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Mark Isherwood MS
Chair
Public Accounts and
Public Administration Committee
Welsh Parliament

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Dear Mark

The Welsh Government's support for TVR Automotive Ltd

In response to correspondence that we received relating to the Welsh Government's financial support for TVR Automotive Ltd (TVRA), expressing concerns over the risk to public funds, we have met with officials and reviewed certain key Welsh Government documents to understand the background to this support, recent developments, and the position as at 4 July 2024.

This letter is intended to provide the Committee with a brief factual update based on the evidence we have reviewed; and we have checked its accuracy with the Welsh Government as well as inviting comments from TVRA. However, it is not intended to be an exhaustive account of events, or necessarily all costs incurred by the Welsh Government relating to this matter. Those costs would also have included officials' time over many years, as well as external advice and professional fees at various points and for various reasons.

Our focus is on the decisions and actions of the Welsh Government. We have not undertaken a full value for money study of the impact of Welsh Government support; or examined TVRA's actions and potential sources of private finance.

Arrangements relating to the support for TVRA do not feature explicitly within the Welsh Government's Consolidated Accounts 2022-23. However, they form part of broader entries (see below) within the financial statements.

The Committee is of course free to request further information from the Welsh Government in relation to the contents of this letter if it wishes to do so.

How much support was given and why?

In March 2016, the Welsh Government announced its investment in a start-up company, TVRA which intended to create around 150 jobs in Ebbw Vale by producing TVR sportscars. The brand had ceased production under previous ownership in 2006.

The Welsh Government's initial support comprised:

- **A secured £2 million five-year loan**. The loan, with an annual interest rate of 13% was initially repayable by March 2021 and was a contribution to designing and constructing a prototype sportscar. The forecast was for 2,000 cars to be built by 2020; and
- **£0.5 million in equity shares**[1]. The individual share value at purchase was £5. The Welsh Government's shareholding represented 3.3% of the TVRA's total value at the time. In the Welsh Government's 2022-23 financial statements, the shareholding is contained within the other financial assets balance, within the financial assets total; and was being carried at a historic value of £0.5 million.

In December 2017, the Welsh Government entered into an agreement to take a head lease and refurbish a vacant factory in Ebbw Vale, with the expectation that TVRA would occupy it under a sub lease. In 2021, the Welsh Government subsequently bought the freehold interest in the factory, still with the expectation that TVRA would occupy it. The purchase price of the factory was £4.75 million[2], with final refurbishment costs of £7.6 million and additional professional fees of around £5,000 associated with the purchase.

[1] Giving the Welsh Government an ownership interest in TVRA, in contrast to a simple grant. Shares in TVRA are not currently publicly listed and traded.

[2] Figures quoted exclude VAT because where payable, the Welsh Government can reclaim it from HMRC.

What was the Welsh Government's approach to managing risk?

The Welsh Government undertook due diligence before, with Ministerial approval, agreeing to advance the loan and buy the shares. It regarded TVRA as a high-risk start-up business and so specified mitigating contractual conditions:

- A requirement by September 2016 to secure private investment of £5.5 million. Not achieving this would lead to either default and immediate loan repayment; or the Welsh Government could opt to convert the loan into further shares;
- In the event of default, a requirement for TVRA to buy back the Welsh Government's shares at 105% of fair value[3];
- The requirement for TVRA to establish its primary manufacturing operations in Wales; and
- A debenture over the TVRA's assets including the sales order book for production cars, and ownership of intellectual property rights including in relation to the prototype Griffith sportscar.

Officials obtained external professional advice, prepared Ministerial Advice and got Ministerial decisions for the three main elements of the Welsh Government's support for TVRA, as well as for extensions to the loan agreement. Officials also took external advice in relation to the Factory.

What happened next?

TVRA produced a prototype petrol engine, high performance car in England (the Griffith) and began taking deposits from prospective owners, with a view to the prototype entering production in Wales[4]. However, TVRA was in breach of the loan requirement because by September 2016 it had been unable to secure the private investment necessary to start production. TVRA negotiated several extensions to the

[3] I note that in the event of company failure and liquidation this provision would provide very limited security as the shares would have very little market value. Owners of equity shares only receive any remaining value after other creditors. Alternatively, preference shareholders (usually venture capitalists) enjoy greater security on liquidation, ahead of other creditors and ordinary shareholders, in exchange for sacrificing voting rights.

[4] We understand some of these deposits have since been refunded on request.

Welsh Government's loan default requirement, which otherwise would have led to early repayment in full, before the original March 2021 loan end date.

In December 2017, the Welsh Government decided to enter into an agreement to lease the former Techboard factory in Ebbw Vale, which had been identified as a potential production facility for TVRA since 2016. The agreement to take a lease brought with it an expectation that the Welsh Government would undertake refurbishment, then expected to cost £4.5 million. The Welsh Government expected that refurbishment would be completed by December 2018, which fitted with TVRA's then anticipated occupation under a sub-lease. Annual discounted rent of £56,000 would accrue in the meantime but only become payable when the Welsh Government took-up the lease. External consultants gave assurance that the lease arrangements were on market terms; and that there would be alternative demand for the premises if TVRA did not occupy them.

In May 2019, the Welsh Government approved the selection of a contractor to undertake the refurbishment at an expected cost of £6.06 million (or less, subject to dialogue around the scope of the work to contain costs). Refurbishment costs had risen since the original estimate, due to deterioration in the building's condition, cost inflation, materials price volatility, construction sector risk pricing and stricter building regulations. TVRA had not yet raised the capital necessary for starting production at the site but continued to express intentions to do so.

In early 2020, the Welsh Government became aware of interest from another prospective party in acquiring the factory (although ultimately this did not proceed), and in case of this eventuality, the Welsh Government and TVRA explored options relating to an alternative premises in Aberdare, which would then be leased to TVRA. This also did not proceed. The Welsh Government's Property Leadership Team (PLT) advice was that the contract for the Ebbw Vale factory refurbishment works should not be awarded in advance of a lease agreement with TVRA. However, in August 2020 the Minister wrote to TVRA telling them the Welsh Government would progress refurbishment with or without them.

In January 2021, the previous owners had decided to sell the Ebbw Vale factory. The Welsh Government bought it for £4.75 million and decided to commence an enhanced (more marketable) refurbishment, with an anticipated cost of £6.06 million. Officials advised the Minister that purchasing the site was the best available option, given obligations and associated costs under the agreement to lease which the Welsh Government had entered into with the previous owners, even though TVRA was still not in a position to occupy. The purchase price negotiated was based on external advice, reflecting the Welsh Government's existing obligations and rent accrued of £170,583.

The Welsh Government anticipated that factory refurbishment would be completed in late 2021, which met TVRA's then indicated production timescales. However, if agreements could not be reached with TVRA, the Welsh Government expected that there would be sufficient demand from other businesses to lease the refurbished premises successfully.

On 29 September 2021, the Welsh Government granted a six-month licence to TVRA for a very small part of the factory at a rent of £3,000 for the period, to store fibreglass moulds. At the end of this period, the initial licence would become a rolling six-month licence while discussions were ongoing regarding TVRA entering into a full lease for the factory.

In April 2022, TVRA was still not in a position to begin production but, following additional private investment (see below), had sufficient funds to repay the Welsh Government £4,329,100; representing the original £2 million loan amount along with accrued interest. Consequently, all warranties associated with the debt expired with repayment; including the requirement to establish its primary manufacturing operations in Wales. The loan repayment is part of the loan repayments line within note 6 to the Welsh Government's financial statements (Financial Assets – Investment and Loans). The interest received in respect of the loan is part of income from sale of goods and services, within note 2 to the financial statements (Income from Property and Investments).

On 23 May 2023, the Welsh Government switched the licence of the small area of the refurbished factory to a short-term lease to avoid the creation of a protected tenancy. The short-term lease ran until 22 November 2023, for which TVRA paid £3,125.

What is the current position?

TVRA

As part of a potential joint venture, in the first half of 2021 TVRA secured a multi-million pound investment from Ensorcia – a company with interests in battery-grade lithium. The investment exceeded the private investment sum the Welsh Government had stipulated as part of its loan conditions. This funding enabled TVRA to repay the Welsh Government loan and accrued interest but, so far, is less than the estimated £40 million necessary for car production. We understand that Ensorcia wants TVRA to produce an electric vehicle, which TVRA wishes to produce alongside its original plans for a petrol-engine sports car.

In November 2023, the Welsh Government informed TVRA that it would seek alternative tenants for the refurbished factory. In December 2023, TVRA announced that it would establish a 'Brand Centre' at Thruxton for developing and establishing its new range of sportscars. In February 2024, the Welsh Government confirmed to us that TVRA no longer wants to lease the refurbished factory in Ebbw Vale or locate production in Wales.

Since November 2023, when the previous arrangement expired, TVRA has been paying a monthly rental charge of £322 and have been invoiced for this rent to 22 June 2024. We understand the moulds have now been removed and that the Welsh Government is preparing a closing cost for storage.

The Welsh Government

The Welsh Government had to extend the loan repayment period but still achieved a return on investment when TVRA eventually repaid it in April 2022. Full repayment has now removed the conditions that were originally attached to the loan.

The Welsh Government still holds an equity stake in TVRA based on its share investment of £0.5 million in 2016. However, this equity stake was reduced to 1.6% of the total shares due to Ensorcia's investment. In June 2023, the Welsh Government entered a new shareholder agreement with TVRA and secured an ongoing buyback agreement which it can exercise whenever it chooses to sell its shares back to TVRA at 100% of the fair value.

In July 2023, officials informed the Minister that the refurbishment work on the factory was complete, at a cost of £7.6 million. At that time, and because TVRA was still not able to lease the building for production purposes, the Welsh Government considered two options:

- Selling it, at a market value of around £7.5 million; a loss of £4.85 million against purchase and refurbishment costs; or
- Leasing it to an alternative tenant which could generate approximately £0.735 million per year over a lease term of 10 to 15 years, giving a total return of £7.350 – £11.025 million.

The Welsh Government decided to pursue the alternative tenant option and on 7 November 2023 appointed an external agent to begin marketing the property in January 2024. Since the commencement of marketing, the property has attracted some market interest which is currently being considered by the appointed agents and Welsh Government officials. As the time of preparing this letter, no formal offers have been received.

In May 2024, the Welsh Government obtained external advice regarding its shareholding, including a share valuation lower than the price originally paid which has been agreed by TVRA. Under its contractual arrangement with TVRA, the Welsh Government has the option to serve TVRA with 10 days' notice that it wishes to transact on that basis. The Welsh Government is currently preparing Ministerial advice for a decision on whether to:

- Sell back the shares to TVRA at the value agreed; or
- Retain the shares based in the hope that the share price might increase from the current valuation, potentially generating a more positive return on the original share investment.

I hope the contents of this letter will inform the Committee and assist its scrutiny and assurance functions.

Yours sincerely

ADRIAN CROMPTON
Auditor General for Wales