



Nick Ramsay AM
Chair
Public Accounts Committee

2 September 2019

Dear Chair

I am responding to your letter of 08 July in which you requested further information following the Committee session on 24 June.

I will address each point in turn.

- *In addition to the Chief Executive, do any other Development Bank of Wales Senior Executives have other paid Directorships and if so, what process has been followed in seeking approval for these Directorships. Please could you provide details, if appropriate, of specific examples?*

In addition to the Chief Executive, there is one other Development Bank of Wales (DBW) Senior Executive who has a paid Directorship. David Staziker, DBW's Finance Director, receives an annual payment of £6,000 for the work he does as a Non-Executive Director at Pobl Group. This appointment was approved by DBW's Chief Executive and by the Welsh Government towards the end of 2017, and the payments came into effect in July 2018. This role will be disclosed in the DBW's Annual Report & Financial Statements for the year ended 31 March 2019.

Other members of the Senior Management also hold directorships, but these are unpaid.

In light of the Office of National Statistics no longer publishing a subnational breakdown of monthly redundancy figures, confirmation of whether the Welsh Government keeps a log on levels of redundancy (not unemployment which a separate data set) in Wales and whether levels have increased over the past 12 months.

The Welsh Government does not keep a log on levels of redundancy in Wales.

- *Confirmation of the last time the Welsh Government, at ministerial level, engaged with Ford Motor Company's US-based global management before the announcement to close the Bridgend Factory was made on 6 June 2019*

Whilst the First Minister, the Minister for Economy and Transport and senior officials had extensive contact with senior staff, empowered by Ford's global leadership, from Ford of Europe and Ford of Britain prior to the announcement, the last direct engagement with US management prior to the announcement on 06 June, was in June 2018 during the previous First Minister's visit to Washington.

- *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).*

Details provided at **Annex 1**.

- *The Welsh Government's understanding on the structural arrangements for the Dawnus Group including whether the company in its entirety has gone into administration or whether it continues to operate its international companies, other Dawnus-related companies or companies that have re-emerged. Furthermore, clarification of why the Welsh Government considered it appropriate to advance loan funding to a company with overseas operations, which is within a large group of companies, if not all parts of that operation have been affected by the financial difficulties.*

The Welsh Government's understanding of the structural arrangements for UK-registered Dawnus-related companies is as follows:

- Dawnus Group Limited is the ultimate holding company for all businesses within the Dawnus Group and is the immediate parent of Dawnus Construction Holdings Limited, Dawnus Developments Limited and Dawnus International Limited.
- Dawnus Construction Holdings Limited is the immediate parent of Dawnus Southern Limited and Ashridge Construction Limited.
- Dawnus Developments Limited is the immediate parent of Churchfield Homes Limited, Construction Recyclate Management Limited (ceased trading at the end of 2017); Medrus Plant Hire Limited; Dawnus Limited; Quantum Geotechnical Services Limited; Dyffryn Court Management Limited and Legsun Limited.
- Dawnus International Limited is the immediate parent of Dawnus Sierra Leone Limited.

Each of these UK-registered Dawnus-related companies is in administration.

Although Dawnus International Limited is a UK-registered company, it is the immediate parent of the following companies, registered locally in Africa and established solely to obtain local permits for Dawnus to be able to operate in each country respectively: Dawnus Mauritius (the immediate parent of Dawnus Senegal), Dawnus Tanzania, Dawnus Guinea and Dawnus Liberia.

Whilst these businesses are technically still active, they are non-trading. They were not placed into administration with other businesses in the Dawnus Group as they are outside of the UK legal jurisdiction. Officials understand these companies are (and remain) dormant, as all international contracts were delivered through Dawnus International.

In March 2018, the Welsh Government provided a £3.5m commercial facility to Dawnus Group Limited as part of an overall £7m package, provided between the Welsh Government and the business' bank, in addition to shareholder contribution and funding support from a specialist property development funding firm. The Welsh Government facility was provided on commercial terms and secured on assets within the business. The loan supported the business cash flow position. The loan also safeguarded the in-excess of 700 jobs employed across the group with 430 of those based in Wales, with the vast majority of the balance based in the United Kingdom.

The loan was predicated on a credible turnaround plan for the business, validated by both external and internal due diligence. Assets were carved out of the business bank's existing security portfolio and provided to the Welsh Government as security for its investment on a 'pari passu' arrangement. Given the Welsh Government mirrored the investment, security and risk appetite of the business' commercial lender, taking into consideration the credible turn-around plan, and safeguarding of in excess of 700 jobs, it was considered appropriate to recommend advance loan funding to the business.

- *Any dialogue there was between Welsh Government departments in relation to Dawnus' viability in the context of its involvement in other Welsh Government funded projects, notably the 21st Century schools programme in the context of projects in Powys.*

Welsh Government officials were first informed of the Dawnus Groups intention to place its businesses into administration following a board meeting held on the 13 March 2019. When officials became aware of the intention to place the Dawnus Group of businesses into administration, appropriate notification was provided across relevant government departments.

In relation to the school projects underway in Powys County Council under the 21st century capital schools programme, only one of these three projects had commenced, with two others still in the planning phase. The project that was partially completed - a 360 pupil English Medium school in Powys - had been awarded to the business in 2017.

Public sector bodies / local authorities have their own discrete compliance and due diligence scrutiny procedures for assessing risk when procuring services.

In relation to your final point, requesting additional information on the Wales Life Sciences Fund, and the role of the Development Bank of Wales, please find the information attached at **Annex 2**.

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
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
	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

Cuddy Group (Cuddy Demolition & Dismantling)		2008-09	Discretionary Funding Scheme	Workforce Development Programme	£750	-
		2010-11 2011-12	ReAct	Employability & Skills	£520 £1,040 £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
GRH Food Company	Welsh Government	2015-16	Wales Economic Growth Fund	Installation of intelligent cheese cutting system.	£139,309	£139,309
		2015-16	Business Growth Support Grant	Business Development	£10,738	-
		2010-11	Agri Food Development Fund	Agri-Food SME Business Development	£4,025	-

			(Scheme closed)			
		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
		2018-19	Food Business Investment	Relocation of manufacturing premises.	£1,558,674	£1,558,674

**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.*

Wales Life Sciences Investment Fund

PAC request:

“On a related matter, we have been made aware of recent reports in the national press regarding concerns over alleged conflicts of interest relating to the Wales Life Sciences Investment Fund. We would like clarification about the Welsh Government’s response to such reports and some indication of how any real or perceived conflicts of interest have been identified and managed in the context of the Auditor General’s previous recommendations in his 2016 report on the Welsh Government’s establishment and oversight of the Fund.

We also seek clarification of the Development Bank of Wales’ role in holding or managing the Wales Life Sciences Investment Fund and ask that you seek input from the Development Bank of Wales to your response as appropriate.”

Welsh Government response to the clarifications requested by PAC

Background:

The Wales Life Sciences Investment Fund (WLSIF) was established on the 28th February 2013, as a 10 year Venture Capital fund, having a 5 year investment period followed by a 5 year realisation period. Finance Wales (FW), now the Development Bank of Wales (DBW), procured Arthurian Life Sciences Ltd (ALS), now Arix Capital Management Ltd (ACM) part of Arix Biosciences PLC (Arix), to deliver a discretionary fund management service for the WLSIF.

The term “discretionary” refers to the fact that investment and realisation decisions are made at the Fund Manager’s (ACM), discretion in accordance with the Fund’s Investment Operating Guidelines (IOGs). The Fund Manager is regulated by the Financial Conduct Authority (FCA).

The WLSIF is an innovative economic development intervention, whereby a private-sector Fund Manager has been contracted to manage a venture capital fund, investing public funds at arms-length to public sector management and governance. As such the WLSIF has drawn significant interest and has been reviewed and monitored closely since its establishment, including the Wales Audit Office 2016 report, an independent mid-term review, plus a number of progress and option reports submitted to the Welsh Government by the DBW.

Specific clarifications requested by PAC:

1. The role of the DBW as Holding Fund for the WLSIF

The DBW role is to act as the Holding Fund for the capital grant contribution of £50m from the Welsh Government. This entails the processing and releasing of capital from the Holding Fund account subject to receipt of the required documentation from the Fund Manager - ACM.

2. The role of the DBW in respect of Fund Performance

The DBW has no role in the investment or exit decisions made by the Fund Manager and consequently the DBW has no responsibility for the performance of the Fund. As a discretionary fund management contract this is the Fund Manager's responsibility as outlined in the Management Agreement which the Fund Manager, as an FCA regulated entity, must adhere to.

3. The role of the DBW in monitoring the WLSIF and reporting to the Welsh Government

The DBW has the authority to monitor the Fund Manager's and General Partner's fulfilment of its obligations as outlined in the Limited Partnership Agreement (LPA) under clause 4 and clause 7. The DBW monitors the WLSIF portfolio valuation on a monthly and annual basis with full sight of audited accounts and audit opinion, reporting to the Welsh Government through the Welsh Government's sponsor division. It should be noted that the DBW has undertaken more reviews than contractually required as part of the DBW and the Welsh Government working closely on monitoring the Fund.

4. National Press reports regarding alleged conflict of interest

The Fund Manager - ACM are an FCA regulated investment management firm and any concerns raised regarding the management and or operation of the Fund are investigated at the discretion of the FCA. Separately, the DBW have sought clarification from ACM regarding the alleged conflict of interest as reported in the national press and have advised the Welsh Government that:

"ACM's response is that there is absolutely no issue here and the investments including Woodford have been dealt with in full compliance with FCA rules and there were no conflicts of interest."

5. Auditor General for Wales (AGW) 2016 Recommendations regarding real or perceived conflicts of interest

Finance Wales examined the Funds fourth investment and were satisfied that it was appropriately managed by all concerned. A 2016 independent review of the WLSIF found that Investment Committee members were consistent in identifying potential conflicts of interest and ensuring that conflicted members of the committee did not vote on particular investments.

Additionally, within the DBW review submitted February 2017 in relation to Recommendation 5, obligations on the DBW pursuant to Conflicts of Interest were considered. The review noted that the DBW addressed early shortcomings in application of its obligations towards Conflicts of Interest by early 2015. The review also noted that the shortcomings had not had a material impact to the Fund Manager's operation of the Fund or the value for money of the Fund itself. The WAO recommendations have been fully implemented.

6. The Welsh Government Approach

Welsh Government officials continue to work closely with the DBW as it monitors the Fund in the context of its discretionary nature. ACM continues to actively

manage the remaining holdings in the WLSIF with the aim to realise additional value to the Welsh Government over the remaining three and a half years of the Fund's life.