

The Welsh Government's relationship with Pinewood

February 2019



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About the Committee

The Committee was established on 22 June 2016 to carry out the functions set out in Standing Orders 18.2 and 18.3 and consider any other matter that relates to the economy, efficiency and effectiveness with which resources are employed in the discharge of public functions in Wales.

Committee Chair:



Nick Ramsay AM
Welsh Conservatives
Monmouth

Current Committee membership:



Mohammad Asghar AM
Welsh Conservatives
South Wales East



Neil Hamilton AM
UKIP Wales
Mid and West Wales



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Welsh Labour
Cynon Valley



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Jenny Rathbone AM
Welsh Labour
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The following Member was also a member of the Committee during this inquiry:



Jack Sargeant AM
Welsh Labour
Alyn and Deeside

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Chair's foreword

Pinewood is a long established world renowned British film studio associated with some of the most famous film franchises in history. The announcement of the arrival of Pinewood in Cardiff in 2014 was met with excitement and anticipation that the brand could bring an estimated £90m to the Welsh economy while boosting the Welsh film industry on an international level.

Pinewood's arrival offered opportunity and hope but just four years later the Welsh Government decided to terminate the lease and collaboration agreement it had in place with the company. The studio and the running of the Media Investment Fund was brought under direct Welsh Government control.

We were surprised that the Welsh Government entered into a contract that lacked clarity in terms of operating arrangements, and a collaboration agreement that did not explicitly make clear the roles and responsibilities of each partner. We were equally surprised that the Welsh Government chose to purchase a site that consisted of three very different and unusual assets, costing £6 million and failed to commission a full structural survey beforehand. There was also the inaccurate, incomplete and poor quality advice provided to Welsh Ministers on a number of occasions, highlighting again the importance and need for timely, accurate and high quality official advice to Ministers, so crucial to supporting sound and properly-informed Ministerial decision-making.

That said, we recognise that commercial investment in the film and television industry is precarious and can take many years to realise the economic benefits. We therefore reserve judgement on whether the deal with Pinewood had represented Value for Money. There is balance to be struck between investing public money to maximise investment in Wales and the risk this incurs, but these risks must be managed and the decision making and governance arrangements around them need to be robust and rigorously informed.

It is essential that the Welsh Government learns from its past experiences and in responding to this report must demonstrate categorically, once and for all, that lessons have been learnt with regard to its approach to funding private business.

Nick Ramsay AM
Committee Chair, Public Accounts Committee

Recommendations

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Recommendation 2. We recommend that Welsh Government provides the Committee with an update on the Media Investment Fund's performance at the end of the 2019 calendar year..... Page 16

Recommendation 3. It is apparent to us 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 as the outset of the Welsh Government entering into a collaboration with Pinewood. We consider the Welsh Government's reliance on the Media Investment Panel alone, to mitigate their risks, to have been insufficient..... Page 19

Recommendation 4. We welcome 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..... Page 19

Recommendation 5. We recommend 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..... Page 19

Recommendation 6. We recommend, in conjunction with recommendation 2, the Welsh Government provide the Committee with updated financial performance and income projections in December 2019..... Page 23

Recommendation 7. We recommend 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..... Page 25

Recommendation 8. We recommend the Welsh Government obtain surveys, not just valuations, on all property acquisitions above £1 million..... Page 29

Recommendation 9. We recommend 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.
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Introduction

1. The Auditor General published a facts-only Report looking at the Welsh Government's relationship with Pinewood on 12 June 2018. This followed interest in the matter from a number of Assembly Members, including Members of this Committee. Some Assembly Members had asked the Welsh Government for information about the nature of the relationship but had failed to receive the full disclosure they had wanted.

2. In 2014, the Welsh Government purchased the former Energy Centre site at Wentloog, near Cardiff, to develop as a film and TV studio in collaboration with Pinewood Shepperton Limited. 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 manage and source productions suitable for Welsh Government investment); and
- sponsoring Pinewood to market and promote both the studio and the investment budget.

3. However, the Media Investment Budget's performance did not meet the Welsh Government's expectations and Pinewood Studios Wales was unable to operate the studio as a going concern without the support of Pinewood Group Limited.

4. In October 2017, the Welsh Government terminated its Lease and Collaboration Agreement with Pinewood, and Pinewood ceased to have any involvement with the Media Investment Budget. The Welsh Government and Pinewood entered into a new "Management Services Agreement" on 1 November 2017 for the operation of the Wentloog studio facilities.

5. The Auditor General's Report was published at the time when the Culture, Welsh Language and Communications (CWLC) Committee was nearing the end of its inquiry into film and major television production in Wales. The Welsh Government's relationship with Pinewood is a key part of its support for this industry, and the Auditor General's Report was considered as part of that wider Committee inquiry.

6. The Chair of the CWLC Committee wrote to us on 28 September 2018¹ setting out areas the Committee felt merited our further scrutiny. We took evidence from Welsh Government officials on 5 November 2018 using the opportunity to:

- explore the key issues set out in the Auditor General's June 2018 report on the Welsh Government's relationship with Pinewood; and
- examine the specific concerns raised about this relationship by the CWLC Committee.

7. The Committee's findings are set out in the following chapters.

¹ Letter from the Chair of the CWLC Committee, 28 September 2018, Welsh Language and Communications (CWLC) Committee, 28 September 2018

1. Wider lessons learned by the Welsh Government

8. The Welsh Government has made reference to “a number of lessons learned within the Sector Team and across Welsh Government as a whole” from its experience with Pinewood.² We asked for clarification of what lessons had been learned from the Pinewood deal, and how any changes or improvements would be implemented as a result.

9. Scrutiny by the Assembly's Committees of the Welsh Government's collaboration with Pinewood has shone a light on areas where lessons could be learned. For example, there was an acknowledgment by Welsh Government officials of the need to set clearer objectives about the desired balance between financial and economic returns. This means considering the direct financial returns for the Welsh Government itself from the Pinewood proposition and also the broader economic value generated for Wales, including the amount of money spent with Welsh companies and in support of Welsh productions.

10. There is also a need for greater focus in the future on the three components of the original deal with Pinewood around sponsorship, the operation of the studio and the delivery of the Media Investment Budget (the fund). Going forward, any similar operating arrangements, would need to make those very clear and distinct, as there was a lack of clarity in relation to the different parts of the collaboration agreement and what the Welsh Government were and were not contracting with Pinewood on.³

11. In defining how that confusion occurred, we heard that the fund was run separately from the studio enterprise, but there had been a perception that there was a direct link between the two, which may have had some impact or bearing on how people related to Pinewood and the general proposition. Furthermore, the fact that it was a five-year arrangement reinforced that perspective.⁴

12. With regard to the fund, the Welsh Government had insisted on being the first port of call for any recoupment, and were requesting vast, or very considerable sums of money spent in and on Welsh businesses. This meant they became seen as somewhere to go for higher risk enterprises, possibly, or productions, because lower risk ones could be financed elsewhere in the

² Written Evidence, PAC(5)-29-18 P3, 5 November 2018

³ Record of Proceedings (RoP), 5 November 2018, paragraph 11

⁴ RoP, 5 November 2018, paragraph 13

marketplace. We heard the management of the fund, with the due diligence that Welsh Government had to apply, and the timescales for decisions reached, meant that the arrangement became quite complicated, and “in places quite clunky”, and not an approach the Welsh Government are likely to take again.⁵

13. In terms of how these lessons were being applied we were told that the Welsh Government's approach to Creative Wales, which is the next phase of its interactions with creative sectors, has taken into account the experiences with Pinewood. We heard that a range of governance mechanisms have been put in place and are reported to the department's audit and risk committee on a quarterly basis.⁶

Conclusions and Recommendations

The Committee recognises the potential of this project and the undoubted challenges presented to the Welsh Government in finding the right balance between attracting private business into the Welsh economy and the risks involved in investing public money to achieve this. However, the experience of the Welsh Government's relationship with Pinewood is not a good example of how to manage Government financial support to private business.

It is crucial that lessons be learnt from the Pinewood experience, which demonstrates in particular the importance of rigorously assessing risks before signing contracts and entering into collaborative agreements. Processes for engaging with the private sector, including ensuring complete clarity of respective roles and responsibilities, require tightening and we note the Welsh Government's assurances that it has put in place a range of enhanced governance mechanisms to secure these improvements.

Recommendation 1. We recommend 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.

⁵ RoP, 5 November 2018, paragraph 15

⁶ RoP, 5 November 2018, paragraph 16

2. Media Investment Budget

14. The Auditor General's Report states:

"...during 2013-14, Welsh Government officials held discussions with Pinewood executives about establishing a world-class studio facility in Wales. This would form part of Pinewood's global network of film studios. To complement the studio, the Welsh Government also developed plans to create a £30 million investment budget to support film and TV productions in Wales. This would be operated by Pinewood Film Advisors (Wales) Ltd on behalf of the Welsh Government."⁷

15. The report also found that:

"Pinewood had already worked with the Isle of Man Government to introduce the Isle of Man Media Development Fund in 2012; this was a fund of £25 million to be used on film and TV productions. This fund built on a range of creative-sector initiatives introduced by the Isle of Man Government since 1995. Independent economic analysis of the Isle of Man's support for TV and film productions, concluded that it had generated a direct local spend of £100 million and 2,140 full-time equivalent jobs since 1995."⁸

16. The Auditor General's Report found the original business plan for the Media Investment Budget had estimated that there would be a Welsh spend of £90 million, which would represent a leverage ratio of 1:3 in terms of public to private spending. However, in November 2016 the actual ratio was calculated by Welsh Government to be only 1:1.⁹

17. Welsh Government evidence to the CWLC Committee on 12 July 2018, highlighted that it was recognised early on that the estimates included in the original plan (of 1:3) were "going to be difficult to achieve and there were changes in the market place with more people offering tax credit lending for example".¹⁰

⁷ Auditor General for Wales Report, The Welsh Government's relationship with Pinewood, paragraph 1.1 (June 2018)

⁸ Auditor General's Report, paragraph 1.4

⁹ Auditor General's Report, paragraph 2.7

¹⁰ RoP, Culture, Welsh Language and Communications (CWLC) Committee, 12 July 2018, paragraph 255

This meant that the plan to spend £30 million within the first two years from the Media Investment Budget was not going to be met.

18. The leverage ratio was now higher at 1:1.4 than it was in November 2016 (1:1). Welsh Government officials anticipated that the ratio would rise to 1:1.9 when an expected additional £7 million of private sector investment came in (bringing the total to £27 million). Also, if recoupments of £4.2 million, estimated by Welsh Government are taken into account, the leverage ratio rises to 1:2 but remains some considerable way short of the original projection of 1:3.

19. Welsh Government officials explained that the Isle of Man's collaboration with Pinewood (which ran from 2012 to 2017), predated the Welsh Government's agreement with Pinewood. It was therefore too early to tell how successful the Isle of Man's collaboration with Pinewood was going to be when the Collaboration Agreement was signed in 2014. Welsh Government officials had placed reliance on the business plan Pinewood had developed for Wales based on their private experiences in investing its own money in production, but also on the Isle of Man fund.¹¹ They had felt that there "was no reason at that stage to doubt Pinewood's experience, abilities in this field".¹²

20. In a written submission from Pinewood Studio on the 24 July 2018,¹³ it was stated that the following figures represent "an approximate 1:6 funding vs spend ratio on then projected recoupment"¹⁴.

- Budgets of productions coming to Wales = £75,805,514
- Gross funding provided by MIB = £8,178,463
- Projected recoupment as at October 2016 = £6,222,713
- Estimated Welsh spend as at October 2016 = £13,182,150

21. The agreement Pinewood had with the Isle of Man Government expired in 2017. Pinewood stated that "it could not advise the Culture, Welsh Language and

¹¹ RoP, CWLC Committee, 12 July 2018, paragraph 275

¹² RoP, CWLC Committee, 12 July 2018, paragraph 277

¹³ Letter from the Chair of the CWLC Committee, 28 September 2018, Welsh Language and Communications (CWLC) Committee, 28 September 2018

¹⁴ Pinewood appear to have arrived at the 1:6 ratio by showing the gross funding provided by the MIB of £8,178,463 less the projected recoupment of £6,222,713, giving a net total of £1,955,750 against their estimated Welsh spend of £13,182,150 (within a cumulative total production budget of £75.8 million)

Communications Committee on the current state of the Isle of Man's Media Investment fund for reasons of confidentiality".¹⁵

22. In the letter to us from the CWLC Committee, we were told:

"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."¹⁶

23. Although this is speculative, given the absence of robust evidence on the performance of the Isle of Man fund, the closure of the Isle of Man Media Investment Fund in 2017, and Pinewood's previous involvement with that arrangement, suggests that it also may not have been as successful as originally anticipated. Pinewood has declined to comment on this issue on grounds of commercial confidentiality.

24. The Committee sought an update on the latest information Welsh Government has on the performance of its Media Investment Budget, and we questioned whether this had improved since being brought under the direct control of the Welsh Government.

25. It was explained that taken across the two administrations of those funds, around £15 million has been invested and the Welsh Government has seen just under £5 million returned. For some productions, it remains too early to determine the return on investment and for others that have been through the system, they have completely covered their costs.¹⁷

26. We heard that some, including *Their Finest*, which was a very successful film, have more than returned the investment. A number of others have, to date, performed less well. One of the lessons learned by the Welsh Government was that there was quite a lot of risk involved in some particular productions, and that

¹⁵ CWLC Committee, written evidence, (24 July 2018)

¹⁶ Letter from the Chair of the CWLC Committee, 28 September 2018

¹⁷ RoP, 5 November 2018, paragraph 27

those at the higher risk end of the scale have not seen a return along the lines expected.¹⁸

27. We wanted to be clear about the level of underperformance focussing on the two most relevant targets which are the leverage of spend and then the recoupment. We noted with regard to the level of Welsh spend, the original target was £90 million.¹⁹ Andrew Slade, the Director General for Economy, Skills and Natural Resources, Welsh Government, confirmed that the original view was that it would be roughly a ratio of 1:3, so with a Media Investment Budget of £30 million it would be expected to see economic activity of the order of £90 million.²⁰

28. Mr Slade explained that it would not be helpful to make a different forecast provision as that would be risky but the Welsh Government is expecting to invest more annually than it has done to date and given it has not already spent the £30 million it would not be getting the full return at this stage.²¹ Mr Slade added that entering into a sponsorship arrangement with Pinewood to attract more introductions of companies into Wales has appeared to be very productive in terms of spend in Wales.²²

29. While we did not wish to hold the Welsh Government to another forecast figure, we wanted a sense of the order of magnitude, and the gap between the forecast of £90 million and actual Welsh spend.

30. Mr Slade set out that from the funding associated with the Media Investment Budget, to date around £15 million has been invested. That is through a combination of Pinewood's stewarding of the structuring deals and what the Welsh Government has done since. The Welsh Government has a quantified Welsh spend of just over £18 million, but that does not take into account the funds that will be recuperated from a number of productions, some of which have barely started production.²³

31. In terms of the original target of £90 million, the Welsh Government have received just £18 million, 20 per cent of their target. We noted that there are few other programmes where you would achieve just 20 per cent of the target and this is of concern. Mr Slade clarified that:

¹⁸ RoP, 5 November 2018, paragraph 27

¹⁹ RoP, 5 November 2018, paragraph 40

²⁰ RoP, 5 November 2018, paragraph 41

²¹ RoP, 5 November 2018, paragraph 43

²² RoP, 5 November 2018, paragraph 44

²³ RoP, 5 November 2018, paragraph 46

“There will be money still to come through from the legacy projects stewarded originally by Pinewood, and there will be money to come through from the ones that we have managed the fund on since. What I don't know—and it would be unwise for me to give you a figure—is quite what those look like, but it won't look like £90 million.”²⁴

Conclusions and Recommendations

We are disappointed with the underperformance, to date, of the Media Investment Fund, but acknowledge the speculative nature of the film industry and that the investment portfolio is still in its relative infancy. We are reticent to make a judgement on whether value for money has been achieved at this stage. We wish to revisit this issue at the end of 2019 in order to gauge the pace of progress in meeting the Welsh Government's targets for the leverage of spend and recoupment.

Recommendation 2. We recommend that Welsh Government provides the Committee with an update on the Media Investment Fund's performance at the end of the 2019 calendar year.

²⁴ RoP, 5 November 2018, paragraph 56

3. Conflicts of Interest

32. The Auditor General's Report states that Welsh Government officials wrote to the Cabinet Secretary for Economy and Infrastructure²⁵, (the Cabinet Secretary), in August 2016, setting out their concerns about the Media Investment Budget's performance. The Auditor General felt 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. However, Welsh Government officials believed that a perception had arisen amongst other companies that Pinewood had an unfair competitive advantage in securing post-production work in Wales and this had the potential to reduce the economic benefits to Wales".²⁶

33. The Auditor General also found:

"there was a perceived lack of transparency regarding the extent of wider Pinewood Group involvement in productions. This perceived lack of transparency had exacerbated concerns about the financial advantage Pinewood may have had over other companies through its exclusive access to the Media Investment Budget."²⁷

34. The Auditor General's Report, further states:

"the risk that this perception might be created was either not identified or considered immaterial by Welsh Government officials at the time of the February 2014 submission to the Minister that had recommended approval of the Collaboration Agreement, as the submission paper is silent on this point."²⁸

35. Welsh Government oral evidence to the CWLC Committee flagged that the Heads of Terms, agreed by both the Media Investment Panel and the Ministers' sector panel advisers, were considered to allow a worthwhile relationship to develop between both Pinewood and Welsh Government.²⁹

²⁵ The Cabinet Secretary's title was revised to Cabinet Secretary for Economy and Transport on 8 November 2017

²⁶ Auditor General's Report, paragraph 2.6

²⁷ Auditor General's Report, paragraph 2.7

²⁸ Auditor General's Report, footnote 19 (page 27)

²⁹ RoP, CWLC Committee, 12 July 2018, paragraph 215

36. Later both the sector panel and the Media Investment Panel concluded that Pinewood was behaving in a way that they felt might be contrary to the agreement and was creating a conflict of interest (promoting their own post-production services). Consequently, Welsh Government officials advice to the Minister suggested that they should look at the agreement and consider whether there was any action to enforce or whether they should enter into a new agreement with Pinewood.

37. In a letter to us, CWLC Committee stated that the Committee had received somewhat conflicting evidence on the extent to which this issue was covered under the original agreement. When asked on 20 June 2018 why the Welsh Government had not identified the possible conflict of interest at the outset of the relationship with Pinewood, a Welsh Government official had said to that Committee that "...a conflict of interest was covered in the original agreement".³⁰

38. However, the CWLC Committee highlighted to us that this assertion was not supported by the Auditor General's Report, which had stated in the second bullet point under paragraph 2.6, that Pinewood's provision of London-based services to the industry was "not prohibited under the Collaboration Agreement".³¹

39. We therefore sought clarity ourselves from the Welsh Government about this conflicting evidence, highlighting that Pinewood was able to generate revenues both from its role as studio operator and also in marketing the Media Investment Budget. We asked Welsh Government officials whether they accepted that there was no explicit reference to these potential conflicts of interest for Pinewood in the briefing provided to the Minister in February 2014, which recommended the Collaboration Agreement.

40. Welsh Government officials confirmed to us that, as reported by the Auditor General, the Ministerial advice did not contain specific reference to conflicts of interest.³²

41. We noted that the evidence set out in the Auditor General's Report suggests that the Welsh Government reacted after the event, rather than having identified the risk up front, that conflicts of interest might arise. We asked whether the risks associated with the potential conflicts of interest were actually identified at the outset, and mitigations only then put in place to guard against those conflicts of interest becoming an issue in practice.

³⁰ RoP, CWLC Committee, 20 June 2018, paragraph 279

³¹ Letter from the Chair of the CWLC Committee, 28 September 2018

³² RoP, 5 November 2018. Paragraph 33

42. We heard from Welsh Government officials that the administering of the funding and where that funding sat, along with who would be taking decisions regarding funding, was always highlighted as an area where there could be a potential conflict of interest. This, we were told, was the reason the Media Investment Panel was introduced and appointments to it were made through a public appointments process. Every project that came from a recommendation from Pinewood was decided upon by the Media Investment Panel and this process would have involved conversations with Ministers regarding potential conflicts.³³

Recommendations

Recommendation 3. It is apparent to us 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 as the outset of the Welsh Government entering into a collaboration with Pinewood. We consider the Welsh Government's reliance on the Media Investment Panel alone, to mitigate their risks, to have been insufficient.

Recommendation 4. We welcome 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.

Recommendation 5. We recommend 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.

³³ RoP, 5 November 2018, paragraph 36

4. Estimated Revenues

43. An annual revenue forecast for the studio of £714,000 was supplied to Welsh Government officials by Pinewood, and was then referred to in the 30 October 2017 submission to the Cabinet Secretary.³⁴ The net operating cost totals (of £392,000 excluding the management fee payable to Pinewood) set out in the Auditor General's Report assume that this figure is realistic.³⁵

44. Welsh Government officials told the Auditor General that "the reliability of the forecasts were tested and scrutinised by officials and also by independent property advisors. However when the figure was provided, Pinewood added the caveat that revenues could be lower due to increased competition from Bad Wolf Studios". The Auditor General's Report also states that:

"Welsh Government officials recognise that these financial projections do not represent good value for money. However, in their view it was better to enter into a three-year agreement with Pinewood with the prospect of generating some commercial revenues, when set against the costs of simply leaving the site empty whilst they searched for a new tenant."³⁶

45. Pinewood's records indicated that "the occupancy rate for stages 1-3 from November 2017 to end June 2018, was 44.12 per cent. The Welsh Government manages the office tenants, so Pinewood is unsighted of the occupancy rates for the offices".³⁷

46. The increased supply of studio space arising from the opening of Bad Wolf Studios has, according to Pinewood, "impacted on the demand for studio space at the Wentloog site with a reduction in enquiries being received".³⁸

47. In evidence to the CWLC Committee in June 2018, the Cabinet Secretary for Economy and Transport referred to Pinewood "operating at capacity".³⁹ Furthermore, Pinewood Studio told CWLC Committee:

³⁴ Auditor General's Report, paragraph 3.14

³⁵ Auditor General's Report, Exhibit 10

³⁶ Auditor General's Report, paragraph 3.15

³⁷ CWLC Committee, written evidence, (24 July 2018)

³⁸ CWLC Committee, written evidence, (24 July 2018)

³⁹ RoP, CWLC Committee, 20 June 2018, paragraph 162

“Pinewood is not responsible for projecting the annual revenues for the studio. Given the studio is now owned by the Welsh Government and merely operated by Pinewood on its behalf, questions regarding revenue are more appropriately posed to the Welsh Government.”⁴⁰

48. In its letter to us, the CWLC Committee commented:

“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’.”⁴¹

49. In November 2018, the Welsh Government explained that:

“When the Minister for Culture, Tourism and Sport attended the Culture, Welsh Language Committee in July this year [2018]⁴², it was stated that Pinewood was on track to achieve the forecast revenues for the first financial year of the new agreement. Since that time projected revenues have dropped and the facility has been less busy than earlier in the year.”⁴³

50. In light of the Cabinet Secretary’s assertion in evidence to the CWLC Committee that Pinewood Studio was “operating at capacity”, we asked how this compared with Pinewood’s reference to an occupancy rate of just over 44 per cent.

51. We heard that occupancy levels at the studio vary given that productions come and go and the space is used in interchangeable ways. Pinewood’s original projections of the amount of revenue generated were based on an occupancy rate of about 70 to 75 per cent over the whole year. At the time that they were responding to the CWLC Committee they were running at about 50 per cent

⁴⁰ CWLC Committee, written evidence, (24 July 2018)

⁴¹ Letter from the Chair of the CWLC Committee, 28 September 2018

⁴² The Minister for Culture, Tourism and Sport title was revised to Deputy Minister for Culture, Sport and Tourism in January 2019

⁴³ Written evidence, PAC(5)-29-18 P3, 5 November 2018

occupancy for the time that they had been managing under the new management services arrangement.⁴⁴

52. We questioned whether Welsh Government accepted that Pinewood's occupancy rate suggests that there is 56 per cent spare capacity that is not being used and that, as a result, important sources of revenue are being lost to the public purse.

53. Mr Slade explained that he would not agree with the 56 per cent figure for spare capacity but acknowledged that the studio was unlikely to ever be at 100 per cent occupancy. He explained:

“...that's not in the nature of the business. Productions come and go, and sometimes it's flat out, as I say, and other times it's a lot quieter.”⁴⁵

54. Finally we queried the statement in the Welsh Government's evidence paper that projected revenues have now dropped, and sought clarity on what were the latest revenue projections for Pinewood Studio Wales, and how these compare with the figure of £714,000 set out in the Auditor General's Report.

55. It was confirmed that the £714,000 was Pinewood's figure about what they expected in terms of annual revenues from occupancy. In further information from the Welsh Government, detailed figures of all revenue for Pinewood Studio Wales for the last financial year were shared with us. We were informed that Pinewood Studio Wales is currently generating an annual income of circa £100,000 including VAT from the Media Hub Licences on the site. 17 key supply chain companies are located at the facility including Marigold Costumes Limited, Sgil Cymru Cyf, Alpha Grip (Cardiff) Limited, Movietech Camera Rentals Limited and Oh So Small Productions Limited. The stages, production offices and workshops have between them generated circa £427,000 including VAT income from the start of the agreements; 1 November 2017 to 22 November 2018.⁴⁶

Conclusions and Recommendations

We accept and agree with the Welsh Government's explanation that the Pinewood Studio is unlikely to ever operate at 100 per cent capacity. We acknowledge that this is due to the inherently high levels of flux in the industry and the unpredictability of when productions will start and finish.

⁴⁴ RoP, 5 November 2018, paragraphs 68 - 70

⁴⁵ RoP, 5 November 2018, paragraph 87

⁴⁶ Written evidence, PAC(5)-32-18 PTN4, 3 December 2018

However, we are concerned at the income generation underperformance, given that the £472,000 generated to date is so significantly below Pinewood's annual revenue projection of £714,000. We recognise that the studio is still in the early stages of operation and believe it to be prudent to reserve judgement on performance until a later date.

Recommendation 6. We recommend, in conjunction with recommendation 2, the Welsh Government provide the Committee with updated financial performance and income projections in December 2019.

5. Sponsorship Arrangement

56. The Auditor General's Report explains that the Welsh Government would pay Pinewood £438,000 annually for five years to market and promote the studio and the Media Investment Budget (referred to as a sponsorship arrangement).⁴⁷ The report states:

“Shortly after the Collaboration Agreement was signed, Welsh Government officials recognised that VAT had been omitted from the original sponsorship agreement. The Minister's approval was therefore obtained to increase the annual sponsorship by £87,600 to £525,600. The total payable to Pinewood over the five-year sponsorship agreement would therefore be £2.63 million.”⁴⁸

57. The letter to us from the CWLC Committee also highlighted these concerns. 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 comprehend how the VAT implications could not have been understood if specialist advice was received.⁴⁹

58. We asked Welsh Government officials how the omission of VAT from the original sponsorship agreement came to light, and why it was not picked up as part of their due diligence prior to the signing of the legally-binding Collaboration Agreement with Pinewood.

59. It was explained that there was an omission and that the general operating principle up to that point had been that Welsh Government would include figures that were exclusive of VAT and it was unclear whether the individual preparing the advice had thought there would be supplementary advice on how this would be treated or it would be recoverable. Mr Slade told us:

“... in the light of this particular episode, advice went out from the centre of our group saying, ‘Look, from now on, when we're putting advice to Ministers, we've got to be very clear how we think VAT is going to be treated, whether or not it's going to be recoverable’.”⁵⁰

⁴⁷ Auditor General's Report, paragraph 1.27

⁴⁸ Auditor General's Report, paragraph 1.28

⁴⁹ Letter from the Chair of the CWLC Committee, 28 September 2018

⁵⁰ RoP, 5 November 2018, paragraph 102

60. In terms of lessons learned, Mr Slade acknowledged that this was an example of an oversight which has forced a system change in terms of how advice is framed to Ministers. There is now guidance in place that notes:

“Following the recent advice that wasn’t right on Pinewood and how VAT would or wouldn’t be treated, we now need to make sure that, in any of our key submissions to Ministers on matters of this sort, we are clear how we think VAT will be treated and whether or not it will be recoverable.”⁵¹

61. It was confirmed that the £87,600 of VAT could not be reclaimed and this represented an additional cost to the Welsh Government. We noted with concern that in this instance the quality of the advice provided to the Cabinet Secretary for Economy and Infrastructure by his officials was wholly unsatisfactory.

Conclusions and Recommendations

We are very concerned about the omission of VAT from the original sponsorship agreement, as this brings into question both the robustness of due diligence work and also the failure to obtain specialist advice on VAT implications.

There appears to be a lack of capacity within the Welsh Government to ensure that the development of proposals to enter into non-standard commercial arrangements (such as Pinewood) with private companies is sufficiently robust. Although we welcome the system change that this particular VAT oversight has apparently prompted, we wish to reinforce that thorough consideration of VAT implications should be a matter of routine practice, together with ready access to specialist technical VAT support where needed.

Recommendation 7. We recommend 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.

⁵¹ RoP, 5 November 2018, paragraph 102

6. Nature of the Property

62. The Auditor General's Report states that the condition of the building at the Wentloog site, prior to purchase by the Welsh Government, was observed and reported by the independent valuers as follows:

“the building appeared to be in a generally reasonable state of repair commensurate with its age and use. 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 or which fall outside of the scope of the normal annual maintenance programme.”⁵²

63. The reported condition of the building above is inconsistent with the subsequent need to undertake essential repairs to the roof of the building which was found to be leaking.⁵³ Moreover, the report notes:

“The acquisition of the Wentloog site by the Welsh Government was completed on 7 February 2014. The precise extent of repairs and improvements needed for the building had not been agreed or finalised between the Welsh Government and Pinewood at the date of the purchase.”⁵⁴

64. In oral evidence to the CWLC Committee, the Welsh Government commented that an independent valuation was carried out before the building was acquired. The Committee was told that it was not a structural survey but a valuation. The valuer had said that the roof would be subject to routine maintenance but that it did not have any major defect and so had valued the building on that basis. Contractually, the Welsh Government did not believe that there is any legal liability on the valuer. So, for the Welsh Government to be able to take legal action against damages incurred they would have to prove the building's value was significantly less than the value that they paid for it as a result of the roof.⁵⁵

65. The CWLC Committee were told by Mick McGuire, the then Director, Business and Regions, Welsh Government that:

⁵² Auditor General's Report, paragraph 1.14

⁵³ Auditor General's Report, paragraph 1.20

⁵⁴ Auditor General's Report, paragraph 1.19

⁵⁵ RoP, CWLC Committee, 12 July 2018. paragraph 129

“The roof did leak and a running repair could have worked. However, Pinewood, as the tenant, insisted that it should not leak at any stage in the future, and therefore Welsh Government officials decided not just to repair but to reinforce and improve the quality of the roof to extend its life. That is why it cost more than a simple repair.”⁵⁶

66. A letter from the Cabinet Secretary for Economy and Transport to the Chair of the CWLC Committee dated 11 October 2018, elaborated on the option of undertaking a running repair to the studio roof to include the reputational risks of not doing so, “for example if filming schedules were impacted or sets damaged due to ongoing water ingress productions could have been delayed with significant budget implications to the production companies. The scheme undertaken significantly extends the life of the roof and includes a 20 year guarantee, which would be taken into consideration by a purchaser, would Welsh Government seek to sell the property in the future”.⁵⁷

67. The CWLC Committee heard that these issues 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 CWLC Committee expressed surprise 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, and was not satisfied with the Government’s response on this point.⁵⁸

68. We note that the site at Wentloog is arguably significant in terms of its size and specialist nature and in addition to a Grade II listed building there is also a wind turbine on the site. We challenged Welsh Government officials on why a full building survey prior to purchase was not commissioned.

69. Tim Howard, the Deputy Director of Property, Welsh Government explained that the Welsh Government had a good knowledge of the history of the building and that it was being sold by an institutional investor, which was an indicator, not

⁵⁶ RoP, CWLC Committee, 12 July 2018, paragraph 129

⁵⁷ Letter from the Cabinet Secretary for Economy and Transport to the Chair of the CWLC Committee, 11 October 2018

⁵⁸ Letter from the Chair of the CWLC Committee, 28 September 2018

a guarantee, that the building “had probably been maintained to a reasonable standard”.⁵⁹ Mr Howard added:

“...at the time of purchase, there was an ongoing discussion with Pinewood about the possibility of raising the level of the roof. So, it was a better than 50:50 chance at the time that we bought the building that the roof that was there wasn't the roof that was going to be there in the fullness of time, and we actually went to the extent of getting advice on the costs of undertaking that work. So, I think all of those factors combined give some reasoning as to why we didn't think a roof survey was necessary in this instance.”⁶⁰

70. The Committee are concerned that the Heads of Terms for the lease refer to Pinewood making a contribution towards the cost of improvements to the building. A figure of £800,000 is referred to in the Auditor General's Report. We asked Welsh Government officials, whether, given Pinewood's insistence that the roof should not leak, why Pinewood was not asked to pay for some or all of the roof repairs as tenant improvements.

71. We were informed that this was because the responsibility for fixing the roof, under the agreement for lease, lies with Welsh Government. We were told:

“The Heads of Terms set out two alternative scenarios for undertaking improvements to the building, and there were two sets of improvements. There were what were deemed the tenant's improvements, which were creating the sound stages and undertaking some works to the roller shutter doors. That was the £1.5 million-worth of work that was referenced in the Heads of Terms. I think the choices were: either the Welsh Government would undertake those works, or they would be undertaken by Pinewood with a contribution from Welsh Government towards the cost. So, those were the tenant's works. Separate to that, under the agreement for lease, there were the landlord's works, which were making sure that the roof was sound, and also recommissioning the mechanical and electrical equipment within the building.”⁶¹

72. When asked if, with the benefit of hindsight, it was an error not to get a full survey of the building, Mr Howard told us the surveys Welsh Government had

⁵⁹ RoP, 5 November 2018, paragraph 115

⁶⁰ RoP, 5 November 2018, paragraph 116

⁶¹ RoP, 5 November 2018, paragraph 130

undertaken afterwards had indicated that the works that were required immediately and “could have been undertaken for a relatively modest sum—around £100,000”, adding:

“The decision that we took was more about balancing the potential for future repair liabilities on the roof, because part of the problem with roofs is that you go up to repair one particular item, and you can disturb other elements and create other problems. Obviously, we didn't want that. So, I think that the surveys that we had done afterwards that indicated the cost of works supported the decision that we took not to do a survey of the roof before we bought it. The expenditure was more an investment in the asset than a response to a want of repair.”⁶²

Conclusions and Recommendations

We find it remiss of the Welsh Government to have actively taken a decision to not commission a structure survey of the building at the Wentloog site prior to purchasing it. We would have expected the purchase of a £6 million site to have been subject to a comprehensive survey.

We are not satisfied with the Welsh Government's assumption that the building would have been maintained to a reasonable standard because it was being sold by an institutional investor. We are further surprised this approach was taken, given purchase of the site included a wind turbine and a Grade II listed farmhouse building, which are very different types of assets in their own right.

Recommendation 8. We recommend the Welsh Government obtain surveys, not just valuations, on all property acquisitions above £1 million.

⁶² RoP, 5 November 2018, paragraph 132

7. Value of the works carried out by Pinewood

73. 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. It went on to say that the termination agreement would contain a narrative that the benefit of any modifications to the building made by Pinewood (tenant’s improvements) would remain in place and become the property of the Welsh Government”.⁶³

74. The Auditor General’s Report also notes that the contents of the Ministerial Advice are at odds with Pinewood’s position on the matter. Pinewood executives have stated that the Heads of Terms (which were subject to contract) provided that either (i) the Welsh Government would undertake the fit-out works and that Pinewood would make a contribution of £800,000; or (ii) Pinewood would complete the fit out works and Welsh Government would contribute £1.8 million (including VAT) towards the cost. “They went on to say that the Agreement to Lease makes no reference to the £800,000 but does specify the works the tenant is required to undertake and requires the Welsh Government to contribute £1.8 million”.⁶⁴

75. In addition, Welsh Government officials have confirmed to the Wales Audit Office that “they do not have a schedule of the tenant’s improvements that have been completed to date and that have now been acquired by Welsh Government”.⁶⁵

76. Welsh Government oral evidence to the CWLC Committee stated that:

“It is normal for a lease to require a tenant to make good the property at the end of the lease and hand it back in at least as good condition as it was at the outset. And, if a tenant does improvements to a building that the landlord decides have not added value and wants them removed, it is appropriate for the landlord to require the tenant to remove the tenants’ improvements.”⁶⁶

⁶³ Auditor General’s Report, paragraph 3.10

⁶⁴ Auditor General’s Report, paragraph 3.11

⁶⁵ Auditor General’s Report, paragraph 3.10

⁶⁶ RoP, CWLC Committee, 12 July 2018, paragraph 205

Heads of Terms

77. Welsh Government officials explained to the CWLC Committee that Pinewood gave a commitment that they intended to improve the building once they became a tenant including spending money improving the building, and, in particular, developing the suite of offices to house the 17 sub-tenants or licensees, who sit underneath it and employ 34 people there. CWLC Committee heard:

“They did that work, and I don’t believe it cost £800,000, but they have provided some evidence that it cost a significant portion of that amount but not the full amount.”⁶⁷

78. On considering this evidence, the CWLC Committee informed us:

“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.”⁶⁸

79. The Ministerial advice referred to in the Auditor General’s Report was dated September 2017. Pinewood had occupied the studio for at least two years by this time. The advice related to the termination of the existing lease and Collaboration Agreement not the granting of the tenancy.

80. We questioned why Welsh Government officials therefore told the CWLC Committee that “the work wouldn’t have been done at the time of the advice to the Minister because the recommendation was for Pinewood to be granted a tenancy on the property, and therefore it couldn’t have done any tenants’ improvements at the time of that advice”.⁶⁹

81. Mr Slade explained that in part there was some confusion around terminology used in the evidence to the CWLC Committee, which related back to who was going to pay for what works and the difference between what was in the

⁶⁷ RoP, CWLC Committee, 12 July 2018, paragraph 188

⁶⁸ Letter from the Chair of the CWLC Committee, 28 September 2018

⁶⁹ RoP, CWLC Committee, 12 July 2018, paragraph 199

original head of terms agreement, which were not binding and what subsequently ended up in the contract.⁷⁰

82. Mr Howard clarified this further in stating:

“I think possibly the explanation is in those two options that were set out in the Heads of Terms, as to whether the Welsh Government undertook the fit-out works or whether Pinewood undertook the fit-out works. I think that, if I remember rightly, in the instance that Pinewood undertook the fit-out works, the reference to the further investment that they would make was specified as being over the term of the lease. So, obviously, that was a 15-year term. At the point that the evidence was given, we were only two years into that lease term. So, maybe that's what the official was getting at, that there was a long period following that in which the investment could have been made.”⁷¹

83. The CWLC Committee was told by the then Director of Business and Regions, Welsh Government, that some evidence has been provided to Welsh Government officials that supports a significant proportion of the expenditure incurred on the suite of offices occupied by the sub tenants.⁷² We queried why Welsh Government officials were unable to provide Wales Audit Office staff with a schedule of the improvement works Pinewood had completed on the studio.

84. We were told that Welsh Government officials had not asked for a schedule of the works and that there could be confusion arising from the terminology being used by officials. Mr Howard explained that the tenant's improvements specified in the agreement for lease are those that were funded by contribution from the Welsh Ministers. The £800,000 of tenant's improvements were separate and it never transferred itself as an obligation into the lease itself.⁷³

85. The Committee are concerned that in the context of such negotiations the Welsh Government should have been clear about their expectations and what they thought reasonable to give rise to a provision financially for undertaking these works. This is particularly significant because it might impact on the deal that would be done with the other contracting party. It seems the approach taken by the Welsh Government did not make adequate provisions administratively for

⁷⁰ RoP, 5 November 2018, paragraph 158

⁷¹ RoP, 5 November 2018, paragraph 159

⁷² RoP, CWLC Committee. 12 July 2018, paragraph 188

⁷³ RoP, 5 November 2018, paragraph 174

asking those questions and doing the calculations that might have produced a more favourable outcome in terms of value for money for the taxpayer.

86. We went on to question whether Welsh Government officials agreed that the wording of the advice given to the Minister in the briefing of September 2017 stating that “Pinewood had carried out works and investments in equipment at around £800,000” was inaccurate and potentially misleading.⁷⁴

87. Mr Slade informed us that the figure of £800,000 could not be verified, adding that it is clear that Pinewood had undertaken a number of works that would improve the site and the value of the facility, but they were not aware of any schedule of works that sets out what those works were. Mr Slade stated:

“It’s possible that the official, in making the advice to the Minister, was going back to the original Heads of Terms arrangement and carrying that forward. In which case, if that was so, that would have been misleading or inaccurate.”⁷⁵

Conclusions and Recommendations

The lack of clarity around the value of the works carried out by Pinewood, with no details of the value of works specified in the ‘Agreement to Lease’ the site, has resulted in needless additional costs for the public purse. We were both surprised and concerned to learn that the Welsh Government did not appear to have realised until recently that the proposed resolution of these issues within the Heads of Terms had not in fact been translated into the actual contract with Pinewood. Furthermore, we are concerned that the Welsh Government did not have a schedule of the tenant’s improvements that have been completed to date.

These failings lead us to conclude there was a lack of clarity in terms of who held responsibility for which improvements and that, unacceptably, this led to incorrect and poor quality advice being provided to the Minister. In our view, the contract with Pinewood should have explicitly set out the Welsh Government’s expectations of the works required, enabling negotiation and agreement at the outset on a reasonable financial provision for undertaking those works.

In summary, it seems that the approach taken by the Welsh Government did not make adequate provisions administratively to ensure the contract was sufficiently

⁷⁴ RoP, 5 November 2018, paragraph 161

⁷⁵ RoP, 5 November 2018, paragraph 166

explicit, which might well have secured much better value for money for the taxpayer.

Recommendation 9. We recommend 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.

8. Listed Building

88. The Auditor General's Report states that, "as part of the site purchase, the Welsh Government also acquired a derelict Grade II listed farmhouse located adjacent to the main building. In purchasing the farmhouse, the Welsh Government came under a statutory obligation to renovate the building at an estimated cost of £360,000 (including VAT). Welsh Government officials anticipated that, once renovated, the farmhouse could become a valuable asset that could be leased or sold, either with or separate to the main building".⁷⁶

89. In evidence to the CWLC Committee, it was stated that the farmhouse wasn't critical to the operation of the studio from the Welsh Government's perspective. The vendor was only prepared to sell both assets at the same time. But perhaps, more importantly, at the time, Pinewood anticipated that they could make use of that property. So, Pinewood had said, "Oh, there's an opportunity for us to consider using the house, either as a prop for future productions, and/or to house crew and/or actors who are working on site". Pinewood felt that the flexibility of the property might be of help to their business plan, but there was no immediate plan to use it.⁷⁷

90. As far as Welsh Government officials are aware, there is no requirement to make good the building, but it is possible that the local authority could require it to do that at some stage in the future.⁷⁸

91. Until a tenant on the site wants to use that facility, Welsh Government would leave it as it is. If, at some point, there became a requirement for us to make good, we would have to look at the options available to either sell it separately or include it as part of an increased asset available to the tenant.⁷⁹

92. In a written evidence paper to this Committee, the Welsh Government stated:

"The building or £360,000 renovation costs have not been re-evaluated since purchasing the building in 2014. Officials do not have an estimated sale value after refurbishment. There are no immediate plans to use the building. However, in renovating the building, it could

⁷⁶ Auditor General's Report, paragraph 1.21

⁷⁷ CWLC Committee, [written evidence](#), (24 July 2018)

⁷⁸ RoP, CWLC Committee, 12 July 2018, paragraph 144

⁷⁹ RoP, CWLC Committee, 12 July 2018, paragraph 154

become a valuable asset that can be leased or sold, either with or separate to the main building.”⁸⁰

93. CWLC Committee informed us that it was disappointed that the Minister in his evidence revealed that Welsh Government will only work on the farmhouse if required to do so by the local planning authority or Cadw.⁸¹

94. We questioned whether the condition of the farmhouse will deteriorate further without immediate repair and renovation work and therefore the final bill associated with the disposal of the property would increase. Welsh Government officials told us that the building was being maintained in terms of keeping it safe and secure.

95. We raised concerns about how the building might be used apart from being a period set, or possibly accommodation for technicians while they are working on the Pinewood site. We noted that given the building is in the middle of an industrial estate with no amenities and relatively isolated there is little likelihood of being able to sell it.

96. In additional evidence from the Welsh Government, specific costs incurred to date for maintaining the building stands at £642 including VAT. This relates to securing the premises. Welsh Government officials estimate it will take three months to carry out a full assessment of the property to gauge costs and timescales of works for the proposed renovation. The Welsh Government undertook to share the outcome of this assessment with the Committee.⁸²

Conclusions

We were surprised to learn that the Welsh Government were not aware of any requirement to make good the Grade II listed property that it purchased as part of the site at Wentloog. We find it naïve of the Welsh Government to anticipate this to be the responsibility of the local authority and are disappointed that there is no intention to work on the property unless required to do so by the local authority or Cadw.

We believe the Welsh Government should have evaluated the assets and liabilities it was taking on as part of the purchase of the site at Wentloog, bearing in mind this included a Grade II listed building and the consequences of doing so. We are

⁸⁰ Written evidence, PAC(5)-29-18 P3, 5 November 2018

⁸¹ Letter from the Chair of the CWLC Committee, 28 September 2018

⁸² Written evidence, PAC(5)-32-18 PTN4, 3 December 2018

surprised that the Welsh Government did not have the foresight that it might be instructed at some point to undertake work on the building.

We find these failings to be of particular concern given the Welsh Government's responsibility for oversight of Cadw; these are not the actions of an exemplar owner of a listed building.

We note that the Welsh Government will be providing the Committee with details of the outcomes of the assessment of the building shortly. We will therefore consider this matter further in due course.

9. Transparency

97. In its letter to us, the CWLC Committee stated:

“...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.”⁸³

98. The Public Accounts Committee has occasionally encountered instances where the Welsh Government has withheld financial information from the Committee, citing “commercial confidentiality” – most recently this was in respect of the Aston Martin guarantee fee arrangement. In the case of the Welsh Government’s support for Pinewood Studios Wales, the Auditor General included in his report certain financial information that the Welsh Government had not previously placed in the public domain on the grounds of commercial confidentiality.

99. These additional financial disclosures had been discussed and agreed between the Wales Audit Office and Pinewood prior to the publication of the audit report. The Auditor General did however redact one figure from his report (see paragraph 3.13) – the value of the annual management fee payable to Pinewood. In doing so, he accepted Pinewood’s contention (as explained in footnote 26 on page 36 of the report) that “placing this information in the public

⁸³ CWLC Committee, written evidence, (24 July 2018)

domain would be likely to cause substantial harm to the commercial interests of Pinewood by giving its customers, competitors and suppliers and unfair advantage in future price negotiations”.

100. We will have the opportunity to discuss this topic in more detail with the Welsh Government when we consider the Auditor General's Report on Welsh Government Financial Support for Business (published November 2018). However, the Auditor General's Report on Pinewood provided an initial opportunity for us to explore this topic, and in particular whether the Welsh Government accedes too readily to claims of “commercial confidentiality” made by companies to which it provides financial support.

101. We found it interesting to see that the Auditor General was able to agree with Pinewood that, with just one exception, all of the financial information previously withheld from Assembly Members by the Welsh Government on the grounds of “commercial confidentiality” could be published without redaction in his audit report.

102. We therefore questioned whether the Welsh Government had pressed Pinewood to consent to the disclosure of its financial support package, to provide transparency and better informed scrutiny of the use of public funds.

103. We were told that a number of conversations have taken place with Pinewood about release of information. We asked for clarification of whether it was a case that Wales Audit Office had asked for information and Pinewood had agreed to release it, and when the Welsh Government asked they were refused. Mr Slade explained:

“I don't know in terms, but I suspect a conversation was had—. When we deal with any company, we explain that we are Government and there are certain requirements on us in terms of releasing information. Whether the company said, ‘We're terribly sorry, we can't do that. It's commercial in confidence’, or whether, from the conversation that the team had with Pinewood, that's what they concluded was the most sensible way to proceed, I don't know, and that's one of the questions that I've asked the team.”⁸⁴

104. He added:

“There were general provisions in respect of commercial confidentiality, although we did push the company quite hard on the arrangements in

⁸⁴ RoP, 5 November 2018, paragraph 206

respect of specific deals. That was one of the sector issues that came to the fore in coming to the end of the collaboration agreement and the move to a different approach.”⁸⁵

105. We wished to pursue this issue further and explore the general Welsh Government policy in relation to commercial confidentiality and whether it is the Welsh Government's presumption to publish in all cases until the company actually raises an issue of confidentiality, for example. We are aware that there is a general presumption that given its obligations under the Freedom of Information Act 2000 (FOI) and a number of other provisions in respect of data protection and FOI, the Welsh Government will release as much information as it can. However, we wanted to pin down whether there is a general presumption that everything will go out until the third party actually raises concerns that they have over specific examples, or whether there is an assumption that anything that has numbers attached to it and anything in relation to business does not get released.

106. Mr Slade expressed there was a cautious approach by the Welsh Government to avoid a position of prejudicing the interests of companies and the need to be mindful of what other people are doing in other parts of the UK and further afield. This, he added was because companies did not feel they can operate in Wales because too much of what they are going to discuss will be released.⁸⁶ Mr Slade added:

“But I do think that, where public money is being spent, we should be as open as we possibly can, particularly in respect of grants. There may be a slightly different arrangement in respect of commercial dealings, where Welsh Government is working alongside a particular party, and it may sometimes be a question of timing, so maybe we can't release information now, but we might be able to at a point in the future. I think we should be more upfront, probably, in our dealings with companies about that, and when might be the point when we can release more information.”⁸⁷

107. Mr Slade referred back to the lessons learned from the Welsh Government's experiences with Pinewood, including a general one around transparency and being clearer with all parties on what the Welsh Government is doing. He added that under the new Economic Action Plan, where they look to tie companies to a greater set of returns for the money the Welsh Government has invested, both in

⁸⁵ RoP, 5 November 2018, paragraph 208

⁸⁶ RoP, 5 November 2018, paragraph 212

⁸⁷ RoP, 5 November 2018, paragraph 212

terms of how they behave and what they offer. This will be brought together with the economy futures fund and the Auditor General's Report on Welsh Government Financial Support for Business.

108. Going forward this will mean the Welsh Government will look at the wider questions of what they need to say to companies at the outset and the information that they can readily accept will be made public against information that will impede their ability to operate in the marketplace, and indeed the Welsh Government's own ability to operate in the marketplace.

109. Finally, we questioned whether there was any reason why the Welsh Government should not set an expectation in future when making offers of support to businesses that key financial information will be placed in the public domain as soon as an agreement is finalised, unless a specific, clear and compelling case exists not to do so.

110. Mr Slade accepted the challenge stating that:

“...without prejudicing what we might want to do in the future or what comes out of the conversations in respect of the business finance review, I think we do need to look at means of allowing you to do your job most effectively while protecting positions of companies or the Welsh Government. For example, I don't know: the opportunity to discuss things privately with you as a committee so that you can see what's going on, but that isn't necessarily stuff that is shared more widely. But I would want to consider that more fully, I think.”⁸⁸

Conclusions

The withholding of financial information on the grounds of commercial confidentiality has long been of concern to this Committee. Our exploration of the Welsh Government's relationship with Pinewood has enabled us to take an initial look at the matter and we will continue to look at this in more detail as part of our forthcoming inquiry into Welsh Government support for Business.

In the case of Pinewood, the Committee is particularly concerned that the content of the collaboration agreement lacked transparency and this raises the need for a wider discussion on what information can be published to fulfil a legitimate desire for information about how public money was being spent. We recognise the need

⁸⁸ RoP, 5 November 2018, paragraph 212

for this to be done in a balanced way to ensure transparency without deterring potential investors.

We welcome the commitment given by Welsh Government officials to consider the issue of sharing financial information with us in a constructive way. This is in addition to the recent commitment provided to us by the Permanent Secretary to explore the possibility of lead officials briefing members of the Committee on Welsh Government guarantee arrangements in a private session.⁸⁹ This is with the view to give the Public Accounts Committee greater clarity in confidence on the sums involved and how these guarantees are accounted for.

We will seek an update on the Welsh Government's deliberations as part of our further work in this area.

⁸⁹ Correspondence from the Permanent Secretary to the Public Accounts Committee. 14 January 2019