

Shan Morgan  
Permanent Secretary  
Welsh Government  
Cathays Park  
Cardiff CF10 2NQ

14 December 2017

## **The Initial Funding for the Circuit of Wales**

Dear Permanent Secretary,

You will be aware that over the last few months the Public Accounts Committee has been taking oral and written evidence from the Welsh Government to assist its inquiry into the initial funding provided to the Circuit of Wales project. I wrote to James Price on 20 October 2017 about the Welsh Government's communications with the Heads of the Valleys Development Company (HoVDC) regarding the balance of project risk, and also about the balance sheet treatment of project costs in the event that the Cabinet had decided to provide the financial guarantees to the project that HoVDC had requested.

The Committee considered James Price's reply of 17 November at its meeting on 4 December and found some of the responses rather opaque. Given that similar project risk and accounting considerations may arise again in relation to future large capital projects involving public and private funding decisions, the Committee resolved that I should write to you as the Principal Accounting Officer.

We have specific concerns around aspects of Welsh Government decision making relating to the balance sheet classification issue. This issue appeared to emerge at a very late stage in the process and has been cited as the principal reason for declining the funding of the project. As a Committee, we are trying to establish a timeline for this information, and ascertain the flow of information between relevant officials across government. To do this, we would welcome your responses to the following questions:



1. The Statistical Classifications Forum minutes from the 12 June 2017 (attached) state:

*'Wales:* Circuit of Wales, currently under due diligence. If classification related issues arise then will inform ONS.'

The Committee would therefore welcome clarification on whether the official present at this meeting was either not aware of any balance sheet classification issues raised by the due diligence reports by 12 June reflecting a cross-departmental view at that point in time; or simply not aware of classification issues that were being discussed by Welsh Treasury or other Departmental officials?

2. There was reference in the Assembly's Plenary debate (27 June 2017) on the Circuit of Wales decision and in the media to an e-mail sent by a Senior Official to Aviva Investors on 14 June 2017 outlining that they had spoken to lawyers about complying with EU state aid rules. It goes on to state that there were 'no showstoppers' with regard to project. Was the Senior Official also not aware, at that point, of the new advice on balance sheet classification that was to be a significant in the Cabinet's decision to decline funding on 27 June (13 days later)? And if they were not aware on 14 June 2017, at what point did they become aware of this advice?
3. Were the two officials that were unable to attend Public Accounts Committee on the 26 June, due to 'ensuring the completion of the rigorous due diligence process and associated work' ensuring that 'the Cabinet has the right information to consider the project comprehensively' and 'takes its decision in a thoroughly informed way', aware of the advice from Welsh Treasury officials that was due to be tabled before the 27 June and if so when?
4. Was the then Deputy Permanent Secretary aware of the balance sheet classification advice that was to be presented to Cabinet before he appeared at the Public Accounts Committee meeting on the 26 June?



In addition to these detailed questions, I would be grateful if you could please explain clearly in writing to the Committee:

5. (a) What specific 'rules' (eg accounting standards, requirements of the FReM, Treasury guidance, Office of National Statistics rules, 'Managing Welsh Public Money' or other guidance) are the Welsh Government required to apply to the inclusion / exclusion within its annual financial statements (whether on the face of the balance sheet or in a note to the accounts) of the public finance support that it makes available to large capital projects such as the Circuit of Wales?
  - (b) The process used by the Welsh Government when identifying and applying such rules to its funding decisions.
  - (c) Descriptions of the roles of the various Welsh Government officials / departments who are involved in such processes, and how / when they interact with other relevant non-Welsh Government bodies such as HM Treasury and the Office of National Statistics.
6. The role and use of 'Internal Assurance Groups' (as referenced at Q24 in James Price's letter of 11 September 2017 to the Committee).
  7. Your own expectations of how these arrangements should operate in practice, and your assessment of the extent to which you and your officials consider that they operated effectively in the specific case of the Cabinet's 27 June decision to decline to provide the requested underwriting support for the Circuit of Wales project.

I am sure you will agree that given the amount of time, deliberation and co-investment between the Welsh Government and private sector partners that has been spent on this project it is crucial that we examine these processes, and as such I look forward to receiving your response.



I would be grateful to receive your reply by 16 January 2018, to enable the Committee to consider this response at our meeting on 22 January 2018. Depending on the response we may then also request you to attend the Committee in person on 6 February 2018 to provide oral evidence.

Yours sincerely,

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

Nick Ramsay AM  
Chair

