

Launch date for new £130m Wales fund from the British Business Bank

A new £130m fund to back the growth of Welsh firms from the British Business Bank will be operational this autumn, says its chief executive. Louis Taylor, who heads up the UK's Government economic development bank, also confirmed that a competitive tendering process for those seeking to manage what will be debt and equity pots within the fund will be launched in March.

The Welsh fund was first announced by Rishi Sunak, then as chancellor, in the 2021 Autumn Statement.

While still to be finalised, the fund is expected to have a similar profile to a new fund for the south-west of England from the British Business Bank, with micro-loans up to £25,000, another for debt funding up to £2m and then an equity investment element.

The equity component in the south-west fund will allow investments per deal up to £5m. Also to be decided is whether the fund will have a regional dimension or be solely Wales-wide.

For example, if regional this could see on its equity pot an element being ring-fenced for North Wales.

If the case it is still to be determined whether fund managers would be asked to bid for regional elements, or for one contract setting out investment targets region by region in Wales.

While the precise split between what will be debt and equity in the £130m fund has also to be finalised, equity is expected

to feature significantly.

On a visit to Wales, Mr Taylor said: “We are delighted there is not only a Wales fund, but for the two other devolved nations and some other regions of the UK as well. We have proved the value of regional funds through our existing Northern Powerhouse Fund, which is almost fully invested, and the Midlands Engine as well. When the Welsh fund was announced there was a total of £1.6bn for all of these new funds.

“We have already launched a request for proposals on the south-west fund and in Scotland too. We will launch the process here in Wales with a request for proposals from fund managers in March and anticipate the fund (all elements) to be operational and starting to distribute money in early autumn.

On why it has taken this long since the announcement by Mr Sunak, Mr Taylor, who took up his role last October succeeding Rhondda-born Catherine Lewis La Torre, said: “The timing of this is driven to a certain extent as to when the money is going to be available from the Treasury and that is committed.

“The second thing is it is really important to land these funds well. So, we spent some time in the summer and through the autumn talking to people and organisations locally about what is needed. It is not about the magnificence of Westminster dropping a load of money as it needs to be targeted and focused on where the need really exists. So, it has taken a little while to do that.”

The £130m will be invested over a five-year period.

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Mr Taylor, who was previously chief executive of UK Export Finance, said the finance for the Welsh fund – and the bank’s other new geographically specific funds across the UK – would not impact on the funding availability from the British Business Bank’s other funding pots, including its successful

Start-Up Loans scheme. He added: "There is no cut back as this is solely incremental."

He said the fund was being deliberately designed to have an impact on Wales.

The chief executive added: "It is important on structure that the whole of Wales benefits from this money, so it is not going to be just a single fund managed by a single fund manager and then say it all being allocated to Cardiff. So, it is likely to be split up. While the likelihood is that more money will go to equity than debt.

"We already have an idea on where we want to go, but there are a few more parties we need to consult with, including the Welsh Government, as they should have a say in what is needed as well.

"All of those perspectives will be taken into account when we allocate the funding, but by the time we get to March it will be very clear on what we are asking bids on, so regionally and on equity and debt."

Could one fund manager potentially be appointed to manage all elements of the fund?

Mr Taylor said: "If they have the capability, meet the criteria and are the best bids, then yes potentially that is possible."

While not a devolved funding matter, could the Welsh Government provide additional funding to boost the funding pot?

Mr Taylor said: "That hasn't been a direct discussion we have had. They put money into the economy in various ways, not least through the Development Bank of Wales (its wholly-owned investment bank). What we are hoping for is that this fund will catalyse more private money.

“If you look at our Northern Powerhouse Fund so far that has put around £380m to work over four years, but actually the amount invested alongside is an incremental £500m-plus, so that is £900m of effective finance which has gone in for a smaller amount of government money and we are hoping the same will happen in Wales. So, with the £130m there will be quite a lot of private money coming alongside.”

The Welsh fund will not stipulate that a fund manager appointed to run the equity element will have to match fund, so boosting the financial firepower from the outset. Mr Taylor said: “That is not the plan for this fund, nor has it been for other funds.”

However, if a fund manager wanted to provide additional funding, he said it would be welcomed.

He added: “We are not going to find ways not to capture say another £50m.”

Chief executive of the Development Bank of Wales Giles Thorley has confirmed [it will bid](#) for all elements of the new Welsh fund, as well as in the south-west of England.

Mr Taylor said the development bank, despite being publicly owned, could bid to run what is funding from another publicly-owned bank.

He added: “We will see who bids, but there is no barrier to DBW (Development Bank of Wales) bidding. We already work with them on the Northern Powerhouse Fund through their private arm (FW Capital) which is not funded by the Welsh Government and is self-sustaining as I understand it. Whether they bid or not is entirely up to them.”

But with its current large equity funding presence in the Wales marketplace could the development bank, if appointed to run the equity element, become an effective de facto monopoly?

Mr Taylor said: "I think the common purpose between DBW and us is to encourage more private sector investment through catalysing the market. So, it seems to me we have a common interest."

On the scale of investment under the equity element an upper ceiling on value has yet to be set. However, it is unlikely to be set too high and as a result only financing a relatively small number of firms.

Mr Taylor said: "The really important thing about the £130m, is that it should reach a good number of people. So, doing say £10m of equity for North West Wales and then doing a single £10m deal is not what it is about. There will be an oversight board and that will include local representation to hold our feet to the fire. There will be a set of aspirations about the number of companies we help, the average size of the transaction, whether that is debt or equity."

All elements of the fund will be priced at commercial rates.

However, as it stands returns on investments – through capital and interest payments on debt and profitable exits and dividends on equity investments – will not flow back into the fund to create the potential of an evergreen fund that could make future investments.

Mr Taylor said: "At the moment the plan would be for a five-year investment period and then the harvest period, which is never just five years. The intention is to realise the proceeds and they will, at the moment, go back to the Treasury, as it is not a permanent fund."

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But would he like to see an evergreen approach, which could be a policy of the next UK Government?

Mr Taylor said: "All our other permanent programmes continue.

"This is an increment (fund), but it would be great if it were there permanently as it is there to solve an issue which is a lack of capacity (funding) at the moment and a lack of risk appetite perhaps in the private market to do what this fund is going to do.

"And if we can demonstrate that money can be made and is an attractive prospect, ultimately you would hope that the providers of risk capital will be there. I would say the agenda we are pursuing, not only with this fund but the British Business Bank, is pretty apolitical as everybody wants more start-ups, regional development, jobs and innovation.

Equity gap

Mr Taylor said he recognises the equity investment gap in Wales, as well as other locations in the UK outside of London and the south-east of England.

Research by Leeds University Business School, has put the equity funding gap in Wales annually at more than £200m.

The chief executive said: "We have a mandate to improve access to finance across the UK and reduce disparities and realise the potential. And that potential is also in relation to diversity, so women founders and ethnic minorities and regional development as well.

“So these regional funds, of which the Welsh fund is one, are intended to address the equity gap. It is pure fact that equity raisers, in terms of number and size, are higher in London than elsewhere.”

There is also a recognised correlation between the close geographical proximity of where fund managers are based and where they invest – which reinforces deal flow in London and the south-east.

Mr Taylor said: “That is why we have a mandate to particularly support local fund managers and we recognise issues around location of capital and location of opportunity. It is quite a surprise in an electronic age and that financiers are theoretically sophisticated, but that is why we have that mandate to support local fund managers and why, with this Welsh fund, we are looking to them because we want local providers of capital across the UK in the same way that they are clustered in London.”

On the Welsh fund he said it would not set targets of investment to support female entrepreneurs or those from black, Asian and minority ethnic backgrounds.

He added: “We will track all the diverse characteristics, but for this fund we are not going to set specific criteria but there is a desire to see a broader diversity of founders in there.

“We do pretty well on the Start Up Loan Scheme where in Wales over 40% of the founders are female and 7.5% are BAME as well.”

Economy Minister Vaughan Gething said of the new fund: “I want to see more investment from the British Business Bank and I think you will see an honest attempt where there is access to all parts of Wales and it is simply not put into one of the regions over the others. So, I look forward to more conversations and future announcements in the spring and then

seeing the investments take place to help grow the economy in Wales.”

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