



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

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[The Public Accounts Committee](#)

08/03/2016

[Agenda'r Cyfarfod](#)

[Meeting Agenda](#)

[Trawsgrifiadau'r Pwyllgor](#)

[Committee Transcripts](#)

Cynnwys Contents

- 4 Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions
- 5 Papurau i'w Nodi
Papers to Note
- 6 Buddsoddiad Llywodraeth Cymru yn Isadeiledd Band Eang y
Genhedlaeth Nesaf: Trafod ymatebion i adroddiad y Pwyllgor
Welsh Government Investment in Next Generation Broadband
Infrastructure: Consideration of response to the Committee's Report
- 8 Cronfa Fuddsoddi Gwyddorau Bywyd Cymru
Life Sciences Wales Investment Fund
- 59 Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn
ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in
the committee. In addition, a transcription of the simultaneous interpretation
is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mohammad Asghar (Oscar) Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Jocelyn Davies Bywgraffiad Biography	Plaid Cymru The Party of Wales
Mike Hedges Bywgraffiad Biography	Llafur Labour
Sandy Mewies Bywgraffiad Biography	Llafur Labour
Darren Millar Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Jenny Rathbone Bywgraffiad Biography	Llafur Labour
David Rees Bywgraffiad Biography	Llafur (yn dirprwyo ar ran Julie Morgan) Labour (substitute for Julie Morgan)
Aled Roberts Bywgraffiad Biography	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Eraill yn bresennol Others in attendance	
Gareth Bullock	Cadeirydd, Cyllid Cymru Chair, Finance Wales
Mark Jones	Swyddfa Archwilio Cymru Wales Audit Office
James Price	Dirprwy Ysgrifennydd Parhaol—Grŵp yr Economi, Sgiliau a Chyfoeth Naturiol, Llywodraeth Cymru Deputy Permanent Secretary—Economy, Skills and Natural Resources Group, Welsh Government

Mike Usher Swyddfa Archwilio Cymru
Wales Audit Office

Huw Vaughan Thomas Swyddfa Archwilio Cymru
Wales Audit Office

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Claire Griffiths Dirprwy Clerc
Deputy Clerk

Meriel Singleton Clerc
Clerk

Joanest Varney–
Jackson Uwch–gyngorydd Cyfreithiol
Senior Legal Adviser

Dechreuodd y cyfarfod am 09:02.
The meeting began at 09:02.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Darren Millar:** Good morning, everybody. Welcome to today's meeting of the Public Accounts Committee. Just the usual housekeeping notices before we start the meeting properly: if I could just remind everyone that the National Assembly for Wales is a bilingual institution and that Members and witnesses should feel free to contribute to today's proceedings through either English or Welsh as they see fit. There are, of course, headsets available for those who need them. Those headsets can also be used for sound amplification for those who require it. If I could encourage everybody to switch off their mobile phones or put them on silent mode so that they don't interfere with the broadcasting equipment and, obviously, in the event of a fire alarm, we should follow the directions of the ushers.

[2] We haven't received any oral declarations of interest for anything on the agenda today, but should any arise, if Members can motion to me at the time then we'll make sure that those are recorded. We've had a single

apology for absence today from Julie Morgan, but I'm very pleased to be able to welcome David Rees to the committee. Welcome, David.

09:03

Papurau i'w Nodi Papers to Note

[3] **Darren Millar:** Item 2 on the agenda, then, is papers to note. We've got some correspondence from the Auditor General for Wales in relation to the management of direct payments by local authorities. That piece of correspondence emanated from contact with me as Chair by an individual in one part of Wales who was concerned about the way that direct payments were being administered by local authorities. So, that's the background to it. That's also been copied to David Rees as Chair of the health committee. Sandy Mewies.

[4] **Sandy Mewies:** I don't know if it's appropriate now, but could we have a list of people we spoke to and who gave evidence in this? I know we did telephone interviews and so on—disability organisations—. I can't find it in the annex.

[5] **Darren Millar:** Huw, do you want to just comment on that?

[6] **Mr Thomas:** I think it's important that Members understand the status of this paper. This is not a full study. Rather, it's a briefing paper that I prepared for the committee in light of the correspondence the Chair had received. I think it would be, if the committee were continuing, the kind of paper that you would then use as a basis for an inquiry yourselves or by the Health and Social Care Committee. So, it has really been delivered now so that you can take account of it in your legacy report, and as I said, we've clearly been tailoring our time in terms of producing it so as to be able to give us a sense of what the position is in Wales, and to compare it to England.

[7] **Sandy Mewies:** So, what you're saying is that you can't give us a list of people you've spoken to, because—

[8] **Mr Thomas:** I can give a list of people—

[9] **Sandy Mewies:** Can I just finish? It does draw some general

conclusions, and I'm not saying that I disagree with them, but I would like to know how they've been reached and by whom.

[10] **Mr Thomas:** But you have noticed in this that I describe how it is the report's been put together on the basis of a telephone conference with a range of people. If you're interested in doing this, we will seek to do a full study, but it is directly prepared as a briefing paper for you, for you to decide whether you wish to continue with this work.

[11] **Darren Millar:** Can I make a suggestion? Obviously, there's no prospect of this committee picking up on any follow-up work on this particular paper. It is quite a detailed briefing paper. It's been copied to both this committee and the Chair of the Health and Social Care Committee, and, of course, the Social Services and Well-being (Wales) Act 2014 has significant implications for the take-up of direct payments and their promotion. Can I suggest that we pick up on this issue in the legacy report, as has been suggested, if Members are content with that? I think, then, that any follow-up work can be taken forward by any successor committees in the next Assembly. Are Members content with that approach? Thank you very much.

09:06

**Buddsoddiad Llywodraeth Cymru yn Isadeiledd Band Eang y
Genhedlaeth Nesaf: Trafod ymatebion i adroddiad y Pwyllgor
Welsh Government Investment in Next Generation Broadband
Infrastructure: Consideration of response to the Committee's Report**

[12] **Darren Millar:** Item 3 on the agenda, then, is Welsh Government investment in next generation broadband infrastructure. We've got some correspondence from the Welsh Government that is a response to some further questions that we asked as a committee in terms of the follow-up on our recommendations in our previous report. We've also got some correspondence from the Wales Audit Office in relation to the Welsh Government's further update, and some further correspondence items between me and the Deputy Minister for Skills and Technology. Huw, did you want to take us through the recommendations that we felt required further explanation?

[13] **Mr Thomas:** Well, you've had a response in terms of the questions that you asked. I think that on three of these, particularly in terms of recommendations 1, 2 and 8, there appears to be, shall I say, a slight

misinterpretation by the Welsh Government of the issues that you put to them. But the only one that I'd really draw attention to at this stage is just the explanation on recommendation 2, which refers to the vouchers that the Access Broadband Cymru scheme will be introducing. There will be two levels of vouchers, and I just want to be clear on this one—the consumer can decide whether they'd like a £400 voucher or an £800 voucher. But the point to stress is that the £400 voucher is for speeds between 10 Mbps and 20 Mbps, which isn't superfast broadband. The £800 voucher is the one if you want speeds of 30 Mbps or more—the superfast. I suppose you might think that, by offering the £800 voucher, the Welsh Government has enabled people to access superfast broadband if they chose to, even if they decide not to and take up the £400 voucher. So, I think that it would have helped if we'd just had that bit of elaboration on that point.

[14] **Darren Millar:** Okay. The other issue that Members might be interested in is obviously the response to recommendation 1 in relation to the complexity of the roll-out, which suggests that the roll-out process now is dynamic, with deployment to specific postcode areas. It suggests that it's a bit indefinite for some of those hard-to-reach premises in Wales, and that there may be some flexibility with different properties falling in and out of the roll-out programme. One thing that I know was very important to the committee during our discussions on this issue was the fact that it was very uncertain for many households around Wales as to when they would actually receive their broadband. Aled, do you want to come in?

[15] **Aled Roberts:** Can I suggest it's not just hard-to-reach premises? There are premises in Wrexham town centre, 100m from the exchange, that can't get superfast broadband—in the main business area in Wrexham. So, we need to be careful regarding the use of the term 'hard to reach'.

[16] **Darren Millar:** Okay. Mike, you wanted to come in on this as well.

[17] **Mike Hedges:** I don't know whether you'd like to answer this now, but talking about the complexity of it, my understanding is that it might be difficult to do—the scale might be difficult et cetera—but as for complexity, all you do is either put fibre optic, preferably, or copper wiring in, you expand the cabinets they're coming into, and you have broadband. Where's the complexity in the system?

[18] **Darren Millar:** The witnesses are not here to answer questions on broadband just yet, but obviously we've got a number of outstanding

questions, I think, that Members want to ask in addition to the specific items that have been raised by the auditor general. Can I suggest that we prepare one final letter on this, with Members' concerns in relation to the roll-out process, and in relation to the voucher scheme and, indeed, what 'dynamic' actually means for the consumer, who might want to take up the opportunity to have access to superfast broadband. Sandy.

[19] **Sandy Mewies:** Can I ask for clarification on whether the website is now indicating an improvement or not? I may have the letters in the wrong order, but I'm not clear about what exactly it's saying, so I'd just like that clarified.

[20] **Darren Millar:** This is the website that gives an indication as to the timescale, isn't it, and whether people can access it?

[21] **Sandy Mewies:** Yes. Thank you.

[22] **Darren Millar:** Are Members content with that? Excellent.

09:11

Cronfa Fuddsoddi Gwyddorau Bywyd Cymru Life Sciences Wales Investment Fund

[23] **Darren Millar:** Item 4 on our agenda, then: the Wales life science investment fund. Members obviously received a briefing on this particular issue last week, following the publication of the auditor general's report on the establishment of the life sciences Wales investment fund by the Welsh Government. I'm very pleased to be able to welcome today to the table James Price, the Deputy Permanent Secretary, economy, skills and natural resources group at the Welsh Government, and Gareth Bullock, who is the chair of Finance Wales. Welcome to you both. Just for the benefit of those who might be watching this session online, Members have also received a copy of a letter, which has been distributed by the Minister for Economy, Science and Transport, in relation to our evidence session today. Unfortunately, this has not been published online as yet; it was only received late last night. Auditor general, do you just want to comment on the contents of the letter? Is there anything you'd like to say?

[24] **Mr Thomas:** The Minister is essentially updating you as a committee on the current performance of the life sciences fund. I'd just like to draw

attention—. That's, indeed, useful information, but was not the focus of the study. The study was on the establishment and the oversight of the fund, and we made it quite clear in my study that we are not looking at value-for-money issues. I understand that a study is currently taking place on value for money, so, in many ways, this letter reflects what is currently being delivered, but, as I said, it's useful background to your session.

[25] **Darren Millar:** Thank you, Huw. Okay. If I can start, then, Mr Price. Obviously, the Welsh Government has not had time to respond fully yet to the report in writing, so if I can, I'll just ask some questions directly to you. In terms of the initial response of the department, what would you like to say in response to the report that was published last week?

[26] **Mr Price:** Is this by way of just generally—?

[27] **Darren Millar:** Just a general response.

[28] **Mr Price:** I think the whole process of setting up the life sciences fund, and probably running the life sciences fund as well, has been a learning process for all concerned—both Welsh Government and Finance Wales—and probably remains a learning process as well, because the market is constantly changing and, to a certain extent, we are trying to keep up with the market, if not keep exactly alongside the market. I welcome the auditor general's views and comments on this, and I guess the biggest shame in all of this is it's taken so long to bring it to a conclusion and get the report to you here. I think there are reasons why it took so long, and those reasons involve a whole number of different people, including me and including my team. But it was certainly not caused by simply one factor. What we were trying to do was get all of the facts within a report, and the difficulty was, as the time went on, more stuff came into the report, hence more information needed to be checked.

09:15

[29] And, as I said, it is complicated. Also, the way the review was done, I think, was also quite complicated, and I'm not sure I'd advocate the same approach again, as in, the report contains quite a lot of internal audit findings, which the department itself requested and were actioned over two years ago, and I think that that is important, but of course, mostly, PAC wouldn't be seeing internal audit reports, because they're done to ensure that things improve before they get here.

[30] **Darren Millar:** I mean, this problem of reports taking a long time to sign off, as a result of your department, is something that appears to be a problem that has been repeated throughout this fourth Assembly, Mr Price. Why is it that your department is so bad, compared to other departments, at signing off auditor general reports for factual accuracy?

[31] **Mr Price:** Okay. So, this is a matter I have discussed with the auditor general. I don't think it's necessarily factually correct. I'd like to see analysis that suggests that—

[32] **Darren Millar:** I'll give you just two examples.

[33] **Mr Price:** No, I can give you two examples as well, but if you took all of them, and asked, 'How have we performed in comparison to the rest of the Welsh Government?', I don't think, on average, we have performed worst. There are two, yes, that we have—and I agree—and there are specific reasons, and we ought to address them. So, I completely agree with you.

[34] **Darren Millar:** Well, it seems to be the ones that may cause more embarrassment for your department, frankly, that you find more difficult to sign off. There are some issues in this report that have common themes with other reports that have been published by the auditor general in recent years. I'm thinking of the governance and oversight arrangements, for example, of the regeneration investment fund for Wales, and some of the failings that were identified there. Issues in relation to conflicts of interest, and the way that they were or weren't managed, that's another thing that features in this report, and we saw that evidenced in our River Lodge inquiry. Do you not learn from mistakes as a department?

[35] **Mr Price:** I think we take a significant effort to learn from—

[36] **Darren Millar:** So, why didn't you learn from them when they were identified a number of years ago, with the River Lodge—

[37] **Mr Price:** I think, to be fair, Chair, we haven't got to the questions on those topic areas yet, and I had hoped to be able to demonstrate, when we got to this, that we had learned them, but maybe we haven't evidenced that we have learned them to the level that, perhaps, you would like to see. So, this report is suggesting that there were potential conflicts of interest; nowhere in the report does it demonstrate there was a conflict of interest

that caused an issue.

[38] **Darren Millar:** But, forgive me, Mr Price, it talks about a failure of the Government to properly ensure that there was adequate oversight of this organisation. It's very clear that the documentation within the department, about the decisions that have been made, has been wanting as well, in terms of the lack of information that's been available to evidence certain points that were made to the Wales Audit Office during the course of the inquiry. These are common themes that this committee has seen repeated in a number of reports now that have been presented to this committee—to be fair, not exclusively in relation to your department, but generally across the Welsh Government. We saw them as well with the third sector report that was published into the All Wales Ethnic Minority Association organisation, and some of the grants management issues that we've picked up on over the years. Why is it that there isn't any learning? You're telling us that there has been learning from those experiences, but this is yet another report where committee members, frankly, are having déjà vu.

[39] **Mr Price:** Well, I completely accept what you say—

[40] **Darren Millar:** What do you do within your department? Perhaps I can ask you this question: what do you do within your department to capture learning?

[41] **Mr Price:** In terms of capturing learning—

[42] **Darren Millar:** Capturing learning—making sure that you have learned from this.

[43] **Mr Price:** There's a whole number of ways that we try and capture learning. And, at a high level, what we're trying to do all the time is to balance fast-paced delivery with getting governance right, and that's a very difficult thing to do. So, if you look at what we're delivering in terms of jobs and value added, with a reduced budget, we're now doing four or five times more, with less money, than we were five years ago. What we're trying to do is that we're trying to do that at the same time as having good governance in place. So, we look at where we didn't win a project, and we try and learn as to why we didn't win that project. Ironically, quite often, that's because we don't move fast enough, and that is in direct conflict, but correct conflict, with the requirement to have good governance. So, in terms of all internal audit reports, we look at them, we try and learn lessons from them, we send

out staff notices, and we put people on training. Everyone has been on the director of governance's training about how to improve the way that we operate. I don't think it's acceptable, and I'm not trying to defend why certain mistakes are made more than once, but I don't think that's for want of trying to avoid that.

[44] **Darren Millar:** Okay.

[45] **Sandy Mewies:** Can I—

[46] **Darren Millar:** I'll bring you in in a second, Sandy. So, this particular fund was established as a result of a recommendation from a sector panel that had been established by the Minister. Can you tell us how the membership of that sector panel was made up? Was it as a result of recommendations from officials, or was it the Minister—

[47] **Mr Price:** In terms of the original panel?

[48] **Darren Millar:** Yes.

[49] **Mr Price:** Yes, so the original panel—. This isn't covered in the report, actually, but this is coming from memory, and I request, actually, that I'm asked to double-check this and write to you if I'm incorrect on this. The panels were all constituted, and I believe this panel was constituted in the same way, following a Nolan-compliant public appointments process involving—they're not called 'commissioners'—but a public appointments person from outside the Welsh Government. And those appointments were made towards the back end, I believe, of the last Government.

[50] **Darren Millar:** And they were advertised, were they, widely?

[51] **Mr Price:** Yes. All the sector panels were advertised openly—certainly the first time round when we did this for the first time.

[52] **Jocelyn Davies:** I think they are commissioners.

[53] **Darren Millar:** Yes. And the chair of this panel, obviously, is the person now who runs the business—

[54] **Mr Price:** The chair of the panel was the person; he now runs Arthurian, yes.

[55] **Darren Millar:** But at the time that the recommendation was made to establish a Welsh life sciences investment fund, the current person who runs Arthurian, or is one of the directors of Arthurian, was the chair of the panel at the time.

[56] **Mr Price:** Yes.

[57] **Darren Millar:** And in terms of the make-up of those individuals then, tell us who was around the table at the time that that recommendation was made. So, you've got—

[58] **Mr Price:** In terms of the—

[59] **Darren Millar:** Yes, who the individuals were.

[60] **Mr Price:** Which recommendation, sorry? The recommendation to establish the panel or the—

[61] **Darren Millar:** Yes.

[62] **Mr Price:** So, in terms of establishing the panel in the first instance, I think I was involved—and, again, I'd need to check this—in the interview process for the panel members. There would have been a public appointments commissioner, as I think they're called, a couple of independent civil servants and, most likely, Richard Parry-Jones, ex-Ford Motor Company.

[63] **Darren Millar:** Okay, and in terms of the size of that panel, just to give us, again, a bit more background.

[64] **Mr Price:** Again, it's going back into the mists of time a bit—this was five or six years ago—but I think we were looking for a panel of seven or eight people.

[65] **Darren Millar:** Okay, and then that panel helped to make recommendations to the Minister about how to support this particular sector.

[66] **Mr Price:** Yes. I think it's just important to touch on this at this point: it was recognised at the point at which the panels were created—it wasn't just life sciences; as you know, we created panels for various different

sectors—it was recognised that there were likely to be a series of potential conflicts of interest that would come out of this. So, if you go and try and find the very best people who are active in industries in the UK and in Europe, and you want Wales to be successful in those industries, it's highly likely that there's going to be an overlap between the two. Richard Parry-Jones himself was a senior member of the Ford Motor Company; Ford do business in Wales. This is not unusual, and we did take steps to try and put in place some mitigating factors around that.

[67] **Darren Millar:** Okay, we'll touch on these issues. You wanted to come in on—

[68] **Jocelyn Davies:** It's on this particular point, because obviously these people are not public officials; you know, they're successful people in their own right, otherwise they wouldn't get through this process that—. I don't know if they get paid for their time or not. Do they get paid for their time or are they—

[69] **Mr Price:** They get paid a public service rate—not everyone takes it—which is about £250 a day. So, it's not really being paid, no.

[70] **Jocelyn Davies:** No, it's not being paid—not for this level of expertise. So, they are giving the Welsh Government the benefit of their expertise and experience for very little gain. So, why would people do that if you fail to protect them from the perception of the conflict of interest? They're not public officials. I was a bit disturbed about what you said earlier, because the perception of the conflict for these people—because it's their reputation—can be as damaging as if they actually had a conflict. What you said to us was that it's your job to evidence this—not theirs; yours, mind—that there's an absence of evidence. Well, you should be providing evidence that there is no conflict, to protect these people; otherwise, will they continue to come forward and help the Welsh Government, if you say you have no evidence and it doesn't matter if their reputations are damaged? That's your job.

[71] **Mr Price:** I agree, and I think you've made a fair point. I don't think I said I cannot evidence there was no conflict.

[72] **Jocelyn Davies:** Well, you told the Chair that there's a lack of evidence here that there was a conflict.

[73] **Mr Price:** No, I think I said, in certain instances, we have been unable

to assure the auditor general. That doesn't mean to my mind that there is no evidence. As I think I also said, when we go through the questions I would like to be able to demonstrate to the committee that there is evidence and, in fact, that none of the things that have been alleged could have even possibly occurred, because our systems and processes simply do not allow them to occur.

[74] **Jocelyn Davies:** But you accept—

[75] **Mr Price:** And there is no—sorry.

[76] **Jocelyn Davies:** But you accept that it's your job to protect people—

[77] **Mr Price:** I agree.

[78] **Jocelyn Davies:** —that offer themselves and their expertise to you, to protect them not just from the conflict, but from the perception that there's a conflict, because there must have been a perception or we wouldn't be sitting here now, because the Chair would not have received a complaint. So, there must have been a perception.

[79] **Mr Price:** Well, perception is very difficult to manage against, isn't it? Depending on how far—

[80] **Jocelyn Davies:** But not if you evidence.

[81] **Mr Price:** Well, what level and how wide a perception are we talking about, and how much evidence do we want to be able to demonstrate? I think that's one of the things I'd like to get into. Because when we get into some of these detailed areas, I hope to be able to demonstrate to the committee that it's not as simple and it's not perhaps as easy as it might immediately seem. I, certainly, when I first started seeing the evidence, was saying to my team, 'Why on earth have you done this?' And, at some levels, I'm still taking that approach, that people should have written more down, but equally the challenge back to me would be would be—. Well, I think we need to get into it when we get to some of the specific questions.

[82] **Darren Millar:** You're talking about a list of questions as though you've got a list in front of you.

[83] **Mr Price:** I have no—. Sadly, I do not know what you're going to ask,

but I can guess what you're going to ask, which will be the issues that are in the contents page—I assume, the main findings of the auditor general's report.

[84] **Darren Millar:** You also referred to some allegations. What allegations are you referring to?

[85] **Mr Price:** When, sorry?

[86] **Darren Millar:** You said, you know, 'When we come to this'; you know, 'The allegations that have been made'.

[87] **Mr Price:** Well, there were allegations made—

[88] **Darren Millar:** What allegations?

[89] **Mr Price:**—which I don't intend to repeat, because I don't think that would be helpful to anyone.

[90] **Darren Millar:** Well, you've put this allegations issue on the record.

[91] **Mr Price:** Where this report came from was an original question around a conflict of interest of a particular investment in a particular fund. The questions to that were answered within three weeks, and answered by the auditor general within five weeks, and were categorically proved not to be the case.

[92] **Darren Millar:** Aled, if it was on conflicts of interest.

[93] **Aled Roberts:** Rwyf jest **Aled Roberts:** I just want to—
eisiau—

[94] Well, it's on the evidence point, actually. There's obviously a recommendation from the legal services that the procurement of the fund manager should be undertaken in a certain way. That recommendation wasn't followed, as far as I can see. Certainly, the favoured option wasn't followed, and yet, if we look at page 15 of the report—

[95] Mae tudalen 15 yn dweud: Page 15 of the report states:

[96] 'Yr oedd y penderfyniad i 'The decision to procure a fund

gaffael rheolwr i'r gronfa wedi ei ddogfennu'n wael, heb unrhyw gofnodion cyfoes i ddangos y byddai contractio am reolwr i'r gronfa yn rhoi gwell gwerth am arian na recriwtio staff arbenigol'. manager was poorly documented, with no contemporaneous records to demonstrate that contracting a fund manager would provide better value for money than the recruitment of specialist staff'.

[97] Rydym ni wedi gweld nad oedd dim cofnodion o unrhyw gyfarfodydd o fewn yr adran. Felly, i ymateb i beth ddywedodd Jocelyn Davies, ble mae'r dystiolaeth yn yr adran? Os oeddech chi'n ymwybodol bod yna bosibilrwydd o wrthdaro buddiannau ac mae'r adroddiad yma'n dod i'r casgliad nad oedd yna ddim cofnodion cyfoes, sut mae hynny'n ymateb i'r cyhuddiad nad oes yna ddim tystiolaeth? We've seen that there have been no records of any meetings within the department. So, to respond to what Jocelyn Davies said, can you tell us where the evidence is within the department? If you were aware that there was a possibility of a conflict of interest, and this report comes to the conclusion that there were no contemporary records, how does that respond to the accusation that there is no evidence?

09:30

[98] **Mr Price:** Sorry, I'm getting a little confused as to what question is being asked here.

[99] **Aled Roberts:** Well, you were asked regarding perception outside.

[100] **Mr Price:** I think we need to be specific, because there are a whole series of different potential conflicts or real conflicts involving different—

[101] **Aled Roberts:** I'm asking about evidence: evidence that you actually challenged—

[102] **Mr Price:** But on what, specifically, sorry?

[103] **Aled Roberts:** Well, evidence that, actually, you didn't follow the recommendation of the Welsh Government's legal services department.

[104] **Mr Price:** That's not the case. The director of legal wrote to me to confirm that, which is reported in the report. Later on in the report, it goes into quite a bit of detail—. I was talking to the legal director yesterday about

this. I will find it, if you wish.

[105] **Darren Millar:** Just to clarify this, it said quite clearly in the advice—this is paragraph 1.18 on page 16 of the report. It's made quite clear as to what the extent of the legal services advice actually was in terms of the establishment.

[106] **Mr Price:** Yes. And there are very good reasons for that, if I can get into that.

[107] **Darren Millar:** Please do. Your statement seems to be at odds with what's in the report.

[108] **Mr Price:** The reasoning for that—. The legal director wrote to me and my view was that this is covered in the report, which is that Finance Wales were procuring this on behalf of the Welsh Government. Finance Wales is a wholly owned subsidiary, but Welsh Government does not provide Finance Wales with legal advice. In fact, Welsh Government would not fetter the independence of Finance Wales by providing legal advice. So, provided that it was legal for the Welsh Government to allow Finance Wales to undertake this activity on its behalf—which it is—then it was not for legal services to comment. That's still the view of legal services.

[109] **Darren Millar:** Although that's a retrospective view, isn't it, as I understand it?

[110] **Mr Price:** I think this is an example of where—

[111] **Darren Millar:** There was no contemporaneous evidence of that at the time.

[112] **Mr Price:** I think this is an example of where—

[113] **Darren Millar:** The only contemporaneous evidence limited the extent of the advice that was being given, didn't it?

[114] **Mr Price:** What did, sorry? What limited—

[115] **Darren Millar:** Well, it was quite clear legal services had not been involved in the development of these proposals and not had the opportunity to consider them in detail.

[116] **Mr Price:** Because it would be wrong for them to do so.

[117] **Darren Millar:** But if you're asking for advice, when you're giving £50 million-worth of taxpayers' money to people who are not officials, who are outside of Government, shouldn't you ensure that there is proper legal advice, frankly, and that they do consider it in detail?

[118] **Mr Price:** Absolutely, and that's what—

[119] **Darren Millar:** So, why were you content to continue even though legal services said they'd not been involved in the development of the proposals and not had opportunity to consider them in detail?

[120] **Mr Price:** The way—

[121] **Darren Millar:** Is that the way you operate?

[122] **Mr Price:** No, but the way—well, yes, in this instance. But the way a submission folder process works, or what is now called a Ministerial advice folder process works, is that you have to get legal advice. If legal have an issue or a problem with what is being written, they will raise it up the line. Obviously, at the time, I didn't see this advice, but nothing was raised with me, nothing was raised with the director of governance, nothing was raised with the Permanent Secretary. And in retrospect, when I went back and asked the legal services director, 'Why was this the case?', the legal services director told me very clearly—and it's reported in the report—that if this was going to be delivered via Finance Wales, it would be wrong for the Welsh Government to provide legal advice on something that a separate organisation was doing, for which we pay, for which we delegate and which is a separate legal entity under England-and-Wales law.

[123] **Darren Millar:** It's a significant contract though, isn't it, effectively, to manage a £50-million fund?

[124] **Mr Price:** It is, but even so, I don't think it's right for us to fetter the legal—I don't think it's legally correct to fetter the legal advice of a separate body. It's just not what we do.

[125] **Darren Millar:** Jenny Rathbone.

[126] **Jenny Rathbone:** I understand your argument that you don't want to fetter the operational autonomy of Finance Wales, however it falls down in respect of the fact that legal services were told that the only money that was going to be managed by Finance Wales was public money. Surely, you should have gone back to legal services to inform them that this was now going to be a fund with considerable sums of private money as well, which completely changed the whole way it was going to operate because you've got the profit motive entering into the equation. So, why were legal services never informed and asked for an opinion on mixing so much public money in with private money?

[127] **Mr Price:** Okay, I think there are two points here. The first is that the profit motive would have been there all the way through because—and presumably we will get on to talk to Finance Wales about this—the way that the fund has been structured is based around a profit motive. The second issue is—I don't know the answer to your question because, personally, it wasn't me who dealt with it. I don't know why people decided not to go back. I'm not defending that. I'm not saying that was the right thing to do. Personally, if it was me, I probably would have gone back to legal services and asked that question. In retrospect, legal services are telling me that we probably would have got the same answer and—

[128] **Jenny Rathbone:** There is a huge distinction between seeking a profit motive and choosing winners in the science field. That's not in question. The point is that this is about the management costs. Where you've only got public money involved, it is about backing winners and then taking an acceptable level of management. If you've got private money involved in this, it completely changes the equation. So, you would agree that they should have gone back to legal services.

[129] **Mr Price:** Well, personally, I would have done. I'm not sure it changes the equation that much, and many of the funds that Finance Wales operate have other sources of funding other than Welsh Government funding alongside them. So, it wasn't a new thing to do.

[130] **Jenny Rathbone:** Okay. So, having said in March 2012 that it was going to be Finance Wales managing this fund on behalf of the Welsh Government, what is your explanation for why there was so little documentation around a change of course and going out to tender?

[131] **Mr Price:** This is something I've spoken about at length, as you might

imagine, both at the time when the internal audit report came out and then later in preparation for various iterations of this report and this committee. What I'm told is that, in the view of the team, this was always what was going to happen—that it was very clear that Welsh Government didn't have the expertise; it became very clear that Finance Wales didn't have the expertise. I can't remember the words that were used, but the words that were used encompassed Finance Wales going out to procure experts to run this, which, again, is not unusual.

[132] **Jenny Rathbone:** It was certainly clear that experts would need to be brought in to run it because it required specialist scientific knowledge, but the impression was given to the legal services that this would be by buying in the best available expertise within the Finance Wales team.

[133] **Mr Price:** I don't think that is the impression that was given to legal services. I agree that, potentially, the paperwork in the, I think, outline business case implies that, but I don't think that that was what legal services believed. And legal services' argument, which is that this was a matter for Finance Wales to check as Finance Wales were the Teckal company operating on behalf of the Welsh Government, would apply in any event.

[134] **Darren Millar:** Can I just clarify something? You are the accounting officer for Finance Wales, aren't you?

[135] **Mr Price:** The then chief executive receives a letter from the Welsh Government designating them in a position that is analogous to that of an accounting officer, but I am the accounting officer responsible for the money that goes to them, yes.

[136] **Darren Millar:** You are the accounting officer for Finance Wales for the purposes of this committee.

[137] **Mr Price:** I am the accounting officer for Finance Wales in the sense of the money that the Welsh Government gives them that they spend, yes. That is different from being the accounting officer for Finance Wales.

[138] **Darren Millar:** Jenny.

[139] **Jenny Rathbone:** As the accounting officer—whether it's you or your predecessor in this role—what role would you have had in scoping the tender document?

[140] **Mr Price:** Personally or—?

[141] **Jenny Rathbone:** Well, as a Government in terms of the mandated requirements.

[142] **Mr Price:** In terms of the tender documentation, technically, very little, because that is why we have Finance Wales. So, Finance Wales is an arm's-length organisation set up to run things at arm's length from Government that Government would struggle to do itself.

[143] **Jenny Rathbone:** So, if Finance Wales had had a really weak tender document, the Welsh Government would have had no role in it.

[144] **Mr Price:** At the time, I think that is fair to say. The Welsh Government wouldn't have been aware of that, no. Whether that is acceptable or not is another question. At the time, our corporate governance processes didn't allow for us to explore how strong Finance Wales was generally in terms of corporate governance. That has significantly changed with the latest structural change in terms of accounting officers within Welsh Government, where we've just dropped down to, in effect, three plus the Permanent Secretary. The new governance arrangements do now incorporate Finance Wales; so, our corporate governance committee does now look at Finance Wales whereas, at the time that this happened, it wouldn't have looked at Finance Wales. I think there's still a question as to whether it would be for the Welsh Government to check all the work of Finance Wales. Personally, I think if you get to that level, why do you want a Finance Wales? But I think it would be for the Welsh Government to ensure itself that Finance Wales had got good processes and systems in place such that you would expect procurement to be done properly.

[145] **Jenny Rathbone:** Okay. So, going back to these nine mandated requirements for any successful bidder, Arthurian Life Sciences actually failed two of those mandated requirements in relation to three years' audited accounts and £10 million-worth of funds under management. Why was Arthurian Life Sciences not weeded out at the initial stage?

[146] **Mr Price:** I think, at this stage, it would be more proper if I could bring in the Chair of Finance Wales as Finance Wales—

[147] **Jenny Rathbone:** Even though he wasn't around.

[148] **Mr Price:** Yes. I need to make that very clear, sorry. Gareth has been appointed subsequent to all of this—

[149] **Jenny Rathbone:** Well, we are aware of that.

[150] **Mr Price:** —and a new chief executive has just been appointed, and the board has been—

[151] **Darren Millar:** To be honest—

[152] **Jenny Rathbone:** Okay. Rather differently then, Mr Bullock, were you to be involved in a tender with nine mandated requirements, if any bidder failed to meet two of them, would they not be eliminated at the initial stage?

[153] **Mr Bullock:** Not necessarily. I think, actually, just reading this—you know, cold, as I have done, and objectively, as you've mentioned, not being there at the time—a part of it is that I think the actual points you raise, the two points that were in the tender document—. My own view on that is that that would have unnecessarily hobbled the process, and I don't think it was actually best for the selection of the optimal candidate to have those requirements in. It's very common in fund management for a newco—a company that has no track record. You look behind that at the people who are populating that company as directors and its management, and look to them for the experience. I think the right thing to have done probably at the time was to perhaps have the forethought to have said, 'Well, actually, those are probably not the best qualifications in the tender document', and take them out ahead of time. But as they were in there, when they then bumped into them during the process, they would have just taken a derogation and said, 'Look, those are no longer relevant, as criteria, to the selection of a—

[154] **Jenny Rathbone:** So, they shouldn't have been there in the first place.

[155] **Mr Bullock:** I suspect that's true. Yes.

[156] **Jenny Rathbone:** All right. Just looking at the way in which the submissions were evaluated, there was obviously one of them that had £25 million assumption, which was what was in the tender document, and the other one talked about £50 million. Could you explain to us what your view is as to the way in which that was inconsistently evaluated?

[157] **Mr Bullock:** I can't obviously tell you what happened at the time, for obvious reasons, but I think that was just another element of the scruffiness of the process, if I could put it that way. I think it subsequently got looked at, and then I think both bids were considered on a like-for-like basis. The outcome of Arthurian winning the contract would have been the same result.

[158] **Jenny Rathbone:** Okay, so that scruffiness—is that what led to only 13 per cent of the maximum number of points being awarded to the fund management cost, which is obviously a crucial part of any evaluation?

[159] **Mr Bullock:** It is. I would say, when I looked at it—. I think the most important thing, when you're looking at something like a life science fund, which was new—and to echo the comment that James Price made—that experience did not exist in Finance Wales at the time.

[160] **Jenny Rathbone:** What, tender bidding?

[161] **Mr Bullock:** No, no; life science experience—

[162] **Jenny Rathbone:** No, I understand that—

[163] **Mr Bullock:** Yes, well, that's what I'm coming to. Actually, the most important criteria for the selection of the fund manager is experience in that sector, because without that, the fund isn't going to succeed anyway, and the most important thing is that the fund succeeds in all of its objectives.

09:45

[164] I can't tell you whether 10, 13, 15 or 20 is the right level, but I think it is absolutely right that the fee level is starkly subordinate to the criterion of fit-for-purpose, in terms of the experience of the sector, good selectors of business and good fund managers.

[165] **Jenny Rathbone:** Okay, but it does indicate a certain sloppiness about evaluating the actual cost, if it can vary between 10 and 50 per cent of the scoring points. It's slightly strange.

[166] Moving on, having decided that the successful bidder was Arthurian Life Sciences, it then took four months for the due diligence checks to take place. Could you explain why that happened?

[167] **Mr Bullock:** No.

[168] **Jenny Rathbone:** Obviously, you weren't there, but, Mr Price, as the representative of the Government, surely, it was absolutely urgent, having identified the frontrunner that you wished to appoint—it was impossible to appoint them without having done the due diligence.

[169] **Mr Price:** I would agree with you, but I think it's important to stress again that it wouldn't have been the frontrunner that we wished to appoint; it would've been the frontrunner that Finance Wales wished to appoint. I know that sounds like an unimportant detail, but, in terms of an arm's-length organisation with a board of its own, which makes unfettered decisions at arm's length from Government, it is an important point, and I'm not sure we would've been aware that it took that long. What page of the report is that?

[170] **Jenny Rathbone:** That is 1.27—1.27, which is on page 18.

[171] **Mr Price:** Yes, I've got it. Oh, okay. So, this is saying that they didn't start the financial due diligence until four months after the outcome of the process, rather than it took four months.

[172] **Jenny Rathbone:** Yes. Well, that's worse than it taking four months.

[173] **Mr Price:** Yes, I completely agree with you and that is not what I would expect.

[174] **Jenny Rathbone:** Okay. I'll allow somebody else to come in.

[175] **Darren Millar:** Okay. Sandy Mewies.

[176] **Sandy Mewies:** Yes. I'll take the second question, because I did ask to speak earlier on in this, so I want to go back, slightly. You talked about a scruffiness in the process. Has anything been done about that by Finance Wales to ensure that proper documentation is kept, so this is not something that happens again?

[177] **Mr Bullock:** I think the most important impact of this report, speaking as a new chairman, is to take on board the fact that record keeping, proper minuting and proper documentation that are contemporaneous with important decisions being taken—that's absolutely right, and that should form part of best practice. All of those learnings have been taken on board

and I would like to think—. It will certainly be something I raise at the next board with the executive and look for that complete assurance that, the learnings from this and the points that the auditor general makes, we have taken those into our own internal practices now. I have asked that question of the acting chief executive at the moment. He assures me that they have been, but we'll make sure that that's documented at the next board.

[178] **Sandy Mewies:** My original question was going to be that the Chair gave his opinions on the delays of getting this report into the public domain, and we had a briefing last week from the auditor general's office talking about what seemed a considerable amount of to-ing and fro-ing and okaying and then a pull back from okaying. But what worried me was that we were told then, I think, that the haste with which the report went on the website was so that it could attract privilege, and that was a question that I said—. I think it was said in general—

[179] **Darren Millar:** That's irrelevant in terms of a question to the witness, Sandy. Move on, please.

[180] **Sandy Mewies:** It isn't irrelevant at all.

[181] **Darren Millar:** It's irrelevant in terms of this witness, if you can move on, please. Do you have another question?

[182] **Sandy Mewies:** Well, I would like to have in writing, then, from someone, why that was thought to be the case. I made notes last week.

[183] **Darren Millar:** Well, that's not a question for the witness. Have you got a question for the witness?

[184] **Sandy Mewies:** Well, I thought that was an important question, but fine.

[185] **Darren Millar:** Okay, you haven't. Jocelyn Davies.

[186] **Jocelyn Davies:** Well, I just wanted to ask about the scruffiness, because obviously you're a new chair, and obviously we welcome you to that post, but Finance Wales has been kind of—well, I don't think this committee has looked at Finance Wales's specific schemes before. Would we find that scruffiness throughout everything that Finance Wales did before, or is this exceptional?

[187] **Mr Bullock:** It's impossible for me to answer. I would like to think that it's not, that this would be a one-off case, but just business and life experience would suggest to me that's probably not solely a one-off case because these are perhaps indicative of behaviours of people at the time in the organisation. I'd just—

[188] **Jocelyn Davies:** Have you come across other examples of this scruffiness?

[189] **Mr Bullock:** No, I haven't. No, I haven't.

[190] **Jocelyn Davies:** Perhaps James could tell us, then, because, James, you should know whether this is normal, to be scruffy in Finance Wales or not or whether—

[191] **Mr Price:** I think it would be unfair to say, just on individuals concerned, that it would be normal practice. I think that the expectations that have been put on, quite rightly, Government, and, quite rightly, that Government has put on arm's-length bodies, particularly in the economic development space, where we've moved from an RDA position where, you know, at one point the WDA was described as—and I used to work there, so—pirates on the high seas, and it was what you could get away with; we've moved from that position into a position where there's a very difficult tension, where you're expected to do as much as, if not more, than an organisation that could place itself right on the line of legality, and perform well in terms of corporate governance. But that is what is quite rightly expected of us, and we expect that of Finance Wales, and that is one of the reasons—not the sole reason, but that's one of the reasons—alongside a revised policy remit for Finance Wales, as to why the board of Finance Wales has been refreshed and the senior management team of Finance Wales has been refreshed.

[192] **Jocelyn Davies:** So, is this exceptional, or did you have a feeling that this was normal? If it is exceptional, from your experience of Finance Wales, certainly in recent years, why was this one exceptional in terms of the scruffiness that excuses some of the things that we find a little bit surprising, but I guess that's partly because we expect different of public officials, because it's public money very often? So, was this exceptional?

[193] **Mr Price:** I'm unable to comment. I think it's—. It's certainly slightly

exceptional, yes. I do not think that this is what was going on in every part of Finance Wales all the time, nor do I think that, if you had the previous board of Finance Wales, who received this report, they would say that this was an acceptable or a desirable way of running business. So, I do think that it is exceptional to that extent, but I equally think—and Gareth and I have talked about this—that we’re expecting more of Finance Wales now, both more delivery and more corporate governance. And there’s the very fact that now our external corporate governance assurance mechanism—the so-called ‘ARC’ that’s just been created—encompasses arm’s-length bodies for the first time.

[194] **Mr Bullock:** If I might, in terms of exceptionality, I think the one thing that I would point to that I have been told, that I have learned, is that this was (1) a new sector, (2) a very large amount of money, and (3) there was an element of speed and urgency around it. Those are not, if you like, defences of poor process, but they kind of explain why things did get a bit scruffy. I think the one lesson—and it’s something that certainly we will take on board—is that, if that happened again, so, something that’s a new sector for us, a new level of expertise, or something where there was a degree of urgency so that you had to move at pace, I think the one thing that certainly would be my reflex would be to make sure that, alongside that internal process of procurement, we had an enhanced compliance and governance focus—because it’s at times like that that mistakes get made, and I think that’s the lesson for me on this.

[195] **Mr Price:** Just one final point on that bit—I’m sure you can probably come back to it anyway, and the chair may well comment on this—it is both irrelevant from a governance perspective, but also highly relevant from a governance perspective, that the outcome of the procurement process would have been exactly the same had the errors been corrected at the time. And, on receiving the audit—not the Wales Audit Office report, but the initial internal audit report—if it was clear that the outcome was wrong, we would have instructed Finance Wales to stop, roll back and rerun the process. But that isn’t the case. That doesn’t excuse it, because that set of actions might well have led to a decision that was arithmetically wrong and led to the wrong outcome. But I think it is important in this instance to stress that, even had no errors occurred, the same outcome would have occurred, which is why we let it run and didn’t roll back the process.

[196] **Darren Millar:** Yes. I think the reference in the report is to the scoring mechanism, isn’t it?

[197] **Mr Price:** Yes.

[198] **Darren Millar:** Mike Hedges.

[199] **Mike Hedges:** This follows neatly on from that. I actually believe the life sciences are very important to the Welsh economy, and I actually think that what's being done here is right. I've also argued unsuccessfully up until now that we need the same sort of approach for ICT, which we haven't had in Wales, and I think one of my great disappointments is that we haven't had that. If you were going to start off again, and somebody eventually listens to me and we do have exactly the same approach for ICT, what will you do differently?

[200] **Mr Price:** Are you asking the chair, or—?

[201] **Mike Hedges:** I've no idea. I'm just asking it to the ether, and I'm sure one of you will decide who needs to reply.

[202] **Mr Price:** I would like to hope that many of the lessons that we would have needed to learn in terms of good practice would have already been embedded such that we would deal with the issues more clearly. I think, probably, the biggest one in here in terms of perception of conflict, would have been to remove the chair of any advisory panel immediately they displayed an interest in bidding for some work. Even though our processes and procedures did not allow for him in any way to influence the outcome of that process, I think—and this is a lesson learned—that the level of avoidance of any perception is such that we should immediately do that. I think that's probably the biggest lesson for me, personally.

[203] **Mr Bullock:** If I might just add my response, and echo the one I gave earlier, which is that the learnings of this have been taken on board, I'd like to think that, actually, the normal process that we have today would run on castors and it would do the right job.

[204] **Mike Hedges:** How many of the panel came from outside Wales?

[205] **Mr Price:** How many of this particular panel?

[206] **Mike Hedges:** Yes.

[207] **Mr Price:** I don't know; I'd have to write to you. But, in terms of the panels as a whole, quite a few, and that was part of the original intention in the creation of the panels: to get the very best possible people involved.

[208] **Mike Hedges:** As a proportion, Wales is about 5 per cent of Britain. Would we have more than 5 per cent of the expert panel coming from Wales, less, more?

[209] **Mr Price:** Our intent—strategic intent—when this was created was to get the very best people on the panels. That is slightly made more difficult by the fact that we don't pay commercial rates, we are paying public sector rates, and obviously you have to have an interest in helping Wales and/or developing the sector in the UK. I think we probably ended up being about 40 per cent within Wales and 60 per cent outside of Wales.

[210] **Mike Hedges:** Can I just finish this? I think that one of the keys is—. My knowledge of ICT is substantially greater than that of life sciences, so I apologise for that, but my understanding of life sciences is, like a lot of other industries, it tends to have this herd mentality and that, when you get some companies developing, you then tend—. As I understand it, Cambridge, for example, has a growth area around that. Have we learned any of the lessons of how you put that together, so that, when we were trying to generate this, we were actually learning from what has happened in Ireland, in Cambridge, and I understand there are some in Massachusetts as well, but I may—

[211] **Mr Price:** Yes, I think that's right, and I think that this is actually one of the most difficult things to deal with, actually, because you do have that herding mechanism. If you look at the board that Arthurian Life Sciences has created, the board has on it nearly all of the people in Europe who invest in any successful life science company.

10:00

[212] Now, that is both a massive asset to Wales—to have those people meeting in Wales; to have those people wanting to develop the life science sector in Wales; to put their own money into some of these companies that are coming into Wales—but it's also a massive issue in terms of dealing with the potential for a perceived conflict of interest. And I think the challenge for us is, in the future—new media is the same—how do you balance these two things off against each other? If you say that you're not prepared to have anyone in the top 40 people in Europe involved in life sciences in Wales,

you've cut yourself off from success. But equally, if you let that go without any control, you run a real risk of a perception issue.

[213] **Darren Millar:** Aled Roberts.

[214] **Aled Roberts:** Rwy'n poeni am rai o'r datganiadau sydd wedi cael eu gwneud y bore yma, mae'n rhaid i mi gyfaddef. Rwyf jest eisiau edrych ar y berthynas rhwng eich adran chi a'r adran gwasanaethau cyfreithiol. Roeddech chi'n cyfeirio at y ffaith nad oeddech chi'n derbyn bod adran y gyfraith wedi cael unrhyw fath o argraff mai dim ond arian cyhoeddus fyddai o fewn y gronfa, ac hefyd bod y gronfa ddim yn mynd i gael ei rheoli yn uniongyrchol gan Cyllid Cymru. Beth ydy'r arfer felly os ydych chi'n gofyn am farn gyfreithiol? Yn arferol, mae unrhyw farn gyfreithiol yn seiliedig ar frîff. Felly, a oes yna frîff gan eich adran chi rydych chi wedi dod ar ei draws i'r adran gwasanaethau cyfreithiol, fel ein bod ni ddim yn sôn am argraff sydd wedi cael ei roi—bod yna ryw beth yn bendant i lawr ar bapur ynglŷn â beth oedd yr amodau o ran sefydlu'r gronfa yma?

Aled Roberts: I'm concerned about some of the statements that have been made, I have to admit. I just want to look at the relationship between your department and the legal services department. You referred to the fact that you didn't accept that the legal department had had any impression that it was only public money that would be used in the fund, and also that the fund wasn't going to be managed directly by Finance Wales. What is the usual practice therefore if you ask for a legal opinion? Generally, any legal opinion is based on a brief. Therefore, does your department have a brief that you've come across to the legal services department, so that we aren't talking about an impression that's been given, and that there is something certain on paper about what the conditions were in terms of establishing the fund?

[215] A hefyd a gaf i ofyn, o ran eich perthynas chi ag asiantaeth hyd braich, sef Cyllid Cymru, ydy o'n arfer i chi rannu unrhyw farn gyfreithiol o ran y gwasanaethau, fel bod Cyllid Cymru—er mai nhw oedd yn cymryd y penderfyniad yn y pen draw; rwy'n derbyn hynny—yn ymwybodol o farn gwasanaeth cyfreithiol Llywodraeth Cymru?

Could I also ask, in terms of your relationship with an arm's-length agency, which is Finance Wales, is it usual practice for you to share any legal opinion in terms of the services, so that Finance Wales—even though they were taking the decisions ultimately; I accept that—were aware of the opinion of the Welsh Government's legal services

department?

[216] **Mr Price:** Right, okay; very fair questions. If I can answer the second one first, in my experience it is not usual practice for us to share our legal advice with arm's-length bodies; whether we should do or not, I don't know—I think that's a question I need to take away and you might want to write to me, and I think I ought to ask that question of our legal services department. I imagine that the questions will come around, 'Are we fettering or acting in any way as shadow directors of an arm's-length body?' That would be the question that would have to be asked. On occasions, we do end up getting into legal dispute where an arm's-length body will have one particular legal view and we'll have a different legal view. That rarely happens, but it has happened. And ironically, it's happened both when we've wanted organisations to take a bit more risk, and equally it's happened when we've said, 'We think you're taking too much risk', but I guess that's in the nature of an arm's-length organisation. But I think your point was a really valid one that we ought to explore.

[217] In terms of your question about what the legal services work off—what is their brief—that varies massively from project to project. Quite frequently, and I think in this instance, the brief that they were working off was the submission folder that went to the Minister. I don't believe there would have been anything in the final paperwork other than what went to the Minister that legal services commented on. People, I'm assuming, will have seen what used to be called 'submission folders' around this table, which might be up to 15 pages long and will talk about the background, the rationale, what it is we're trying to achieve and then there'll be a legal services opinion. And I accept that in this instance, there was enough ambiguity in the SF that legal services could have misinterpreted what officials wanted to do. Frankly, I could have misinterpreted it if I had read it as well. I think it's very clear that in retrospect, legal services were clear about what was being established, and this is sort one of the examples I was going to give when I said, 'We cannot evidence it contemporaneously', which is not good enough. But it doesn't mean that anything catastrophically went wrong as a consequence, and we are acting within vires, and we are acting legally, in what we are doing now. Should things change, should it evolve in a different way, we would have to take legal advice, and evolve it again. And—

[218] **Aled Roberts:** So, what—

[219] **Mr Price:** Sorry, if I could rewrite the time on this, I would have people

write this much clearer what they were trying to do, and why.

[220] **Aled Roberts:** So what steps have the Welsh Government taken to actually minimise the risk of ambiguity? Because, if legal advice is being given on the basis of an ambiguous brief, then that is very dangerous.

[221] **Mr Price:** I agree, I completely agree, and this is something that's not been completely bottomed out, speaking very honestly. We're discussing it now, not just—well, not really at all in the context of Welsh life sciences, actually, but in the context of Government, which is doing more and more work, and, particularly, doing more and more legislation, with a shrinking budget, and a desire for more and more lawyers, particularly, actually, from the EST part of the department; how do we balance all of that up? And there's a live discussion now, which is suggesting—I personally don't agree with this—that it should be for policy officials to decide whether they need legal advice, or not, on particular issues. As it is at the minute, we take legal advice on everything, and I think my stance—well, I know my stance at the minute; I might be persuaded to change—but my stance at the minute is that I would rather pay extra to have legal advice on everything, and that ought to be legal advice that is unambiguous on everything, rather than risk getting something wrong.

[222] **Aled Roberts:** Well, the problem isn't that the legal advice is ambiguous, the problem is that the basis—

[223] **Mr Price:** No, sorry, that is what I meant. That was me explaining it poorly.

[224] **Darren Millar:** Okay. Jocelyn Davies.

[225] **Jocelyn Davies:** Yes, it was on this issue of perception, because we know from paragraph 1.66, of course, that Professor Evans, in the fund manager investment committee minutes, thought that he'd been asked for his opinion, and yet your officials don't recognise his contribution as being advisory in that sense. Well, he was either asked or he wasn't asked.

[226] **Mr Price:** Okay. So—

[227] **Darren Millar:** So, this is in terms of the investment to ReNeuron.

[228] **Mr Price:** Yes. Do you want me to—

[229] **Jocelyn Davies:** Well, I can see what—you know, I can imagine what it is that you're going to say; you're going to say, well, he didn't have any influence, and we don't recognise—. But he thought that he was being asked. So, this isn't the perception of somebody outside, this is his own perception, that he was asked—not that he offered it.

[230] **Mr Price:** Yes. So, there's three points I'd like to make to that. The first one I might regret making, but I think it is worth saying, which is that I think people have dealt with this process scrupulously, honestly. And that's an example of one of the areas where, if we were dealing with this process anything less—and I wouldn't expect it to be dealt with anything less than scrupulously, honestly—we could have phoned up Chris Evans, and said, 'Chris, please don't say that, because it's unhelpful to you, and it's unhelpful to us'. He thinks it's the case, we don't agree with him—we're agreeing to differ.

[231] But if I can explain the reason I don't agree with him: it's that our processes and procedures do not allow for anyone to give that advice—it's simply not possible. There's an investment panel that takes decisions, there's WIDAB that take decisions—no external person can attend those meetings—and there's a monitoring and due diligence team, which provides advice to both of those, none of which met with Chris Evans. And the people who did were not involved in the decision-making process. So, there was no way that he could—and the processes and procedures are there not just for this, they're there to ensure that you can't give your mate a grant.

[232] **Jocelyn Davies:** But he was asked not whether somebody should have a grant—he says that he was asked to give an opinion on the company.

[233] **Mr Price:** In a meeting, with a member of staff, I can well believe, in just a general meeting, someone might have said to him, 'What do you think of this company, then?' And he may well, and probably did—more than probably—I completely believe that he would have said—why would he not have said it—'I think this, that, and the other, about the company.'

[234] **Jocelyn Davies:** Exactly. Because there's no point in him—

[235] **Mr Price:** And he might have reasonably assumed that Welsh Government would take notice of that, as most people might reasonably assume.

[236] **Jocelyn Davies:** I don't think that he was claiming that he'd had an influence. He just said that he was—

[237] **Mr Price:** Well, he claimed he gave advice, which is a sort of technical word.

[238] **Jocelyn Davies:** No, he says he was asked his opinion. He doesn't claim that he gave advice. It says that he was asked to give an opinion on the company. The minute says—

[239] **Mr Price:** It says

[240] 'Professor Sir Chris Evans, in his capacity as adviser'

[241] and it's the advisory role—

[242] **Jocelyn Davies:** He was asked to give an opinion on the company to enable the Welsh Government to reach a decision. So, he was asked to give his opinion. Well, he ought to know if he was asked to give his opinion or not. I mean, we all know that. So, it's not other people's perception; it's his own perception. So, coming back to my original point with you about protecting people that we then expect to contribute to the wellbeing of Wales—

[243] **Mr Price:** Right, so, this is one of the areas I did want to get into, because I think this illustrates—

[244] **Jocelyn Davies:** Well, I can see you did.

[245] **Darren Millar:** So, respond to it.

[246] **Mr Price:** I think this illustrates something that is almost impossible to deal with. So, think of a fictitious multinational company, a significant shareholder of which we might be talking to in terms of getting them to invest in Wales. We would be talking to them. We would be offering to give them funding. They would undoubtedly offer their opinion on their company. We need to be really careful we don't get ourselves into a position where we can no longer have those conversations.

[247] **Darren Millar:** Okay. The point here is, on the one hand, you're saying

that discussion didn't take place—

[248] **Mr Price:** No, I'm not saying the discussion didn't take place, no—

[249] **Darren Millar:** I'm sorry, Mr Price; that's precisely what you said in response to Jocelyn Davies when she asked the question initially: 'We don't believe that discussion took place'—

[250] **Mr Price:** No, I—

[251] **Darren Millar:** You said, with respect, that you did not accept the evidence that had been provided by Professor Sir Chris Evans. You said that you had a difference of opinion with him and that was one of the difficulties that you had with the report. You had one view; he had another. Now you're saying, yes, it's likely that that discussion did take place. Will you make your mind up?

[252] **Mr Price:** No, I don't think—. Potentially, I am not being very clear, but my mind is very clear on this matter.

[253] **Darren Millar:** So, he was asked.

[254] **Mr Price:** I have no doubt he had a conversation with a member of staff.

[255] **Darren Millar:** Okay.

[256] **Mr Price:** I have every doubt that, in terms of the legal definition of 'advisory services' and 'opinion', which are two things that we take into account when we give a grant offer—that he provided no advisory services and no investment opinion that was taken into account in an investment committee. That is the bit I am differing with. So, absolutely, he would have spoken to someone—I don't know who it was—but why not? And I think that's the point I'm making in terms of managing potential conflicts. Just think of any other big inward investments we've just had. We would've been talking to those individuals—I would've been talking to those individuals—about giving them packages of support. They will have undoubtedly told me that their project was very successful and ought to have all the support. If we weren't able to talk to them, we would not be able to get inward investment into Wales. I appreciate that this is a very specific example, but it—

[257] **Jocelyn Davies:** But they're not your advisers, are they?

[258] **Mr Price:** Some of them might have been.

[259] **Jocelyn Davies:** Some of them might be.

[260] **Darren Millar:** Okay, so, the governance arrangements around this particular investment, if we could just touch on those—. I mean, the Wales Audit Office concluded that you may not have handled the important, declared conflict of interest appropriately. Clearly, in the documentation that we've got, it's very clear that the £5 million that was awarded by the fund to ReNeuron was not the original envisaged sum, was it? The original envisaged sum was £4 million.

[261] **Mr Price:** Okay, so, this is a bit difficult, because this is where the report hasn't—for no faults of its own—kept pace with the reality of the situation. So, if we're talking about ReNeuron here, ReNeuron have not been offered anything like £5 million of grant money. In fact, it is multitudes less than that.

[262] **Darren Millar:** So, put us right, then. What is the current situation?

[263] **Mr Price:** Well, I don't know whether, from a commercial and confidentiality perspective, it's right for me to say that on the record, but—

[264] **Darren Millar:** Well, it is taxpayers' money we're dealing with in this fund, so the public have a right to know, don't they?

[265] **Mr Price:** I think the figure in that case is in the realms of £500,000.

[266] **Darren Millar:** So, ReNeuron have not received and not been awarded up to £5 million?

[267] **Mr Price:** I need to write you on that matter, but that is what I was told yesterday.

[268] **Mr Thomas:** [Inaudible.]

[269] **Darren Millar:** Just one second. So, paragraph 1.61, right, which you have signed off as being factually accurate at the time that this report was published, says, 'We note'—and this is the Wales Audit Office noting—that

[270] 'the fund manager's investment committee had approved on 26 June...an investment of £4 million in ReNeuron'.

10:15

[271] **Mr Price:** Okay. Sorry, these are different things. There's also talk about a £5 million grant. We were just talking about the process around a grant—which is what I was referring to—this is talking about an investment. The investment would be for Gareth to talk to, and the conversation we just had was around the Welsh Government grant offer, not around the fund. There's also a paragraph in here that talks about grant going to Arthurian, which talks about £4 million to £5 million, and it was my comments around that where I said that the figure was much closer to £500,000.

[272] **Darren Millar:** Paragraph 1.63 talks about internal audit examining

[273] 'the governance arrangements applied by the Welsh Government in awarding financial support totalling £7.8 million'.

[274] **Mr Price:** Yes, that's what I was referring to.

[275] **Darren Millar:** So, the grant that you're referring to is the £0.5 million training grant at paragraph 1.68. Is that right?

[276] **Mr Price:** No, because I don't believe they've had that. That's the totality of the grant that is now being offered to ReNeuron.

[277] **Darren Miller:** Okay. So, let me get this right—there were offers made of grants for non-repayable business finance of £1.8 million, training grants of £0.5 million, research and development projects of £1 million, clean rooms and manufacturing facility support worth up to £4.5 million, in addition to the investment in the company coming from the Welsh life sciences investment fund. Is that correct?

[278] **Mr Price:** Offers of, yes.

[279] **Darren Millar:** Okay.

[280] **Mr Price:** In reality, the amount of money that has now subsequently been offered—and, again, I need to write to you on this—from grant, not

from the fund, is in the order of £0.5 million.

[281] **Darren Millar:** Okay. So, I'm asking you now, in respect of the investment into the organisation, from the fund—yes—the original decision—

[282] **Mr Price:** The report is factually correct, yes.

[283] **Darren Millar:** Okay. And the report is factually correct in terms of those offers of grant having been made.

[284] **Mr Price:** Yes.

[285] **Darren Millar:** Thank you. Okay. So, we're not disputing the evidence now. Mr Bullock, £4 million originally envisaged as being the investment by the Welsh life sciences investment fund into ReNeuron, it was subsequently upped by the fund to £5 million—why was that, and why was Finance Wales, Welsh Government, not aware of it?

[286] **Mr Bullock:** I don't know the exact reason why. Later in that paragraph it talks about keeping pace with the percentage stake that the fund had in ReNeuron. I can understand that; that is often a normal, a typical, response when there's a follow-on investment. If you had 5 per cent before, you know, you want to keep 5 per cent of the company after the second capital raising, and that—

[287] **Darren Millar:** Was this flagged up as a possibility with Finance Wales and have you got documentation to suggest that that's the case?

[288] **Mr Bullock:** I think the issue here, and again I think this is part of the overall theme that's relevant for Finance Wales in this report is, again, it would have been right to document properly that the thing that had been documented originally, which was £4 million, went up to £5 million, and the reasons for that. I think the reasons for that are actually to maintain our percentage investment in the company. That wasn't done; it should have been done. I think, again, today we would do that.

[289] **Darren Millar:** So, the governance and oversight arrangements at the moment, do they allow those sorts of decisions to be made again by the fund without recourse to Finance Wales or the Welsh Government?

[290] **Mr Bullock:** I think so. When one appoints a fund manager, you

appoint a fund manager to make those decisions. Provided that they're within all the other criteria of the fund, then it would have the freedom to do that.

[291] **Darren Millar:** And you're content that those arrangements are appropriate.

[292] **Mr Bullock:** I am.

[293] **Darren Millar:** Okay. And in terms of the revised grants and all of these different offers that were on the table to ReNeuron, there was a lot of—and the finance that was made available via the investment as well—there's a suggestion that the decision to award some of these grants was made under quite a bit of pressure and that, in fact, the applications for these grants had not even been completed. Is that normal practice, for the Welsh Government to make grants to organisations when grant applications haven't been completed?

[294] **Mr Price:** I think we need to contextualise that before I answer, because, potentially, it won't read very well otherwise. So, a grant would never be paid until all information has been provided, and a grant would never be offered subject to terms without all information being provided, but information can be provided in a whole variety of different ways, and the Welsh Government has rightly been criticised in the past when it expected companies to transcribe information from one form to another. You will have seen comments around pointless bureaucracy—'Why are we doing this?' and 'Why are we doing the other?' So, we have strived at all times with all companies to make it that, provided the information that is requested on the application form is provided to us, in whatever form, that information will be taken into account. So, the simple answer to your question would therefore be: 'Yes, it is quite normal for that to occur'—

[295] **Darren Millar:** So, it's quite normal—

[296] **Mr Price:** —but we won't provide an offer without the information having been provided.

[297] **Darren Millar:** I think many people will be astonished that the Welsh Government makes grant offers to organisations without receiving complete grant applications.

[298] **Mr Price:** Well, it's—

[299] **Darren Millar:** If that is normal practice, then I look forward to my next meeting with third sector colleagues who are struggling to get their money from the Welsh Government and struggling to get grant offers from the Welsh Government on the basis that their applications are incomplete.

[300] **Mr Price:** We have quite a long application process, as you would expect. It's a bit like when you apply for a job. So, when you apply for a job, if you put your CV in, you might well be thinking, 'Why am I having to fill in my academic history again on a separate form and again on a separate form and again on a separate form?' What we say to businesses is: 'Provided you provide it to us in one form, we don't mind what form that is.' We are struggling increasingly all the time to become less bureaucratic. What we will not do is provide a decision or provide an offer without having had the information. I think that's probably what the business community would expect, actually.

[301] **Darren Millar:** So, this offer was made of a grant, even though there was an incomplete application. You say—

[302] **Mr Price:** It wasn't an incomplete application. It was an incomplete application form; it was a fully completed application. It's a different matter.

[303] **Darren Millar:** So, it was an incomplete application form, but a fully complete application.

[304] **Mr Price:** All the information that was on the form was provided.

[305] **Darren Millar:** So, a compressed timescale because you were told that you had to rush this decision because we needed to get this grant offer out through the door or else we might miss the boat in terms of a relocation, as I understand it, or significant investment into a factory site in Wales, but the timing of that has completely slipped, hasn't it? Has this base in Wales been operating now? It was due to be—

[306] **Mr Price:** They just moved, I believe, last week. I think the Minister for Economy, Science and Transport's letter, which came in this morning, talked to that.

[307] **Darren Millar:** So, in terms of the timing of this, there was lots of

pressure, there was a hiatus—‘We’ve got to get this grant offer out. If we don’t, we’ll lose this opportunity for an investment’—

[308] **Mr Price:** Which is quite usual for any inward investment.

[309] **Darren Millar:** But the whole of the project—. Well, it all slipped.

[310] **Mr Price:** And that’s also quite usual for an inward investment project.

[311] **Darren Millar:** So, in reality, there was no real rush, with hindsight.

[312] **Mr Price:** No, I would disagree—

[313] **Darren Millar:** With hindsight—

[314] **Mr Price:** Genuinely, I would disagree.

[315] **Darren Millar:** With hindsight, there was no real rush, was there?

[316] **Mr Price:** We always find with business—and this is just the way business operates—that everything is a rush at all points and we need to make a decision. Otherwise, the board in wherever it might be will decide to take it somewhere else. Then, it’s very usual for then the actual implementation of that to go slowly or for another iteration to go around. I don’t find it particularly attractive in the sense that we’ve got to work with that, but that is the way that things tend to operate.

[317] **Darren Millar:** But if they want millions of pounds of taxpayers’ money, isn’t it appropriate for you to call the shots in terms of the timetable that they might have to adhere to?

[318] **Mr Price:** Well, it would be if we weren’t in competition with all the places around the world that are also trying to operate as quickly as they possibly can, and—

[319] **Darren Millar:** Of course this was a life sciences investment fund, which was investing in a business that the chair of the fund had a key stake in, though, wasn’t it?

[320] **Mr Price:** Yes.

[321] **Darren Millar:** So, the chances of that business perhaps going elsewhere were slim.

[322] **Mr Price:** From what I have seen, I don't think I would agree with that, because nothing at this stage had locked them into coming to Wales.

[323] **Darren Millar:** Aled Roberts.

[324] **Aled Roberts:** Jest er mwyn ei ddeall, rwyf am eich cyfeirio at baragraff 1.72, sydd yn dweud bod yr amserlen dynn wedi cael ei gosod gan Lywodraeth Cymru. Pwy o fewn Llywodraeth Cymru a oedd wedi gosod yr amserlen dynn yna?

Aled Roberts: Just so that I can understand it, may I refer you to paragraph 1.72, which says that the tight timescale was set by the Welsh Government? Who within the Welsh Government had set that tight timetable?

[325] A gaf i fynd ymlaen ar ôl hynny? Un o'r problemau sydd gennym ni yw bod Bwrdd Cynghorol Datblygu Diwydiannol Cymru—. Rwy'n meddwl mai eich prosesau arferol chi ydy bod y panel yna yn ystyried unrhyw fath o fuddsoddi. Nid oedd y panel yn cyfarfod tan fis Hydref, ac felly nid oedd y prosesau arferol wedi cael eu canlyn. A gaf i ofyn a oedd y panel a gafodd gyfarfod ar 24 Hydref yn ymwybodol o—? Wel, mae'r adroddiad yn dweud, oherwydd y llwyddiant i greu diddordeb yn y cyfranddaliadau, eu bod wedi cymryd y penderfyniad i gefnogi'r cais. A oedden nhw'n ymwybodol o ba le'r oedd y cyfranddaliadau hynny wedi cael eu prynu?

May I follow on from that? One of the problems that we have is that the Welsh Industrial Development Advisory Board—. I think that your usual processes are that that panel consider any kind of investment. This panel did not meet until October, and so the usual practices had not been followed. May I ask whether this panel, which met on 24 October, was aware of—? Well, the report says that, because of the success in raising interest in the shares, there was a decision to support the application. Were they aware of where those shares had been purchased?

[326] **Mr Price:** Okay. So, you might need to remind me of some of those points. I'll have a go at answering all of them. So, in terms of who determined that, I don't know exactly who determined that this needed to be dealt with fast within the Welsh Government, but it would have been

somewhere within the inward investment team or the wider economic development—

[327] **Aled Roberts:** So, at which level could a decision be taken not to follow your usual processes?

[328] **Mr Price:** That would have been at least at director level. It wasn't me, so it actually only does leave one other person. So, it would have been the director of sectors and business who would have taken that decision. I think, in terms of just contextualising that decision for them, they are under repeated pressure, quite rightly, to ensure that Wales outperforms every other part of the UK in terms of inward investment. I think probably not this committee but a different committee would quite rightly say that if we had lost potential investments, for the want of a quicker process or for the want of legally changing our existing process, we should have changed the existing process. So, I think that's all that people were trying to do here. I think there is a legitimate criticism, though, that we should have already thought that that might have happened and should have already had a process written down for fast-tracking things, which we now have. The process that we now have is exactly what we did here. So, we've modelled what we would see as best practice on what was done here and has been signed off by our internal audit colleagues.

[329] Sorry, you asked as well—

[330] **Aled Roberts:** The other point then is that the impression given in the report, and correct me if I am wrong, is that, when the board met on 24 October to consider, if you like in retrospect, the decisions taken by the panel and then endorsed by the Minister on 24 June, which led to the letter being sent on 26 June, it would appear that the main justification for that endorsement, in retrospect, was the company's success in the share issue that had been made between June and October. I'm just asking whether, in the fullness of their consideration, details were given on how that share issue had been raised, because my understanding is that the share issue here, which has referred to £25.35 million being raised, was because Sir Christopher Evans had bought 24 million shares in the company.

[331] **Mr Price:** It's impossible for me to answer that now, and I think this comes again to the heart of the report about record keeping. The records of that second meeting were not as good as the records of the first meeting.

[332] **Aled Roberts:** The second meeting being the one on 24 October.

[333] **Mr Price:** Yes, which was not a legally required meeting. The irony in this is that the relevant director thought that, by having that meeting, they were helping the process to almost become bullet-proof. That meeting wasn't required because the decision had already been taken.

[334] **Aled Roberts:** But the decision had already been taken contrary to your usual processes.

[335] **Mr Price:** Yes.

[336] **Aled Roberts:** So, when you say it's not legally required, isn't there a requirement that the board actually approves all grants—

[337] **Mr Price:** No.

[338] **Aled Roberts:** —of those more than £1 million?

10:30

[339] **Mr Price:** There is no legal requirement to either have WIDAB or for WIDAB to approve anything. WIDAB is a creation of, I think, the Welsh Development Agency Act 1975—I might be wrong in that—but certainly, if you're using Government of Wales powers to make a financial provision in support of business, you do not require WIDAB. In fact, the previous Government had got rid of WIDAB. WIDAB did not exist under the previous Government. WIDAB was brought back under this Government. None of this changes anything, because if you have a process you should use it.

[340] **Aled Roberts:** So, when was WIDAB reintroduced?

[341] **Mr Price:** Very quickly after the last Assembly election.

[342] **Aled Roberts:** And are there any other instances where grants of more than £1 million have been approved by a Minister without them being considered by WIDAB?

[343] **Mr Price:** I'm not aware of any, no. That goes to why I said, 'If you've got a process, you should use it.'

[344] **Aled Roberts:** Are there any minutes, or are the minutes just incomplete for the meeting on 24 October?

[345] **Mr Price:** The minutes are not—. I personally haven't seen them, but I was asking these questions that you're asking me now, yesterday, and on the basis that people weren't able to satisfy me as to those answers, I don't think the minutes—I mean, I can go back and check—but I don't think they'll be good enough. So, there are minutes, yes. They're not what I would describe as full minutes. I think that is the one theme of this report is that minute taking and record keeping for decision-making processes were not as strong as they should be. The challenge for us as a department, with fewer staff, working faster, is how do we record keep in such a way that is necessary for the proper discharge of public duties without tying ourselves up in so much paperwork that we can't—

[346] **Aled Roberts:** Okay, setting aside the issue of minutes, would it be normal, in your experience, for WIDAB to consider the nature of any share issue or the response to any share issue when considering whether it was reasonable for them to approve investment by the Welsh Government?

[347] **Mr Price:** I don't think WIDAB would be interested in who bought shares. I think WIDAB would be interested in the interest that the market had in the shares, but I don't think they would be interested as to where that market interest came from.

[348] **Aled Roberts:** Even where there is a potential conflict of interest here.

[349] **Mr Price:** I don't think that would be, in this instance, a matter for WIDAB, and it probably shouldn't be a matter for WIDAB because WIDAB was looking at the Welsh Government investment in grant, whereas Finance Wales would have been checking the conflicts around the fund. I might be wrong in this, but I would suggest that we may be confusing WIDAB by asking them to double-check someone else's business as it were.

[350] **Darren Millar:** The award of a grant can have a significant impact on share prices, can't it?

[351] **Mr Price:** It can, absolutely.

[352] **Darren Millar:** And when did it become public knowledge that a significant grant was coming, potentially, in ReNeuron's direction, or that an

offer of a grant had been made to ReNeuron?

[353] **Mr Price:** I think it would have become—. I don't know whether 'public' is the right term, but it wouldn't have been private once the offer letter was issued. I think if the point that would follow was, 'Well, didn't that allow them to raise money?' I think the answer to that would be, 'Yes, that would have been a material factor in allowing them to raise money.'

[354] **Darren Millar:** So, was there a public announcement from the Welsh life sciences investment fund? They seem to make regular announcements as and when—.

[355] **Mr Price:** I don't know. I don't think the life sciences investment fund would have made any announcement about an in-principle grant offer letter from the Welsh Government. The company themselves, in terms of talking to people that they were placing, or potentially placing, the shares with, may well have said, 'We're thinking of coming to Wales and, by the way, the Welsh Government has offered this money', which would have done two things, in my experience, in the market: No. 1, it would have demonstrated that there was Government backing for a company, which is always seen as important, strangely—I mean, most of the private sector would say they didn't really want to have anything to do with Government, but when Government invests in a business it always adds weight to it—and, secondly, just the very fact that money was going in to it would have obviously had a material benefit for the company.

[356] **Darren Millar:** But, for significant grants, Welsh Government usually makes a public statement of some sort.

[357] **Mr Price:** No, not always.

[358] **Aled Roberts:** I think there was a statement made on 22 July.

[359] **Mr Price:** There we are. But we don't always do that.

[360] **Darren Millar:** But that was a month after the in-principle grant offer. So, people could potentially have purchased shares in the company, knowing that the share price might jump on the basis of a public declaration of a grant being awarded a month later.

[361] **Mr Price:** No-one who would have been aware of the timing of that

announcement would have been able to do that, because—

[362] **Darren Millar:** I can see you're reading a script, there. Can you just answer me: that's a possibility, isn't it?

[363] **Mr Price:** Well, I don't know if it is a possibility, because I don't know—

[364] **Darren Millar:** Well, it clearly is, isn't it?

[365] **Mr Price:** Well, people within Welsh Government aren't allowed to do that; people within Finance Wales aren't allowed to do that. Those would have been the only two people, presumably, without checking the records, who would have been able to be made aware that we were going to announce this.

[366] **Darren Millar:** People within Arthurian would be, though, wouldn't they?

[367] **Mr Bullock:** Might I make an interjection, Chair?

[368] **Darren Millar:** Just one second. People within Arthurian, within the company, in the know in terms of the offer, would have been able to do that, though, wouldn't they, Mr Price? I can see you're reading your script—

[369] **Mr Price:** I'm not reading a script, I'm reading the report.

[370] **Darren Millar:** Pardon me.

[371] **Mr Price:** I have no script, just to be very clear, but if I did, maybe I'd be doing a better job. I don't know; I honestly don't know.

[372] **Darren Millar:** Okay, but it's a possibility. Mr Bullock.

[373] **Mr Bullock:** A point I wanted to make here—and, again, I was not party to any of these things—is: if a company is raising shares and there is a placing with investors, the stock exchange rules would be that all placees, all investors, should receive in the placing document the same amount of information, and a very critical aspect of that, it seems to me, would be the provision of finance, whether it's a grant or loans, or via whatever means, to that company. So, it would surprise me if the placees—all of the placees—were not aware of that grant provision, even if it was, at that stage, only an

offer.

[374] **Darren Millar:** Okay. Mike, you wanted to come in.

[375] **Mike Hedges:** I've got one point and one question. The point is, of course, this is not an LG, is it, which I think was probably the greatest disaster to have ever taken place in Welsh Government spending, when hundreds of millions of pounds were spent just on building a car park?

[376] The question I've got is to Mr Bullock. The Chairman gave the impression that they had to come here. Who else were we in competition with? What other parts of Britain and Europe were we in competition with for getting them here?

[377] **Mr Bullock:** On that particular case, I am afraid I don't know the specifics of that particular case of who we were in competition with. Again, I would have to answer that subsequently, if, indeed, the life sciences fund people know themselves.

[378] **Mr Price:** I think, in fairness, that's for me to answer, more than Gareth, in the sense of an inward investment proposition. I believe the competition was, in effect, where they currently were, which was Guildford. There was some talk about Switzerland, I believe—bizarrely.

[379] **Mike Hedges:** Why 'bizarrely'? Switzerland's got a very advanced—

[380] **Mr Price:** Well, it's quite a high-labour-cost country, and there's manufacturing involved at the end of this. But, yes, you're quite right on that.

[381] **Mike Hedges:** They are highly skilled. Massachusetts is also a very high-wage area, as are parts of Scandinavia.

[382] **Mr Price:** It's not normally an area we compete with for inward investment, that's all.

[383] **Darren Millar:** Thanks, Mike. Jenny.

[384] **Jenny Rathbone:** I'd just like to take it back a little bit to your dad and my dad, were he alive, and most of my constituents having difficulty not with the detail, but with the fundamental principle that you can be both gamekeeper and poacher at the same time. That is my fundamental question,

really: how is it that Arthurian Life Sciences, a private company, can be awarding contracts to other private companies without falling foul of the stock exchange rules? And we know that some of them are there in plain sight, in terms of the number of shares that Sir Chris Evans had in ReNeuron, and other finance directors who had interests in Verona Pharma and SynTech. The impression being given is that a small group of people who are experts in this field are awarding each other large sums of money.

[385] **Mr Price:** I think this is something that would be better dealt with by Gareth, as he has history of experience in this type of business, but just in terms of contextualising it, I think therein lies the—therein doesn't lie the heart of this report, actually, because this report doesn't really talk to that much, but therein lies the heart of the dilemma as to what we should do with this type of business. This is why we're saying that the Arthurian board contains on it nearly all of the high-level, successful life science people within western Europe. Those people are all high net worth individuals who will all make investments in good life science companies. In fact, the invitation to tender suggests that we would expect to see them investing their own money alongside our money in the projects that they take. And the flipside is that, if they didn't do that, you would be questioning whether they were making a very good investment decision. But I completely accept that there is an equal issue of a perception that, potentially, someone is getting some form of advantage. But, of course, all of these shares are placed and anyone else has the opportunity to invest in them as well. But therein lies the natural tension: you build yourself a cohort of people who do this type of thing very successfully, who invest repeatedly in this type of business to be successful—and you want the fund to be successful—and, frankly, if I was running it, I hate to think what would have happened—

[386] **Jenny Rathbone:** Okay, but it does take us back—

[387] **Mr Price:** The governance might have been okay, but it wouldn't be performing very well.

[388] **Jenny Rathbone:** Okay. But it takes us back to the original decision, instead of appointing people with science and business expertise to Finance Wales, based on Nolan principles, to award this contract to a private company with all the conflicts of interest, perceived and actual, that we have. They may be very successful, and that's what trust funds et cetera do, but they're not using public funds to do it.

[389] **Mr Price:** Some of them do, in the sense of when public funds invest in those types of activities. I do want to bring Gareth in, but the other point would be that we couldn't afford these people—to pay them. The salaries that we would be paying them would be equally obnoxious to the public view. We would be paying investment-bank-style salaries and bonuses, which would have exactly the same—. Because you're doing it in a different way, but—.

[390] **Mr Bullock:** I'm not sure I have much more to say. I think you've answered that particularly well, but, just to emphasise, I think that, certainly at the time and I suspect it would be still true today within Finance Wales, we would probably make the choice to go out to a third-party professional provider, a fund manager. I'll give you some of those reasons: 1) just the life of this, which is normally five plus five years, let's say 10 years, and you're bringing people—. I suppose you could contract, but would you want to make them permanent members of Finance Wales? You'd probably have to subsidiarise it in some way. You're bringing those people in. They're doing a specific job that is focused only on that fund, not to the generality of Finance Wales. So, already you will be building in to the structure of Finance Wales people who would be somewhat different and, if I might put it this way, sort of not wholly on board.

[391] I think the absolute test on this is that the sheer cost of those people would be very difficult for us to contemplate within the norms that we work to on salary and other things. So, I think probably 99 times out of 100 it is the right decision to go for a special company with those professionals who have that expertise, and manage what you quite rightly say might well be conflict situations, but they are managed. I think, in every fund, whether it's life sciences or whatever sector, those things are actually managed. I think, so far, to date, this fund seems to have managed them pretty well as well.

[392] **Jenny Rathbone:** Okay. The alternative way of doing things is that you bring in senior people of high net worth and all the rest of it who may have other business interests, but they're managed by somebody else while they're doing this job.

[393] **Mr Price:** I think that is absolutely right, but how do you motivate those people to do this job?

[394] **Jenny Rathbone:** You'd need to do it for the love of Wales.

[395] **Mr Bullock:** But would—

[396] **Mr Price:** And I'm not sure you'll find that many—. Sorry, Gareth.

[397] **Mr Bullock:** There is a difference between, if you like, the professional core who are full-time professional employees and then the other co-investors or range of investors—call them what you will. They're two different people. That latter cohort that you mentioned there, yes, if we were running a fund, as we do today, you can bring some of those people in on particular transactions. But, again, you'd have to look carefully at whether there's conflict. So, that's always there, and there are processes to deal with that. I like to think that, in the vast majority of cases, if not all of them, those conflicts are managed properly.

10:45

[398] **Mr Price:** If I can just come back, because I think as a public policy question—and as the real learning on this—that this is at the heart of it for me. I completely agree that we could have and should have had much better record-keeping around potential conflicts—potential and perceived conflicts of interest—but I think, whatever you do, there will be significant potential and perceived conflicts of interest in this type of activity. I think it almost comes to the question of a binary decision: is this the type of activity that the Government should be doing at all, actually? Because, if you're going to do it and do it in a way that the fund grows and you bring jobs in, you're going to have potential and perceived conflicts all over the place that have to be managed correctly. And I think there's a public policy question as to, you know: is that something that Government are prepared to do? This Government has been, as a policy decision, prepared to do it, but that is a valid audit question.

[399] **Darren Millar:** I'm conscious that the clock is against us. I'm going to bring Sandy in in a second. Can I just ask you—? You've made this assertion that it would be very difficult to attract very high-calibre people to be involved on an in-house operation within Finance Wales, or even on some sort of panel that's paid just at the usual public sector daily rate, yet that's precisely what you did manage to attract in order to establish the sector panel, isn't it?

[400] **Mr Price:** Yes.

[401] **Darren Millar:** These high-net-worth individuals, like Sir Chris Evans.

[402] **Mr Price:** But what I didn't say is that they would be excluded—and I think this would be an implication of what we're doing—from trading in life sciences.

[403] **Darren Millar:** I understand that—

[404] **Mr Price:** So, Finance Wales employees, for example—

[405] **Darren Millar:** I understand that, but the point I'm making is that you've said that it's very difficult to attract these people to get them around the table to engage in a way that would take them within the Government or on some sort of—

[406] **Mr Price:** Yes, and I stand by that.

[407] **Darren Millar:** And yet the reality is that you did attract these people to the sector panel.

[408] **Mr Price:** I think these are two different things. So, I think an advisory panel—

[409] **Darren Millar:** Yes, but you said that they wouldn't give us the time of day because it's not worth their time and effort.

[410] **Mr Price:** No, but—

[411] **Darren Millar:** I mean, Jenny Rathbone has just been saying, 'Well, people might want to do this for the love of Wales, for the love of their nation', and indeed they were, frankly, weren't they, in terms of their engagement on the life sector panel.

[412] **Mr Price:** Yes, but getting those same people, or a different set of similarly high-calibre people, to say, 'I will give you real time'—you know, days and days and days, not one day now and then—'where I'm giving up making any money on those days, and furthermore I'm going to step out of the investment market in the UK and Wales for the time'. In my experience, that is, for most people, beyond the pale. They will give up their time, a day now and then—

[413] **Darren Millar:** But there's not been a suggestion that they should step out of the investment market.

[414] **Mr Price:** Well, I think it would be, otherwise they would be conflicted.

[415] **Darren Millar:** Okay. Sandy Mewies, and then I can bring you back.

[416] **Sandy Mewies:** Yes, can I just clarify for myself that these shares were on the alternative investment market, weren't they, which is usually considered slightly more risky than the FTSE or whatever, and actually would come along with a Government health warning or some sort of health warning saying, you know, 'Your money can go up or it can go down', and the share money was their own money that they were investing into it? Is that correct or not, because that's what I'm not clear on? Was the money invested by people into shares their own money, or was it public money?

[417] **Mr Bullock:** I would have thought—again, I don't know, but, if something is being listed on AIM and it's an offer, I think it would be available to anybody. I don't think there would be any public money going into buying shares.

[418] **Sandy Mewies:** This was on the AIM market. It was on the AIM market, wasn't it, this?

[419] **Mr Price:** Yes.

[420] **Sandy Mewies:** Yes. Okay; that's fine. So, you have clarified it for me. Thank you. That was just—

[421] **Mr Bullock:** When I say 'no public money', I mean the fund is putting its money in, and that's not considered public—

[422] **Sandy Mewies:** That's the tension that James Price is talking about. That's what I'm just trying to clear in my own mind. That is the tension, isn't it, that you've got these people who obviously know what they're talking about, and presumably will forecast that it will be a success in their own mind. I mean, why not? But it's the AIM market and it would be their own money. That's what I wanted to know.

[423] **Mr Bullock:** Professional investors. Yes.

[424] **Sandy Mewies:** Thank you.

[425] **Darren Millar:** Okay. Aled.

[426] **Aled Roberts:** Rwyf i jest eisiau gofyn cwestiwn ynglŷn â pherfformiad o ran y cronfa, a dweud y gwir. Mi oedd £50 miliwn o arian Llywodraeth Cymru yn mynd i mewn yn wreiddiol, ac mi oedd yna darged, rwy'n meddwl, eu bod nhw'n denu £50 miliwn o arian preifat erbyn mis Rhagfyr y llynedd. Mae'r llythyr yn cyfeirio at £200 miliwn o *co-investment*, ond nid yw hynny'n dweud mai arian o fewn y gronfa ydy hynny. Beth ydy'r sefyllfa bresennol o ran arian preifat o fewn y gronfa ei hun?

Aled Roberts: I just want to ask a question about the fund. £50 million-worth of Welsh Government money was going in originally, and there was a target, I think, that they were to attract £50 million in private funds by December last year. The letter refers to £200 million in co-investment, but that doesn't say that that's fund money. What's the current situation in terms of private funds within the fund itself?

[427] **Mr Price:** Right. So, the current position in terms of private funds within the fund itself is that no private funds have been raised. So, it stands at £50 million. The Minister's letter to the Chair, which I think came this morning—

[428] **Darren Millar:** Yes. Well, late last night.

[429] **Mr Price:** —talks about the fact that, now this report has been published and the fact—important fact—that the report has concluded that no-one acted improperly, the fund managers can go ahead and attempt to raise the £50 million. What the fund managers had repeatedly told Finance Wales and us, because this was something we were challenging them on as well, is that, with the audit report not concluded, many people were not prepared to put their money into the fund. With the report concluded, the position potentially changes.

[430] **Aled Roberts:** When will that change by?

[431] **Mr Price:** I haven't had a conversation with either Gareth on this matter or the fund managers. I don't know if Gareth's got any views on this.

[432] **Mr Bullock:** No. I think it's a disappointment from a commercial viewpoint. I mean, my approach is that Arthurian were under, I think, best efforts to raise a further £50 million. The significance of that, or the significance of its absence, is that in any follow-on funding—so, you've invested the first £50 million—if company X does a second raising of finance, as is often the case in life sciences, actually, there's no money left in the fund in order to follow that. So, if we had a 5 per cent shareholding in a particular company, at our next round of financing, we would be diluted down below 5 per cent, and that's not always the best thing in terms of maximising value. So, that aspect is a disappointment. It's a fact.

[433] **Aled Roberts:** Have you now a complete picture of the amount that Arthurian themselves have received by way of arrangement fees in respect of all the awards that they've made to various companies?

[434] **Mr Bullock:** I don't. At this point, there is a review going on that has been commissioned, which will report at the end of this month or at the beginning of next month. I think, at that point, we'll have a complete picture of how the fund is invested, and, very importantly, how those investee companies are performing. And I'm hoping that we will also get that intelligence on what other fees have been raised.

[435] I have to say that that point about arrangement fees—and I think it has come up as part of other questions as well—is a matter between the fund manager and the investee companies. If an investee company is going to take, for example, £5 million from the fund and there's a £200,000 arrangement fee, that is entirely normal, it's market practice, and, actually, what the investee company and its board has to do is to decide whether that actually is a good use of its resources. In an ideal world, you would like to see all of the invested more money going into that company for it to pursue its strategy, but those are the facts of life. That's what happens in the industry today. Whether they're excessive or normal, I'm not quite sure what yardstick I would apply to make that judgment. I think it's different on a case-by-case basis, but it is not something that we, as, essentially, account holder, can legislate for, because they are different in each case.

[436] **Aled Roberts:** But Finance Wales could've provided for arrangement fees not to have been paid to Arthurian, given that they'd received £1.2 million by way of interim payments in any event.

[437] **Mr Bullock:** I'm not sure the two are connected, because if you're

making an investment in a series of companies—

[438] **Aled Roberts:** Well, I suppose the taxpayer would question where a management fund has been given £1.2 million of public money to manage the fund and then actually charges grant recipients of public money an additional fee. Are there any additional sums that have been paid, as far as arrangement fees are concerned, to the ones listed in the report?

[439] **Mr Bullock:** I don't know the exact answer to that—

[440] **Aled Roberts:** But you could provide us with a note.

[441] **Mr Bullock:** I will. I think you raise a very interesting point, and I think it's one that I'm certainly going to take under advisement and consider for any future situation—whether someone could have, we could have, some control over that, particularly where the investing company is a recipient of Welsh Government grant moneys. I think it's an interesting point.

[442] **Aled Roberts:** It goes to the point that Jenny Rathbone made—that here we have a small group of individuals who run an investment fund that is paid through public funds for the work that they carried out, and then charge arrangement fees to companies where there's also a connection between certain of those individuals in the investment fund and those companies. It doesn't look right.

[443] **Mr Bullock:** Look, I wouldn't go as far as to accept the inference in your question. I think, actually, arrangement fees, for me—certainly in my career in finance—are there for work done, and it could be corporate finance work, it could be advisory work. Some of these investments are incredibly complex: there's a lot of financial modelling to do, all that kind of stuff. That should be fairly rewarded, and I think that's the thing that I would be looking for—that actually there's a fair reward for the work done as opposed to anything else.

[444] **Darren Millar:** And, just for the benefit of the record, the first three investments attracted arrangement fees of £710,000 in addition to the investment that had already been made in the company. Mohammad Asghar.

[445] **Mohammad Asghar:** Thank you very much, Chair. I don't think there has been an answer regarding whether the Welsh Government had shared with Finance Wales the UK Parliament's 2006 Public Accounts Committee

report on a similar fund management arrangement in Northern Ireland. If not, why not?

[446] Secondly, reading Edwina Hart's letter, I think she has done a wonderful job in many fields, but now she probably needs some heavenly help to bring in this person on 4 April.

[447] So, I hope some of the anomalies that you've mentioned clearly over the last one hour plus will be eradicated.

[448] **Mr Price:** Sorry, on the—

[449] **Mohammad Asghar:** There are so many anomalies in the system, which we all agree. There are a lot of problems in this funding and investments and all the rest of it. So, it'll probably be rectified.

[450] **Mr Price:** In terms of, as you put it, anomalies in the system, I don't think I was saying it's necessarily an anomaly—sorry, I can't even speak—what I was suggesting is there is a natural tension, and Government needs to decide where it wants to be on the spectrum of that tension.

[451] **Darren Millar:** Just on this very important question, because the clock is about to beat us, with the UK Parliament's 2006 PAC report—

[452] **Mr Price:** No, I don't think Finance Wales were made aware of that. Exactly how we would have a process to ensure that we were made aware of any Public Accounts Committee report that had any implication on anything we did—which I think is a good thing to want to do, but how we would do that, I don't know. We're going to have a go, but this was 2006, the report; this was done in 2012. There are many hundreds of reports a year.

[453] **Darren Millar:** Yes, I understand. Sandy Mewies, very briefly.

[454] **Sandy Mewies:** Yes, on what's just been said, in this report from the auditor general, he endorses the sentiment, obviously, of the chair of the Committee on Standards in Public Life, as I'm sure we all do, but, in this report, considered that, in its contracted role as fund manager, Arthurian is providing a public service. Would you agree with that, or would you not?

[455] **Mr Price:** So, this is a matter, really, for the Permanent Secretary rather than for me, and it's quite a complex matter, and I guess, if it was a more

simple matter, it would have been dealt with already. Personally, I think we need to go further than we have done in terms of organisations that provide services using public money, but equally I'm not convinced at all that Nolan principles, as the report itself indicates, are the right way to go. The main reason for that is that nearly any—well, all the contracts I think I've ever seen have been based around the profit motive, and the profit motive is not selfless, and that's one of the key things in Nolan.

[456] **Darren Millar:** Okay. I'm afraid that the clock has beaten us and we're going to have to bring the evidence session to a close. Thank you, James Price, Gareth Bullock, for attending today. You'll receive a copy of the transcript of today's proceedings along with a note of any additional information that you promised to provide us with. We're grateful for your attendance, thank you.

[457] **Mr Bullock:** Thank you.

[458] **Mr Price:** Thank you.

10:59

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod**

**Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting**

Cynnig:

Motion:

bod y pwyllgor yn penderfynu that the committee resolves to gwahardd y cyhoedd o weddill y exclude the public from the cyfarfod yn unol â Rheol Sefydlog remainder of the meeting in 17.42(vi).

accordance with Standing Order 17.42(vi).

Cynigiwyd y cynnig.

Motion moved.

[459] **Darren Millar:** I'll now move a motion under Standing Order 17.42 to resolve to exclude the public from the remainder of our meeting. Does any Member object? There are no objections, so we'll move into private session.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 11:00.
The public part of the meeting ended at 11:00.*