

**Grwp yr Economi, Sgiliau a Chyfoeth Naturiol
Economy, Skills and Natural Resources Group**

Cyfarwyddwr Cyffredinol - Director General



**Llywodraeth Cymru
Welsh Government**

Nick Ramsay AM
Chair
Public Accounts Committee

31 October 2019

Dear Chair,

I am responding to your letter of 1 October in which you requested further information following my letter of 2 September.

I will address each subject in turn.

Dawnus

The Dawnus turnaround plan included a number of elements aimed at placing the business on a secure footing. Officials monitored progress with the business against these core turnaround objectives.

Officials and the firm's bank, HSBC, provided oversight and, along with independent consultants Grant Thornton and Prompt Interim, monitored progress on the Dawnus turnaround plan to evidence key activities in the plan had been achieved. This included:

- 1) a reduction in management and operational overhead costs;
- 2) restructuring and re-alignment of underperforming regional directorates (notably the South West England region, coming under control of the South Wales team);
- 3) appointment of a new managing director and regional managers;
- 4) tighter oversight on tendering processes;
- 5) significant reduction in overhead costs;
- 6) time-to-pay arrangements agreed with HMRC to support the business cash-flow; and
- 7) sales of disposable business assets.

Officials were confident that significant progress was being made in other aspects of the turnaround plan including: realignment of the Dawnus customer base in the UK market; moving toward a significantly higher proportion of public sector work as opposed to private sector work; realignment of the business delivery to focus on its core operation of delivering infrastructure projects; and moving away from further residential / building development activity.

It is important to recognise that these aspects of the turnaround plan would take time to work through the business and could not be achieved with immediate effect.

One of the key elements of the turnaround plan was the urgency with which revenue generated from historic / aged / disputed Work In Progress (WIP) was being collected from third parties. Dawnus were experiencing difficulties in this area which was having a detrimental impact on the business' performance. Independent consultants, Naismith (specialist advisors in asset recovery), were utilised to provide advice on settlements of this WIP and whether these payments could be brought in more quickly. The settlement strategies were discussed and agreed with Naismith.

There were unforeseen impediments, outside of the business' control, which contributed to the eventual business failure, including the removal of credit insurance from the supply chain (leading to pro-forma payments, purchasing up-front of materials, and tightening of supply chain exposure after being stretched for an extended period of time). This coupled with significant difficulties in commencing a secured substantial overseas contract and the difficulties in the protracted realisation of historic / aged / disputed WIP, made the continuation of trading for the business extremely difficult.

With regard to dialogue between Welsh Government (WG) departments in relation to Dawnus' viability in the context of the 21st Century Schools project, this project is funded through WG but is administered, procured and delivered by the Welsh local authorities.

No communication in relation to the provision of the commercial loan was made between WG and local government bodies. This is standard practice for the following reasons:

- 1) any release of information to client based (public sector procuring) organisations may negatively influence their decision-making process when the company is tendering for potential new work, or impact timeliness of payments for existing work. This runs the risk of detrimentally impacting the business' cash-flow;
- 2) should WG be identified as providing information that impacted on the company (as per point 1), this could leave WG exposed to legal proceeding for inadvertently negatively impacting the company's performance / tendering process;
- 3) support provided to the organisation was made on a commercial / in confidence basis. Release of information by officials may have been considered a breach of data protection rules or public sector codes of conduct;
- 4) tender responses and Client / Public Sector due diligence on bidders should be undertaken on a like for like basis and should be subject to the requirements of the tender submitted, rather than wider factors.

In short, WG officials should not be in a position of providing information to tendering organisations (regardless of whether they are public sector or private sector), outside the scope of the tender exercise, that could prejudice the chances of the bidding organisation in any way.

All procuring bodies should have their own due diligence and risk processes in place, and judge each tender bid on its own strengths and weaknesses and in accordance with its own due diligence and risk appetite conclusions. Disclosure of additional information from a third source, in this instance WG, could leave processes open to legal challenge from the bidding organisation.

Public sector bodies / local authorities have their own compliance and due diligence scrutiny procedures for assessing risk when procuring services. These should not be dependent on other bodies providing additional information over and above that which has been requested to assess the tender requirements.

As of May 2019, £2m of public sector funds had been recovered from Dawnus, with £1.4m outstanding. The Committee may wish to note that further recovery of £860,325 of public sector funds has now been made by officials. There is now an outstanding balance of £539,675 on the loan. Officials will continue to work with the administrator to seek to recover the outstanding public sector funding.

GRH Food Company

Under Rural Development Programme rules, the Paying Agency (i.e. WG) has to complete its assessment of the project and undertake the necessary due diligence before awarding a grant offer contract to beneficiaries. In the case of GRH, the due diligence and detailed financial appraisal was undertaken in May 2017. The financial position of GRH at this time was sound, and the associated grant was awarded in August 2017.

Following the award of a contract, beneficiaries submit claims in arrears for eligible expenditure they have defrayed. It is a contractual requirement that such claims are paid, following European Commission administrative controls to ensure costs are eligible. GRH payments made in 2018/2019 were for expenditure incurred against the 2017 contract. Details of the payments claimed and date paid in that period are shown below:

	Value	Date received	Date Paid
Claim 1 –	£ 496,507.41	16/05/18	04/07/18
Claim 2 –	£1,062,166.82	16/01/19	04/02/19

Jistcourt

The Development Bank of Wales (DBW) - and Finance Wales before that - had worked with Jistcourt since 2016. Its original loan of £1.1m was advanced in January 2016 to fund a partial management buyout. That loan was fully repaid.

A further loan of £250,000 to provide working capital was drawn in September 2018. The DBW was aware that a number of Jistcourt's contracts were with public sector customers; however, the loan was for general working capital rather than funding to support a particular project. As the business was already well known to DBW there was limited contact with WG during the investment appraisal process and the investment would have been reported as part of DBW's usual quarterly fund reporting.

Following the company going into administration, DBW's risk team was in contact with the WG construction sector team who was briefed on the situation. DBW remain in discussions with the administrators regarding repayment of the loan.

Outstanding debt

I refer you to Annex 1 for clarification on the basis on which each debt is claimed.

Conflict of Interest (Life Science Investment Fund)

Officials requested clarification from DBW as to what actions were taken to ascertain if any conflict of interest occurred regarding Woodford and the Wales Life Science Investment Fund (WLSIF) Fund Manager – Arix Capital Management. DBW has provided the response as below, concluding that conflicts did not exist.

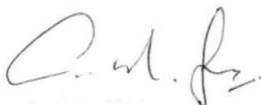
“In relation to potential conflicts regarding Woodford Investment Management (WIM), DBW did not rely purely on a short confirmation that no conflicts existed. A detailed process took place to try to identify what potential existed for conflicts to arise and explore how these were being handled. This concluded that the main potential conflict would be if WIM, as a major shareholder in Arix Biosciences plc, put pressure on ARIX Capital Management, as manager of the fund, to do something that was not in the best interest of the fund. After careful consideration it was concluded that conflict did not exist because:

- *The full £50m was already invested before ARIX acquired the WLSIF Fund Manager and General Partner.*
- *The only instance of Arix investing in a WLSIF holding was Verona Pharma which was not owned by WIM. The decision to invest was taken independently by the Arix investment committee.*
- *Arix later supported Simbec Orion which was not a WIM investment.*
- *Arix did invest £5m into the WLSIF and subsequently invested in three companies only one of which (£1m) had WIM co-investment. ARIX did not further invest in that company.*
- *WIM did not influence the Fund Manager to inflate valuations. It is arguable whether doing so would have benefitted WIM as they produce their own valuations. This would also not benefit the Fund Manager as their fees are paid on the value of the investment. Fees are reduced for investments which are written down in value but not increased for an upward valuation above the original investment value. For the year ended 31 March 2019 the fund manager wrote down one WIM investment to well below the value used by WIM, thereby reducing its own fee, as a prudent response to the unfolding issues at WIM.*

From the analysis undertaken it is difficult to see how WIM's then 20% stake in Arix could have prejudiced the interests of the limited partner in WLSIF and the actions of the fund manager appear to be in line with the LPA and its fiduciary responsibilities.”

Please do not hesitate to contact me should you require any further information.

Yours sincerely



Andrew Slade
Director General
Economy, Skills and Natural Resources

The amount, type and purpose of Welsh Government financial support (whether direct or via Finance Wales or the Development Bank), that any of the companies named during the session (at RoP 289-291) had received prior to going into administration and confirmation of any outstanding debts (G M Jones, Cuddy group, Jistcourt, GRH Food Company).

Company Name	Welsh Government FW/DBW	Year	Type of support	Purpose of support	Amount of Support Paid	Amount of Debt Outstanding	Outstanding Debt originally provided as a) Loan, B) Repayable business finance or c) Grant
GM Jones	Welsh Government	2015-16 2016-17 2017-18	Wales Economic Growth Fund	To relocate the business to larger premises.	£130,000 £213,300 <u>£56,700</u> £400,000	£400,000	Grant terms and conditions (non Repayable)
	DBW		Working capital whilst grant monies received	Bridge of Welsh Government grant monies to enable new premises for the client to be built	£270,000	Nil	
Cuddy Group (Cuddy Re-cycling Ltd)	Welsh Government	2015-16 2016-17	Wales Economic Growth Fund	To establish a new re-cycling Plant.	£12,775 <u>£122,032</u> £134,807	£134,807	Grant terms and conditions (non Repayable)

Cuddy Group (Cuddy Demolition & Dismantling)		2008-09	Discretionary Funding Scheme	Workforce Development Programme	£750	-	
		2010-11 2011-12	ReAct	Employability & Skills	£520 <u>£1,040</u> £1,560	-	
		2013-14	Young Recruits programme	Employability & Skills	£2,550	-	
Jistcourt South Wales Limited	DBW		Wales Business Fund	Working capital to support existing work and future contracts	£250,000	£232,000	Loan – see main letter
GRH Food Company	Welsh Government	2015-16	Wales Economic Growth Fund	Installation of intelligent cheese cutting system.	£139,309	£139,309	Grant terms and conditions (non Repayable)

ANNEX 1

		2015-16	Business Growth Support Grant	Business Development	£10,738	-	
		2010-11	Agri Food Development Fund (Scheme closed)	Agri-Food SME Business Development	£4,025	-	
		2014-15	Discretionary Funding Scheme	Workforce Development Programme	£950	-	
		2018-19	Overseas Business Development Fund	Export Development	£400	-	
		2010-11 2011-12 2013-14 2014-15	Processing & Marketing Grants Scheme (Scheme closed)	To improve competitiveness of the agricultural sector by adding value to agricultural products.	£62,751 £134,638 £54,000 <u>£49,400</u> £300,789	£238,038	Grant terms and conditions (non Repayable)
		2018-19	Food Business Investment	Relocation of manufacturing premises.	£1,558,674	£1,558,674	Grant terms and conditions. Repayable as project was not complete.

**The Welsh Government actively seeks recovery of all debts owing and the amounts disclosed in the table are at different stages of the insolvency and recovery process.*