

Y Pwyllgor Cyfrifon Cyhoeddus / Public Accounts Committee
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Adran yr Economi, Sgiliau a Chyfoeth Naturiol / Department for Economy,
Skills and Natural Resources



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Chair, Public Accounts Committee

National Assembly for Wales 28 March 2017 c/o committeebusiness@wales.gsi.gov.uk

WELSH GOVERNMENT'S FUNDING OF KANCOAT Ltd

Dear Chair,

Please find enclosed a copy of the Welsh Government's response to your report on the Welsh Government's funding of Kancoat Ltd.

Of the 11 recommendations within this report, I can confirm that we fully accept 10 with one recommendation (No 7) accepted In-principle, work is underway to address them.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Mick McGuire'. The signature is fluid and cursive, with a horizontal line underneath.

Mick McGuire

Canolfan QED • QED Centre
Y Brif Rodfa • Main Avenue
Trefforest • Treforest
CF37 5YR

Ffôn • Tel 0300 061 5691
mick.mcguire@wales.gsi.gov.uk
Gwefan • website: www.wales.gov.uk



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Public Accounts Committee – Kancoat Ltd- Summary of Recommendations and Actions

Recommendation 1.

The Committee recommends the Welsh Government clarifies the definition of ‘advanced materials and manufacturing’ and the intention that this is to be considered as one sector. This clarification should be clear in defining as to what specifically is included in ‘advanced materials and manufacturing’.

Recommendation: Accepted

AM&M sector is one of the 8 Sectors within the Department portfolio. The Sectors and Business Department is currently under review and new structures may emerge to reflect Ministerial priorities. We will update the Committee on changes to the Departments portfolio which are expected to be completed by Summer 2017.

Following this review we will clarify the definition of ‘advanced materials and manufacturing’ and widely communicate this definition.

Recommendation: 2.

The Committee recommends that the Welsh Government keep clear records of decisions around the awarding of financing outside of established definitions. This will ensure that there are no questions of inconsistent treatment in the decision making process from those companies outside of the traditional definition that have not received support.

Recommendation: Accepted

We will reinforce the requirement for clear records of decisions around the awarding of all financing, including those outside of established definitions

The method of record keeping for the decision making process (including Ministerial approval) will be included in guidance to Heads of Sector which will also remind them of the need to include, as part of their recommendation, the rationale for supporting any project that does not fit with the established Sector definitions.

The detailed “Guidance to Heads of Sector” will be issued by Summer 2017.

Recommendation: 3.

To ensure sufficient clarity, the Committee recommends that the Welsh Government amend the terminology for the finance they provide from ‘non-repayable repayable’ to something which more accurately describes what is being offered.

Recommendation: Accepted

As an interim measure the Repayable Business Finance Scheme will be amended to “Business Finance Scheme” Clearer guidelines on whether an offer is on a repayable or non repayable basis will be issued following completion of the wider review that is due to be published later this year. The timings for this work is linked to our response to Recommendation 4.

Recommendation: 4.

The Committee recommends that the Welsh Government develop and publish clearer guidelines as to when non-repayable repayable business finance will be offered and when repayable business finance will be offered. We suggest that the Auditor General may wish to return to this issue in his future work on business support.

Recommendation: Accepted

The Welsh Government is reviewing its approach to providing financial support to businesses in Wales as part of the development of the Prosperous and Secure Strategy. This is one of the four cross-cutting strategies that will set out how the Welsh Government will deliver the commitments in *Taking Wales Forward*.

The four strategies will be published later this year and will inform the direction of our updated guidance which will confirm our position on both repayable and nonrepayable business finance.

Recommendation: 5.

The Committee recommends that the Welsh Government clarifies the distinction between actual repayable business finance (interest free) and commercial loans.

Recommendation: Accepted

We will clarify the distinction between actual repayable business finance (interest free) and commercial loans and widely communicate this distinction in line with the timings outlined in Recommendation 2.

Recommendation: 6.

The Committee recommends that the Welsh Government produces updated robust risk identification and mitigation guidance, which reflects the lessons learnt from this inquiry. This guidance should ensure that decision makers have a more robust framework from which to work and therefore give due consideration to risk. We would expect both risk identification and the adequacy of any proposed mitigation to be significant elements in the Auditor General's future work on Business Finance.

Recommendation: Accepted

Additional guidelines on risk assessment have recently been issued to officials within the Sectors and Business teams and will be more widely communicated. These guidelines cover risk definition, risk identification, risk assessment, risk mitigation and specific rules on the management of risk through the life of a project. They also include guidance on how to complete the risk assessment form that accompanies project appraisals.

In addition, as part of the Investment Panel scrutiny, panel members are asked to confirm they are content with the risk assessment of every case that is presented to them.

Recommendation: 7.

The Committee recommends that the First Minister ensures the Ministerial Code requires the consideration of perceived conflict of interests and that the outcome of such consideration is formally fully documented.

Recommendation: Accept in Principle.

Para 4.4 of the Ministerial Code already requires Cabinet Secretaries and Ministers to take particular care over decisions which could give rise to the possibility of a conflict of interest arising from their portfolio responsibilities and their constituency interests.

Cabinet Secretaries and Ministers are personally responsible for their actions and behaviour and must justify their conduct to the Assembly if necessary, as set out in para 1.3 of the Ministerial Code. If they consider there is the possibility of a conflict of interest, the First Minister's advice is sought and where such referrals are made they are fully documented.

Recommendation: 8.

The Committee recommends that decisions to go against the advice of the due diligence report should be clearly documented in project documentation. This is not to say that it should be followed in all instances, but that evidence of full consideration including a market analysis, and the reasons for decisions should be recorded to ensure that the value of due diligence is maintained.

Recommendation: Accepted

We will reinforce the requirement for clear records of decisions around the awarding of all financing. The method of record keeping for the decision making process (including Ministerial approval) will be included in updated guidance to Heads of Sector which will also remind them of the need to include, as part of their recommendation, the rationale for decisions which go against the advice of the due diligence report should be clearly documented in project documentation.

The guidance will make clear the distinction between due diligence and financial due diligence which is an important part of the due diligence process this will be issued in line with the timings outlined in Recommendation 2.

Recommendation: 9.

The Committee recommends that, when handling requests for the provision of additional financial support to companies, the Welsh Government should build in a more robust 'pause and reflect' stage to its due diligence, consideration and approval processes.

Recommendation: Accepted

Additional guidance will be incorporated into scheme rules to reinforce the importance of adopting a “pause and reflect” approach when dealing with either requests for additional financial support for a single project or with multiple requests for support from one company.

The detailed “Guidance to Heads of Sector” will be issued by Summer 2017.

Recommendation: 10.

The Committee recommends that Welsh Government guidance for investments explicitly states that up to date and independent professional valuations of any assets offered as collateral security are obtained prior to any finance being agreed.

Recommendation: Accepted

Where assets are being relied on as collateral security, internal guidelines will be updated to explicitly state that up to date and independent professional valuations of any assets offered as a first charge is obtained, prior to finance being agreed. This will be actioned by the end of April 2017.

Recommendation: 11.

We recommend that the Welsh Government inform the Committee about the outcome of any negotiations for the site, and the impact this has on the final sum lost as a result of the Kancoat investment and should include the cost of any remediation works.

Recommendation: Accepted

There is active interest from investors in the site. Once the outcome of the negotiations is known officials will share any financial implications with the Committee.