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Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# The Welsh Government's funding of Carmarthenshire Energy Limited



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU





I have prepared and published this report in accordance with the Government of Wales Act 2006.

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**Mae'r ddogfen hon hefyd ar gael yn Gymraeg.**

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# Introduction

## What this report is about

- 1 On 25 September 2015, the (then) Minister for Natural Resources announced that Carmarthenshire Energy Limited<sup>1</sup> (a not for profit enterprise) would receive financial support of £810,000 from the Welsh Government towards the construction of a 500kW wind turbine at Salem in Carmarthenshire. The turbine is called CELT2. The package of support was funded from the Welsh Government's Renewable Energy Support Programme and comprised a preparatory grant of £25,000 and a repayable construction loan of £785,000.
- 2 The Renewable Energy Support Programme operated between 1 April 2015 and 31 December 2015 as an interim arrangement, following the end of the five-year 'Ynni'r Fro' programme which also supported community renewable energy schemes. The full successor programme to Ynni'r Fro is the Local Energy Service, which commenced on 1 January 2016 ([Appendix 2](#)). All of these programmes have been delivered by the Energy Saving Trust<sup>2</sup>, operating under contract for the Welsh Government.
- 3 The core purpose of these programmes is to increase the number of small-scale locally-owned renewable energy installations in Wales, retaining the benefits within Welsh communities. The programmes are intended to be flexible, given the fast changing renewable energy sector environment.
- 4 In recent years, the UK Government has introduced changes to the support offered to renewable energy projects, reducing the levels of funding available, introducing caps on the number of projects that could receive support at each level, and ending 'pre-accreditation'<sup>3</sup>. As community groups had previously had a pre-accreditation period that was six months longer than commercial developers, its removal has created opportunities for local communities to take over commercial projects. The Welsh Government's support was therefore focused on taking advantage of these opportunities to increase the number of community-owned energy installations across Wales.
- 5 CELT2 was a commercially developed project that was offered for sale at the point of construction to Carmarthenshire Energy Limited. The Carmarthenshire-based developer, Seren Energy, had received offers for the project from commercial operators, but gave Carmarthenshire Energy Limited first refusal if they could fund the build costs and make a comparable offer. To do so, Carmarthenshire Energy Limited required a bridging loan to secure the turbine, which was already on order, for the CELT2 project.

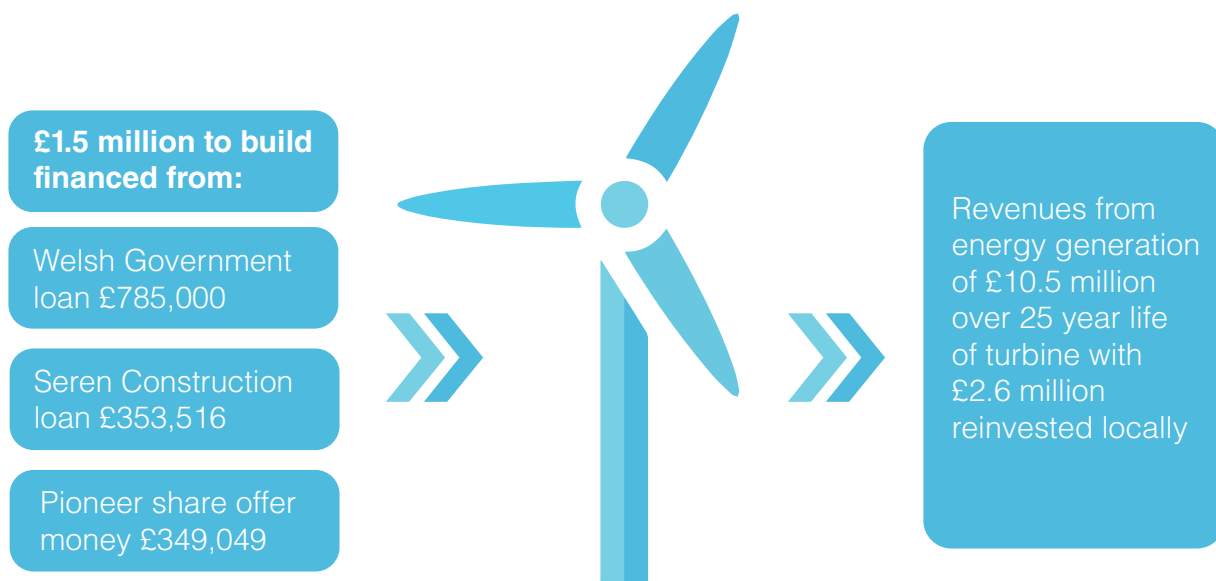
1 [Appendix 1](#) provides further details about Carmarthenshire Energy Ltd

2 A company limited by guarantee, which delivers programmes for governments and provides consultancy to UK businesses and international companies.

3 The ability of projects with planning permission to register for the level of funding available at that point, rather than the level available when the project was up and running.

- 6 The £1.5 million<sup>4</sup> cost of purchasing CELT2 was met by a mixture of Welsh Government and private finance. Over time, community ownership is expected to increase through share offers which will replace the original sources of finance. **Exhibit 1** shows the original financing of CELT2 and its expected revenue stream.

**Exhibit 1: the original financing of CELT2 and its expected revenue stream**



Source: Technical Development Officer projections

- 7 Carmarthenshire Energy Limited's funding submission to the Welsh Government projected that CELT2 would generate income of £10.5 million over the 25 year life of the project, through generating electricity. It also estimated that a £2.6 million surplus would be available to support local community renewable energy initiatives.
- 8 In September 2016 the CELT2 wind turbine became operational. The electricity that it generates feeds into the National Grid in exchange for revenues based on a Feed in Tariff<sup>5</sup>. The repayment of the Welsh Government loan is ahead of schedule. Surpluses from the project are now being invested in local schemes such as dry-stone walls, solar panels and battery storage in the nearby village hall, this is shown in **Exhibit 2**.

4 April 2016 Share Offer financial projection

5 The Feed-in Tariffs (FIT) scheme is a UK Government programme to encourage uptake of small-scale renewable low carbon electricity generation technologies. The scheme requires FIT licensees to make fixed-tariff payments for electricity that is generated and exported to the National Grid.

Exhibit 2: Salem Community Hall has benefitted from solar panels, car charging port and lithium ion battery capacity



Source: Carmarthenshire Energy Limited

- 9 The Auditor General has received correspondence from local residents and from the local Assembly Member about the Welsh Government's financial support to Carmarthenshire Energy Limited. These correspondents set out a number of concerns about the use of public money to support the CELT2 project. In particular they:
  - a expressed scepticism about the extent to which local residents were likely to benefit from any surplus accruing from the wind turbine revenues;
  - b suggested that a founding member and director of Carmarthenshire Energy Limited stood to benefit because of his interests in the companies responsible for developing, selling and maintaining the CELT2 site. However, the Welsh Government had still approved the funding despite being aware of the potential for personal gain; and
  - c they noted that the Technical Development Officer allocated to Carmarthenshire Energy Limited under the Welsh Government's support programmes was also a founding member and director of Carmarthenshire Energy Limited. The local residents questioned the perceived objectivity and impartiality of this official given his dual roles.



- 10 Our preliminary audit work indicated that conflicts of interest did indeed exist in respect of some members of Carmarthenshire Energy Limited and that there were legitimate concerns about how these appeared to have been handled. In light of these concerns, the Auditor General decided to undertake a value for money examination of the project.
- 11 This report examines how the Welsh Government has managed the risks identified with the project, including whether conflicts of interest had been appropriately managed.
- 12 The Welsh Government has also supported two other Carmarthenshire Energy Limited schemes (CELT1 and Allt Cafan). The funding for these projects has to date comprised preparatory grants of £14,114 and £34,037 respectively. As these two schemes have not yet gone ahead, we have not examined them in detail.
- 13 **Appendix 3** sets out our audit approach and methods.

## Key Conclusions

- 14 The CELT2 wind turbine has been operational since September 2016. Carmarthenshire Energy Limited has already started investing some of its surpluses into local renewable energy schemes and intends to do so over the projected 25 year life of the scheme. This has been made possible because of the financial assistance it has received from Welsh Government, as without this support CELT2 would have ended up in private ownership. Carmarthenshire Energy Limited is also paying off the Welsh Government loan ahead of schedule.
- 15 Whilst the turbine has been successfully installed and is operating, we found a number of weaknesses in the governance of the project, in particular the handling of actual and potential conflicts of interest.
- 16 The Welsh Government placed too much reliance on the Energy Saving Trust's own arrangements to manage the conflicts of interest risks identified in the CELT2 funding application. These arrangements were not sufficient to mitigate risk to an acceptable level. The information provided to the Minister for agreement of the funding for CELT2 was incomplete and lacked sufficient balance.

17 Specifically, we found that:

- a Although the Energy Saving Trust correctly identified a number of project risks associated with CELT2 which required mitigation, Welsh Government officials did not seek to validate the effectiveness of the Energy Saving Trust's arrangements to manage these risks. The conflict of interest risks were not mitigated to a satisfactory level before the public funding was released to Carmarthenshire Energy Limited.
- b The formal submission prepared by Welsh Government officials seeking their Minister's agreement to the proposed funding package was incomplete and lacked balance. The advice:
  - did not mention the significant actual and potential conflicts of interest that existed;
  - did not therefore explain how officers had mitigated these and other risks to an acceptable level; and
  - was underpinned by an estimated £2.6 million community surplus that was derived from a forecasting model developed by a Technical Development Officer who had a conflict of interest as a director of Carmarthenshire Energy Limited.
- c We have seen no evidence that the Welsh Government independently evaluated the £2.6 million forecast surplus or sought to highlight a range of potential outcomes to the Minister. Importantly, the cited estimate was roughly double the independently verified figure of £1.3 million benefit that was used by Carmarthenshire Energy Limited itself as part of a public share offer shortly thereafter.

18 Whilst conflicts of interest were not well managed as part of the governance of this project, we did not find that any of the individuals concerned had acted inappropriately with regard to any matters where they had a conflicting interest.

## Recommendations

Recommendations	
R1	The Welsh Government should satisfy itself that its delivery partners are equipped to operate effective risk identification and mitigation arrangements.
R2	Welsh Government should encourage the Energy Saving Trust to share good practice in financial governance with recipients of support under the Local Energy Service programme.
R3	The training provided to Technical Development Officers acting on behalf of the Welsh Government should be widened to include financial governance and the identification and management of conflicts of interest.
R4	The Welsh Government should ensure that all Ministerial Submissions contain all material information. For example; where conflicts of interest have been identified, Ministerial Submissions should refer to them and set out how the associated risks are to be mitigated/managed.
R5	Where project outcomes are quantifiable, but uncertain or subject to significant variation, Ministerial Submissions should set out the bases of the forecasts used and, where appropriate, describe the full range of potential outcomes based on a sensitivity analysis.

## Part 1

The CELT2 wind turbine is one of three Carmarthenshire Energy Limited schemes supported by the Welsh Government



1.1 Since January 2010 the Welsh Government has, through its Ynni'r Fro scheme and Renewable Energy Support programme, provided Carmarthenshire Energy Limited with both financial and technical support in respect of three separate projects. These are summarised in **Exhibit 3** below:

**Exhibit 3: Carmarthenshire Energy Limited's Welsh Government supported projects**



**CELT1** Wind turbine at Llanarthne  
Status: Planning consent not recieved so the scheme did not go ahead  
Preparatory grant of £14,114



**Allt Cafan** hydro-electric scheme at Pentrecwrt  
Status: Carmarthenshire Energy Limited have agreed heads of terms<sup>1</sup> for a lease and the scheme is still in devellopment  
Preparatory grant of £34,037



**CELT2** Wind turbine at Salem  
Status: In situ and generating electricity  
15 July 2015: Preparatory grant of £25,000  
12 August 2015: Loan of £785,000

**Note**

1 Heads of Terms are a set of agreed principles which precede the signing of a negotiated contract, and which the parties intend to be reflected in the written contract. They set out the basis of the deal in broad terms. It is important to record the contract discussions so that there are minimal surprises when the first draft of the contract is produced.

Source: Energy Saving Trust

- 1.2 The Welsh Government has provided support to community and local energy projects since 2010. The Ynni'r Fro programme provided development grants, construction loans, and support from Technical Development Officers.

### The generic role of Technical Development Officer

The role is funded by the Welsh Government. The role is currently described as follows:

'The Development Officers are the on the ground' link with organisations developing projects and will provide advice and support and enable access to funding from Local Energy. However, they will not undertake a wide range of activities to fill gaps in capacity and resource within the community or SME and will not undertake in depth project management or act as a representative or signatory for groups when dealing with bodies such as regulators, solicitors or financial providers.'

Source: Welsh Government

- 1.3 The Ynni'r Fro programme, which was funded by the Welsh Government and European Regional Development Fund, ended in March 2015. An interim programme of support (the Renewable Energy Support Programme) continued whilst a successor programme, the Local Energy Service, was co-developed with the sector by the Welsh Government and was launched in January 2016. As with its predecessor programmes, the Local Energy Service is operated by the Energy Saving Trust under contract for the Welsh Government.

## Part 2

The Energy Saving Trust's Independent Panel approved a loan towards the construction of CELT2 subject to a number of conditions



- 2.1 In July 2015, Carmarthenshire Energy Limited applied to the Energy Saving Trust for a total of £810,000 from the Renewable Energy Support programme towards the CELT2 wind turbine. This funding comprised a preparatory grant of £25,000 and a capital loan of £785,000. The grant was to cover the legal fees associated with the turbine acquisition as well as administering and promoting a public share offer. Carmarthenshire Energy Limited urgently required the loan to secure the purchase of the turbine (which would otherwise be sold to a commercial developer) and to continue the development of the site in time to benefit from the higher rate tariff.
- 2.2 The Energy Saving Trust had established an Independent Panel (at the Welsh Government's direction) to be the decision making body on applications for smaller grants and loans under the programme. The Panel comprised legal, accountancy and third sector expertise, together with Welsh Government officials. Technical Development Officers attended Panel meetings to provide expert advice on applications which they have not been involved with. The Panel had delegated authority to approve applications up to a value of £250,000, and also considered larger applications (such as the loan element of the CELT2 project) prior to their submission by Welsh Government officials to their Minister for approval.
- 2.3 The Panel met on 27 July 2015 to consider and assess the CELT2 applications for grant and loan funding support. A briefing paper had been prepared for the Panel by officials from the Energy Saving Trust and the Wales Council for Voluntary Action. That paper set out the governance issues and risks associated with the application and also proposed a number of actions that could be taken to mitigate these identified risks to an acceptable level.
- 2.4 It was clear to the Panel members that the CELT2 project was likely to succeed without Welsh Government funding, as private investors were already interested in buying it. However, the panel paper highlighted that this was a timely opportunity to support a community group in buying the rights to a fully consented site. Securing the scheme's benefits for the local community was therefore a pivotal factor in the Panel's deliberations.
- 2.5 At the 27 July meeting, the Panel recommended both the grant and the loan<sup>6</sup> for Ministerial approval, subject to seven conditions primarily relating to various checks on the financial aspects of the project. These included legal ownership of the turbine, securing benefits to the community and the satisfactory management of conflicts of interest. These are considered in the next section of this report.

6 The loan was originally for a 12 month period but has since been renegotiated and transferred to Finance Wales. Repayment terms are being met by Carmarthenshire Energy Limited.



## Part 3

The Energy Saving Trust did not sufficiently mitigate the identified conflict of interest risks before the Welsh Government released the CELT2 funding



- 3.1 Three of the founding members and Directors of Carmarthenshire Energy Limited (Mr Steve Hack<sup>7</sup>, Mr Ben Ferguson-Walker<sup>8</sup> and its Chairman, Dr Neil Lewis) had business interests that created actual or potential conflicts with their roles as Directors. **Exhibit 4** summarises each of these interests, and their individual links with the three Carmarthenshire Energy Limited schemes supported by the Welsh Government.
- 3.2 The Panel paper correctly set out six significant risks associated with the CELT2 loan application, each of which required mitigation:
- a **Timing of legal formalities**

The Welsh Government would be exposed if the Heads of Terms document had not been converted into a fully binding document, giving Carmarthenshire Energy Limited full control of the site, before the funds were issued.
  - b **Availability of finance**
    - Commercial finance was being explored with prospective lenders, but firm offers were not yet in place.
    - Possible failure to reach the community share offer target of £500k, in which case the Welsh Government loan repayable at completion would need to be converted to longer-term debt finance.
  - c **Turbine ownership and VAT recovery**

The contract for CELT2 needed to be between the turbine supplier (Enercon Ltd) and Carmarthenshire Energy Limited, to give the Welsh Government a clear line of sight to what it would be funding. This would also eliminate any Value Added Tax restrictions that might ensue.
  - d **Build risk**

Issues in completing the project to proposed timeline could compromise the ability to re-finance, in which case the Welsh Government loan repayable at completion would need to be converted to longer-term debt finance.
  - e **Price paid for the turbine**

Independent checks would be required to make sure that the price being paid for the turbine and the royalties to be paid to the site developer (Mr Hack) reflected a fair market price.
  - f **Potential conflicts of interest**

Steve Hack's involvement with Seren Energy meant that he stood to benefit from the support to Carmarthenshire Energy Limited.

<sup>7</sup> Mr Hack resigned as a Director of Carmarthenshire Energy Limited in July 2016

<sup>8</sup> Mr Ferguson-Walker resigned as a Director of Carmarthenshire Energy Limited in January 2016

Exhibit 4: the Directors' business interests regarding the Carmarthenshire Energy Limited schemes supported by the Welsh Government



**CELT1**

The developer of the scheme is Seren Energy. Mr Hack is a Director of the company.

Mr Ferguson-Walker is a Technical Development Officer employed under the Welsh Government's support programme.



**Allt Cafan**

Mr Hack owns the land and is developing the scheme through his Seren companies.

Mr Ferguson-Walker is a Technical Development Officer employed under the Welsh Government's support programme.



**CELT2**

The developer of the scheme is Seren Energy and Seren Renewables is the site operator.

Mr Hack is a Director at both companies.

Mr Ferguson-Walker is a Technical Development Officer employed under the Welsh Government's support programme.

**Dr Neil Lewis** has a role as Fund Manager for a Community Energy Fund, which provides short-term loans to community renewable energy schemes, and is managed by a not-for profit Community Bank. The Community Bank was a lender which took part in negotiations with Carmarthenshire Energy Limited for a post construction loan.

Source: Carmarthenshire Energy Limited's declarations

- 3.3 Whilst we are satisfied that the first five of these risks were appropriately mitigated, in our view the 'potential conflicts of interest' risk was not sufficiently mitigated. The Panel paper should have referred to a potential conflict of interest in respect of Dr Lewis and to actual conflicts of interest in respect of both Mr Hack and Mr Ferguson-Walker.

### Although the risk was clearly identified, neither the Energy Saving Trust nor Carmarthenshire Energy Limited put in place effective mitigation for the conflicting roles held by Mr Steve Hack

- 3.4 The Independent Panel paper noted that Mr Hack stood to benefit personally from any funding provided towards the CELT2 project by the Welsh Government. This reflected his roles as a Director of Seren Energy Limited and also of Seren Renewables Limited, and arose because:
- a Seren Energy had procured the turbine – it intended to sell this on to Carmarthenshire Energy Limited and also provide a bridging loan to finance this transaction;
  - b Carmarthenshire Energy Limited had agreed an annual royalty payment to Seren Renewables, funded from the proceeds of energy sales income; and
  - c Seren Renewables was contracted to operate the site and maintain the turbine.
- 3.5 The Panel paper stated that the Energy Saving Trust had been assured that Mr Hack had not been party to Carmarthenshire Energy Limited's decision making. The paper also identified the following additional actions that could be taken to mitigate the risks arising from Mr Hack's multiple conflicts of interests:
- a to obtain evidence to support the assurance that he had not been party to Carmarthenshire Energy Limited's decision making;
  - b to obtain comfort that he would not take part in any decisions regarding the future distribution of community benefit; and
  - c he could be asked to stand down from his Carmarthenshire Energy Limited role.

In recommending conditional approval of the funding, the Panel required that the loan agreement should include a specific condition that 'the recipient must produce evidence addressing satisfactory treatment of conflicts of interest in this and potential future decision making'. However, the Panel did not require Mr Hack to stand down from his Carmarthenshire Energy Limited role.

- 3.6 Mr Ferguson-Walker told us that he had done what he could (as the Technical Development Officer working with Carmarthenshire Energy Limited) to ensure that Mr Hack would not be involved in key decisions where he had a personal business interest. We were also informed by Dr Lewis, the Chairman of Carmarthenshire Energy Limited, that care was taken to exclude Mr Hack from all key decisions where he had a personal business interest.
- 3.7 We asked the Energy Saving Trust how they had satisfied themselves that conflicts of interest were being effectively managed by Carmarthenshire Energy Limited. They told us that they had reviewed the minutes of meetings of Carmarthenshire Energy Limited to obtain the necessary assurance.
- 3.8 We have reviewed Carmarthenshire Energy Limited's minutes from 10 April 2013 to 15 June 2016<sup>9</sup> ourselves to establish whether these supported the assurances that were sought by the Panel. However, we found that, contrary to good governance practice:
- a there was no standing item at the beginning of each meeting where directors are required to declare their interest in upcoming agenda item;
  - b the meeting minutes recorded 28 occasions where Mr Hack remained present for discussions despite his conflict of interest in relation to CELT1, Allt Cafan and CELT2; and
  - c on each of those 28 occasions, the minutes were largely silent on the substance of the discussions regarding the three projects.

We identified only six occasions where Mr Hack left the meeting whilst CELT1, Allt Cafan and CELT2 were being discussed.

- 3.9 We have therefore concluded that it would not have been possible for the Energy Saving Trust to have gained sufficient assurance from its own review of the minutes that Carmarthenshire Energy Limited had indeed effectively dealt with Mr Hack's conflict of interest. Importantly, however, we have seen no evidence to suggest that Mr Hack has acted inappropriately with regard to any matters where he had a personal interest.
- 3.10 The Energy Saving Trust provided a copy of its own 'Conflict of Interest Policy' to Carmarthenshire Energy Limited for it to adopt, to assist the company in strengthening its governance in this area. However, this was not done until March 2016, several months after Carmarthenshire Energy Limited had received the loan funding from the Welsh Government on 8 December 2015. Carmarthenshire Energy Limited adopted the policy the following month in April 2016.

<sup>9</sup> 13 April 2013 – date of first minutes received and 15 June 2016 – last meeting before the opening of CELT2

- 3.11 The policy includes a threshold of £100,000 that had been adopted by the Energy Saving Trust for disclosure of personal interests in meetings. This was also adopted without amendment by Carmarthenshire Energy Limited. In our view, £100,000 is far too high a disclosure threshold for any not for profit organisation to adopt. It meant in practice that disclosures were not reflected in the minutes by any directors (including the Technical Development Officer) in respect of work provided by their own companies or those run by relatives, as these invariably sat below the £100,000 threshold.
- 3.12 In July 2016, Mr Hack stood down for personal reasons as a Director of Carmarthenshire Energy Limited. This was shortly after submitting a declaration of interest under Carmarthenshire Energy Limited's recently adopted Conflict of Interest policy.
- 3.13 Mr Hack has informed us that without the offer of the site and the short-term loan from Seren Energy, the CELT2 project was unlikely to have been built by Carmarthenshire Energy Limited. With regards to conflicts of interest, he considered that these were inevitable, as there is a very small pool of experienced people within South West Wales who are both willing and able to volunteer.

### Neither the Energy Saving Trust nor Carmarthenshire Energy Limited put in place effective mitigation for the dual roles held by Mr Ferguson-Walker

- 3.14 The Panel paper noted, but did not present as a risk requiring mitigation, the fact that Mr Ferguson-Walker held the following dual roles:
- a a working director with responsibilities for the management, governance and operations of Carmarthenshire Energy Limited; and
  - b as the Technical Development Officer allocated to Carmarthenshire Energy Limited. Mr Ferguson-Walker was the 'on the ground' link with the Energy Saving Trust and the Welsh Government. He provided advice and support, to enable Carmarthenshire Energy Limited to apply for funding from the Welsh Government's renewable energy schemes.
- 3.15 We have reviewed the minutes of meetings of the board of Carmarthenshire Energy Limited, and we also met with Mr Ferguson-Walker to discuss his work with the CELT2 project and more generally as a Technical Development Officer. Mr Ferguson-Walker told us that there was a significant lack of capacity in Carmarthenshire Energy Limited, which resulted in him undertaking a wide range of activities concurrently as a Director and as a Technical Development Officer.

- 3.16 Whilst Mr Ferguson-Walker did not act as a signatory for Carmarthenshire Energy Limited, we note that his email address was shown as an additional point of contact on the capital loan application to the Welsh Government, reflecting his founding member status. His cash flow model for CELT2 was submitted alongside the CELT2 funding application. These actions are illustrative of his conflicting roles as a Technical Development Officer and as a Director of Carmarthenshire Energy Limited.
- 3.17 We identified during our fieldwork that Mr Ferguson-Walker is also one of three current Directors of a company called E. W. Energy Ltd. That company does not appear to be currently trading. The other two directorships of this company are held by Mr Steve Hack and Seren Energy Ltd. Mr Ferguson-Walker's role as a director of E. W. Energy Ltd was not reflected in any of the mitigating actions identified by the Energy Saving Trust. Mr Ferguson-Walker explained to us that this Directorship arose as part of his voluntary duties as a Director of Community Energy in Pembrokeshire Ltd and does not generate any personal benefit. However, we consider that the pre-existing relationship between Mr Ferguson-Walker (as Technical Development Officer for Carmarthenshire Energy Ltd) and Mr Hack (as the developer of CELT2) should have been identified and taken into consideration by the Energy Saving Trust as part of its overall risk assessment in the funding application for CELT2.
- 3.18 We note the comment in the Panel paper that 'care was required to avoid any possible conflict of interest on behalf of its Technical Development Officer'. However, given the extent of Mr Ferguson-Walker's activities, it is difficult to see how the Energy Saving Trust could have mitigated this risk effectively whilst he continued to discharge both roles. In our view, elimination of the risk was therefore necessary. This could have been achieved if Mr Ferguson-Walker had resigned as a Director of Carmarthenshire Energy Limited and E. W. Energy Ltd or, alternatively, if he had ceased to act as Carmarthenshire Energy Limited's Technical Development Officer and another Technical Development Officer had been assigned to the project.
- 3.19 Mr Ferguson-Walker resigned as a Director of Carmarthenshire Energy Limited in January 2016 accepting that it was difficult, if not impossible, to maintain both roles. His resignation was welcomed at the time by his employer, the Energy Saving Trust. We note that the Trust has since adopted a policy that prohibits its Technical Development Officers from serving in this capacity at organisations where they have either a governance or management role. Importantly, however, we have seen no evidence to suggest that Mr Ferguson-Walker has acted inappropriately with regard to any matters where he had a personal interest.

- 3.20 Both Welsh Government officials and the Energy Saving Trust have informed us that, in their view, Mr Ferguson-Walker was not acting as the Technical Development Officer for the CELT2 project itself. They told us that this was because the project had already progressed past the development stage when it was approved by both the Energy Saving Trust and the Minister. They contend that this was why the Independent Panel had not explicitly identified this as a risk that required mitigation.
- 3.21 In our view this assertion does not reflect the wider context of the ongoing conflicting roles held by Mr Ferguson-Walker as the Technical Development Officer allocated to Carmarthenshire Energy Limited. As shown in [Exhibit 4](#), CELT2 is one of three Carmarthenshire Energy Limited projects which have benefitted from financial support from Welsh Government.
- 3.22 Importantly, Carmarthenshire Energy Limited's Board informed us that its understanding was that Mr Ferguson-Walker was acting as Technical Development Officer for all of its projects, including CELT2. This position is also consistent with the various contemporary documentation that we have reviewed, which neither mentions nor suggests that Mr Ferguson-Walker was not the Technical Development Officer for the CELT2 project. The Energy Saving Trust's project monitoring report shows Mr Ferguson-Walker as the relevant Technical Development Officer for all three projects receiving Welsh Government support, including CELT2.

## The Energy Saving Trust did not scrutinise the surplus that was expected to be generated for community benefit schemes

- 3.23 The Energy Saving Trust approved Carmarthenshire Energy Limited's loan on the condition that it developed a 'community benefit strategy'. This strategy would set out how surpluses generated from project revenues would be allocated to a community benefit fund. There is no reference in the Panel paper itself to the size of the estimated community benefit surplus, but this information was included in the supplementary papers given to the Panel:

'Our forecasts show that a substantial surplus will still be yielded, which we will allocate to meet our constitutional aims including the provision of grants and zero interest loans to local householders and businesses for energy efficiency and micro-renewables. The lifetime surplus of the project is forecast at £2.6 million.'



3.24 The estimated surplus of £2.6 million was derived from a financial model developed by Mr Ferguson-Walker, which incorporated standard factors on wind speed and turbine performance. Mr Ferguson-Walker had checked both the planned turbine output and the proposed construction costs with the technical team at a peer organisation in Scotland. However, he told us that his model had been built ‘more for early development indicators than for detailed financial due diligence processes’. We found that this estimated surplus was also quoted without any caveats in the submission paper for the Minister and was referenced (as ‘up to £2.5 million’) in the [Welsh Government’s own press release](#) dated 25 September 2015 (see text box).

**Natural Resources Minister Carl Sargeant has agreed additional funding of £938,000 to three community led and locally supported wind energy projects in south Wales.**

Friday 25 September 2015

As part of continued funding support for local energy projects, Carmarthenshire Energy Limited, a small Welsh based community developer, will receive a loan of £785,000 and a £25,000 grant towards the building of a 500kw wind generator in rural Carmarthenshire. Operating the turbine will generate community owned income of up to £2.5 million over the project lifetime, which they plan to use to fund energy efficiency and further renewable energy generation.

Source – [Welsh Government press notice, 25 September 2015](#)

3.25 We have seen no evidence that the Panel actually scrutinised the estimated surplus or that the Energy Saving Trust had obtained any independent checks. We are particularly concerned about this because the surplus figure was derived from a model that had not been developed for due diligence purposes by an individual who had an unmitigated conflict of interest. The figure was double the £1.3 million forecast that Carmarthenshire Energy Limited itself used in its second Share Offer published in April 2016, see extract below:



#### Community Economic Impact

The project will generate a range of economic impacts, including the following key benefits:

1. Establishing a scheme supporting local householders, businesses and community organisations with grants
2. Supporting the development of Carmarthenshire based renewable energy projects generating further income for the area
3. Payments to Seren Renewables and local landowner, sustaining both a local business and farm
4. Interest paid to Members

The Society has made financial forecasts on a number of different yield and export value scenarios, with the most conservative scenario indicating that it will be able to establish a community fund with an income in excess of

£1,300,000 (one million three hundred thousand) over 25 years.

The Society has adopted a detailed Community Benefits Policy, and has also had further research provided by The Energy Saving Trust on the wider economic benefits and job creation associated with funding energy efficiency and micro-renewable installations. Please see our website for more details.

#### Legal Agreements

The Society has taken up a 28 year Lease on the site which includes provision for occupying the land, grid connection access, and access for ongoing operation and maintenance.

Source – [Carmarthenshire Energy Limited Share Offer](#)

3.26 Mr Ferguson-Walker told us that the Shareenergy<sup>10</sup> model used to calculate the £1.3 million surplus ‘was certainly a lot more stringent, and less flexible in terms of the way surpluses were calculated’.

<sup>10</sup> Shareenergy helps grow the community energy sector in the UK. It uses existing resources where possible, and to work to build up local capabilities. It tries not to do work which somebody else can do better.

## The potential conflict of interest risk associated with Dr Lewis's employment as a Community Energy Fund manager was not recognised by the Independent Panel

3.27 Our review of the Carmarthenshire Energy Limited meeting minutes has shown that Dr Lewis was present for funding discussions although this may have created a potential conflict with his employment as a Community Energy Fund Manager for a bank. No declarations of interest are shown in the minutes themselves. Dr Lewis' employment with the bank was not identified as a potential conflict of interest risk in the Panel paper. We take the view that this potential risk should have been reflected in the briefing paper prepared for the Independent Panel, together with the identification and consideration of appropriate mitigation measures.

## Part 4

As the scheme owner, the Welsh Government placed too much reliance on the Energy Saving Trust's own arrangements to manage the risks identified



- 4.1 As the £785,000 loan element of the CELT2 project was significantly in excess of the £250,000 delegated approval authority held by the Energy Saving Trust and the project required rapid approval, we asked the Welsh Government what steps its own officials had taken to satisfy themselves that the Trust had indeed taken action to mitigate the identified risks prior to the release of funds. Welsh Government officials told us that these mitigating actions had been monitored through their daily interactions with the scheme manager. However, Welsh Government officials were unable to provide us with any documentary evidence to demonstrate this. We have also been unable to establish from the available documents whether the Energy Saving Trust itself had provided any assurances to the Welsh Government that its proposed mitigations had been implemented.
- 4.2 The next section of this report looks at the independent scrutiny of the estimated community benefit and the quality of the subsequent written advice provided to the Minister. We assess in particular whether that advice clearly set out the risks and benefits of the CELT2 application.

## Part 5

The information submitted to the Minister for agreement of the funding for CELT2 was incomplete and lacked sufficient balance



- 5.1 The Independent Panel assessed and approved Carmarthenshire Energy Limited's grant application on 27 July 2015. It also endorsed the loan funding application for subsequent approval by the Minister via a submission paper to be prepared by Welsh Government officials.
- 5.2 On 12 August 2015, Welsh Government officials submitted a Ministerial Advice<sup>11</sup> asking the Minister to endorse the Panel's recommendation 'to provide funding to a community renewable energy project outside the initial scope of the programme'. The Ministerial Advice paper included the following information:
- a the figure of £785,000 was well in excess of the £250,000 limit for schemes. However it would enable a community group to become the owners of the project;
  - b Carmarthenshire Energy Limited had a benefits policy that set out how funds will be used;
  - c if Carmarthenshire Energy Limited failed to reach agreement, the loan would be repaid to the Welsh Government. If Carmarthenshire Energy bought the project but failed to reach the £500,000 share offer, which was at the high end of such share offers but not unrealistically so, they would need to secure a larger commercial loan; and
  - d the Independent Panel had scrutinised the proposal closely, and had approved the loan subject to a number of conditions. Officials therefore recommended Ministerial endorsement of the panel's recommendation.
- 5.3 We consider that the submission paper to the Minister contained appropriate information regarding the financial risks associated with the provision of funding to Carmarthenshire Energy Limited. However, we are concerned that the submission paper failed to make any reference to the wider governance risks posed by the project.
- 5.4 Officials did not inform their Minister about any of the identified actual and potential conflicts of interest, or explain how these had been managed to mitigate risk to an acceptable level. In fact, the advice instead stated that the application 'did not give rise to any issues of regularity or propriety or contain anything which is novel or contentious'.
- 5.5 It is clear from the ministerial submission that the generation of a 'likely' £2.6 million surplus for the benefit of the community was important to the decision made. However, the submission did not explain that this figure had arisen from a model which had not been developed for the purposes of due diligence, or contain any caveats regarding its reliability.

11 Ministerial Advice (MA) – a formal written submission to the Minister seeking approval for the commitment of public funds

- 5.6 Under the circumstances we consider that the briefing provided to the Minister by his officials was incomplete and lacked sufficient balance. The briefing should have:
- a set out the risks in relation to conflicts of interest together with assurance that they had been mitigated to an acceptable level; and
  - b presented a range of potential outcomes for the estimated surplus (via use of a sensitivity analysis), rather than simply quoting the figure of £2.6 million provided within the application.
- 5.7 The Auditor General has previously commented on the drafting and contents of Ministerial submissions in his reports; for example the recent review of the Circuit of Wales noted that ‘some key information was omitted from submission papers’.
- 5.8 It is not possible for us to establish whether or not the inclusion of a range of figures for the estimated surplus would have affected the Minister’s decision to agree to the provision of public funds to the CELT 2 project. However, these weaknesses do potentially expose the Welsh Government to some reputational risk, as it is unable to demonstrate that it took appropriate actions to satisfy itself that its delivery partner had mitigated the risks associated with the funding application.
- 5.9 Welsh Government officials told us that, in their view, the Ministerial advice set out the proposal and the principal risks as perceived by both the Independent Panel and themselves. These risks were:
- a the displacement of commercial finance;
  - b the loss of public funds in the event of project failure; and
  - c any failure to ensure that the benefits from the scheme were secured to the local community

They considered that these risks were planned for and managed effectively.

- 5.10 As regards the conflicts of interest, Welsh Government officials consider that these were adequately managed by the mitigation measures, and are being addressed by the Local Energy Service’s ongoing work in supporting community groups across Wales to develop their governance capacity.
- 5.11 The Welsh Government therefore considers that its intervention, and the transfer of CELT2 into community ownership, has resulted in benefits being retained in the local community which otherwise would have gone to a commercial owner. The loan finance is being returned to the public purse to invest in further community energy development.



# Appendix 1 – Carmarthenshire Energy Limited



In 2004 individuals with an interest in community-led renewable energy generation established the Carmarthenshire Energy Action Group. Its aims were to develop sustainable energy projects to combat climate change and boost economic development in the county.

When the Welsh Government launched the Ynni'r Fro Programme, Carmarthenshire Energy Action recognised that a more sustainable mechanism was needed to deliver Carmarthenshire's community renewable energy aspirations. Therefore the group began consulting with communities, businesses, councillors and officers, this last for a year. After the consultation process, the group decided to form the Carmarthenshire Energy Trust, as an Unincorporated Association.

Carmarthenshire Energy Trust evolved over time and in December 2012, registered as an independent Industrial & Provident Society (IPS) for Community benefit; known as Carmarthenshire Energy Ltd.

The objects of Carmarthenshire Energy Ltd are to:

"carry on any business for the benefit of the community by the promotion of energy conservation and renewable (low carbon) energy production in the community of Carmarthenshire."

Source: [Carmarthenshire Energy Limited website](#)

## Appendix 2 – The Welsh Government’s support for community based renewable energy schemes through its delivery partner, the Energy Savings Trust

In January 2010 the Welsh Government approved a five-year programme, Ynni’r Fro, to encourage the development of community renewable energy in Wales. The Welsh Government appointed the Energy Saving Trust under contract to provide support for these schemes. The appointment was via a range of financial and non-financial measures including:

- technical advice and support to small and medium-scale renewable energy projects across the full range of electricity and heat technologies;
- advice and support on other issues facing community groups:
  - in developing and managing these projects
  - accessing the community right to buy in to larger renewable energy developments
  - governance, engagement, confidence in managing and investing funds; and
  - working with developers.
- grant funding for preparatory technical costs;
- supporting innovative approaches and technologies; and
- finance and grants to allow projects to move to construction.

When Ynni’r Fro concluded in March 2015, having spent £4.5 million. The Welsh Government put in place interim arrangements; the Renewable Energy Support Programme. Its aim was to continue to support small and medium scale renewable energy schemes. It would maintain the flow of development and help ensure that any successor to the Ynni’r Fro scheme would deliver outputs from early in the new programme. This interim arrangement ended on 31 December 2015. The full successor programme to Ynni’r Fro is the Local Energy Scheme, which commenced on 1 January 2016.

The Welsh Government considered the Carmarthenshire Energy Limited project (CELT2) during the summer of 2015 under the interim arrangements.

# Appendix 3 – Our audit approach and methods

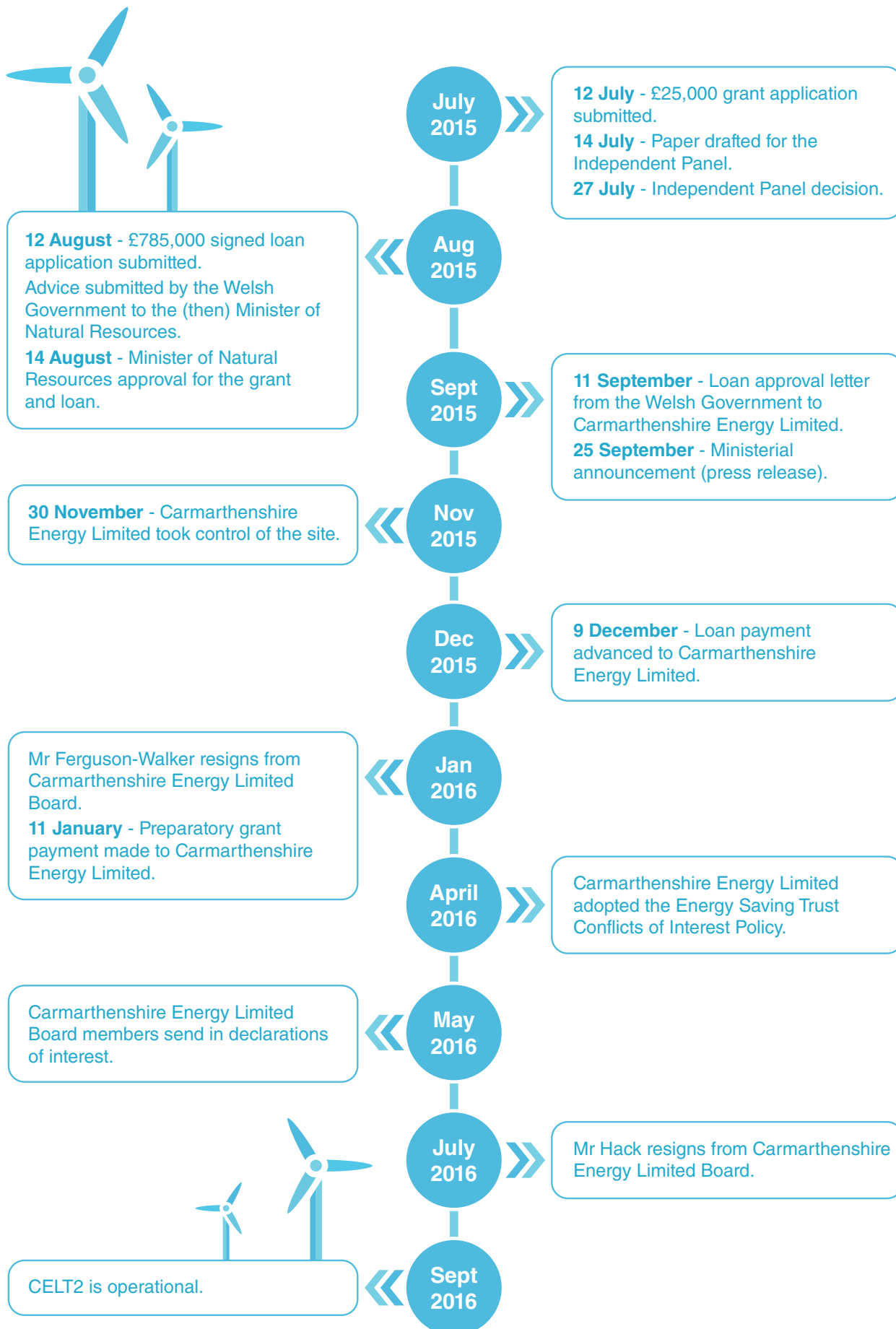
## Scope

- a We conducted an audit review of the financial support that Carmarthenshire Energy Limited received from the Welsh Government.
- b Our audit set out to establish the underlying facts in respect of concerns that had been raised in correspondence with the Auditor General. Therefore, we have only reviewed the preparatory grant and loan application for CELT2.

## Methods

- a In undertaking the review we gathered and reviewed documentary evidence from the Welsh Government, the Energy Saving Trust, Carmarthenshire Energy Limited and from public sources such as Companies House.
- b We have met Welsh Government officials and also have met key individuals involved in the CELT 2 project to put questions to them. We also met with and reviewed certain information provided to us by members of the public, and visited the site of the CELT 2 wind turbine at Salem, Carmarthenshire.
- c We have provided the opportunity to the Welsh Government and to named third parties for them to provide comments on our report prior to publication, in relation to factual accuracy, completeness and balance.
- d Our published report sets out the underlying facts, the Auditor General's conclusions and his specific recommendations to the Welsh Government, for consideration by the Public Accounts Committee of the National Assembly.

# Appendix 4 – Timeline





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