



Chair  
Public Accounts Committee

31 August 2016

Dear Chair

### **PAC – The WG Funding of Kancoat Ltd**

Further to your request of 19<sup>th</sup> July 2016 requesting Welsh Government's comments on the Auditor General's report on the financial support provided by Welsh Government for Kancoat Ltd, please see response detailed below.

### **Management Response**

Management have accepted the findings of the report and prior to receipt of the report had also commissioned its own internal lessons learnt exercise. It is now focusing on embedding the lessons learned, a summary of these actions is highlighted below.

### **Lessons learnt – Extract from WAO report**

*As a result of that review, and as part of the department's continuous improvement, Welsh Government officials informed us that a number of key changes in procedures have since been implemented:*

- 1. The consideration of commercial loans now forms part of the Financial Approval process and are subject to Investment Panel recommendation before Ministerial approval is sought.***

This process was agreed by CLT in June 2014 and has been embedded across the department as an integral part of the Financial Approval Process. The Wales Industrial Development Advisory Board and the Investment Panel consider applications that relate to a direct into investment into a specific business

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**2. Senior Management Team must now ratify any recommendation by the Investment Panel for commercial loans above £1m.**

This process was agreed by CLT in June 2014 and has been embedded across the department as an integral part of the Financial Approval process

**3. As part of the Financial Approval process a standalone appraisal of all projects involving commercial loans must be undertaken.**

This find is accepted and is being embedded across the department.

**4. The Monitoring of loans has moved to the Central Monitoring team, an agreed departmental protocol has been established to provide clarity on areas of responsibility.**

Protocol in place and shared with Finance Wales (FW) who also monitor some of our loans. We have agreed to meet quarterly with FW (next due October 2016).

**5. Loan applicants are more robustly assessed for their ability to repay by undertaking appropriate Financial Due Diligence.**

All loans have the ability to repay clearly assessed by the finance and due diligence function.

Where a business plan shows the ability to repay from financial forecasts the assumptions underpinning the business plan are robustly assessed.

**6. A standardised approach to risk assessment has been introduced to ensure consistency across funding schemes.**

This is inbuilt into our appraisal process across sectors and business. We have recently published some additional guidance to Sectors and Business Teams about the assessing of risk and how this is to be undertaken during the life of the project.

**7. Where multiple interventions are being considered (ie, financial support and property solutions) they are now considered by a single body (Investment Panel) with appropriate advice from the Property Leadership Team.**

This is now inbuilt into our financial approval process, projects are considered by the property leadership team and investment panel with PLT providing only technical advice

**8. The introduction of a standardised appraisal document has ensured a consistent approach to project appraisal is applied across funding schemes.**

This has been embedded across the department for about 18 months and ensures that all funding schemes are appraised on a consistent basis.

**9. Improvement in management information by driving increased and improved use of the departments Customer Relationship Management (CRM) system.**

We have recently moved to BAS with an increased number of users – we continue to ensure that all teams use the system and that the reporting function works to ensure Management Information is robust.

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**10. Centralised the issue of award letters to a single team, this has improved customer service and ensured that conditions of award are more consistent and robust.**

In addition we have recently moved the issue of letters of variation to this central team, with the aim of improving turnaround times and ensuring that there is a more robust review of risk assessment before changes to offers are made.

## **Overview**

Sectors and Business is embedding a 'continuous improvement culture' into the department. Management seek to copy best practice from both public and private sectors and use lessons learned from both successes and failures to improve future performance.

The lessons learned above have been shared widely across both Senior Management Team (SMT) and Corporate Leadership Team (CLT) and will be further embedded at future SMT meetings.

By way of context, a review of offers made by the department to businesses between 1<sup>st</sup> May 2011 and 1<sup>st</sup> September 2015, showed 1.3% by number of companies and 1.4% by value of grant had failed. In 2013 the enterprise death rate in Wales was 9.1% (UK was 9.7%).

Yours sincerely

**Mick McGuire**

Director, Sectors and Business