

Grwp yr Economi, Sgiliau a Chyfoeth Naturiol
Economy, Skills and Natural Resources Group

Dirprwy Ysgrifennydd Parhaol • Deputy Permanent Secretary



Llywodraeth Cymru
Welsh Government

Nick Ramsay AM
Chair, Public Accounts Committee
National Assembly for Wales

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17 November 2017

Dear Mr Ramsay

I am writing in response to your letter of 20 October 2017 about the Circuit of Wales project, following my valedictory session with the Public Accounts Committee on 2 October 2017. The Committee has asked the following specific questions relating to the balance sheet treatment of the project and the balance of project risk:

1. On what date did the Welsh Government first communicate to the Heads of the Valleys Development Company (HOVDC) its concern that the public sector was being asked to take on more than 50% of the project risk in providing the requested £210 million underwriting guarantee for the Circuit of Wales project?
2. On what date did the Welsh Government first communicate to HOVDC the views of Welsh Treasury officials regarding the potential on-balance sheet treatment of the project within the Welsh Government's accounts?
3. What responses did the Welsh Government receive from HOVDC on both of these points in advance of the 27 June 2017 Cabinet decision not to provide the requested £210 million guarantee?

Due to the inter-relationship between the questions and associated answers, I am providing a single, comprehensive response.

As you indicated in your letter to me, the Cabinet Secretary for Economy and Infrastructure stated in July 2016 that Welsh Government would need to see at least 50 per cent of the project risk undertaken by the private sector to take forward the project. HOVDC accepted this principle at that time.

Separately, the issue of balance sheet classification had also been discussed between Welsh Government officials and representatives of HOVDC from as early as spring 2016, as the Cabinet Secretary for Economy and Infrastructure confirmed in his reply to WAQ74043. It was around this time that the local authorities that had been working alongside Welsh Government pulled back from the proposal and the support requested from Welsh Government changed. The Cabinet Secretary for Economy and Infrastructure provided some background to these changes in his letter of 4 August to Adam Price AM. HOVDC accepted the project costs needed to be off balance sheet for Welsh Government, and indeed an assessment of balance sheet classification was made by EY in October 2016 in a report produced for HOVDC. Whilst the EY report considered a funding structure for the project that was different to the proposal submitted in February 2017, and did not therefore inform Welsh Government's assessment of balance sheet treatment, the fact that EY specifically addressed the issue confirms that HOVDC understood it was a critical point of consideration.

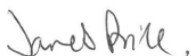
Officials met with representatives of HOVDC on a regular basis particularly between October 2016 and June 2017. The level of risk to the public sector and balance sheet treatment would have formed part of these discussions. In terms of the proposal submitted by HOVDC in February 2017, the full extent of Welsh Government's potential exposure only became apparent on receipt of the draft due diligence reports in May 2017 and after consultation with HM Treasury. The Cabinet Secretary for Economy and Infrastructure made this point in his responses to WAQ73739 and WAQ73769.

Draft copies of the due diligence reports or extracts thereof were shared with representatives of HOVDC in May and June 2017 for fact checking, including the main Grant Thornton due diligence report. HOVDC provided detailed comments on the Grant Thornton report at that time to correct errors of fact and to highlight areas where they disagreed with Grant Thornton's analysis. Whilst HOVDC made no explicit comment on balance of risk, they challenged the way the assessment of potential financial liability to Welsh Government under the guarantee was being presented. However, that was a matter of interpretation that Grant Thornton did not accept, and HOVDC nonetheless provided written confirmation of the factual accuracy of the report.

The decision not to provide a Welsh Government guarantee was reached following careful consideration by Cabinet of the assessment of potential risks and benefits of the project. The outcome of the Cabinet discussion was not known by officials in advance and could not therefore have been communicated any sooner. Hence Welsh Government's final decision in respect of the proposed guarantee, including the level of project risk and balance sheet risk that it exposed the government to, was first communicated by officials to representatives of HOVDC following Cabinet's decision on the morning of 27 June 2017. A more detailed discussion subsequently took place between Welsh Government officials and representatives of HOVDC on 30 June 2017.

Whilst Welsh Government's final assessment of project risk and classification was not communicated to HOVDC in advance of the Cabinet discussion on 27 June 2017, the general principles were understood and accepted by HOVDC during 2016.

Yours sincerely



James Price