Cynulliad Cenedlaethol Cymru
National Assembly for Wales

MEDIA RELEASE

Welsh Government ‘poured good money after bad’ into Kancoat, says National Assembly committee

The Welsh Government ignored its own due diligence in pouring more than £3million of public money into a Swansea company which ultimately failed, according to a new report from a National Assembly committee.

Kancoat operated an aluminium-coil-coating production line in Swansea from 2012, which is used in the manufacture of tin cans, drinks cans and aerosol canisters.

The company received financial support from the Welsh Government worth £3.4million in total including loans and grants.

The National Assembly’s Public Accounts Committee heard that a due diligence review conducted by the Welsh Government concluded that Kancoat’s business case appeared to be weak and inconsistent, and that the proposal involved the government taking on a significant landlord risk in addition.

It also emerged that two previous attempts to run a similar company out of the site had also failed.

The Company went into administration in September 2014 with losses to the public purse put at £1.5 million and rising.

A key theme throughout the inquiry was the lack of clarity and transparency around the Welsh Government's decision making processes.

Evidence suggested that the Welsh Government made a number of decisions around business finance, such as expanding the definitions of sectors and the conditions for providing repayable or 'non-repayable repayable business finance', that have not been well documented nor communicated clearly.

The Committee recommends that tougher guidance around identifying and mitigating risks be put in place, and that any decisions which go against due diligence need to be clearly explained and documented.

Members also noted phrases such as 'non-repayable repayable business finance' were confusing and recommended that the Welsh Government amend its terminology to something which more accurately describes what is being offered.

The Welsh Government retains the lease on the premises in Swansea as security on some of the financial assistance it offered, but incurs upkeep costs and must put right any changes made under Kancoat if it is to sell the lease on and claw back some of its outlay.

The Committee was concerned to learn that the decision to take over the lease was based on an old valuation from former leaseholders of the site and, despite advice in the due diligence process, a new, independent valuation was not requested.

"The Welsh Government invested in Kancoat at a time shortly after the financial crisis, where many businesses were struggling to obtain loans and risks were generally greater than they are in a more stable economic climate.

"At such a time support from government can be a confidence booster and give companies the breathing space they need to plan and grow.

"But the Welsh Government's decision to pour money into Kancoat defied its own due diligence, failed to recognise or mitigate against a number of potential risks, and was done with little documentation or demonstrable reasoning.

“As a result of Kancoat’s failure the taxpayer is £1.5million pounds out of pocket and that cost could rise further.

“We want to see more robust risk assessments from the Welsh Government, clearer documentation around key issues, particularly when they go against advice, and better definitions of the sort of support offered and what that means for the public purse.

“We are pleased that the Auditor General for Wales is making a broader value-for-money examination of the Welsh Government's approach to business finance during 2017, as the Committee has growing concerns over the actions taken by the Welsh Government to support Welsh Business.

The Committee makes 11 recommendations in its report, including:

- That decisions to go against the advice of the due diligence report should be clearly documented in project documentation;
- That the Welsh Government produces updated robust risk identification and mitigation guidance, which reflects the lessons learnt from this inquiry; and
- That Welsh Government guidance for investments explicitly states that up to date and independent professional valuations of any assets offered as collateral security are obtained prior to any finance being agreed.