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Circuit of Wales project

Dear James,

Thank you for attending the Public Accounts Committee on 2 October for your valedictory session ahead of taking up your new role in Transport for Wales. During the session Members explored with you a number of issues relating to the Circuit of Wales project. The Committee has a number of outstanding concerns about the classification of the project as on or off balance sheet, and have asked me to write with further points which need clarification.

The Committee was concerned about the potential Office of National Statistics / Her Majesty Treasury classification of the project as 'on-balance sheet' for the Welsh Government, if the Cabinet had agreed to the underwriting proposal. We are trying to understand more about the balance of public versus private risk that existed for the project, and the extent of any Welsh Government dialogue with the company on this prior to the Cabinet decision. For ease of reference, I have included what I understand to be the publically available background to this decision.



On 13 July 2016, the Cabinet Secretary for Economy and Infrastructure stated in Plenary that:

‘Including both direct Welsh Government guarantees and local authority loans, the latest proposal put forward by the Circuit of Wales asks Welsh Government to underwrite around 75 per cent of the total £370 million cost of the project, with local authorities underwriting a further 8 per cent. Unfortunately, despite the efforts of the project backers, this leaves only around 17 per cent of risk being taken by the private sector.

‘That amount of risk falling on the Welsh taxpayer, through Welsh Government and local authority support, is unacceptable as it currently stands, especially at a time when we are facing significant economic uncertainty from a UK exit from Europe. In our view, this project does not currently provide the level of value for money necessary for the amount of public funding being put at risk. On that basis, I have today told Michael Carrick and Martin Whitaker that I believe further work is needed on this proposal. My door remains firmly open and I’ve urged them to revise their bid in such a way where the private sector takes more of the risk in order for this project to be taken forward.

‘We need to see at least 50 per cent of this project funded and 50 per cent of the risk underwritten by the private sector to justify value for money for Welsh Government and the public purse and they have accepted this principle. My officials will now work constructively with the Circuit of Wales team to ensure this project can be successfully delivered to benefit the local economy of Ebbw Vale and Wales at large.’

Following the Cabinet decision in June 2017 not to provide the requested £210 million underwriting support for the project, the Cabinet Secretary for Economy and Infrastructure made the following statement in Plenary on 27 June 2017, which references the above statement:

‘In July last year I told the company that I would expect to see at least 50 per cent of the project funded and 50 per cent of the financial risk of the project to be undertaken by the private sector, and for the project as a whole to provide value for money for Welsh Government and the public purse.

‘In February the developers submitted a new proposal to Welsh Government, which was followed by a formal application in April, requesting a guarantee of



a loan facility of £210 million. Extensive and detailed due diligence by external experts employed by Welsh Government has shown that due to the way that the deal is structured, the current proposal would see the Welsh Government exposed to more than 50 per cent of the risk. This is because the £210 million underwriting element would carry a higher risk than other parts of the financial package.’

In response to that point, the Heads of the Valley Development Company have stated that:

‘at no point during the due diligence process was the company told by the Welsh Government that this was an issue and that the Welsh government believed that it would be exposed to more than 50% of the risk.’¹

In his 27 June 2017 statement, the Cabinet Secretary for Economy and Infrastructure went on to say that:

‘As a result, following discussions with Office for National Statistics and Her Majesty’s Treasury during the due diligence process, it is assessed that there is a very significant risk that the full £373 million debt of the entire Circuit of Wales project would be classified against Welsh Government capital spending.’

In response, the Heads of the Valley Development Company has stated that:

‘the company was never informed or made aware of this ONS and HM Treasury advice during the due diligence process. We were promised by Welsh Government officials that we would be consulted if any significant issues arose during due diligence and given an opportunity to respond.’²

¹ HoVDC press release, June 2017

² HoVDC press release, June 2017



In light of these statements the Committee would welcome your response to the following questions:

1. On what date did the Welsh Government first communicate to the Heads of the Valley Development Company 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 the Heads of the Valley Development Company 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 the Heads of the Valley Development Company on both of these points in advance of the 27 June 2017 Cabinet decision not to provide the requested £210 million guarantee?

I would be grateful for a fully considered and comprehensive response to the questions as soon as possible, which should then negate the need for a further evidence session on this topic.

Yours sincerely,

A handwritten signature in black ink that reads "Nick Ramsay". The signature is fluid and cursive, with a long horizontal flourish extending from the end of the name.

Nick Ramsay AM
Chair

