

Yr Arglwydd Elis-Thomas AC/AM
Y Dirprwy Weinidog Diwylliant, Chwaraeon a Thwristiaeth
Deputy Minister for Culture, Sport and Tourism



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: MA-P-DET-0730-19

Nick Ramsay, AM
Chair – Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

17 April 2019

Dear Chair,

PUBLIC ACCOUNTS COMMITTEE REPORT

THE WELSH GOVERNMENT'S RELATIONSHIP WITH PINWOOD

RESPONSE TO THE REPORT

I have pleasure in enclosing a copy of the Welsh Ministers response to the above report which will be laid before the Table Office.

On behalf of the Cabinet, I would like to thank you and the Committee for the careful and considered way in which you undertook the investigation and produced the report.

The relevant Additional Accounting Officer, Andrew Slade, Director General Economy Skills and Natural Resources, will be pleased to provide any further information, explanation or detail if required, following this response.

Yours sincerely,

Yr Arglwydd Elis-Thomas AC/AM
Y Dirprwy Weinidog Diwylliant, Chwaraeon a Thwristiaeth
Deputy Minister for Culture, Sport and Tourism

Bae Caerdydd • Cardiff Bay
Caerdydd • Cardiff
CF99 1NA

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

Gohebiaeth.Dafydd.Elis-Thomas@llyw.cymru
Correspondence.Dafydd.Elis-Thomas@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.

Response to the Report of the National Assembly for Wales Public Accounts Committee Report on The Welsh Government's relationship with Pinewood

The Welsh Government welcomes the findings of the report and offers the following response to the nine recommendations contained within it.

Recommendation 1

The Committee recommends that Welsh Government shares with the Committee, details of how the various lessons learnt from its experiences with dealing with Pinewood, have been implemented, embedded into decision-making processes and shared widely across Welsh Government.

Response: Accept

This work is underway. There are a number of lessons learnt from our engagement with Pinewood. These include learning from the differences between the operating models needed for film studios in Wales compared to the rest of the UK, how we can effectively build in wider benefits to the local economy as well as a commercial return, and the speed with which we need to respond to commercial deals. These lessons have been shared across the Finance and Governance teams in the Economy, Skills and Natural Resources (ESNR) Group. The lessons learnt report has also been shared with other teams across Welsh Government so the points noted, as far as they have a wider application compared to specific lessons for managing media interventions, can be considered for any new and existing schemes.

Recommendation 2

The Committee recommends that Welsh Government provides the Committee with an update on the Media Investment Fund's performance at the end of the 2019 calendar year.

Response: Accept

An update on the Media Investment Fund's performance will be provided to the Committee in December 2019.

Recommendation 3

It is apparent to the Committee that the conflicts of interest that were intrinsic to the Welsh Government's contractual relationships with Pinewood were given insufficient attention by officials at the outset. It was only later, when

these conflicts between Pinewood's involvement in the Media Investment Budget and their wider involvement in production work in Wales became increasingly obvious, that corrective action was taken. The risk of these conflicts of interest occurring could, and indeed should, have been identified at the outset of the Welsh Government entering into collaboration with Pinewood. We consider the Welsh Government's reliance on the Media Investment Panel alone, to mitigate their risks, to have been insufficient.

Response: As recommendations 3, 4 and 5 all relate to conflicts of interest, one response has been prepared under recommendation 5 below.

Recommendation 4

The Committee welcomes the action subsequently taken by Welsh Government officials to advise the Minister to reconsider the nature of the agreement following concerns about conflict of interest being raised. However, we are concerned that, as reported by the Auditor General, and in evidence provided to the CWLC Committee, that no specific advice was provided to the Minister on the issue of conflicts of interests prior to the Welsh Government entering into its agreement with Pinewood.

Response: As recommendations 3, 4 and 5 all relate to conflicts of interest, one response has been prepared under recommendation 5 below.

Recommendation 5

The Committee recommends that the Welsh Government should thoroughly overhaul its arrangements for identifying and assessing potential conflicts of interests and that these, together with robust mitigation proposals, be made explicitly clear in advice provided to Ministers prior to entering agreements with private sector business.

Response: Accept

With the benefit of experience, we accept that the wider potential for conflicts of interest ought to have been identified earlier and included in the initial advice to Ministers.

However, once these issues were identified by officials, they were dealt with and highlighted to Ministers. For example, as soon as the potential for conflict on Media Investment Budget deals came to light, officials informed Ministers and required that Pinewood disclose details of any wider Pinewood Group involvement in productions, brought forward for funding.

We are also confident that there are mitigating procedures in the approvals process with regard to the Media Investment Budget in particular to manage any perceived or actual conflicts of interest. A robust approvals process was agreed by both parties prior to the launch of the fund. Potential conflicts of interest were at the top of the agenda for every Media Investment Panel meeting and panel members were asked

to leave the room whilst cases were discussed. A further measure was that the Media Investment Panel did not approve applications for funding. The Panel made recommendations to Ministers for funding under the Ministerial Advice process and this process also requires further approvals from expert teams across ESNR Group and, if required, across the Welsh Government. Pinewood themselves were not able to approve any applications for funding. Their role was limited to developing proposals for the Media Investment Panel to consider.

When officials were made aware that there was a concern within the industry that production companies had to use Pinewood's lighting services and post production services as a condition of Media Investment Budget funding, officials moved quickly to address this. Officials set out the actual position clearly to other supply chain companies and producers looking to access the fund as well as raising the concerns with Pinewood directly. It was always the commercial decision of the production company whether they wished to use Pinewood services and not a condition of Media Investment Budget funding.

Recommendation 6

The Committee recommends, in conjunction with recommendation 2, the Welsh Government provide the Committee with updated financial performance and income projections in December 2019

Response: Accept

An update on financial performance and income projections will be provided to the Committee in December 2019.

The Committee may wish to note that Welsh Government has entered into a Stage Agreement with Bad Wolf Studios Wales to rent the entire vacant space at Pinewood Studio Wales for the next twelve months, with the option to enter into a further two year agreement. This project represents a significant opportunity to secure a long term rental agreement for Pinewood, anchoring two significant productions to Wales as well as enhancing the studio asset.

Recommendation 7

The Committee recommends the Welsh Government demonstrate how it has strengthened arrangements for ensuring that VAT implications are fully considered by officials in a timely manner, including the provision of specialist support where needed, and that complete and accurate advice is provided to

Welsh Ministers on the VAT implications of all proposals submitted for their approval.

Response: Accept

The consideration of VAT implications is now embedded within the process for putting advice to Ministers. There is a specialist VAT team in the Welsh Government and it is the responsibility of the drafting official to contact the finance team in their Group or this specialist team should they have any concerns over the VAT treatment of the proposal being put to the Minister for consideration. There is a mandatory requirement for a VAT statement in all advice provided to the Minister for Economy and Transport where there are financial implications which indicate whether VAT is applicable and whether the VAT is recoverable under rules for Government.

Recommendation 8

The Committee recommends the Welsh Government obtain surveys, not just valuations, on all property acquisitions above £1million.

Response: Reject

Whilst we accept the general principle of the recommendation, there will be instances where a survey would not be relevant, for example, where the intended purpose of acquisition is to demolish the building being acquired. There may also be instances where such surveys are appropriate for acquisitions of lower value.

Work has already begun to develop a best practice guide to acquisitions undertaken in the name of Welsh Ministers. This guide will supplement existing departmental guidelines already in place, but again ensure that we adopt a consistent good practice approach to acquisitions with appropriate transparency and due diligence across government. The recommendation will be considered as part of this work and the criteria for surveys being carried out will be included in these considerations.

Recommendation 9

The Committee recommends that all future negotiations between the Welsh Government and private sector business include a rigorous assessment of each party's responsibilities and these are set out explicitly in all contracts.

Response: Accept

We are confident our agreements with third parties appropriately reflect the responsibilities of each party. For example, our grant funding arrangements, which cover the vast majority of our funding relationships with third parties, are covered by standard grant terms and conditions which clearly set out the responsibilities of both parties. The Pinewood example found by the Committee is unusual given the bespoke nature of what it was designed to deliver. However, we will ensure that in the future should bespoke agreements be needed to define the relationship between parties then additional professional advice will be sought to ensure the rigorous assessment recommended by the Committee is applied.

Further to this, the Economic Contract which underpins our relationship with those who engage with us to deliver the Economic Action Plan clearly sets out the responsibilities of both parties as we move to a collaborative approach with business to deliver public investment with a social purpose.