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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Public funding of the Cywain Centre, Bala



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



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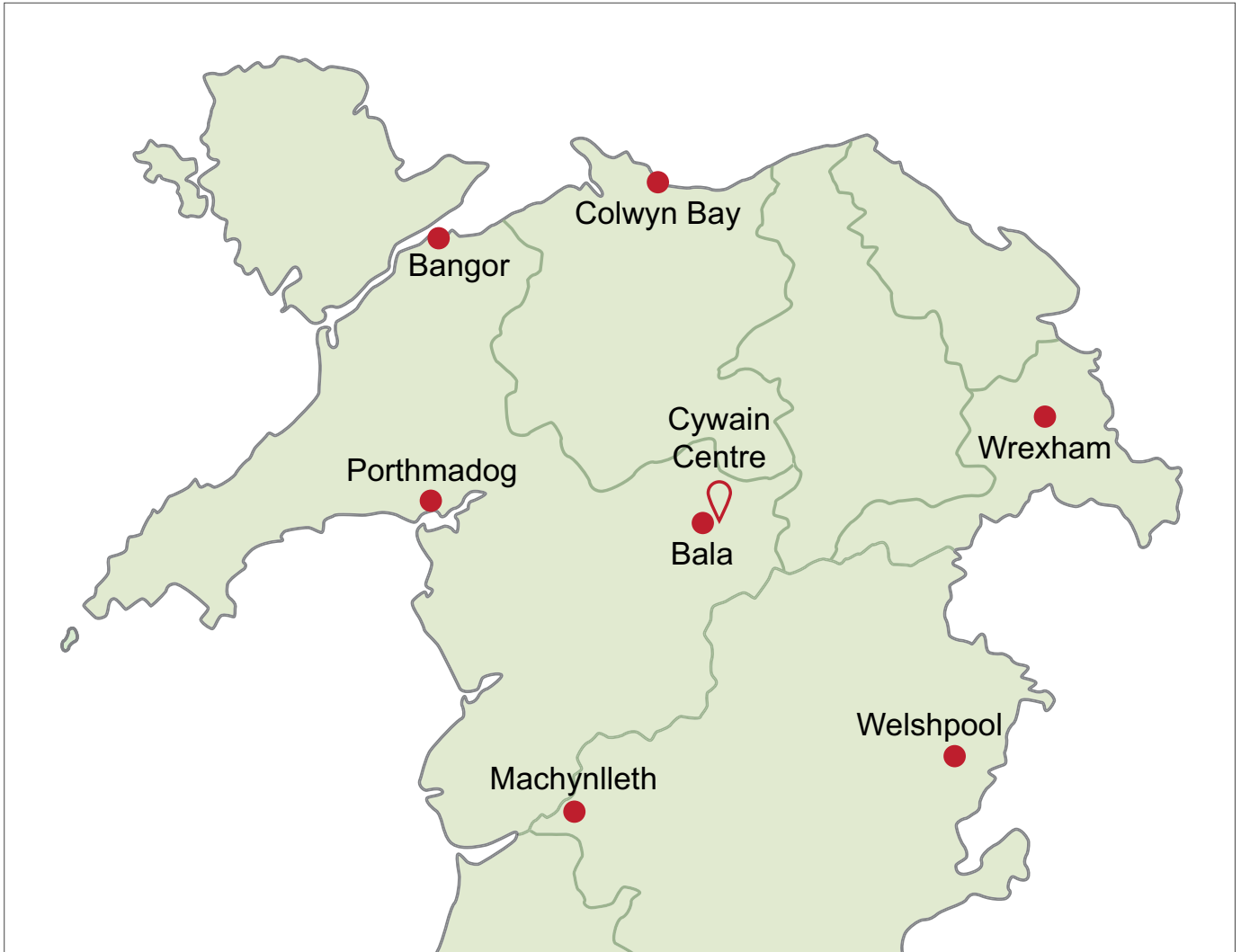
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Location of the Cywain Centre, Bala



Summary

- 1 The Cywain Centre (the Centre) opened for business as a heritage, rural life and sculpture centre in 2008. The project was developed by Antur Penllyn, a community regeneration company set up in 1989 to regenerate the Bala and Penllyn area. The Centre, which was outside the town of Bala, was intended to hold events and exhibitions on agricultural methods, provide training and education in rural skills, and exhibit modern artworks. It was also to operate a café and a small retail area, and offer venue hire for meetings and events.
- 2 The Centre is situated on land owned by the Rhiwlas Estate, with the land secured by Antur Penllyn under a leasehold agreement. The project was delivered in two phases; the first involved creating the main building and cafe, with the second phase involving the development of office space, an exhibition area and an amphitheatre, and the provision of sculptures and artworks. Antur Penllyn anticipated that the project would result in seven full-time and four seasonal jobs, and estimated that the facilities would attract 25,000 visitors in its first full year of operation, rising to 40,000 by year five. Entrance fees were planned in year one to be £5 per adult and £2.50 per child.
- 3 The total costs to the public sector were originally estimated to be £2.2 million. By the end of the project the actual costs to the public sector had risen to more than £3.4 million. The Welsh European Funding Office (WEFO), through its 2000-2006 European Structural Funds programme, was the largest source of funds. The WEFO grant accounted for 60 per cent of the total public funding of the Centre. Other major sources of funding were the Welsh Government's Pathways to Prosperity grant scheme and its Community Facilities and Activities Programme; the former Welsh Development Agency; the Arts Council of Wales; and the Wales Tourist Board (which is now known as Visit Wales). [Appendix 1](#) provides further details of the Centre's funding.
- 4 The Centre opened its doors to the public in April 2008, following completion of the first phase. Twenty-one months later, in January 2010, Antur Penllyn informed WEFO that the Centre was about to close. Although the Centre subsequently remained open, due to volunteer support, it finally closed in September 2011. Antur Penllyn's accounts show a loss in two of the last three operating years, with an operating loss of £12,182 in its final year. However, the accounts for these three years included grant income to cover revenue costs and if these are excluded, to show the underlying profitability of the project, then losses would have been made in all three years totalling £83,314.

- 5 In January 2013, Antur Penllyn issued a press release advising that, in accordance with the conditions of the lease, the building had been returned to the landlord on 1 October 2012. The press release also stated that Antur Penllyn's term had come to an end, and that its assets would be transferred to an institution in the Bala and Penllyn area that had the same aims.
- 6 The Auditor General received correspondence from the chair of the Public Accounts Committee in January 2013 expressing concerns about the value for money the Welsh Government had secured from its public investment in the Centre. Following an initial review, the Auditor General decided in May 2013 to undertake a full investigation into the public funding of the Centre.
- 7 The investigation set out to answer the question: **'Did the decisions made by the Welsh public sector, in respect of the funding and subsequent closure of the Cywain Centre, provide good value for money?'** This report was prepared by staff of the Wales Audit Office on behalf of the Auditor General. The methodology used in the investigation is described in [Appendix 2](#), and a timeline of key events is at [Appendix 3](#).
- 8 **Overall, we concluded that the public funding of the Centre did not provide value for money. All funders had recognised, to varying degrees, the unsupported and unrealistic assumptions that underpinned the business case for the Centre. However, they approved grant funding without putting in place fully effective measures to mitigate and manage the risks to the project they had identified.**
In particular:
- a the project was always likely to fail because of flawed income assumptions and a lack of clarity over what the Centre was meant to offer, both of which were not adequately challenged by funders;
 - b funders did not identify and address all of the key risks and placed too much emphasis on the potential benefits of the project, and collaboration between funders was inadequate to support effective decision making;
 - c although most of the grant conditions that were set were followed up, monitoring of the Centre's operations was inadequate and WEFO invested further public money without gaining any assurance about the Centre's financial viability; and
 - d all funders were slow to respond to the threat of, and actual, closure of the Centre and to protect the public's interests in the assets.

Recommendations

- 9 This report follows other examinations by the Auditor General in recent years into the management of grants-funded schemes.¹ These reports have identified significant changes in procedures in recent years, which should make it less likely that the mistakes evident in the funding of the Centre will be repeated. For example, WEFO has strengthened its controls over the 2007-2013 European Union Structural Funds programmes by:
- a having far fewer, larger projects – around 280 compared with more than 3,000 in the previous programming round – which has enabled WEFO to take a more proactive approach to monitoring projects; and
 - b each project now having a nominated WEFO Project Development Officer who undertakes the project appraisal and is subsequently responsible for monitoring the project, which should include regular progress meetings and occasional site visits.
- 10 The recommendations in the Auditor General's recent reports and those of the Public Accounts Committee address a number of the weaknesses in the public funding of the Centre. In addition to reinforcing the recommendations of previous reports, we make the following two recommendations:
- R1 The extent to which different funders identified risks with the project proposal varied, and, although some communication between them took place, this was not as comprehensive as it could have been. **We recommend that the Welsh Government should take steps to ensure that all funders are fully aware of the risks when assessing individual projects, through for example requiring all project assessments to be shared between funders or by having one financial appraisal undertaken on behalf of all funders.**
 - R2 Funders responded to the threat and actual closure of the Centre in a slow and uncoordinated way. In part, this reflected a view that funders did not need to take any further action once the asset retention period had passed. However, funders should have a continued responsibility beyond the asset retention period to maximise the chance that public money results in some ongoing public benefit. **We recommend that, when a project is known to be in severe difficulties and is approaching or is past the asset retention period, the Welsh Government should take urgent steps to protect the public's interests in the assets.**

¹ *Grants Management in Wales (2011); The Welsh Government's relationship with the All Wales Ethnic Minority Association (2012); and Public funding of Penmon Fish Farm (2013)*. Later in 2014, the Auditor General will also publish a report on *European Structural Funds 2007-2013*.

Part 1

The project was always likely to fail because of flawed income assumptions and a lack of clarity over what the Centre was meant to offer, both of which were not adequately challenged by funders

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Decisions to provide grant funding were based on highly flawed assumptions, particularly with regard to projected income levels

- 1.1 The business case for the Cywain Centre project, which was first developed in 2003, estimated that the project would attract 25,000 visitors in its first year rising to 40,000 in year five, representing a 60 per cent increase in visitors over the four-year period. However, these estimates were highly unreliable for a number of reasons. In particular:
 - a Antur Penllyn had based its estimates on the number of visitors using the Bala Lake Railway, a nearby successful attraction, although Visit Wales statistics² show that since 2003 the railway had attracted around 20,000 visitors a year; and
 - b the estimates also took into account estimated visitor numbers from a study in 2000 that examined the feasibility of establishing a sheepdog trialling centre on the site, which would have been a very different attraction from the heritage, rural life and sculpture centre that was established in 2008.
- 1.2 The projected visitor numbers were very ambitious, and Visit Wales figures show that it is highly unusual for visitor numbers to increase year on year to the extent projected by Antur Penllyn. Visit Wales data lists 64 tourist attractions in North Wales in 2003. To meet its forecast of visitor numbers, the Centre would have had to be the 30th most popular attraction in year one and the 24th most popular by year 5.
- 1.3 The proposed entrance fees were also comparatively high. The Centre's business case was based on an entrance fee of £5 per adult and £2.50 per child, which compared to the average entrance fee reported by Visit Wales, across all tourist attractions in Wales that charged a fee in 2003, of £3.70 for adults and £2.21 for children³. In 2003, only around one-fifth of all attractions charged £5.00 and over for adults. The Centre's business case also assumed that entrance fees would increase to £6 per adult and £3 per child from year four onwards, a 20 per cent increase. Visit Wales reported that between 2000 and 2003 average admission charges across Wales had increased by around 14 per cent.

² Annual visitor numbers to tourist attractions have been published by Visit Wales since 2003.

³ Entrance to the seven museums comprising Amgueddfa Cymru – National Museum Wales' Museums – has been free since 2001.

- 1.4 The business case had projected a relatively high level of catering income from the Centre's café. It assumed that 25 per cent of the 25,000 visitors would each spend £3 in the Centre's first year of operation, which equates to average revenue of £0.75 per visitor. Visit Wales data shows that in 2003 the average visitor catering income across all attractions was £0.53 per visitor. The income from the Centre's café was projected to increase from £18,750 in the first year to £72,000 by year five, as a result of the projected increase in visitor numbers and assumptions that a larger proportion of visitors would use the café and that each customer would spend more per visit.⁴
- 1.5 The Centre's projected income also depended on hiring out a room for conferences or training events. The business case envisaged the room being hired on 100 occasions in the first year, rising to 140 sessions in year four. The room hire fees were based on £50 or £84 per session, depending upon whether equipment was required for the meeting. The room hire fees were expected to increase to £75 or £120 per session in year four. There was no clear rationale behind these assumptions, which appear to be very ambitious given the Centre's location and the size of the local community on which the Centre would be able to draw.
- 1.6 Other budgeting information within the business case was also weak. For example, whilst income was projected to increase significantly over the five-year planning period, estimates of annual expenditure over the same period remained constant.
- 1.7 Even when based on these optimistic, yet unrealistic, assumptions about income and expenditure, the business case identified a shortfall in operating income in the first year of £21,550. The forecast then was for the Centre's income to match expenditure in year two before generating an annual profit from year three onwards. However, it was not clear how the projected shortfall in income in year one would be met:
- a the business case submitted to WEFO indicated that Antur Penllyn intended to use the projected operating profits in later years to pay off the losses from the first year, but this would take until year four to achieve and the business case did not explain how the loss would be funded during the interim period;
 - b in its initial application for a grant from the Community Facilities and Activities Programme, Antur Penllyn said that it expected grant support and donations to cover the shortfall, although no details were provided about which grants would cover the shortfall or how it was going to attract donations; and
 - c Antur Penllyn told us that it was given to understand that the Welsh Government would maintain the project for the first three years from 'other sources, but that this did not materialise'.

⁴ £18,750 was based on 25 per cent of 25,000 visitors spending £3 per person. £72,000 was based on 40 per cent of the 40,000 visitors spending £4.50 per person.

Decisions to provide grant funding were based on a confused set of objectives for the Centre

- 1.8 Antur Penllyn's original intention was to open a sheepdog trialling centre, to capitalise on the success of the World Sheepdog Championships held at Bala in 2002 and the fact that the first international sheepdog trial had been held on the Centre's site in 1873. In 2000, Antur Penllyn, supported by the Wales Tourist Board, commissioned a feasibility study for establishing a sheepdog trialling centre.
- 1.9 In 2003, representatives of the Rhiwlas Estate wrote to Antur Penllyn confirming that they would lease the site to them for the purposes of a sheepdog trials and heritage centre. Subsequently, in December 2003, Antur Penllyn applied for £498,000 funding from the Wales Tourist Board to open a sheepdog trialling centre. The Wales Tourist Board told us that it did not process this application, as it had understood that WEFO was to meet the full costs of the project. However, in September 2004 Antur Penllyn approached the Wales Tourist Board again for funding, stating that WEFO was no longer in a position to cover the project costs in full. The Wales Tourist Board received a number of concerns over the proposal for a sheepdog trialling centre due to the potential impact upon a nearby sheepdog attraction⁵. Nevertheless, in December 2004, the Wales Tourist Board invited Antur Penllyn to make a formal application for funding, which it received in May 2005.
- 1.10 During the period between Antur Penllyn's initial request for funding and its application to the Wales Tourist Board in May 2005, the emphasis of the project had changed from a sheepdog trialling centre to a rural life and sculpture park. This shift in emphasis was clear in Antur Penllyn's initial application for funding from WEFO in December 2004. The application was for funding for a 'rural life and international sculpture centre', although sheepdog trials were also envisaged on an 'occasional' basis. The Wales Tourist Board ascribes this change in focus to the concerns it had raised with Antur Penllyn about the potential impact of a sheepdog trialling centre on Ewe-Phoria.
- 1.11 Antur Penllyn told us there was a logic to the project integrating rural heritage and sculpture, as cultural life in the area is intertwined with the everyday lives of the rural community. However, the rationale for creating a rural life and sculpture centre was not otherwise clear, particularly given the original intention of opening a sheepdog trialling centre.
- 1.12 The initial plans for the rural life and sculpture centre were scaled back to secure the grant funding from WEFO. This resulted in a smaller main building and a reduction in the area covered and protected from rain. This further compromised the potential viability of the Centre, particularly as key attractions, such as the sculptures, amphitheatre and children's play area, had to be accessed in the open air. The plans upon which grants were approved offered little to a visitor in poor weather. The income and expenditure profiles set out in Antur Penllyn's business case for the Centre that was provided to funders were based on the scaled back plans.

⁵ Ewe-phoria is a Sheepdog Centre in Corwen, which is nine miles from Bala. At Ewe-phoria, visitors can meet sheepdog puppies, watch dogs herding sheep, discover a variety of sheep breeds and learn all about shearing.

1.13 The business case for the Centre did not clearly articulate the specific attractions and events that the Centre would provide, nor how these would be refreshed over time to ensure visitors return.

In addition:

- a the business case was based on attracting members of the local community and tourists to the Centre, but it did not set out clearly what the Centre had to offer these very different groups, and how they would be encouraged to visit and re-visit the Centre; and
- b the business case listed a total of 96 activities and events 'being developed' for the first phase of the Centre, but their volume and wide-ranging nature, from flower arranging to antiques fairs, reflected a lack of clarity of purpose and a lack of focus on how tourists were to be persuaded to go out of their way to visit the Centre.

1.14 The main funder, WEFO, committed resources to the project based on a business plan for a rural life and sculpture centre at a time when funding had not been secured for the sculptures. The Arts Council of Wales approved a grant for the costs of the sculptures more than 12 months after WEFO had given its grant approval for the project. As a result, WEFO had committed public money to support something that it could not be sure would be delivered.

The single largest funder, WEFO, did not adequately challenge the income assumptions or the lack of a clearly articulated plan for what the Centre was to offer, although some of the other funders did identify and share some concerns

1.15 The main funder, WEFO, and the former Welsh Development Agency failed to adequately scrutinise and challenge the key assumptions underpinning the grant applications from Antur Penllyn. The financial appraisal that fed into WEFO's consideration of the grant application assessed income levels as 'uncertain' and identified the initial projected operating loss. The Wales Tourist Board had also raised with WEFO, through a series of letters and meetings during 2005, its concerns about the forecast visitor numbers, the scale of the proposed fees, wage costs and the forecast spend in the café. For example, in an October 2005 letter to WEFO, the Wales Tourist Board wrote of its 'concerns regarding the viability and sustainability of the project, particularly related to the presented visitor numbers and financial projections'.

1.16 We found no evidence that WEFO took any action in response to these concerns. WEFO did not, for example, then subject the key assumptions within the business case to further scrutiny. Nor did it carry out any sensitivity analysis on the figures provided to determine the sensitivity of the project's viability to variations in key assumptions. The Welsh Development Agency also failed to challenge any of the key assumptions underpinning the business case, or to identify the income shortfall.

- 1.17 A number of the other funders scrutinised and challenged the figures Antur Penllyn provided and, as a result, recognised there was a risk to the viability of the project:
- a the Wales Tourist Board pressed Antur Penllyn to provide evidence for visitor numbers; in particular, it requested that Antur Penllyn provide a strong argument to substantiate the rise to 40,000 visitors per annum by year five, although we found no evidence that Antur Penllyn had provided this further information;
 - b the Wales Tourist Board also challenged the assumptions about entrance fees and café income, and the rationale for the evolution of the project from a sheepdog trial centre to a rural life and sculpture centre;
 - c the initial assessment by the Community Facilities and Activities Programme concluded that the figures provided by Antur Penllyn were 'not based in fact', and raised concerns over whether the project was well conceived; and
 - d an external appraisal commissioned by the Arts Council of Wales concluded that the overall viability of the project was questionable, and noted that new ventures experience a fall-off in visitor numbers after the first year before reaching a plateau, rather than the year-on-year increases projected by Antur Penllyn.

Part 2

Funders did not identify and address all of the key risks and placed too much emphasis on the potential benefits of the project, and collaboration between funders was inadequate to support effective decision making



Most funders adequately identified the capacity of Antur Penllyn to deliver the project as a risk, but not all identified as key risks the lack of a robust business plan and a fit for purpose marketing plan

- 2.1 Antur Penllyn was a community regeneration company established in 1989 run by a volunteer board of directors. The company had previously been involved in a number of initiatives, such as setting up a local shops group and a local tourism group. However, none of the projects had matched the size or complexity of the Centre. The proposed project required the redevelopment of some buildings, the employment and management of 11 staff, and the ongoing operation of what needed to be a large and successful visitor attraction for it to be viable. The Antur Penllyn directors told us that they had some concerns about their capacity to manage the project, as it had evolved from a 'major project to a massive project', although they had been 'fairly confident' that they could run the project, given their varied experience.
- 2.2 The limited project management and financial expertise of Antur Penllyn should have been clearly evident to funders during the grant application stage. For example, the business case submitted to the Community Facilities and Activities Programme did not match income to expenditure over each of the initial years of the project. Although subsequent versions of the business case contained more financial detail, it was still not sufficiently comprehensive given the size of the proposal and the grants being applied for.

- 2.3 With the exception of the Welsh Development Agency, funders identified either explicitly or implicitly that the capacity of Antur Penllyn was a key risk to the project. For example, WEFO gave Antur Penllyn the highest risk score for its 'experience in managing projects' and the Wales Tourist Board's appraisal report stated 'the applicant does not have a strong tourism background and officers question the expertise to make the project sustainable'. However, only the Arts Council of Wales and the initial assessment by the Community Facilities and Activities Programme identified the lack of a robust business plan and a marketing plan as key risks.

Some funders did not adequately recognise the risk to the asset should the Centre fail

- 2.4 We would have expected funders to consider how best to protect their investment in the buildings and the artwork should the Centre fail. Only two funders, the Wales Tourist Board and the Arts Council of Wales, identified this risk to their investment as part of their appraisals.
- 2.5 WEFO did not adequately recognise the risk to the asset should the Centre fail. WEFO approved the project prior to the lease agreement between Antur Penllyn and the landowner being signed. WEFO told us that to enable it to fully assess and manage the risk this posed it withheld payments to the project until after Antur Penllyn had signed the lease agreement with the landowner – a process known as 'payment suppression'. However, in March 2007 WEFO lifted the payment suppression without fully examining the provisions within the lease, and only sought legal advice on the lease a year later.

Grant conditions, the main mechanism for managing the risks identified, were not always comprehensive or realistic

- 2.6 The setting of grant conditions was the main mechanism funders adopted for managing the risks that they had identified. For example, to mitigate the risks created by the terms of the lease agreement:
- a the Wales Tourist Board set a condition which meant that Antur Penllyn could not legally dispose of the asset without the consent of the National Assembly for Wales; and
 - b the Arts Council of Wales set a condition that required confirmation of the ownership of artworks should the Centre close, and the development of a strategy to ensure that artworks remained accessible to the general public (either through continued access on site or by re-siting them elsewhere).
- 2.7 However, we found that grant conditions did not cover all of the risks that funders had identified. For example:
- a WEFO and the Wales Tourist Board did not include any conditions to address Antur Penllyn's lack of project management experience that they had identified;
 - b the Arts Council of Wales did not include a grant condition that Antur Penllyn develops a comprehensive, fully-costed budget, despite this being identified as a risk by its external assessors;
- c although WEFO had determined that income from the project was 'uncertain', and set a grant condition that Antur Penllyn must secure a bank overdraft or loan of £60,000 to cover the projected temporary shortfall in operating income, it did not seek any further assurances about projected income levels;
 - d the second assessment by the Community Facilities and Activities programme identified a shortfall between income and expenditure, but no action was taken to address the risk that this posed to the sustainability of the project; and
 - e none of the funders had required, as a condition of grant, Antur Penllyn to report performance (in respect of visitor numbers, income and expenditure) to enable them to monitor against business case assumptions.
- 2.8 The absence of conditions to address the lack of experience and capacity within Antur Penllyn was a serious failing. For example, funding could have been made dependent upon the recruitment of staff with experience of tourism and successfully delivering large-scale projects. Also, by not requiring Antur Penllyn to provide periodic reports on the operational performance of the Centre, funders were unable to monitor risks to the financial viability of the Centre and the likelihood that they would need to take action should the Centre appear to be heading for failure.
- 2.9 The Wales Tourist Board made its grant offer 'conditional upon WEFO addressing the project's financial forecasts in terms of viability, with particular note given to the high wage forecast and projected losses'. However, this condition was unrealistic, because the main funders had never established that they would develop and implement a collective approach to identifying and managing project risks.

Some funders placed too much reliance on the scrutiny arrangements of WEFO, which was an enthusiastic supporter of the project

- 2.10 Under the agreed arrangements for managing the Welsh Government's Pathways to Prosperity fund, fund managers did not carry out detailed appraisals of projects. Projects applied to the fund, and were granted approval 'in principle', where they could demonstrate that all other avenues of funding had been exhausted and where projects could show that their outcomes were aligned with the strategic targets of the Welsh Government's Department for Environment and Transport. Projects with approval in principle were then subject to WEFO's routine appraisal processes, and only once WEFO had approved a project was Pathways to Prosperity funding confirmed.
- 2.11 It is clear that WEFO was very enthusiastic about the project and actively encouraged the Welsh Government's Community Facilities and Activities Programme to also consider funding the Centre. The Community Facilities and Activities Programme rejected the initial application to provide grant support for the project. Subsequently, WEFO confirmed its support for the project on a number of occasions, and asked that the second application for Community Facilities and Activities Programme grant be considered 'as a vital source of funding for this project'.
- 2.12 Some funders placed too much reliance on the scrutiny by WEFO, the largest single funder. We have not been able to establish whether the Welsh Development Agency carried out its own full financial appraisal, but its reviewing officer had advised that a separate appraisal was not needed as WEFO had already scrutinised the project's business case. The second application to the Community Facilities and Activities Programme, which succeeded, was based on substantially the same business case as provided previously and which had been the subject of heavy criticism. The appraisal of the second application was conducted by a different appraisal officer who did not look at the assessment of the original application. The change in the appraisal outcome reflected, at least in part, assurances taken from WEFO's support for the project. In particular:
- a WEFO was likely to commit substantial funding in comparison to the amount being considered by the Community Facilities and Activities Programme; and
 - b WEFO, through its scrutiny of the project, had found 'no issues with the project'.

In making its funding decision WEFO placed too much emphasis to the potential benefits of the project, and there is evidence of other pressures informing decisions to approve funding

- 2.13 Funders had identified a number of benefits that the project could deliver. For example, the Ministerial submission seeking approval for Pathways to Prosperity funding stated that the Rural Thematic Advisory Group⁶ had 'reviewed the strategic merits of the project and felt it to be one of the best it has considered and is very keen to support it'. Bala was designated a Wales Tourist Board special interest tourism growth area, and the project was seen by funders as supporting a number of strategies such as the Welsh Government's Cultural Tourism Strategy, the Wales Tourist Board strategy on sustainability, partnership, quality, equality and creativity, and Gwynedd Council's Economic Development Strategy.
- 2.14 WEFO placed too much emphasis on the potential benefits of the Centre without identifying and putting in place adequate arrangements to mitigate or manage the associated risks. WEFO told us that it had decided to approve the project despite the risks it had identified because it was the only project in the geographical area, and that it addressed 'One Wales' commitments to create jobs across Wales and develop thriving rural communities. In recommending the approval of Pathways to Prosperity funding to the Minister for Economy and Transport, the head of the Pathways to Prosperity fund described the project as 'deemed by WEFO as a high priority and vital

to assist in meeting their targets'. This appears to overstate the importance of a project that aimed to create a relatively small number of jobs (seven full-time staff and four seasonal casual workers). Moreover, in other documents related to the project WEFO had assessed the project as having a limited impact on its overall programme delivery, because of the small contribution that the project was making to the overall programme target for jobs.

- 2.15 The need to spend European Structural Funds, rather than return the money to Europe, also informed the decision to fund the project using the Pathways to Prosperity fund. In August 2005, the head of the Pathways to Prosperity fund sought approval from the Minister for Economy and Transport to fund the Centre stating 'This is a worthwhile project which is also vital to avoiding N+2 decommitment.'⁷ The Wales Tourist Board, despite its concerns over the viability of the project, approved the grant, with conditions, to ensure there was adequate match funding to allow WEFO to approve the project.

Improved collaboration between funders would have supported better decision making

- 2.16 There was regular communication between different funders on the progress being made with the grant applications from Antur Penllyn, and some funders shared key concerns with WEFO. For example:
- a the Wales Tourist Board and WEFO discussed the former's concerns about Antur Penllyn's income forecasts and the project's wage bill;

⁶ Thematic advisory groups have a small number of members selected for their expertise, who advise WEFO on the strategic direction and most effective use of resources in the area of the programme which they cover, including the selection of projects during the development and appraisal process. For example, they may comment on how well a proposal meets strategic priorities, and whether the costs, timing and outputs are realistic.

⁷ Introduced for the 2000-2006 round of Structural Funds programmes, the N+2 rule operates in the following way. Member states and the European Union agree an allocation for each year of each programme. Member states must then spend each year's allocation within two years. For example, the allocation for 2002 needed to be spent by the end of 2004. Money that is not spent within two years is 'lost' to the member state as it must be returned to the European Union in a process known as 'decommitment'.

- b the Arts Council of Wales shared with WEFO its concerns about the viability of the project, and asked about the security WEFO had over the asset to help ensure adequate measures were in place to safeguard the Council's investment; and
- c the Community Facilities and Activities Programme and WEFO discussed WEFO's overall views of the project and whether WEFO had identified any substantive concerns or risks.

2.17 Although there is evidence of bilateral communications, the funders did not come together and develop a collective and coordinated approach to the sharing of grant appraisals and the identification and management of key risks. It is difficult to determine whether or not the project would have progressed as it did if all funders had shared in full their concerns and the risks they had identified. However, as a minimum, better communications and a more collaborative approach to grant appraisal and risk identification and management would have given funders a firmer foundation on which to base their decisions.

Part 3

Although most of the grant conditions that were set were followed up, monitoring of the Centre's operations was inadequate and WEFO invested further public money without gaining any assurance about the Centre's financial viability



Most grant conditions were followed up, but monitoring of the Centre's operations was inadequate

- 3.1 Two of the three funders who set substantive grant conditions robustly followed these up. WEFO achieved compliance with all nine of its special conditions. The Arts Council of Wales also rigorously followed up on its eight special conditions of grant. For example, it:
- a suspended payments until an adequate level of assurance was received on one grant condition – confirmation from the landowner that the artwork would continue to be accessible should the Centre close; and
 - b withheld the final payment of £18,480 as another grant condition was not met – a fit-for-purpose marketing and awareness-raising strategy.
- 3.2 However, the approach by the Wales Tourist Board was more variable with some, but not all, grant conditions being followed up. For example:
- a it successfully ensured that Antur Penllyn signed the legal documents needed to ensure that the company could not dispose of the asset without the written consent of the National Assembly for Wales; but
 - b we could find no evidence that two conditions were followed up and met – details of how Antur Penllyn was going to improve the Centre's exhibitions, and on the Centre achieving a minimum of a four-star Green Dragon Environmental Standard.
- 3.3 WEFO closely monitored the building of the Centre. Antur Penllyn provided weekly updates on progress, which WEFO scrutinised and challenged, and WEFO held quarterly meetings with Antur Penllyn, in line with a grant condition. However, these meetings, which were not always minuted, focused upon the construction of the buildings; WEFO did not monitor progress on the operational aspects of the Centre or on any steps being taken to manage the risks to the Centre's financial viability:
- a we found no evidence of WEFO requesting or receiving from Antur Penllyn any information about visitor numbers, income generated through entrance fees and/or income generated by the café or office space. Until we carried out this investigation, WEFO was unaware that Antur Penllyn had not charged anyone to visit the Centre; and
 - b from the point at which the Centre was intended to be fully operational, in December 2008, WEFO had very little contact with Antur Penllyn until January 2010 when the proposed closure of the project was discussed.
- 3.4 Other funders also did little to monitor the Centre's operational performance. This was either because funders, such as Pathways to Prosperity, were reliant on WEFO to carry out monitoring, or because the amount granted did not exceed internal thresholds for detailed monitoring, as was the case with the Arts Council of Wales.

WEFO granted substantial additional funds for the project, without seeking any additional assurance about its viability or taking the opportunity to put in place more effective action to mitigate the project's risks

3.5 In April 2008, WEFO approved an additional grant of £350,000, to meet a VAT shortfall which had resulted from Antur Penllyn not being able to register for exemption from VAT. The Arts Council of Wales was also approached by Antur Penllyn for an additional grant to cover the VAT shortfall relating to the artworks. However, rather than increase the amount of grant, the Arts Council of Wales agreed for some of the artworks to be scaled back to enable the VAT shortfall to be met.

3.6 At the time that WEFO was considering the application for a grant to cover the VAT shortfall, the Welsh Government's Department for Economy and Transport shared with them a consultant's critical report which identified problems with the infrastructure on the site and with operational aspects of the project (Figure 1).⁸ The consultant concluded that without significant changes the 'project will fail quite miserably'.

3.7 The consultant's report concluded that further substantive funding, in addition to the increased funding required to meet the VAT shortfall, was needed to give the Centre a chance of success. In response, WEFO required Antur Penllyn to provide it with a business case for the additional grant. A business case, drawn up with the support of the consultant, was submitted by Antur Penllyn in August 2008. It identified 'serious deficiencies' with the Centre including:

- a the Centre offering poor value for money to the visitor, with a visit time of only 10 to 30 minutes, depending upon whether they used the café, and offering no reason to return;
- b a lack of rain cover, for example the amphitheatre did not have a roof;
- c limited capacity in the kitchen and café; and
- d inadequate space and rooms at the Centre and toilets on the site.

Figure 1 - Independent report on the Centre and proposed capital enhancements

The consultant identified the need for capital enhancements, with the particular aim of making the Centre more resilient to poor weather. The consultant also identified the following problems:

- a revenue shortfall with no funding available for the costs of the Centre manager beyond June 2008 and the two assistants beyond September 2008;
- the project lacked a strategic direction – there was no clear idea of what the facility should be;
- the corporate/organisational structure for the project was not clear; and
- the Centre did not have a strong marketing plan or business plan – Antur Penllyn did not know what volumes it needed to cover the costs of the Centre and, beyond the overdraft facility, there was 'nothing in place' to keep the Centre running.

Source: Wales Audit Office review of WEFO case files

⁸ We were unable to identify the reasons why the Department for Economy and Transport commissioned a review of the project by a business consultant.

- 3.8 The business case proposed a number of steps to address these deficiencies. These included widening the focus of the Centre with an expanded programme of events; additional capital works and revenue support; and, as a last resort, reducing the Centre's running costs. WEFO subsequently agreed additional funding of £863,546, which was approved in two tranches:
- a in September 2008, WEFO made £799,660 available to address the revenue shortfall and enhance the facilities; and
 - b in March 2009, WEFO made £63,886 available to cover additional construction costs and to purchase a marquee to enable the Centre to provide wet weather activities.
- 3.9 In a paper updating the Deputy First Minister on its decision to grant additional funding to the project, WEFO acknowledged that 'there is an element of risk in pouring more funds into this venture. ...However with these enhancements there is a real opportunity to make good some of the current deficiencies and provide a stronger basis for the Centre to succeed.'
- 3.10 The WEFO decision to provide the additional funding for the Centre was taken in an 18 month period during which it agreed extensions or increases in funding for 240 different projects. During this period WEFO redistributed more than £50 million of additional funding that had arisen from exchange rate movements and late decommitments. Managing this number of projects was clearly a challenge for WEFO, which was a factor that led to the significant shift in approach in the following 2007-2013 funding round, where resources are focussed on fewer projects.
- 3.11 The business case to support the application for additional funds for the Centre contained a number of fundamental weaknesses which were not identified or followed up by WEFO. For example, the business case:
- a included some limited income and expenditure figures, but it acknowledged that 'these estimates are somewhat illustrative...but will be reviewed and will change for the new business plan'. However, no new business plan was ever produced;
 - b did not include any detailed analysis of operating income and expenditure to establish whether, and when, the Centre would become viable;
 - c was based on the Centre attracting 26,000 entrance fee paying visitors and outlined an expanded programme of events to meet this target, but it was unrealistic to expect that visitors for many of the events, such as monthly clubs and courses, would pay an entrance fee; and
 - d envisaged a significant change in purpose for the Centre, with far greater reliance placed upon attracting the local community rather than tourist trade, but WEFO did not scrutinise the change and its impact to establish whether it would be likely to provide a more viable business.

- 3.12 WEFO told Antur Penllyn that due to the consultant's negative findings they would require more frequent progress meetings, and that it would ensure that any revised grant offer letters incorporated a special condition that clearly states that there are to be 'monthly review meetings of progress (on pre-set dates) which allow us (WEFO) to close the project if its delivery is beyond a yet to be agreed tolerance'. However, the subsequent grant offer letters in September 2008 and in March 2009 placed no such requirements upon Antur Penllyn. Rather, both offer letters continue to require quarterly monitoring meetings as set out in the original grant offer letter.
- 3.13 WEFO did not subsequently scrutinise or seek assurance from Antur Penllyn on the delivery of the events or attendance numbers as set out in the business plan for 2008-09. Nor did WEFO ask Antur Penllyn to provide it with a similar business plan for 2009-10.

Part 4

Funders were slow to respond to the threat of, and actual, closure of the Centre and to protect the public's interests in the assets



The Centre was kept open by volunteer staff operating reduced hours until the asset retention period had passed

4.1 The Deputy First Minister opened the Centre in April 2008. We have been unable to find much meaningful information about the operational performance of the Centre between April 2008 and when it closed in September 2011. This is because none of the funders required Antur Penllyn to report progress against the key determinants of performance (such as visitor numbers and spend per head at the café), and Antur Penllyn itself did not keep records of visitor numbers. The accounts of Antur Penllyn show that the Centre made a loss in two of the last three operating years, and that there was an underlying issue with the profitability of the Centre. If the grant funding to cover revenue costs is excluded, the Centre made a loss in each of the last three years, totalling £83,314.

4.2 Antur Penllyn's directors told us that some of the organisations which had used the building for meetings had spoken highly of the facilities. They also told us that in 2011 the Centre had held a number of successful events, such as a Winter fair, an Easter fair, the Robin Jac Festival, a circus school, a country fair and a number of concerts and exhibitions. Antur Penllyn also provided us with a copy of the visitors' book which included a range of positive comments. However, the limited information that the directors were able to provide on the operational and financial performance of the Centre indicates that it had failed to deliver against a number of the key assumptions set out in the business case approved by WEFO:

- a the total planned operational income and expenditure figures bear little resemblance to those reported in Antur Penllyn's accounts, with both expenditure and, in particular, income being far lower than planned;
- b the Centre never generated any income from visitor fees. The Antur Penllyn directors decided not to charge an entrance fee because, even subsequent to it opening, the Centre resembled a 'building site', as further work was ongoing to make the Centre more resilient to poor weather;
- c the business case approved by WEFO had included the assumption that the entrance fee would include a charge to see a range of artworks located around the site. However, the artworks were not unveiled until April 2009, which meant that for a year the sole attraction at the site was an exhibition on rural life;
- d the directors told us that the café was making an operating profit of £10,000 per year. However, we were unable to compare the profit figure of £10,000 to the business case assumptions, as the business case referred only to yearly income from the café, rather than yearly profit; and
- e as envisaged in the business case, the Centre had rented out its meeting room to generate income. However, Antur Penllyn's accounts show that the planned level of income (£6,700 in the first year rising to £13,650 in year four) from hiring out the meeting room was not met, with the room generating income of £3,561 in the first year and £6,111 in year three.

- 4.3 In January 2010, Antur Penllyn informed WEFO that the Centre was about to close. In March 2010, WEFO confirmed to Antur Penllyn that should the Centre close before 9 July 2011 it would seek to reclaim a proportion of the grant, as closure would be within the five-year asset retention period⁹ stipulated as a condition of grant. In March 2010, the Centre manager left as there was no longer any funding for the position. Subsequently, the Centre remained open until September 2011 with reduced hours and staffed by volunteers. The directors of Antur Penllyn told us that during this period they put £20,000 of their own money into the project to clear the Centre's outstanding debts.
- 4.4 WEFO had e-mail and telephone contact with Antur Penllyn over the operation of the Centre and the staffing arrangements until June 2010. However, we found no evidence of any substantive action by WEFO after June 2010, until reports in the media in January 2013 brought to WEFO's attention that the building had apparently been handed over to the landowner.
- 4.5 The WEFO Article 30 team¹⁰ confirmed that the Centre remained open until after the end of the asset retention period. In September 2012, the Article 30 team reported that 'The Centre at present is closed ... but it had continued to function for the required length of time [to be] compliant with EU regulations.'

Funders did not act in a timely and coordinated way to protect the public's interests in the asset

- 4.6 Although WEFO had been informed of the difficulties that the Centre was facing, leading up to its closure in September 2011, it did not share this knowledge with the other funders of the project. It was not until January 2013, when reports of the Centre's closure appeared in the media, that WEFO had any communication with other funders. Following this media coverage the Welsh Government acted to identify the extent to which it had any interest in the buildings, and whether there was any scope to reclaim grant monies. This included a review by the Welsh Government's Sustainable Futures directorate (Figure 2), and WEFO and Visit Wales working closely with the Welsh Government's Legal Services.
- 4.7 The Centre had no cash assets from which funders could have recovered grant paid. And, as at December 2013, the Welsh Government has yet to clarify the exact position regarding ownership of the building. However, it is possible that, at no costs to themselves, the owners of the Rhiwlas estate will ultimately take possession of a building constructed using £3.4 million of public funding.

⁹ The standard WEFO grant offer letter contains a condition which stipulates that a project needs to operate for five years from the date of the initial grant approval. Where projects do not operate for the required five years, WEFO can seek to reclaim a proportion of the grant awarded; a process known as 'claw back'.

¹⁰ The Article 30 team is responsible for checking that equipment and/or buildings which have received European Structural Funds continue to be used for the purposes for which the grant was approved for at least five years following approval. The team is named after the relevant European Council regulation, namely Article 30 (4).

Figure 2 - The Welsh Government's 2013 review of public funding of the Centre

Following the media reports of January 2013 about the closure of the Centre, the Welsh Government undertook a review of the actions taken by the Centre's public funders. The review concluded that the 'due diligence process did identify key project risks. However, there is little evidence that these risks were effectively managed or mitigated.' The review found that:

- Antur Penllyn lacked experience in terms of delivering projects on the scale of the Centre.
- Due diligence throughout the course of the project focused predominantly on the construction of the asset rather than the long-term sustainability of the project. For example, the review found 'little evidence' that funders had given 'due consideration' to whether the Centre had a viable programme of events necessary to generate the income needed to sustain it.
- During the appraisal stage, WEFO had identified that Antur Penllyn was liable to pay VAT, although Antur Penllyn had informed WEFO that, were its application to be successful, it would register for VAT exemption. The review found that public funders did not do enough to clarify Antur Penllyn's VAT status, despite identifying that the project would potentially require an additional £351,373, should Antur Penllyn fail in its application to HMRC to become exempt from VAT.
- WEFO approved the project prior to the lease being signed, and to manage the associated risks WEFO stipulated that it would not make any payments to the project until the lease had been signed. However, it did not seek legal advice on the lease before beginning payments and did not identify fundamental issues with the lease. Legal advice received by the Arts Council of Wales found that 'the lease is somewhat biased towards the landlord' and there are 'tenant unfriendly provisions, such as the length of the lease'. The lease is for a 50-year period, which the legal advice considered to be too short to be marketable.
- The agreement between WEFO and Antur Penllyn included the provision of in-kind match funding worth £200,000, in the form of the value of land leased to the Centre. The 50-year lease was independently valued at £240,000. However, over the first 15 years of the lease Antur Penllyn was required to pay the Rhiwlas estate rental payments worth more than £63,300, with increases in the annual rental after the first 15 years.¹¹ Therefore, the review questioned whether £200,000 of in-kind match funding had actually gone into the project.
- The review cites legal advice received by the Welsh Government, which was that, if the building has returned to the landlord, 'there is potentially an issue of state aid to the landlord'.

The review also considered the scope for public funders to reclaim any grant monies paid to Antur Penllyn. In so doing, it identified a number of grant provisions which the Welsh Government might choose to use to trigger claw back. However, it also stated that the likelihood of the Welsh Government recovering any funds was low, as Antur Penllyn had no fixed assets and very limited liquid assets.

Source: *Welsh Government Briefing on the Canolfan Cywain project, February 2013*

¹¹ The lease conditions require Antur Penllyn to make rental payments in the first 15 years of the lease of £63,300. However, due to the nature of the formula used to calculate annual rental payments for the remainder of the lease, the Welsh Government's review was not able to identify the total value of the rental payments.

- 4.8 On 30 September 2013, Antur Penllyn and the landowner signed a 'deed of surrender' to reassign the lease for the land to the landowner, which would also have resulted in the transfer of the building to the landowner. However, the Land Registry has not registered the transfer of title, due to the restriction that had been placed upon the property by the Wales Tourist Board. This restriction requires Antur Penllyn to secure the consent of the National Assembly for Wales to any disposal of the asset. Antur Penllyn has neither sought nor secured such consent, and consequently the Land Registry has not registered the transfer of the title.
- 4.9 The position is further complicated as Antur Penllyn was dissolved by voluntary strike off¹² in June 2013. It was not until December 2013, and only then in response to queries raised as part of this investigation, that the Welsh Government sought legal advice on the consequences of the dissolution of Antur Penllyn. The legal advice concluded that the dissolution of Antur Penllyn meant that the Welsh Government could not initiate legal proceedings against Antur Penllyn to recover any funds owed to it, should it be found that Antur Penllyn had breached the terms of its grant.
- 4.10 Also, as at December 2013, WEFO had not followed through to a conclusion two of the concerns it identified in discussion with the Welsh Government's Legal Services. These were:
- a whether the landowner had provided the agreed match funding worth £200,000 – this is in doubt as the lease had ended before the full term set out in the lease agreement; and
 - b a potential issue of state aid¹³ as the landlord may have benefited from a publicly funded building for no consideration.
- 4.11 The Arts Council of Wales has also been slow in acting to ensure continued public access to the artworks. In 2008, the Arts Council of Wales secured a clear commitment from the landowner that, should the Centre close, public access to the artworks that cannot be removed from the site¹⁴ could continue for a period of 15 years¹⁵ and the landlord would cooperate in the removal of artwork that could be relocated.
- 4.12 Also in 2008, the Arts Council of Wales had agreed a decommissioning plan with Antur Penllyn for the artworks that could be moved. The plan set out that Antur Penllyn was responsible for funding the costs of removing and re-sighting the artworks and for insuring and maintaining them. As part of the decommissioning plan, Gwynedd Council agreed to help Antur Penllyn find external funding to meet the costs of re-sighting the works should this become necessary; and Snowdonia National Park committed to allowing the artworks to be displayed on land that it owns nearby.
- 4.13 However, it was not until September 2013, during the course of this investigation, that the Arts Council of Wales wrote to the landowner to seek confirmation that the artworks remain accessible to the public. As at December 2013, we are not aware of any reply from the landowner. The Arts Council of Wales told us that it would contact other interested parties, such as Gwynedd Council and the Snowdonia National Park, when it had received a reply from the landowner about the accessibility of the artwork.

¹² Voluntary strike off is the process by which company directors close a company by applying to Companies House for the company to be struck off the register of companies.

¹³ The European Commission defines state aid as 'advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities'. As state aid is seen as giving a company advantage over its competitors, there is European Union legislation to govern its use.

¹⁴ The nature of two of the artworks, an amphitheatre and etchings on the glass doors to the café means that they cannot be removed from the site.

¹⁵ The Arts Council of Wales' monitoring period for the grant (standard 15 years) ends in 2023.

- 4.14 The Centre's building, land and artworks have not been maintained since its closure in September 2011. Antur Penllyn told us that it had decided to leave a number of items, which have been valued by a land agent at £40,000, on the site to 'facilitate things in the hope that someone else would take over'.
- 4.15 There has been no communication or coordination between the funders and with other stakeholders, such as Gwynedd Council and the Snowdonia National Park, around what options exist for the Centre and whether it might be brought back into use for the benefit of the public and local community. Whilst the asset retention period had passed for many funders, it is our view that in these circumstances funders have a continued responsibility to maximise the chance that the considerable amount of public money that went into the Centre results in some ongoing public benefit.

Appendices

Appendix 1 - Funding streams for the Centre

Appendix 2 - Investigation methods

Appendix 3 - Timeline of key events



Appendix 1

Funding streams for the Centre

Funding organisation	Grant programme	Amount initially approved (£)	Amount finally paid (£)	Difference (£)
WEFO	European Agricultural Guidance and Guarantee Fund	900,000	2,094,917	1, 214,919
Welsh Government	Pathways to Prosperity – S126 Housing Grants Construction and Regeneration Act 1996	644,950	644,950	0
Welsh Government	Community Facilities and Activities Programme	270,000	270,000	0
Welsh Development Agency	Community Regeneration Toolkit – Revenue	52,310	52,310	0
Welsh Development Agency	Section 15 Environmental Grant	100,000	100,000	0
Wales Tourist Board	Section 4capital Grant	87,500	87,500	0
Antur Penllyn	Internal resources	52,480	52,480	0
Snowdonia National Park	Sustainable Development Fund	34,999	34,999	0
Arts Council of Wales	Lottery	200,000	181,520	(18,480)
Rhiwlas Estate	Match-funding land value	200,000	200,000	0
Total project funding		2,542,239	3,738,678	1,196,439
Total public sector funding		2,289,759	3,486,198	1,196,439

Welsh European Office Funding

WEFO was the largest single funder through Structural Funds. The European Union's Structural Funds support activities that are designed to reduce structural inequalities between different regions and social groups. They are delivered through seven-year programmes agreed between the member state and the European Commission. The payments made to Antur Penllyn were from one of the four funds, the European Agricultural Guidance and Guarantee Fund (EAGGF), as part of the 2000-2006 programming period. The EAGGF was intended to assist the development and diversification of communities in rural areas and was administered by WEFO, part of the Welsh Government, which is directly accountable to the European Union for the management and financial control of the funds.

Projects cannot be totally funded with Structural Fund money. Europe will normally contribute between 45 per cent and 75 per cent towards the total cost of a project. The rest must be raised by the project sponsor and is known as 'match funding'. Match funding can be from applicants' own resources or from public, private or voluntary sector funding; and can either be 'actual', which is a cash contribution, or 'in-kind', where an organisation or individual provides a service or product for which they do not charge. The main sources of matched funding are summarised below.

Pathways to Prosperity funding

Under the 2000-2006 Structural Funds, the Welsh Government established two budgets specifically as sources of match funding for external bodies – one of these was the Pathways to Prosperity fund. The Pathways to Prosperity fund was a match funding 'pot of last resort'. Applicants had to be able to clearly demonstrate that they had tried – and failed – to secure match funding from every other possible source.

Community Facilities and Activities Programme

The Welsh Government's Community Facilities and Activities Programme began in 2002. It is a capital grant programme which aims to provide funding of last resort for organisations seeking to provide or improve community facilities and services.

Welsh Development Agency¹⁶ funding

The Welsh Development Agency funded the Centre through two grant programmes. The Community Regeneration Toolkit, which provided revenue funding, with the aim of providing support for community groups to develop local partnerships and promote the economic development of their community. The second source was a Section 15 Environmental Grant which provided capital funding. Section 15 environmental grants were to fund projects to upgrade, or provide community facilities on reclaimed or derelict land. In order to be selected for the grant, schemes had to be able to demonstrate a likely contribution to the renewal and development of the Welsh economy, as well as the local community.

¹⁶ The functions of the Welsh Development Agency were transferred to the Welsh Government, with effect 1 April 2006.

Wales Tourist Board¹⁷ funding

The Wales Tourist Board provided funding under Section 4 of the Development of Tourism Act 1969. Section 4 of the act makes provision for tourist boards to grant fund 'any project which in the opinion of the Board will provide or improve tourist amenities and facilities', with 'the maximum economic benefit'. The funding given by the Wales Tourist Board to Antur Penllyn was to support the capital expenditure relating to building costs, plant, equipment, furnishings and professional charges.

Arts Council of Wales funding

The funding provided by the Arts Council of Wales was not part of the original package of Structural Funds and match funding agreed by WEFO in July 2006. The Arts Council of Wales' funding of the amphitheater and artworks came from the Lottery Funds it administered.

Private matched funding sources

The funding package agreed between WEFO and Antur Penllyn included £200,000 of in-kind match funding from the Rhiwlas estate, the owners of the land. The estate leased to Antur Penllyn the land on which the Centre is located for a period of 51 years, with staged rental payments throughout the period. The commercial value of this leasehold was £240,000. However, it is unclear how the lease agreement equates to match funding in kind of £200,000.

Antur Penllyn itself also made a match funding contribution of £52,480.

¹⁷ The functions of the Wales Tourist Board were transferred to the Welsh Government with effect 1 April 2006.

Appendix 2

Investigation methods

In undertaking the investigation we gathered evidence from a variety of sources between September and October 2013.

File and document reviews

We undertook a review of files relating to the approval of grants by WEFO, Pathways to Prosperity, Community Facilities and Activities Programme, the Arts Council of Wales, the former Welsh Development Agency, and the Wales Tourist Board (now Visit Wales). We did not review the files from Snowdonia National Park given the small amount of grant involved.

We reviewed a range of documents including the business case for the Centre, internal Welsh Government reports, and the annual Visit Wales reports on visits to tourist attractions.

Interviews and site visits

We were, in the main, able to interview the key officials involved in assessing and approving the grants for the Centre. Although considerable time had elapsed since the approval of grants we were able to identify and meet with the relevant officials in the Welsh Government, WEFO, the Arts Council of Wales, the former Wales Tourist Board, former Welsh Development Agency, and from the former Community Facilities and Activities Programme. We also interviewed staff from Gwynedd Council who were involved in ongoing monitoring of and support to Antur Penllyn. We were unable to meet with any officials that were involved in the Pathways to Prosperity grant approval.

We also met with the former directors of Antur Penllyn and visited the Centre.

Appendix 3

Timeline of key events

Date	Key event
2004	
March	The Welsh Development Agency approves a grant of £100,000 to the project.
October	Antur Penllyn makes an initial unsuccessful application for Community Facilities and Activities Programme funding.
December	WEFO receives initial application from Antur Penllyn.
December	Wales Tourist Board invited Antur Penllyn to make a formal application for funding.
2005	
January	Antur Penllyn reapplies for Community Facilities and Activities Programme funding.
March	The Community Facilities and Activities Programme approves grant of £270,000 to the project.
May	Antur Penllyn submitted a formal application for funding to the Wales Tourist Board.
August	Ministerial approval sought for Pathways to Prosperity funding for the Centre.
October	The Wales Tourist Board approves grant of £87,500 to the project.
	The Pathways to Prosperity fund approves 'in principle' grant of £644,950 to the project.
December	The Welsh Development Agency approves Community Regeneration Toolkit grant of £52,310 to the project to develop its proposals for the Centre.

Date	Key event
2006	
March	Antur Penllyn submits another application to WEFO.
June	Pathways to Prosperity grant of £644,950 is confirmed.
July	WEFO offers grant of £900,000 to the project to fund capital.
November	WEFO places the project on payment suppression – payments are withheld until lease agreement is signed.
December	WEFO receives copy of lease agreement.
2007	
March	WEFO lifts payment suppression.
May	Arts Council of Wales receives application for grant from Antur Penllyn.
	Snowdonia National Park confirms funding of £34,999.
July	External assessors submit critical assessment of the proposed project to the Arts Council of Wales.
September	The Arts Council of Wales approves grant of £200,000 to the project.
	Antur Penllyn confirms that as it cannot register for VAT there is an income shortfall of over £350,000.
November	WEFO confirms to Antur Penllyn it will support increased costs due to VAT changes.
	Arts Council of Wales follows up with Antur Penllyn on outstanding conditions of grant which include written confirmation that maintenance of artworks rests with Antur Penllyn; and confirmation of ownership/access to artworks if the Centre closes.
December	Arts Council of Wales reluctantly accepts that there should be a reduction in the art works to cover the VAT shortfall of £33,850. But, warns that any further reductions to the brief will result in it withdrawing its funding.

Date	Key event
2008	
January	Arts Council of Wales confirms that it will not make any further payments unless the condition about access to artworks is resolved.
February	Revised application received by WEFO to cover increased project costs due to VAT.
March	WEFO obtains internal legal advice on the security of its investment if the project fails.
April	The Welsh Government's Department for Economy and Transport makes WEFO aware of the negative conclusions of the cost consultant it had commissioned to examine the project.
	In advance of attendance at the opening ceremony, officials provide the Deputy First Minister with a written briefing which identifies the issues raised by the cost consultant.
	Approval by Head of Division at WEFO to increase EAGGF contribution to pay the additional VAT costs.
	Deputy First Minister gives address at opening ceremony.
	Revised WEFO offer of grant (now increased by £351,373 to £1,231,371) to cover VAT shortfall.
June	After a number of attempts, the landowner provides the Arts Council of Wales with a satisfactory statement on access, which then recommences payments to Antur Penllyn.
July	WEFO meets with Antur Penllyn, to discuss the consultant's findings and to agree a way forward.
August	Antur Penllyn provides WEFO with a business case for increased funding.
	WEFO provides the Deputy First Minister with an update on progress and confirms its intention to grant an additional £800,000 to facilitate the long-term sustainability of the project.
	Antur Penllyn submits a revised application for additional capital and revenue funding to WEFO.
September	Revised offer of grant from WEFO (now increased by a further £799,660 to £2,031,031) to cover additional capital costs and to cover a shortfall in revenue.
October	The Community Facilities and Activities Programme completes a very brief Financial Evaluation of the project.

Date	Key event
2009	
March	WEFO receives correspondence from Antur Penllyn on the potential 'closure' of the project.
	WEFO revised offer of grant (now increased by £63,866 to £2,094,917) to cover additional building costs and a marque.
April	Official unveiling of artworks at the Centre by Minister for Heritage.
2010	
January	Antur Penllyn e-mails WEFO indicating that the Centre is to close.
February	The Arts Council of Wales requests that Antur Penllyn provides it with a more comprehensive marketing and awareness strategy as the current version is not fit for purpose.
March	The Centre's project manager confirms to WEFO that they are leaving at the end of March, and that the directors will be running the Centre with volunteer staff.
	WEFO informs Antur Penllyn that if the Centre closes before 9 July 2011 WEFO will be within its rights to 'claw back' a proportion of the grant awarded.
June	Antur Penllyn Director informs WEFO that the Centre is open 9-12 with volunteers.
October	Visit Wales' 'Grading Team' visit the Centre and conclude that it did not meet the criteria for a 'star attraction'. The Grading Team's report states 'It just had a café, temporary exhibition, the gardens and a small shop when we visited. The quality of the buildings, staff service and food quality etc. was very good to excellent.'
November	The Arts Council of Wales decides that it will not release the rest of its grant, because Antur Penllyn has failed to provide it with an adequate marketing strategy.
2011	
September	Centre closes its doors.

Date	Key event
2012	
March	The Article 30 team visits the Centre. (It is responsible for checking that equipment and/or buildings funded by European Structural Funds continue to be used for the purposes originally approved for at least five years following approval of the grant.)
	Antur Penllyn and the landowner sign 'Deed of Surrender' for the buildings and land.
April	Article 30 report issued confirming that the Centre stayed open until after the asset retention period passed.
2013	
January	The Arts Council of Wales becomes aware through the media that the Centre has closed.
	WEFO asks Welsh Government Legal Services for advice on potential for claw back. It receives this advice a few days subsequently in February.
February	WEFO requests and receives from the Welsh Government Legal Services advice on the lease and match funding.
	WEFO requests and receives from the Welsh Government Legal Services advice on the 'Deed of Covenant' and the Land Registry restriction relating to the Wales Tourist Board grant.
March	Visit Wales requests and receives from the Welsh Government Legal Services advice on whether it has 'security of tenure on the site'.
June	Antur Penllyn dissolved by voluntary strike off.
September	Arts Council of Wales initiates contact with landowner over access to art works, as the first step in their decommissioning.