a revised approach to the way we assess funding applications from younger entrepreneurs and an increase in the amount we invested in businesses with a director or owner under 30 from £4m at launch to £17m in 2022-23, tripling the number of individuals supported. Priority 1 focuses on a just transition and green prosperity and since 2022 we have launched two green schemes, become signatories to the UN backed Principles for Responsible Investment and joined the Partnership for Carbon Accounting Financials.

Innovative funding and service delivery

Since 2017 we have worked with officials in the Welsh Government to develop and launch 15 new funds. Each of these initiatives is in direct support of policy objectives and exemplifies the ability of the Development Bank to deliver successfully against a wide remit.

2017/18	Wales Flexible Investment Fund- £500 million
2018/19	Wales Angel Co-Investment Fund- £8 million Wales Self Build Fund- £40 million Wales Technology Seed Fund II- £20 million
2019/20	Wales Commercial Property Development Fund- £55 million Wales Tourism Investment Fund- £50 million Wales Stalled Sites Fund- £55 million Wales Micro Loan Fund- £30 million Wales Management Succession Fund- £25 million
2020/21	Covid Wales Business Loan Fund- £92 million Wales Rescue and Restructuring Fund- £25 million
2021/22	Town Centre Fund- £2.5 million Green Homes Incentive- £15 million
2022/23	Leaseholder Support Scheme- demand led. Green Business Loan Scheme- £10 million

2023/24	Help to Stay (Mortgage support) Scheme- £11 million
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Relationship with business support services

We recognise that a symbiotic relationship between funding and business support services is effective in fostering a vibrant entrepreneurial economy. Numerous successful models exist whether delivered by a single or multiple bodies, and each has inherent opportunities and risks.

Regardless of the particular delivery model, collaboration is essential while recognising that funders and advisory services may measure success differently.

Our approach is always to seek to build trust with stakeholders in the ecosystem through communicating how we can help clearly and consistently. We work closely with Business Wales, making it simpler and easier for businesses to access support alongside finance. We work together through both strategic and operational links and Business Wales remains our most prominent source of deal referrals for the micro loan team.

While the Development Bank doesn't provide support services, we do support portfolio companies to navigate the wider business support ecosystem and offer targeted specialist workshops and seminars and in some instances access to part funded consultancy services.

Green economy

In line with the term of government remit letter and our corporate plan ambitions, we are undertaking an active role in supporting the transition to a low carbon economy in Wales. In 2022 we set our green growth pledge and in 2023 recruited a dedicated sustainability manager to guide our work through this evolving area.

As a responsible investor our role is to assist businesses as they navigate net zero opportunities and challenges, working closely with key stakeholders, contributing fully to the ecosystem for green action in Wales. We will work with the tools available to us to continue to target decarbonisation impact, but it must be noted that incentivisation comes at a cost and the ability to progress all opportunities in this area is constrained by budget availability and accounting treatment.

We have integrated Environmental Social and Governance (ESG) considerations in our deal sanctioning to ensure that the public funds we manage meet the standards and priorities of Welsh Government. Alongside this we are developing stewardship activities across our investment portfolio to support our customers to realise the benefits of transitioning to more sustainable practices.

We are developing our stewardship across our portfolio to match the needs of our customers from growth equity deals to micro-loans. This approach centres on supporting our customers to integrate ESG considerations in their business planning, signposting to advisory support services, resources and further investment where required.

Live schemes

Decarbonisation investment for businesses - In February 2023, we launched the Green Business Loan Scheme which combines access to net zero consultancy through Business Wales or other services with a financial package for energy efficiency and decarbonisation projects. The total offer includes repayment holidays, discounted interest rates and patient capital making decarbonisation affordable.

Incentive schemes for SME developers - In 2022 we launched the Green Homes Incentive which offers reductions on the cost of borrowing to SME house builders using modern methods of construction/low carbon building methods.

Community energy support - We also manage the Local Energy Fund which supports SME and community groups with small scale regional renewable energy projects. This scheme offers long-term capital with dedicated technical support and grant where required.

In development

Housing retrofit - We are working with the Welsh Government team within Homes and Places to establish support for owner occupiers to access a funding package in support of implementing decarbonisation measures.

Large scale renewable energy - We are working with several third parties to establish support needs in the structuring of funding arrangements for large scale renewable energy developments.

Equity investments

The Development Bank of Wales makes equity investments into a diverse range of companies across business stages through seed and early stage to Series A and beyond. Our investments range from £25,000 seed finance to support pre-revenue IP rich companies to commercialise new technology, up to £10 million for ambitious growing businesses.

Typically, the rounds in which we participate are invested alongside and on the same terms as a private sector investor, supporting compliance with historic state aid rules. We are always a minority shareholder and positively avoid having control over company activities.

Equity investments are managed by specialist teams within the Development Bank. A dedicated technology ventures team with expert knowledge to support businesses through their early stages to commercialisation and on to growth. Our new investments team can offer a blend of debt and equity for more established businesses ensuring that companies benefit from the investment package best suited to their needs. The portfolio development team manages the relationship with the scale up equity portfolio and are focussed on supporting the growth journey of these businesses through to exit.

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The right to appoint an Investor Director (“ID”) to the board of an investee company is a standard condition of investment across the venture capital and private equity industries and is included within the BVCA model documents for early stage investing which we use². Whether and how this right is used will be dependent on the unique circumstances pertaining to the individual investee company.

Our standard equity investment documentation contains the right to appoint an ID or equivalent within it. The Development Bank’s ID is typically a non-executive role. Following appointment, the ID has the same legal duties as any other Director—that is to act in the interest of the company and all shareholders.

The circumstances of each equity investment will be unique and is especially informed by the degree of company development, the commercial challenges it faces and quantum of investment, or in other words, the level or risk to which we are exposed.

For mature, in revenue and profit companies we usually appoint an ID at our first round of equity investment. In contrast, we very rarely appoint an ID to our smaller, seed-stage technology investments. Maturing technology companies, into which we have committed more money, are a mixed picture—we do appoint IDs in some situations, but only when needed.

Investment Director appointments are always made with consideration and a genuine expectation that the ID will help the company achieve its business aims. Our funds benefit indirectly from this insofar as a successful company is much more likely to deliver a positive investment return.

Potential IDs are sourced from our extensive network of contacts. Others are found through advisory contacts and often at the suggestion of Investee Company boards themselves. IDs are proposed based on the specific challenges facing the investee company based on their skillset, experience and likely fit with the existing board dynamic and are not Development Bank of Wales employees.

It is usual that ID appointments are made with the agreement and consensus of the existing board and other stakeholders. A typical engagement would be for the prospective ID to undertake a piece of consultancy work for the business. For example, this might be some commercial due diligence (pre-investment) or a business diagnostic.

There are rare occasions when a consensus regarding appointment is not reached, but the Development Bank has enacted the right of appointment in any case. This is within our legal rights but is never done lightly and is usually done so in an effort to provide greater support to that company’s specific needs.

Investor Directors are paid a fee for their work for the Company, by the Company. Although appointed via investment rights they do not have any special obligation to act in the sole interests of

² [Model documents for early stage investments \(bvca.co.uk\)](https://www.bvca.co.uk)

the Development Bank. As outlined above, a Company Director has fiduciary duties to the company and all shareholders which override their own personal considerations.

Whilst we would expect a communicative relationship with the ID (as with all Directors), the Investor Director is not our sole or primary reporting conduit in regard to the company. A Development Bank colleague responsible for customer facing management of the investment will usually attend Board meetings as an observer, receive management accounts information and make reports & submissions internally.

Support for succession and management/employee buyouts.

Over recent years we have increased collaboration with Cwmpas and the Welsh Government, supporting the ambition in the Programme for Government to increase the number of employee buyouts undertaken in Wales. This includes:

- Working with Cwmpas as part of their “Wales Employee Ownership Forum” event
- Workshops with Business Wales and the Welsh Government advisory network in conjunction with Cwmpas to ensure broader understanding of succession and EBOs.
- Clear messaging on our website for enabling employees to get to the support they need if looking for EBO support including a direct link to Cwmpas.

The flexible funding that we offer can already support the investment required for employee buyouts and therefore a specific fund in this area is not required. Typically, we find that EBOs are funded through other sources, such as own funding or private lenders, accounting for the low number of specific EBOs from Development Bank funds which number 4 in total (for context, only c.68 have been recorded in Wales across all years). On many occasions however, we have gone on to support businesses that have undertaken an employee buyout with subsequent growth funding - such as Tregroes Waffles in Ceredigion.

EBOs form part of a much larger succession funding strategy delivered by the Development Bank of Wales. This includes our £25m Wales Management Succession Fund that has to date supported 19 businesses with £16m of investment. Since launch of the Development Bank, we have invested c. £95 million into succession transactions in Wales into over 250 companies. Our team regularly host meetings, workshops and seminars to educate on the routes to successful succession. Diane Walker was appointed to the Development Bank board in March 2022 and brings extensive experience of employee-owned businesses helping develop our knowledge in this area.

Complaints and feedback

Over the past year, we have updated our complaints handling policy and procedures and rolled out training to all customer-facing employees and continues for new employees.

In addition to management involvement in resolving individual complaints, we complete quarterly management reviews of complaints received to identify any recurring themes and undertake root

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cause analysis of both complaints and customer feedback. This data is used to inform procedural changes where possible and appropriate.

Two Group companies are authorised and regulated by the Financial Conduct Authority (FCA) for the provision of regulated consumer credit. These are the Group subsidiaries that are engaged in the provision of micro finance to business customers and the Help to Buy (Wales) scheme on behalf of the Welsh Government. Complaints data relating to the activities of these companies is reported and reviewed at the board meetings of one of the Group subsidiary companies; DBW Holdings Limited and is also reported annually to the FCA.

In order that all complainants are afforded equivalent standards of fairness and timeliness as regards complaints resolution, our approach to complaints handling is consistent across all areas of the business and is aligned with the standards required by the FCA with respect to regulated activity (even though not all group subsidiaries are themselves FCA regulated). Accordingly, we aim to provide an early resolution to complaints within 3 working days of receipt and if this is unsuccessful or not possible then we aim to resolve within 8 weeks.

If a complaint is not resolved to the complainant's satisfaction, escalation routes are available. In the case of the Group's FCA regulated subsidiaries, *eligible complainants* (as defined by the FCA, for example, individuals, micro and small enterprises and guarantors) have the option to escalate their complaint to the Financial Ombudsman Service (FOS). We advise eligible complainants of their rights in this regard as part of our response to their complaint. As regards other complaints, the escalation route is to a member of the Group's Investment Leadership Team.

The number of complaints received by the Group is comparatively small. In the 2023/24 year we received 1,765 applications for business funding and at the end of the financial year our portfolio comprised 3,764 businesses. Against this backdrop we received 11 complaints relating to our business lending and investment activity. There were a further 12 instances where customers provided feedback on our service but did not make a complaint. We are not aware of any of these complaints having been escalated to FOS.

Outside the formal complaints route, we take regular proactive steps to solicit feedback through a range of other mechanisms. As discussed earlier in this document, NPS is our standard KPI measure to track customer satisfaction. All customers receive a request for feedback following completion of a transaction, the returns from which are collated and reviewed corporately, by team managers and individual executives and are considered in performance reviews. Our senior team meet with stakeholders on a regional basis and our board hold biannual strategy sessions, most recently in Wrexham and Swansea which involve stakeholder engagement events. We also periodically undertake brand perceptions research with a broad range of stakeholders including customers, the wider SME population, business organisations and political audiences which informs our stakeholder engagement strategy.

Impact of the ONS reclassification

The Office for National Statistics (“ONS”) reclassified the Development Bank of Wales Group excluding FW Capital Limited as “Central Government” in their letter of August 2021, which was back dated to Sept 2017, when the Development Bank of Wales was formed from Finance Wales. FW Capital retained its classification as “Public Corporation”.

Historically, all the investing companies within the Group structure were classified as Public Corporation. When the Development Bank was created careful consideration was given, and external advice sought to this requirement, as well as State Aid and Teckal rule compliance.

This reclassification, which was not anticipated, means that the Development Bank of Wales Group, excluding FW Capital falls within the Welsh Government budgeting boundary and FW Capital lies outside the Welsh Government budgeting boundary.

The normal budgeting alignment process following a reclassification by the ONS is to reprofile the Arm Length Body (“ALB”)’s budgets so that the reclassification has “no financial detriment” to the ALB. This budgeting alignment process is held between the sponsor body (the Welsh Government) and HM Treasury (“HMT”), with the Development Bank providing historic and forecast budgeting information based on funding contracts between the Development Bank and the Welsh Government. At the time of writing this paper, the long-term budgetary treatment of the Group has not been agreed.

We understand that Welsh Government colleagues are considering various options for the budgeting treatment in this interim period whilst awaiting a settlement with HMT.

The reclassification and delayed budget reprofiling alignment with HMT is not currently impacting the activities agreed with the Welsh Government but remains a significant (government) budgetary risk in a circumstance where investment activity is constrained by budget cover as opposed to available funds.

Placing the Development Bank of Wales on a statutory footing

Across the UK other government owned investment bodies, including the Scottish National Investment Bank, the British Business Bank, and the UK Infrastructure Bank, have been created under specific legislation which puts them on a statutory footing.

Many of the benefits of a statutory footing have already been established for the Development Bank though existing frameworks and operating procedures. These include defining our objectives, powers and duties as well as ensuring policy alignment, which are all managed through the framework agreement with the Welsh Government and the term of Government remit letter.

In our view, one benefit of such a move would be longer term certainty which could open more opportunities to access private capital. A fund manager backed by a legal framework could seed

greater confidence from institutional investors such as pension funds who take a longer-term view. The same could be said for the business community who would have more confidence knowing the Development Bank will exist to provide future support and funding rounds.

Evidence from other Development Banks, suggest that such organisations, if delivered as part of a much longer strategy, have the capacity to diversify and grow to contribute to, or deliver, major economic and other government policy agendas. However, the timescales involved extend into decades rather than years and in all instances, feedback is that wording in any such legislation would need to be sufficiently specific so as to bring clarity and broad enough to allow sufficient flexibility to address a changing market.

Comparator organisations

Learning from other development banks and wider public finance institutions as well as best practice from the private sector has informed our strategy and practice.

Montreal Group

The Montreal Group is a not-for-profit association set up to facilitate collaboration between public banks. We have enjoyed a close relationship with the group for several years and have benefitted from attending their events, such as the CEO forum hosted in Amsterdam and a two-day event in London, where we presented our sustainability approach. The group gives us direct access to other development banks as well as research into relevant areas, such as impact reporting.

Relationships with other Development Banks

We have proactively built relationships with other banks such as the Business Development Bank of Canada (BDC), Scottish National Investment Bank, Scottish Enterprise, Finnvera, BPIFrance and KfW.

Examples of collaboration include:

- Knowledge sharing on products and services
 - Discussions with BPI France on their climate plan, including their transition loan and Coq Vert community. This helped shape our Green Business Loan Scheme.
 - Discussions with KfW on their support for retrofitting houses, this is informing our own retrofit scheme.
 - An understanding of the BDC Growth Driver programme, a paid for advisory service for high growth businesses.
- Sharing expertise on technical issues

- For example, the National Security and Investment Act and the Subsidy Control Regime with Scottish Enterprise.
- Research
 - We commissioned Edinburgh University to review best practices approaches to measuring impact, which included other development banks.

We also link to other organisations such as the OECD (Organisation for Economic Co-operation and Development) who commission relevant research and individuals such as leading economist specialising in international finance and development, Stephany Griffith Jones.

UK Public Finance Institutions—sustainability forum

We are members of a UK wide group that shares intelligence on developing common approaches to sustainability and green finance. Members include the UK Infrastructure Bank, UK Export Finance, The British Business Bank, Innovate UK, Scottish Enterprise and the Scottish National Investment Bank. A similar group is forming focused on the accounting treatment of Development Banks, something we initiated with the UK Infrastructure Bank.

Appendix 1–2021 remit letter – progress on key themes

- I. Economic recovery and growth-** Undertaking a full agile and adapting role to recovery, extending the patient capital offer, help businesses understand equity, financial inclusion for protected characteristics and socio-economic disadvantage and promotion of the Welsh language.
 - Expanding loan terms through the Wales Flexible Investment Fund to 15 years
 - Increasing our use of patient capital
 - Establishing and delivering an equity strategy including business development workshops, streamlining processes, blogs, and webinars and recruitment
 - Undertaking focused projects to consider actions required for women entrepreneurs and ethnic minority business owners - including launch of the first Women’s Angel Network
 - Regionally focused delivery–2023-24 investment spread 25% in North Wales, 26% in Mid and Southwest Wales and 49% Southeast Wales, which reflects the distribution of businesses across each region.
 - Continued work with the Welsh Government to proactively address needs in difficult market conditions- increased investment, incentivised ‘invest to save’ green lending.

- II. Net Zero -** Support the changes needed to business behaviours to meet Net Zero goals, embed net zero credentials in existing funds working with third parties and consider new fund solutions.
 - Established our Green Growth Pledge and embedded it within our 5-year objectives.
 - Net zero/environmental considerations embedded into investment decision making.
 - Recruitment of a dedicated sustainability manager and development of a sustainability strategy.
 - £10m Green Business Loan Scheme.
 - Green Homes Incentive to support green methods of housing construction.
 - Green investment champions appointed within the delivery teams.
 - Ongoing working relationships with Energy Savings Trust and Carbon Trust

- III. Fund management-** Consider options for the Wales Flexible Investment Fund to be evergreen, cross government working to support policy solutions, support Employee Buy Outs, deliver on our Key Performance Indicators.
 - Key Performance Indicators achievement is mainly tracking against target for the period to date.
 - Engagement across multiple Welsh Government department including tourism, creative, housing, economy, and energy.
 - Ongoing liaison with Business Wales and Cwmpas to promote Employee Buy Outs.
 - Adaption of the new Subsidy Control Regime including registration of the Rescue and Restructuring Scheme.
 - Full investment of the £216m Wales Business Fund, investing an additional £12m in 2023-2024 to secure future legacy EU funding for reuse in Wales.

- IV. Value, efficiency, and customer service** - Pursue efficiency gains and value for money, strengthen brand recognition, listen to customers experience and satisfaction, embed reputation as trusted expert and authoritative voice.
- Digital Transformation programme - new customer portal to go live in summer 2024.
 - Introduction of customer Net Promoter Score to measure customer satisfaction levels.
 - Economies of scale for each new scheme launched for the Welsh Government.
 - Efficiency KPI reporting including comparator organisation benchmarks.
 - Compliance with the Welsh Language Standards for service delivery across all activity.
- V. New funds and services**- Explore new product development, continued delivery of Mutual Investment Model, Angels Invest Wales and Help to Buy Wales, replacement ERDF funding, increase flow of funds, develop relationship with UKIB and BBB, continue to strengthen the Business Wales relationship.
- Launch of four new schemes, two green focused and two housing focused.
 - Wales Angel Co-Investment Fund tracking ahead of target with £6m invested.
 - Award of contract to run the £30m Debt Fund by British Business Bank as part of the £130m Investment Fund for Wales.
 - Investment Director membership on the Business Wales Advisory Board and ongoing customer referral mechanism in place.
 - Three new proposals to be submitted in 2024 for new and replacement funding solutions.
- VI. Intelligence and research**- Maximise Economic Intelligence Wales contribution.
- Regular joint events with FSB established for Senedd members.
 - Economic Resilience Fund longitudinal study undertaken.
 - Bespoke report on R&D intensive businesses published in March 2024.
 - Two new research partners added - ERC and Bangor University.
- VII. Budget and funding management**- Work with the Welsh Government to adapt to new budget management arrangements.
- Joint working with Welsh Government to establish new post-classification budget and reporting arrangements.

Agenda Item 4

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Summary

Since 2017 the Development Bank of Wales has matured and proven itself a stable and credible organisation which continues to show progress against strategic objectives within the policy and resource framework determined by Welsh Ministers.

By effectively deploying financial instruments the bank continues to demonstrate a clear contribution to economic development and wider Government priorities.

Over a period of unprecedented economic upheaval and uncertainty, examples such as the Covid-19 Wales Business Loan Scheme, the Green Business Loan Scheme and Help to Stay evidence the bank's capacity to effectively engage with complex policy challenges and deliver robust solutions into the market at pace.

Economic recovery and future growth

Government supported financial instruments, such as those deployed by the Development Bank of Wales and similar institutions in other nations, have an established role helping businesses access the finance they need to start up, develop and grow. Credibility and stability are keys to success in the marketplace, and since 2017 the Development Bank of Wales has embedded its position as a respected player within the finance ecosystem in Wales and beyond.

Engaging in the supply of business and property related finance, especially patient capital and equity investments, is a long-term commitment. Strategic investment decisions over recent years mean the bank is now capitalised and positioned to sustain core business lending and investment activities through to 2031, with options to continue recycling finance on an 'evergreen' basis thereafter.

The role of 'gap' finance is especially important during times of economic uncertainty and the Development Bank's level of investment has grown over the period. Indeed, with mainstream lenders taking a more risk-averse approach in the market¹, the bank is seeing an increase in new business enquiries from companies across a broader range of credit risk ratings and is playing a key role in sustaining the availability of finance to a number of essential sectors such as care in Wales.

Performance

In the view of the Welsh Government the bank has performed well against its key performance measures.

The Development Bank has worked closely with the Welsh Government to create a suite of products addressing market needs. The bank continues to identify opportunities for delivery where it can bring value and solutions to policy and delivery ambitions.

The bank is structured as a nationwide organisation, successfully supporting businesses across all parts of Wales. Across the four regions investment activity is

¹ [Small Business Finance Markets 2023/24 \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk) (Pg 16) *In 2023 Bank lending fell to £59.2bn, down 9% in nominal terms*

proportionate to the business population – with no evident bias toward any one region².

Between 2017 and March 2023, the Development Bank has had a total impact of £1.5bn on the Welsh economy. This includes £694m direct investment into over 3,600 Welsh businesses, supporting companies to create and safeguard 39,000 jobs.

An important aspect of the bank's approach involves working with co-investors to maximise the flow of private capital in Wales and minimise displacement. The bank secured £510m of direct private sector co-investment between 2017 and March 2023.

The bank's reach has also broadened to support policy priorities, such as residential and commercial property, investing £207m in property development projects, building over 1,600 new homes and developing 290,400 sq ft of commercial space.

The bank remains committed to the impact targets outlined in the Corporate Plan 2022-27³, these are to support over 2,200 businesses, support 20,000+ jobs, fund 1,900 new house builds and advance their decarbonisation offering.

Micro lending

Supporting the micro lending market continues to be a key objective of the Development Bank. The bank has directly supported micro lending since 2012 through two dedicated Micro Loan Funds. 2022-23 saw the bank investing £14.32m in start-ups and early stage companies, as well as supporting 320 different businesses with micro loans.

Patient capital

Patient capital is defined as lending over six or more years and provides a means through which businesses can reduce the monthly cost of servicing debts. Responding to the evolving needs of businesses, in 2021 the Welsh Government varied the terms of the Wales Flexible Investment Fund, enabling the bank to offer lending terms up to 15 years (up from 10 years). The market has responded positively to the availability of patient capital through the Development Bank. Since the start of this Senedd term the bank has extended the quantum of patient capital from £30m to over £46m per annum.

Private Sector Leverage (PSL)

We are aware that the bank's performance against PSL targets fluctuates. The Welsh Government does not consider this to be a reflection of any systemic under-performance on the part of the bank, but rather a reflection of market conditions. The Welsh Government has asked the bank to consider how it fully evaluates the impact of investment activity and the role of Economic Intelligence Wales in supporting this. We are mindful that driving the bank to increase PSL in the current market may work against broader economic development objectives.

Equity

² [Annual Report and Financial Statement 2022-23.pdf \(developmentbank.wales\)](#)

³ [Development Bank of Wales Corporate plan 2022/27](#)

The Development Bank has a central role to support the increased use of equity stakes in business support. Equity investment is inherently higher risk, with companies seeking such investment often being pre-revenue. Technology and medical related sectors represent key markets, with businesses often seeking several rounds of investment as products pass through market testing and regulatory approvals before the prospect of a return emerges. The development bank continues to be the biggest equity investor in Welsh businesses completing 350 deals across the high-growth ecosystem between 2013-2022⁴.

Since the start of this Senedd term in 2021, the bank has increased the use of equity stakes in business support from £14m (baseline FY 2021-22) to a rolling 3-year average of £15.5m. Reflecting market conditions, 2023-24 has seen deals taking longer to complete.

Even though equity deals are more high risk and complex in their nature there is evidence that this type of investment can yield strong economic development returns⁵.

Support for worker buyouts

The bank is also delivering in their supporting role on the Programme for Government commitment to provide greater support for worker buyouts and seek to double the number of employee-owned businesses. Between 2017-18 - 2022-23, the bank has funded 4 employee buyouts (EBO) and provided growth funding to 8 businesses after their EBO was completed. It should also be noted that since launch, in addition to funding these EBOs, the bank has also funded over 250 other succession investments worth c. £95m. These transactions demonstrate how effectively the bank contributes to the broad agenda of keeping businesses in Welsh ownership.

Increasing the flow of funds into Wales

The Development Bank has been successful in increasing the flow of funds into Wales.

The bank's delivery of EU Structural Funding via the Wales Business Fund helped maximise Wales' overall drawdown of this funding. Originally scaled at £136m, the fund ultimately delivered £216m of investment, creating a lasting legacy in Wales by the time the fund ceased investing in December 2023. 474 businesses were supported and over 8,800 jobs created and safeguarded. The finance deployed through the Wales Business Fund leveraged an additional £332m of private investment – multiplying the impact of funding and driving the value proposition. Evaluation⁶ has shown turnover growth 60% higher in companies that received Development Bank finance compared to those who had not.

⁴ [Beauhurst-Equity-Investment-in-Wales-2023.pdf](#) (pg 14)

⁵ [Beauhurst-Equity-Investment-in-Wales-2023.pdf](#) (pg 7)

⁶ Final Evaluation of the Wales Business Fund – Executive Summary [Regeneris Report \(developmentbank.wales\)](#)

In 2023 the British Business Bank launched the £130m Investment Fund for Wales. FW Capital, the FCA regulated subsidiary of the Development Bank, won the larger £30m debt contract, one of three fund management contracts in Wales.

British Business Bank and Development Bank of Wales funds have been operating alongside each other for some time and we do not expect these additional funds to displace Development Bank funding already in place in Wales.

Net Zero

The remit letter makes clear the expectation that the bank will be an active partner in developing the low carbon economy in Wales, directing the bank to not only stimulate and respond to market demands. We also wish to see the bank working with portfolio businesses to support their environmental actions.

The Development Bank has been active in its response to the decarbonisation challenge. The Green Homes Incentive, which launched in 2022, is supporting low carbon property developments. The Green Business Loan Scheme, launched in 2023, is financing business energy efficiency projects. The Green Business Loan Scheme has supported Welsh businesses to secure £4.5m for dedicated decarbonisation projects. A pilot in the initial phase, the scheme has helped establish the nature of demand in this new and evolving market segment. Consideration is now being given to how the scheme is mainstreamed.

The Development Bank is extending its role through active engagement with Welsh Government and other stakeholders to identify further opportunities and plans that will build the resource, capacity and impact of the bank's finance and service delivery on decarbonisation.

Commerciality and Risk

The Development Bank is required to operate on a commercial basis with the Board of the bank being accountable for the management of risk within the Group. The bank lends or invests where mainstream lenders are unwilling to offer terms, in full or in part. The finance available through the bank is therefore normally more expensive than might otherwise be secured from the mainstream market – reflecting that higher risk⁷. When making decisions the bank undertakes an assessment relative to the funding proposal to reach a view on the underlying strength, health and value of a businesses.

Across the portfolio of funds under management, different funds carry different risk thresholds – reflected in the finance award letters (contracts) in place between Welsh Government and the bank. Some funds require the bank to target repayment of 100% of the capital provided to it by Welsh Government. Other funds, which are inherently higher risk, reflect this by targeting returns significantly below 100%. Historically, much of the capital deployed by the bank has been Financial Transactions Capital (FT capital). This type of capital is allocated to the Welsh Government by HMT with certain conditions – including that it is deployed into the private sector on repayable terms through financial instruments. The bank has

⁷ Interest rates are benchmarked by an independent third party.

provided a successful vehicle through which FT capital can be utilised at scale in Wales.

HMT ultimately requires the Welsh Government to repay 80% of this capital. Therefore, this FT capital creates opportunities for the bank to accommodate risk in support of economic development objectives. Mainstream banks may tolerate loss rates of 1-1.5% on their lending portfolios. Development Bank loss rates carry up to and beyond 20% in some cases – reflecting the level of risk which the Welsh Government agrees with the bank on specific funds. Across the entire portfolio of funds under management, after operating fees are deducted, the bank is on track to return just over 90% of the FT capital provided to it by Welsh Government. The repayment figure, after fees, for those funds targeting business lending and investment (as opposed to property or housing related funds and services) is 80%.

The Welsh Government is therefore satisfied that the bank is deploying FT capital in a way which supports higher risk investments, doing so in a manner which prudently manages risk in the broader financial context in which it operates. The bank has used the opportunity presented by FT capital to operate financial instruments targeting the gap in the market where, without this support, quality deals and projects may go unsupported for lack of risk appetite in the wider lending and investment market.

Since the bank does not receive ‘grant in aid’ it utilises returns from the interest charged on loans (or returns from equity exits) to cover fund management fees and thereby meet organisational costs. In this way, when the Welsh Government provides capital to support a fund operated by the bank, 100% of that funding is deployed into businesses.

Value, efficiency, and customer service

As an organisation, the bank has grown since 2017, increasing the team to 269.67 FTE’s⁸. This growth is supported by advances in productivity, for example, through the bank’s programme of digital transformation designed to modernise customer interface to deliver efficiency and effectiveness gains.

It is now the case that algorithm based decision-making excludes many businesses from being able to talk to their bank about their finance needs. The bank is a regional impact investor with customer focus at its core. This point of differentiation has earned the bank a reputation among customers and wider network of business support partners as a credible, trusted and valued source of business funding support. The bank remains committed to a relational delivery model where customers can engage directly with individuals on a face-to-face basis as required.

The relational model is therefore an increasingly unique feature of the bank. The bank’s internal tracking measure on customer service is their Net Promoter Score, which allows the bank to benchmark against the industry. It is pleasing to note the current Net Promoter Score rates the bank as “excellent”.

The Development Bank has a role in business support more widely and there are clear benefits to effective working between Business Wales and the Development Bank. The Green Business Loan Scheme is an example of where an integrated approach has allowed businesses to access advice and support through Business

⁸ This figure includes FW Capital staffing delivering outside of Wales

Wales and where necessary grant funding for additional bespoke advice via innovation programmes as part of an integrated package designed around identified customer journeys.

Business Wales is there to provide impartial advice to SMEs. Development Bank of Wales services and funds are clearly signposted, as is information on opportunities from the wider market.

Concluding remarks

The actions and performance of the Development Bank of Wales demonstrate that repayable finance can successfully play a key role in supporting economic development and wider government priorities. Financial instruments are also offering a strong value proposition to Government, with private sector leverage amplifying the impact and returns available for reinvestment or redeployment.

The Welsh Government is confident in the Board of the Bank as it guides and challenges the organisation to deliver for Wales across an increasingly broad portfolio of business, property, housing and infrastructure projects and programmes.

All organisations develop and learn as they grow, and the Development Bank of Wales has matured and evolved its practices over time. In a fast changing world, the bank must continue to show agility and flexibility as it works with Government to deliver for Wales.

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Agenda Item 7

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