

Nick Ramsay AM

Chair, Public Accounts Committee
National Assembly for Wales

28 September 2018

Dear Nick

Auditor General's Report – The Welsh Government's relationship with Pinewood

You will be aware that the Auditor General recently published a facts-only report looking at The Welsh Government's relationship with Pinewood. This followed interest in the matter from a number of Assembly Members over a period of years, who had asked the Welsh Government for information explaining the nature of the relationship.

Background

In 2014, the Welsh Government purchased the former Energy Centre site at Wentloog to develop as a film and TV studio in collaboration with Pinewood Shepperton Plc. Shortly afterwards, Welsh Government Ministers entered into a 'Collaboration Agreement' with two newly established subsidiary companies of Pinewood. The agreement involved the Welsh Government:

- leasing the Wentloog studio to Pinewood;
- establishing a £30 million Media Investment Budget (for which Pinewood would source productions suitable for Welsh Government investment); and
- sponsoring Pinewood to market and promote both the studio and the investment budget.

The Welsh Government and Pinewood entered into a new 'Management Services Agreement' on 1 November 2017.

This new agreement contains two parts; the sales and marketing of the studio and the studio operation and management services. The Media Investment Budget is now being managed by Welsh Government officials. The annual net cost to the Welsh Government of the management services agreement is estimated to be £392,000 (plus an additional annual management fee to Pinewood, which has been redacted from the WAO report on the grounds of commercial sensitivity).

Welsh Government officials acknowledge that the current financial projections for this relationship do not represent good value for money. However, in their view it was more financially advantageous to enter into a new three-year agreement with Pinewood with the prospect of generating some commercial revenues, compared to the costs that the Welsh Government would have incurred by leaving the site empty whilst they searched for a new tenant.

When the report was published the Culture, Welsh Language and Communications Committee was nearing the end of its inquiry into film and major television production. The Welsh Government's relationship with Pinewood is a key part of its support for this industry. As such, when the WAO report was published, the Committee was keen to pursue the issues it raised with the Welsh Government, the chair of the Welsh Government's Creative Industries Sector Panel (Mr Ron Jones) and Pinewood themselves.

Accordingly, the Committee has taken oral evidence from Mr Jones, the Cabinet Secretary for Economy and Transport (Ken Skates AM), the Minister for Culture and Sport (Dafydd Elis-Thomas AM) and Welsh Government officials. These sessions took place on 20 June 2018 and 12 July 2018. As Pinewood were not able to attend a meeting before the summer recess, the Committee has written to them with a number of questions.

The Committee also received a private briefing from WAO officials at our meeting on 28 June, which was attended by Lee Waters AM as a Member of PAC. Adam Price AM was also able to attend our meeting on 12 July as a Member of PAC and was able to put some questions direct to Ministers and officials.

The Committee has looked at the Welsh Government's relationship with Pinewood as a key component of the Welsh Government's support for the screen industry. It will be reporting on the relationship in this light in the autumn. However, the WAO report, and



the subsequent evidence the Committee has received, raise a number of areas of concern that it thinks merit further scrutiny by the Public Accounts Committee. These concerns include:

- **Transparency:** the Welsh Government has refused on a number of occasions, following questions from individual Assembly Members, to disclose details of its relationship with Pinewood or to respond on the relationship and in particular its measurable benefits, citing commercial sensitivity. However, the WAO's report – which has been agreed by both the Welsh Government and Pinewood – only omits the value of the management fee that the Welsh Government is currently paying Pinewood. In the Committee's view, there was a strong public interest in disclosing as much detail of the relationship as possible. While we accept that commercial sensitivity is important, the fact that both the Welsh Government and Pinewood now accept that much of what was previously considered confidential can now be released, seems to demonstrate that greater efforts toward transparency should have been made earlier. The Committee has considerable concerns that, despite requests for information from various Assembly Members had it not been for the WAO report, this information would still not be in the public domain, and Assembly Members and the Welsh public would still be in the dark about the full nature of this relationship.
- **Nature of the property:** following the Welsh Government's acquisition of the old Energy Centre, it needed to undertake urgent repairs to the leaking roof, which cost £979,000. The Committee heard on 12 July that these were not identified before purchase, as the Welsh Government did not conduct a full building survey, just a valuation. This valuation report stated "No urgent or significant defects or items of repair were noted which would be likely to give rise to substantial expenditure in the foreseeable future". The Committee is surprised that the purchase of a property valued at over £6m was not subject to a more comprehensive building survey, which we would expect to be common practice on a purchase of this value. The Committee is not satisfied with the Government's response on this point.
- **Sponsorship arrangement:** as part of the original Collaboration Agreement, the Welsh Government also entered into a 'sponsorship agreement' with Pinewood



Studio (Wales) Ltd at an annual cost of £438,000 for the five years from March 2014 to March 2019. Shortly after the Collaboration Agreement was signed, Welsh Government officials recognised that VAT had been omitted from the original sponsorship agreement, so annual payments rose to £525,000. Both this error and the unforeseen roof repairs mentioned above give concerns about the degree of due diligence during this work. In particular, it is difficult to understand how the VAT implications could not have been understood if specialist advice was received.

- **Media Investment Budget:** Under the original collaboration agreement, Pinewood managed the Media Investment Budget (MIB) on behalf of the Welsh Government. This fund has underperformed against forecasts, both in terms of how much the Welsh Government has invested, and how much spend this has stimulated in the Welsh economy. The Welsh Government is still receiving returns on this investment, but initial receipts do not look promising. Pinewood has been involved in a similar fund on the Isle of Man: it is not currently clear the extent to which this fund's performance should have caused Welsh Government officials to have concerns about Pinewood's involvement in a similar fund in Wales.
- **Conflict of interest:** In August 2016 Welsh Government officials wrote to the Cabinet Secretary for Economy and Infrastructure setting out concerns with the MIB's performance, including that "Pinewood might be conflicted in its involvement with the budget as it also had an interest (not prohibited under the Collaboration Agreement) in providing its own London-based services to the industry". The Committee has received somewhat conflicting evidence on the extent to which this issue was covered under the original agreement. When asked on 20 June why the Welsh Government had not identified the possible conflict of interest at the outset of the relationship with Pinewood, a Welsh Government official said:

"...a conflict of interest was covered in the original agreement".

This assertion does not seem to be supported by the WAO report. This states that Pinewood's provision of London-based services to the industry was "not prohibited under the Collaboration Agreement". Your Committee may wish to seek further explanation of this apparently conflicting evidence.



- **Estimated revenues:** the Welsh Government has said that, despite annual estimated revenues of £714,000, the Pinewood studio will still run at an annual loss of more than £392,00 (this figure excludes a management fee, the value of which is redacted in the WAO report. The Cabinet Secretary told Members that Pinewood is currently “operating at capacity”. The Committee is unclear what exactly is meant by “at capacity”, and whether the annual estimated revenue has been revised in light of this fact. Recent correspondence from Pinewood indicated that the “occupancy rate for Stages 1–3 from November 2017 to end June 2018 was 44.12%”. The Committee would be interested in a further exploration of how this tallies with the Cabinet Secretary’s statement that the studio is “operating at capacity”.
- **Value of works carried out by Pinewood:** The Ministerial Advice prepared by Welsh Government officials that recommended termination of the original contracts with Pinewood (the Collaboration Agreement and Lease Agreement) stated that 'Pinewood had carried out works and investments in equipment at around £800,000'. However, it has become clear that the Welsh Government did not know the value of works carried out by Pinewood, and that this value of works was not specified in the Agreement to Lease the site. This issue was covered in the session with the Minister and officials on 12 July, though Members feel this issue merits further scrutiny, not least because we would expect to a schedule of required works to be attached to any lease agreement.
- **Listed Building:** A derelict Grade II listed farmhouse was included as part of the Energy Centre site. The Committee was disappointed that the Minister in his evidence told us that Welsh Government will only work on the farmhouse if required to do so by the local planning authority or Cadw.

These are the main issues that are of concern to the Committee. The Committee agrees that the relationship merits further scrutiny. However, this Committee’s focus has been on the broader policy issues, and we think that the relationship with Pinewood would benefit from the Public Accounts Committee’s focus on value-for-money and governance.

The WAO report is “facts only”, meaning that it does not contain recommendations to the Welsh Government. Although our work on the screen industry will no doubt



contain recommendations relating to Pinewood, we feel that the value for money and governance issues are ones that PAC is best placed to help the Welsh Government learn constructively from this episode. Given the concerns we have outlined, we hope that the Public Accounts Committee will ask the Welsh Government to respond to the WAO report on this occasion.

Consequently, I would be grateful if the Public Accounts Committee would now consider the Welsh Government's relationship with Pinewood and the issues of governance and value for money raised by the Auditor General's report.

I have asked the officials supporting the Committee to liaise with their counterparts supporting PAC to ensure that they have all the information they need to support PAC in taking this matter forward.

Yours sincerely

Bethan Sayed.

Bethan Sayed AM
Chair

