

Llyr Gruffydd AM
Temporary Chair of the Finance Committee

18 October 2018

Dear Llyr,

Funding for major infrastructure projects – Mutual Investment Model

At its meeting on 3 October 2018, the Economy, Infrastructure and Skills Committee received briefing from Professor Gerry Holtham on financing for infrastructure projects and from Welsh Government officials on the Mutual Investment Model (MIM). I am writing to you to highlight some of the Committee's concerns following those briefing sessions.

MIM reflects learning from the past use of PFI and PPP, and seeks to recognise where risk can effectively be transferred and where it cannot. The Committee was pleased to hear that soft services would not be included in a MIM and that provision for active contract management would be built in to the project from the start. In addition, a set of standardised contracts that seek to deliver community benefits and a return on any refinancing gains should deliver further improvements and greater value for money on previous models.

Although there are still questions around the availability of skilled, experienced staff able to deliver the improved contract management necessary to the success of the model, the Committee agreed that MIM appears to be a well thought through model that delivers significant improvements on previous models. However, the Committee was concerned about the context in which MIMs are used. The Committee heard that the model could be used to deliver sections five and six of the A465, Velindre cancer centre, and Band B of the 21st Century Schools programme. The financing of these projects in this way seems to suggest that financing decisions are not taken within the context of a strategic, planned approach to infrastructure delivery.

No Government would borrow if it had ample budget to deliver its plans, but if its ambitions outstrip its capital means and there is a compelling case for delivering those ambitions, then prudent borrowing options are available. Professor Holtham described the issuing of Government bonds as 'much cheaper' than the funds that could be raised by private investors, especially for more complex or higher risk projects. The funding ceiling for such gilts is set at £1 billion in Wales, but



the Committee has not got a sense from recent inquiries that this funding option was being considered as part of a wider discussion around the right investment type to deliver a part of a planned programme of projects. Rather, it seemed that MIMs are to be used when projects of sufficient size become a priority for delivery. Given that many of the positive aspects of MIMs – improved contract management; community benefits and adoption of environmental and employment codes of practice – can also be delivered through traditional procurement, it seems illogical to deliver complex projects like band B of the 21st Century Schools Programme through MIM when other, cheaper, financing options are available.

The EIS Committee will continue to scrutinise the funding of major infrastructure projects, but there appears to be a wider financial point of principle to be considered. Therefore, the Committee has asked me draw these concerns to your attention and ask if you have any plans to scrutinise the capital funding strategy of the Welsh Government.

The Clerk of the EIS Committee is able to supply further background information on these issues if that would be helpful.

Thank you for considering this issue. I look forward to receiving your response in due course.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Russell George', with a large, stylized initial 'R'.

Russell George
Chair

