



Adam Price AM
National Assembly for Wales
Cardiff Bay
CF99 1NA

4 August 2017

Dear Adam

I am writing to provide you with information in relation to the Circuit of Wales project, in response to a number of WAQs you recently tabled. The WAQs to which I am specifically responding are as follows:

- **WAQ73772:** Further to WAQ73473, who was it suggested should underwrite the head lease to be held by Blaenau Gwent Borough Council?
- **WAQ73773:** Further to WAQ73474, did the Welsh Government make a counter-proposal in response to the proposal from the Heads of the Valleys Development Company proposed on 26th January 2016?
- **WAQ73774:** Further to WAQ73474, what amount of debt did the proposed guarantee involve and what percentage did that represent?
- **WAQ73812:** Was the Heads of the Valleys Development Company informed at a meeting in January 2016 that the relevant Cabinet Secretary had instructed officials to work on the basis that the Welsh Government would provide a 100 per cent guarantee for the Circuit of Wales project?
- **WAQ73855:** Further to WAQ73771 when during March 2016 did a proposal first emerge that required a 100 per cent Welsh Government guarantee of the £357 million investment in the Circuit of Wales?
- **WAQ73856:** Did the Welsh Government make a counter proposal during January 2016, in response to a proposal for a 100 per cent Government guarantee by the Heads of the Valleys Development Company; and will the Cabinet Secretary publish details?

It is appropriate to group these questions together for answer as they seek specific details about development of the project between August 2015 and March 2016. A number of the above questions also relate to answers I have previously provided in response to WAQ73473, WAQ73474 and WAQ73771, and I will refer to these answers where relevant in setting the broader context.

In August 2015, the developers proposed a new delivery model that was complex and raised lots of questions about the risk and legalities of the project. The request was for government support to be provided in the form of a head lease to be held by Blaenau Gwent County Borough Council, which was to be sub let back to HOVDC. My answer to WAQ73473 relates to this. In answer to your follow up question on this matter, **WAQ73772**, the suggestion at the time was that the head lease should be underwritten by Welsh Government.

In the months that followed, the nature and level of government support being requested from the Welsh Government and local authorities changed several times, as options around provision of a guarantee and an appropriate balance of risk were explored. It would be impractical to attempt to describe the details of the various funding models considered in these exploratory discussions in a meaningful way, and some proposals would have been quickly discarded on compliance grounds.

In January 2016, a number of alternatives were being considered that included one or both of the local authorities entering into a head lease which the Welsh Government would guarantee, enabling the developer to raise capital investment, effectively underwriting the financing of the project. My answer to WAQ73474 relates to this. Your follow up questions on this matter, **WAQ73773** and **WAQ73856**, ask if Welsh Government made a counter proposal. In answer to these questions, officials discussed a counter proposal with the developer in January 2016. Whilst I cannot comment on points of detail, in general terms, the views expressed by officials in those discussions were focused on the framing and structure of the proposal, taking account of relevant State aid guidelines, particularly in relation to Market Economy Operator Principles (MEOP). It is my understanding that officials sought to ensure the financial and other terms were in line with the market, with evidence to demonstrate value for money, and with a fair return to the public sector, relative to the risk.

In answer to **WAQ73774**, I understand the proposal being considered at the end of January 2016 indicated that the Welsh Government guarantee would support the raising of £350 million capital funding. In terms of the percentage of debt the guarantee represented, the proposal was not progressed to comprehensive due diligence so an absolute figure cannot be provided.

In answer to **WAQ73812**, I do not know what the responsible portfolio Minister may have discussed with officials at the time, nor can I confirm what officials said during any meetings with the developers in January 2016. However, I can say that I expect officials would have been working in a manner that reflected their understanding of the risks and legalities associated with the proposed funding model at that time, working alongside the local authorities, and would have been informed by relevant advice on State aid guidelines and accounting treatment.

Between January and the beginning of March 2016, various discussions took place between the developers, local authority representatives and Welsh Government officials, during which time it was expected that the local authorities would continue to work alongside Welsh Government in supporting the proposal. However, in early March 2016, the local authorities pulled back from the proposal having concluded that the State aid, commercial and budget risks were too great for them. What therefore emerged during

March 2016 was a proposal that requested a 100% Welsh Government guarantee of the £357 million investment.

In answer to your follow up question on this matter, **WAQ73855**, the responsible portfolio Minister at that time was told by officials that the local authorities would not be proceeding to support the project on 8 March 2016. However, the revised proposal was first set out for Ministers in formal advice submitted on 5 April 2016. You may be aware that the First Minister has written to the Leader of Plaid Cymru about this, to confirm we are considering how much of the advice can appropriately be made available.

I should also like to take this opportunity to expand on the answers I previously gave to WAQ73475 and WAQ73550 about the 80% guarantee first being proposed in a document dated 15 April 2016. References were made to a public sector guarantee of 80% or less prior to this in exchanges between officials, the developers and their advisors because 80% is the safe harbour within which the public sector should operate to comply with State aid guidelines around MEOP. Those involved in the discussions would have been aware of the need to operate within those guidelines. However, it is correct to say that a government guarantee of 80% was first formally proposed in a document dated 15 April 2016.

I fully appreciate you are interested in understanding how the Circuit of Wales project has developed over recent years and I have aimed to provide you with concise and appropriate answers to the wide range of questions you have asked in relation to the project. Moreover, we have committed to providing additional project information in relation to the Cabinet decision made at the end of June 2017, and we are currently considering what can be made available in light of confidentiality obligations, the Data Protection Act and other legal and commercial considerations.

However, I do not therefore believe it is an appropriate use of officials' time to continue to provide detailed information about the earlier development of the Circuit of Wales proposal, particularly in relation to funding models that were progressed unsuccessfully during the last Assembly term. Our priority now is taking forward the automotive technology park proposal for the people of Ebbw Vale.

I will place a copy of this letter in the library.

Yours sincerely



Ken Skates AC/AM

Ysgrifennydd y Cabinet dros yr Economi a'r Seilwaith
Cabinet Secretary for Economy and Infrastructure