



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

[Y Pwyllgor Cyfrifon Cyhoeddus](#)

[The Public Accounts Committee](#)

26/6/2017

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mohammad Asghar Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Neil Hamilton Bywgraffiad Biography	UKIP Cymru UKIP Wales
Mike Hedges Bywgraffiad Biography	Llafur (yn dirprwyo ar ran Vikki Howells) Labour (substitute for Vikki Howells)
Neil McEvoy Bywgraffiad Biography	Plaid Cymru The Party of Wales
Rhianon Passmore Bywgraffiad Biography	Llafur Labour
Nick Ramsay Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Lee Waters Bywgraffiad Biography	Llafur Labour

Eraill yn bresennol
Others in attendance

Tracey Mayes	Pennaeth Llywodraethiant a Chydymffurfiaeth, Grŵp yr Economi, Sgiliau ac Adnoddau Naturiol, Llywodraeth Cymru Head of Governance and Compliance, Economy, Skills and Natural Resources Group, Welsh Government
Alistair McQuaid	Swyddfa Archwilio Cymru Wales Audit Office
James Price	Dirprwy Ysgrifennydd Parhaol Grŵp yr Economi, Sgiliau ac Adnoddau Naturiol, Llywodraeth Cymru Deputy Permanent Secretary, Economy, Skills and Natural Resources Group, Welsh Government

Mike Usher Swyddfa Archwilio Cymru
Wales Audit Office

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Claire Griffiths Dirprwy Glerc
Deputy Clerk

Meriel Singleton Ail Glerc
Second Clerk

Katie Wyatt Cynghorydd Cyfreithiol
Legal Adviser

Dechreuodd y cyfarfod am 14:00.
The meeting began at 14:00.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest

[1] **Nick Ramsay:** I welcome members of the committee to this afternoon's Public Accounts Committee meeting. I will, today, also welcome Vikki Howells to the committee—our new member. However, as you can see, Vikki is not with us today. She's not able to be here, so Mike Hedges is back substituting for Vikki. Can I also take this opportunity to thank Mike Hedges for all your work with this committee, not just during this Assembly but also the previous Assembly as well? Headsets are available in the room for translation and sound amplification. Can Members please ensure that any electronic devices are on silent? In an emergency, follow the signals from the ushers. No apologies have been—well, one apology's been received, of course, from Vikki Howells, and Rhianon Passmore is here, as she has just entered the room. So, welcome to you all. Do any Members have any declarations of registrable interests that you wish to declare at this point? No.

Papurau i'w Nodi
Papers to Note

[2] **Nick Ramsay:** Okay, item 2, and papers to note. First of all, the

minutes of the meeting held on 19 June. Are Members happy to agree those minutes in the pack—pages 1 to 4?

[3] **Mike Hedges:** Yes. Hapus.

[4] **Nick Ramsay:** Okay. We've received some additional information from the Welsh Government on regional education consortia. Owen Evans, the deputy permanent secretary at the Welsh Government, has sent that additional information, following the evidence session that we held on 15 May. If Members are happy to note the letter, I suggest that I write to the Children, Young People and Education Committee, advising them of this work that the committee's undertaking, as they may wish to seek updates from the Welsh Government during their scheduled ministerial scrutiny sessions. Happy with that approach?

[5] **Lee Waters:** Yes. I think, Chair, this area does deserve further scrutiny, but we're probably not the committee to do it.

[6] **Nick Ramsay:** Yes, agree with that. Okay. Secondly, the Welsh Government has sent additional information on Kancoat Ltd, following my letter of 11 May. Are Members happy to note that letter?

[7] **Mike Hedges:** Yes. Can I ask questions on it as well?

[8] **Nick Ramsay:** Mike Hedges.

[9] **Mike Hedges:** Much as I absolutely agree with their definition of advanced manufacturing here—it's a fairly standard definition—I'm not quite sure how Kancoat meets it, so perhaps we could ask them how Kancoat meets it. They've given us a long list of different areas that are advanced materials and manufacturing. Can we ask what materials and what manufacturing is missing from that list?

[10] **Nick Ramsay:** We can certainly do that, yes. We will get clarification on this issue of advanced manufacturing for you, Mike, at some near point, I'm sure.

[11] **Mike Hedges:** It seems to have become my aim in life.

14:00

**Cyllid Cychwynnol Llywodraeth Cymru ar gyfer Prosiect Cylchffordd
Cymru: Sesiwn Dystiolaeth
The Welsh Government's Initial Funding of the Circuit of Wales Project:
Evidence Session**

[12] **Nick Ramsay:** Okay. Item 3—the Welsh Government's initial funding of the Circuit of Wales project, and our evidence session with the Welsh Government. The auditor general's report was published on 27 April, and the committee received a briefing during the meeting on 8 May and agreed to take evidence from the Welsh Government. Can I welcome our witnesses to today's committee meeting? Would you like to give your name and position for our Record of Proceedings?

[13] **Mr Price:** Yes. It's James Price, deputy permanent secretary, economy, skills and natural resources.

[14] **Ms Mayes:** Tracey Mayes, head of governance and compliance for ESNR.

[15] **Nick Ramsay:** Can I welcome both of you to today's evidence session and thank you for attending? As members of the committee will be aware, there has been some correspondence between James Price and myself about the witnesses for this meeting. The committee was keen to hear from Mr McGuire and Mr Munday at this meeting as it is evident that they have been heavily involved in the decisions around the initial funding for the Circuit of Wales project, and we believe having the relevant officials is important to achieve effective scrutiny. As the Welsh Government knows, we are very disappointed that those involved in making the key decisions are not here today or available on any of the other dates that we proposed as a committee. However, we do welcome that Mr Price, along with Ms Mayes, has undertaken to provide all of the information required today. We welcome the assurances provided to us by Mr Price that he is best placed to provide this committee with the information it requires, and we therefore, as a committee, expect full and complete answers to our questions on the findings of the auditor general's report throughout today's meeting. I thought it was important I clarified that at the start of this evidence session.

[16] We've got a number of questions for you. I'll kick off with the first one. In terms of the overall value for money of the Circuit of Wales project, can you tell us the extent to which the significant shortcomings in how the

Welsh Government managed its initial funding of the project have increased the risks to taxpayers' money?

[17] **Mr Price:** Before I get into that, can I just thank the committee for inviting us today? I've been to this committee more times than I would care to remember, but I think—. It's never a particularly fun place for officials to be, but it is really important for us, in terms of learning and improving. So, I welcome the opportunity to be here.

[18] Just in terms of this project, the other thing I think it's really important just to keep in mind is this project is somewhere between seven and eight years old, spanned two different Assembly terms, and it's still a live project. So, it's much more difficult than it is usually to answer some questions on this, because we still haven't come to the end of our deliberations on it. But it has always been looked at as a potentially very high-output project in terms of impact for the economy, but also one with significant potential risk.

[19] So, turning to the question of value for money of our overall investment so far, I think the best place to start in answering that question is where the project team started in answering that question, right at the very beginning, which is what would a typical amount of money be to bring a project like this to financial close and to a point at which construction could take place. I've done quite a lot of digging beyond the original work that the team did, and the answer to that seems to be that an average of 20 per cent of total project costs is what is required to take a kind of multidisciplinary regeneration or sports facility to a point of financial close and design completion.

[20] If we look at the overall figures in this project, looking at a total project cost of circa £400 million, there has been total expenditure by all parties of about £55 million, of which Welsh Government has an exposure of about £9.2 million. If you look at the percentages of that, our exposure is about 2 per cent and the exposure of all parties is about 13 per cent as against the benchmark of about 20 per cent. So, at a very high level—and I appreciate that is a very high level, but it's a reasonable place to start in terms of answering this question—that gives you a feel for where we believe the project is in terms of overall value for money, compared to some of its peer-group, similar projects.

[21] **Nick Ramsay:** So, just to be clear, you're absolutely confident, or as confident as you can be, that, despite some of the shortcomings that have

emerged to date, value for money for the taxpayer has been achieved to this point, at least.

[22] **Mr Price:** So, having gone through all of the files, spoken to all of the people concerned in some depth, I am persuaded that we have achieved value for money for what we have got, yes, which is a project that is ready, subject to finance, to be delivered. So, yes.

[23] **Nick Ramsay:** Lee Waters.

[24] **Lee Waters:** There are a number of areas we'll want to get into, I'm sure. Just on that point—you said you've value for money for what you have got. I'm not entirely clear what it is we have got. Clearly, the first phase that has been funded is just the tarmac, essentially. It's the track and the paddocks and the buildings, it's not the spin-offs that are expected to generate the additional employment. So, of what we have got, what is the working assumption of how many jobs that was likely to generate?

[25] **Mr Price:** Right. So, this is the first time where we get into, I guess, some difficult territory, which is, because the Cabinet isn't meeting until tomorrow, we're talking about a live project and it's not appropriate, I think, for me—

[26] **Lee Waters:** You've just told us you are confident that there's value for money for what we've got—

[27] **Mr Price:** Yes, I am, and I—

[28] **Lee Waters:** So, just on dates we're looking at—we're not looking at tomorrow, we're looking at up to the date of where we're at today and where the auditor general reported, which is some time before today—

[29] **Mr Price:** Okay. So, the best way to answer that question, I think, is to take a step right back to the very beginning, and say, 'What was the analysis that was undertaken to underpin whether this was a reasonable thing to do at all?', which I think is the question you're asking. So, was it a reasonable thing for the Welsh Government—

[30] **Lee Waters:** That's not the question I'm asking, but that's an interesting question, so let's do that one first.

[31] **Mr Price:** Well, it's probably a reasonable approximation of the value for money—*[Inaudible.]*—or it's a key component.

[32] **Lee Waters:** It's a good question, but I'd like to come back to my specific question.

[33] **Mr Price:** So, in terms of answering that question, which I think answers your second question as well—or your question—analysis was undertaken by a whole variety of different people, but the one I think I'd particularly point to is that the University of South Wales did some work in 2012–13 that indicated that they believed the potential jobs consequences of the project would be circa 4,000 all in, including the further phase, and the core assumption at that point was, I think, just shy of 1,000 jobs. That was their core assumption in the University of South Wales analysis. They saw phase 2, if you like—this further development of a circuit—as being very linked into the phase 1, and saw the additional costs required to deliver phase 2 as being very low in comparison to phase 1. The project's evolved quite a lot, and I won't get into how it's evolved, because I don't think that is appropriate, but, in terms of the value for money, I think that does go a way to answer your question. The other key component in that is, if the project were to be delivered, that money would come back to the Welsh Government, therefore netting off that £2 million or £9.2 million, depending on the way you want to look at it.

[34] **Lee Waters:** I recognise this is layered, and, in order to deliver the further benefits, you first need the underpinnings, the core, as you call it. So, just to be clear in my mind, the core will result in an estimated—not by you, but by an independent university—1,000 jobs.

[35] **Mr Price:** No. That was the point where I said I didn't want to get into the project as of today, and I can't get into the project as of today. That estimate was for a project as presented to us in 2012–13. The project has significantly changed since then.

[36] **Lee Waters:** So, what we're coming on to is the decisions made back in 2012–14. So, I'm asking about the assumptions at that time—what you thought you were funding and what you were getting back for it. I'm not talking about today or tomorrow. So, that's about 1,000 jobs for that core. That's what you've just said, yes? A thousand jobs.

[37] **Mr Price:** Well, I think the decision as taken then was looking at,

potentially, 4,000 jobs, as a project as a whole.

[38] **Lee Waters:** But the point I'm trying to get at is that investment has been circa £9 million—£9.3 million—for the core. The extra bits, the bits that are going to result in the jobs, may well require, according to the auditor general, further grant support. So, that's a future decision. All we've secured so far, which you are now satisfied is good value for money, is £9.3 million of Welsh Government funding for a fairly reasonable assumption of 1,000 jobs.

[39] **Mr Price:** Well, I think when I was—. Maybe I didn't explain myself properly. What I was trying to explain was that I believe, for what we have bought, in effect, which is a project that has raised some private finance, a project that has got planning permission, a project that has got detailed designs and a project that has got some contracts in place, the amount of money that we have put into that looks like value for money when you compare to the typical private sector cost of delivering that type of outcome. If you want to get into the jobs bit, I do think that does take you into a territory I can't get into, because all of the jobs figures will have been updated since 2012–13. They will be different, and I can't come into that today. And the really important thing is that, should the project go ahead, that money gets paid back.

[40] **Lee Waters:** With respect, Mr Price, I'm not asking about what's happening today or tomorrow. I'm asking: at the time when you made these decisions, what were your assumptions? And you've told me, but you haven't quite confirmed it, that your assumption at that time was 1,000 jobs for that core element. Is that correct?

[41] **Mr Price:** Yes.

[42] **Lee Waters:** Thank you. And, in return for that, the Welsh Government has spent now some £9.3 million. In terms of what you have bought, you also seem to have bought a motorcycle engineering company as part of this £2 million property development grant. In the auditor general's report, which is what we're discussing today—we're not discussing the merits of the project, we're discussing what's happened to date—the auditor general points out that you gave the Heads of the Valleys Development Company £2 million for a property development grant, which traditionally does what it says on the tin, it buys property. But they've used £0.3 million of that to acquire a specialist motorcycle engineering company based in

Buckinghamshire. The auditor general's report raises some concerns that they did not seek specific approval to use that grant in that way, and it does seem to be novel and contentious and potentially repercussive. So, in terms of the process that they went through, were you content with the way that they spent that grant, and did you explicitly give them authority to spend it on a motorcycle company?

14:15

[43] **Mr Price:** When you say 'them', are you meaning the applicant?

[44] **Lee Waters:** Yes. Who else would I mean?

[45] **Mr Price:** Well, it might have been a team rather than the applicant. To start with, I think the figure was £275,000 rather than £300,000, but that's a point of detail. And, yes, I am content that the applicant received permission for doing what they did—absolutely.

[46] **Lee Waters:** Okay, because the auditor general, certainly, in his report thought this was an unorthodox way to use public money intended for a property development grant. Do you have any comment on that view?

[47] **Mr Price:** So, it won't surprise any of you to learn that I've looked at this in some detail in terms of preparing for this committee—not just read through the paperwork, but spoken to the people involved and questioned them. And, very clearly, at the time that that decision was taken, everyone believed that that was the most appropriate form of finance to use for that particular part of the project. Different types of finance were explored, including a loan and other grant mechanisms, but that was the particular grant mechanism that was alighted on. Was that or is that out of the ordinary in any way? It's certainly not the core of what you would normally use that grant for, but I am content that not just the individuals who were involved at the centre of that decision, but the wider set of individuals, including the central finance team of the Welsh Government, considered this and considered different mechanisms, and concluded that that was the best mechanism that we had to deliver that particular part of the project.

[48] **Lee Waters:** Just finally on this, Chair, when you say that everyone involved was content with that decision, it's not clear—naturally, auditors like neat paper trails, don't they, and it does seem to have caused some offence in the world of auditing with the way that this was done—the briefing paper

submitted to the Minister did not specifically mention this £0.275 million of PDG funding, so the paper trail was incomplete. Can you—?

[49] **Mr Price:** I can talk to that, absolutely. That's another question I've asked myself in preparing for this committee and it's, in fact, one of the recommendations of the auditor general that we are in the process of implementing, but it's not a simple one to implement. So, what is not maybe 100 per cent clear in the auditor general's report, depending upon your mindset when you read it, is what the comment means when it says something like, 'As was normal for the cases at the time'. Now, that's in the section that talks about what went into the Minister's advice and what didn't. What that text I understand means, or certainly what was normal and what is normal, is that that level of detail does not routinely go into an SF or what we now call an MA for Ministers. So, the detail breakdown does not routinely go into Ministers' SFs. So, it's factually true what the auditor general says, but it was not necessarily unusual that that wasn't in there.

[50] You might ask yourself why we do not put that level of detail in there, and there are two main reasons for this, having got into the detail of it. The first one is that, on occasion—and it's very difficult to be hard and fast about this—it is not appropriate for Ministers to be getting into that level of detail to protect them and potential individuals, frankly. So, there are long-established precedents for that; if you think about the tax field, for example, Ministers can't see individuals' tax affairs. And in quite a lot of grant schemes, the individual and ultimate beneficiary is protected from a singular political decision maker, so that's the first reason. And the second reason is, typically, a very high level of detail is excluded to enable a degree of latitude in terms of delivery. Whether either of those is appropriate or not, I accept.

[51] **Lee Waters:** Okay. This wasn't your run-of-the-mill application—this was a rather unusual way to be using that particular grant. So, was the Minister aware that you were content for them to buy a motorbike company?

[52] **Mr Price:** So, I cannot speak to that. We have a different Minister now. I haven't spoken to the Minister. What I can—

[53] **Lee Waters:** It wasn't in your paper, but you said everybody was content.

[54] **Mr Price:** Well—

[55] **Lee Waters:** You say you've not included that detail to protect the Minister. So, it's a reasonable question to ask: did you properly brief your Minister on how this Minister's money was going to be spent?

[56] **Mr Price:** Well, from the paperwork trail, I cannot say that the Minister was aware, which, I guess, would be implicit in my first answer of why that detail might not have been in the paperwork in the first place.

[57] **Nick Ramsay:** Sorry, can you just restate that? From the paperwork trail, you cannot tell that the Minister—

[58] **Lee Waters:** Because it doesn't say in the paperwork—

[59] **Ms Mayes:** We have no paperwork trail that says that the Minister was aware.

[60] **Lee Waters:** But you might have told her, but you can't tell us because she's a previous Minister, and that's protected.

[61] **Mr Price:** No, no. What I'm saying is: I have got no evidence that anyone told her.

[62] **Lee Waters:** So, it's conceivable that the officials would have allowed a company to spend over £0.25 million of public money, in a very unusual way, in a grant that wasn't intended for buying motorbike companies, to buy a motorbike company, without a Minister not knowing about it. That's conceivable?

[63] **Mr Price:** It is conceivable that the Minister would not have known about that particular use of that particular grant. I think it's much less conceivable that the Minister wasn't aware that this was involved in the overall deal, because there were probably conversations, maybe even including with the applicant, that talked about that—

[64] **Nick Ramsay:** Let's be clear—I'm just looking through page 42 of the auditor general's report, 4.6, following the setting out of some of the reasons put forward for permitting the purchase of the engineering firm:

[65] 'to provide a deepening and strengthening of the relationship with [an automotive body—name redacted] and endorse their objective of establishing a MotoGP Clinic'.

[66] That's just one of the reasons that was given. And 4.7 of the auditor general's report says that,

[67] 'None of these stated purposes align with the intended objectives of PDG scheme funding or correspond to the requirements of phase one of the CoW project'.

[68] Would you agree with that part of the auditor general's report—not a single one of these objectives are aligned?

[69] **Mr Price:** So, I might be being Tracey in a minute, but on the second part of your question, I would disagree with the statement. Having gone back through the files and talked to the individuals concerned, it would appear to me that the purchase of this company was seen as a key part of delivery of phase 1 of the circuit. But people can come up with different conclusions, from looking at the same evidence. So, I'm not necessarily disagreeing with what the auditor general says, but I've got a different perspective on it.

[70] In terms of the use of the fund, I would go back to what I said previously: this wasn't just one or two individuals deciding to use property development grant, this was a considered choice on the back of considering lots of other potential options, some of which I might think, personally, are better than the one that was chosen. But this was, it would appear, thought through and discussed with others before this particular mechanism was alighted on, and I think the important thing for the committee to appreciate is that, particularly when it comes to inward investment or big regeneration or big capital schemes, the rules of grants, which are primarily around state aid, are not hard and fast and with legal advice and with wider interpretation can be interpreted broadly on occasions.

[71] **Nick Ramsay:** So, the auditor general may well be right on 4.7, that none of these stated purposes aligned with the intended objectives of the property development grant. However, you take a different view.

[72] **Mr Price:** No, I think you asked me—sorry, I'm not purposely being difficult here—you asked me two different questions. The first one was: does it clearly align with the purposes of PDG? And the second question was: did the purchase of this align with phase 1 of the project? I think what I'm saying is, from speaking to people involved, and looking at the files, I think it aligns with phase 1 of the project.

[73] **Nick Ramsay:** Sorry to interrupt—can you expand a little bit on that? Why did the purchase of FTR align with phase 1?

[74] **Mr Price:** Yes, so, if you don't mind, I'll just list some of the rationale for purchasing the project, which is a little bit boring, but—. So, to establish a UK racing team that would result in a Welsh rider on a Welsh-manufactured bike for an event in Wales, at the launch event scheduled, at that time, for 2014–15—and that 2014–15 timeline is important. They believed, the company that is, that that would increase the spectator attendance in Wales by approximately 15,000 to 20,000 visitors, which would have a real positive consequent impact on their business plan. You've talked about providing a deepening of the relationship with Dorna to provide a manufacturing base for bikes and race machines for the circuits, to participate in providing some of the more advanced precision engineering requirements on the circuit construction, to develop a unique Welsh branded bike for retail sales and support, and to partner Williams F1 to create an electric bike platform.

[75] **Nick Ramsay:** Well, that's a very good synopsis of the auditor general's report on page 42, but the auditor general still said that none of those did align, but you're saying that there was an alignment with the use of this PDG and phase 1.

[76] **Mr Price:** No, I think I've been very clear in saying that I think that aligns with the project.

[77] **Nick Ramsay:** With phase 1?

[78] **Mr Price:** Yes. But that the use of PDG was more unusual for that, but having gone back and looked at the paper work, spoken to the individuals concerned, it was a properly considered use of PDG, and it is not unusual to be flexible in the use of grant schemes. In fact, we are often criticised when we're not.

[79] **Nick Ramsay:** So, even though none of those stated purposes aligned with the intended objectives of PDG, it's perfectly permissible to be flexible with the application of PDG and therefore cast that aside and just say, 'We're going to use it for that anyway.'

[80] **Mr Price:** No, and I didn't say that it was cast aside. What I think I said, with respect, is that this was considered in detail and thought through.

Advice from different parts of the Welsh Government was taken, including legal advice, and this was considered to be the best and most appropriate way to deliver it.

[81] **Nick Ramsay:** Okay. A lot of supplementary questions here. First of all, Mike Hedges has been waiting a long time. Mike, then Neil, then Rhianon.

[82] **Mike Hedges:** I'll go back to 2012–14, so nothing whatsoever about today is in this question. Back in 2012–14, what you said is it was going to cost about £9,300 per job. What sort of figures were you running as a department on expectations of how much was going to be paid per job or per employment opportunity in terms of support for inward investment?

[83] **Mr Price:** Okay, so, can I just rewind slightly? The bit that I think I haven't clearly explained is that the grant and/or loan—the entire financial mechanism that was put in place—should the project reach financial close, all of that would have been repaid to the Welsh Government. Therefore, what you're not looking at is something that has a high cost per job. What you're looking at is something that has no cost per job or a very high cost for no jobs. Just to be a pedant—

[84] **Mike Hedges:** I'll be even more specific: what figure were you running at that time as an average for price to be paid per job?

[85] **Mr Price:** Probably—now this is off the top of my head and I'll look at Tracey—but much higher than we are now. So, £15,000 to £20,000 a year was not unusual. The figure we're now running at is closer to £5,000 to £8,000. Is that right?

[86] **Ms Mayes:** That's right.

[87] **Nick Ramsay:** Neil Hamilton.

[88] **Neil Hamilton:** I'm interested in the process for awarding grants and the system of grant funding here. We've got this grant, which is entitled 'property development grant'. I presume the purpose of that is to acquire bits of real property: land, buildings. That's the purpose of the grant.

[89] **Ms Mayes:** The property development grant is there to purchase lands to develop property, but it also covers the professional fees associated with that—

[90] **Neil Hamilton:** In this case, the purpose that was intended was not to purchase any land or buildings, but to purchase a company that had hosting rights and speculative business to be developed when the company came to—

[91] **Mr Price:** Okay, so the total PDG offered was £2 million. The vast majority of that £2 million was for the core purpose of PDG, which was property and associated legal fees. The £275,000 element, that is—

[92] **Neil Hamilton:** So, the property in this case being in Buckinghamshire, is that right?

[93] **Ms Mayes:** No. The main point of the PDG was for land acquisition, and that was in Ebbw Vale.

[94] **Neil Hamilton:** In Ebbw Vale. Right, okay. So, HoVDC had not acquired anything at that point, and this was just part of their overall land package that they were—

[95] **Ms Mayes:** Yes, it was the professional fees associated with developing that—

[96] **Neil Hamilton:** So, even though this company was put into liquidation, the asset in the land is still there. So, who actually now owns that piece of land?

14:30

[97] **Mr Price:** The company that has gone into administration is FTR. FTR don't own the land. FTR, in the overall scheme of things—

[98] **Neil Hamilton:** Well, if FTR doesn't own the land, how could they have been the recipient of the grant—?

[99] **Mr Price:** Heads of the Valleys was the recipient of the grant of £2 million—

[100] **Neil Hamilton:** Oh, I see.

[101] **Mr Price:** What they did was spend 1.75 of it—not 1.75—

[102] **Neil Hamilton:** Right. So, they acquired the land with a view to FTR using it for the purposes of Circuit of Wales. So, HoVDC still owns that piece of land and is not affected by the liquidation.

[103] **Ms Mayes:** They've actually acquired the option on the land.

[104] **Neil Hamilton:** It's an option, right.

[105] **Ms Mayes:** It's the option on the land, and the professional fees were for development of the circuit and the plans and the proposals related to that, and things like looking at newts and reptiles and so on.

[106] **Neil Hamilton:** Yes, I understand. Okay. Well, that clarifies that, then.

[107] **Nick Ramsay:** Neil McEvoy.

[108] **Neil McEvoy:** Just to go back to Lee Waters's question, really. So, you think it's value for money—£9.3 million for planning permission, detailed design and some contracts. What kind of contracts are already in place?

[109] **Mr Price:** What contracts are already in place? There are construction contracts in place. There are some commercial contracts in place and the Dorna contract is in place. Why I'd said I believed £9.3 million represented value for money was that the total expenditure to date, out of a £400 million project, is about £55 million. We're exposed for about £9.2 million on that. The average cost of this type of project to reach this stage is about 20 per cent. If you include the entire £55 million, that's 13 per cent, and our £9.2 million is about 2 or 3 per cent of that. So, in aggregate terms, our exposure is massively less than you would expect for this type of project.

[110] **Neil McEvoy:** Okay. In terms of the contracts and any companies that have been given those contracts, are they, in any way, related to people involved in the actual Circuit of Wales project?

[111] **Mr Price:** Okay. So, yes, and the WAO report talks to that. The WAO figure, I believe, is of nine related companies or individuals. We don't believe it's as high as nine, but we're not disputing the fact that there are related parties. I guess that raises two questions, which you'll probably ask me anyway. The first is: what do you do generally about related parties? And the second one is: can you assure us that you got value for money given related

parties' status? Or, if I were you, those are the questions that I would ask myself. In terms of the first part of that—related companies—we have already, and, in fact, before we received the auditor general's report, changed the rules of applying for funding, so anyone needs to state if they are intending to use any of our funds in a related-party way. That's quite usual; it's not unusual at all. If you think even about big multinationals, they will often have subsidiaries or companies they often work with. Other, smaller, companies will be structured in what they would describe as a 'tax-efficient way' and will pass off work in that way.

[112] The second question is: did we get value for money in this instance? Both at an aggregate level, which I've already gone through—the £55 million total expenditure; ours has been £9.2 million out of that £55 million, with our exposure being 2 per cent versus 13 or 20 per cent—and, if you look at the detail of this, the type of project team that was put together, the type of work that was required to do the detailed design, the environmental studies, the planning applications, raising the finance, we believe that the day rates involved are at, or below, average for industry standard.

[113] **Neil McEvoy:** In terms of the expenditure, are any colleagues going to go into due diligence? I don't want to step on any toes.

[114] **Nick Ramsay:** We're going to go into that later, yes, Neil. So, can I bring in Rhianon Passmore?

[115] **Neil McEvoy:** Yes.

[116] **Rhianon Passmore:** Thank you. So, am I right, then, in saying that the purchase of FTR aligned, in your view, with the phase 1 aims and objectives?

[117] **Mr Price:** It seems to absolutely, from speaking to people involved and from looking at the paperwork, yes.

[118] **Rhianon Passmore:** So, as a consequence of that, then, my question would be: did you look at other motorcycle fabrication companies other than FTR?

[119] **Mr Price:** Did the Welsh Government? The answer to that would have been 'no', and the answer to why that would have been the case is that this is a private sector proposition that, particularly at that point, was talking about raising all of their finance privately, and we were simply being asked for a

relatively small, in terms of proportion but real in terms of total, amount of money to invest alongside that, partly in a *pari passu* way.

[120] **Rhianon Passmore:** So, that 2 per cent exposure at that time, bearing in mind this was wholly, at this time, private sector finance, would not have instigated mechanisms and procedures for you to have got involved in terms of those potential tenders out there. Would it have been—?

[121] **Mr Price:** Oh, okay. Right, okay, I can see where you're going with that. Apologies; I was just answering a slightly different question. I was answering the question about FTR in and of itself. I think you're widening the question to talk about tendering for provision of services that are using our money.

[122] **Rhianon Passmore:** So, at what point would that mechanism—? Because, at that point, it was wholly private sector funding.

[123] **Mr Price:** Tracey, have you got the actual wording? It might be helpful to dig it out. If you can't find it, it doesn't matter. I've spent quite a lot of time looking at the detail of this as well, and the auditor general's report talks about WEFO funding in this area being particularly good practice. What our terms and conditions say—paragraph 18 of standard conditions says:

[124] 'You must buy all goods and services required for the purposes in a competitive and sustainable way so as to demonstrate that you have achieved best value in the use of public funds.'

[125] Now, that is deliberately wide-ranging in its form. It does not necessarily imply that someone needs to go through a proper procurement exercise in the way that the public sector would normally deem that.

[126] **Rhianon Passmore:** And why would that be the case? Is it because it was private sector-funded at that point?

[127] **Mr Price:** Yes, basically. It would be very inappropriate for me to give any company names, but think of any blue-chip company name that Wales has won as part of an inward investment proposition, and then think what the consequences would be if we said to that company, 'You cannot use your normal IT contractor. We want you to run through the OJEU process.' They'd go to eastern Europe or to England or somewhere else. So, that is why that statement is widely defined. Our definition of 'competitive' is just that. They need to be able to demonstrate that what they have purchased represents

competitive rates, not necessarily that they have gone through a competitive procurement. They are different things. The only time we would make people adhere to a competitive procurement process, i.e. an OJEU process, is if European funding was in the mix. The reason we would do that is you can't draw down European funding unless you do that. I accept that this is a broad statement, but it's broad on purpose, to allow us to be flexible in terms of winning projects in.

[128] **Rhianon Passmore:** So, you would state that that practice of not demanding that wider procurement with this particular company would have been, at that time, concurrent with—

[129] **Mr Price:** Tracey, do you want to—?

[130] **Ms Mayes:** It is concurrent with all grant funding that we provide.

[131] **Rhianon Passmore:** Would it be concurrent with practice today?

[132] **Ms Mayes:** Yes.

[133] **Rhianon Passmore:** Okay, thank you.

[134] **Nick Ramsay:** Just before I bring Lee Waters back in, and then Mike Hedges, the comment you just made about WEFO, saying that this was in line with WEFO's advice in terms of tendering processes, the only part of the auditor general's report I can find relating to WEFO is on page 39, which says about the separation of,

[135] 'the duties of officials involved in supporting funding bids from officials'.

[136] Where did you get your information?

[137] **Mr Price:** Okay. I might have got that out of my head, in which case—

[138] **Ms Mayes:** No—

[139] **Mr Price:** No? Oh, okay.

[140] **Ms Mayes:** It says somewhere in here—it doesn't talk about WEFO procedures; it talks EU funding in here. It talks about—we only follow the

processes where there is EU funding involved, and that is in here—
[*Inaudible.*]

[141] **Mr Price:** Maybe we can check afterwards.

[142] **Nick Ramsay:** I'm just wondering where that—.

[143] **Mr Price:** Either it's in the report or it just randomly came to me. Tracey thinks it's in the report as well, so I suspect it is.

[144] **Nick Ramsay:** Okay. Well, we'll leave you to have a little browse through the report to see. Right, okay, Lee Waters, very briefly, because I need to bring Mike Hedges back with his substantive point.

[145] **Lee Waters:** I just want to ask you about your statement there: that these are provisions designed for your typical blue-chip company, and this project should be treated on an equal basis. But we're not dealing with a blue-chip company, are we? We're dealing with a company that doesn't really exist. It is created entirely for the purposes of receiving funding. Every claim they've made they've made to be able to finance this privately that you've laboured under the illusion of has proven not to be the case to date, and the details of what then happened once they had this £275,000 to buy this moto company is that the company essentially sold their names and assets to a new company, reclaimed their franchising for this competition, and then the company went into liquidation with liabilities of over £0.5 million. So, we're not quite dealing with Siemens or Bosch, or—

[146] **Mr Price:** No, and—

[147] **Lee Waters:** We're dealing with a slightly different—

[148] **Mr Price:** Yes, and again—

[149] **Lee Waters:** But shouldn't you treat them slightly differently as a consequence?

[150] **Mr Price:** Yes. So, I don't think we completely answered all of the questions that were being raised in this, and if I were sat where you're sat—I'd prefer to be sat where you're sat [*Laughter.*—I would ask myself probably the same question. What I was answering was why are standard conditions written in the way that they are and why are they designed to be flexible.

What I gave you was the answer to that. In terms of the guidance that we now have—

[151] **Lee Waters:** So, in terms of the questions I've now asked—

[152] **Mr Price:** Okay, so in terms of the guidance that we now have in place, what we would be saying is—and I'll let Tracey go into the detail of this—if you discover or if someone tells you that they are intending to get involved with related parties, because I think that's the important thing here, rather than a competitive procurement process, and I'm not sure I'd want to be foisting an OJEU style procurement processes on anybody, actually, no matter what size of business they were—. We have changed the guidance to basically say that, if that is the case, you need to be looking into why that is the case, who those related parties are, doing credit checks on them and various other checks.

[153] **Ms Mayes:** And you need to make sure, if there is a related company, why it's a related company and whether the service they're providing is providing value for money.

[154] **Lee Waters:** So, my question remains standing, which is why you didn't treat this group of individuals, given the context I've just set out, in a slightly more discerning way.

[155] **Mr Price:** Okay, and the answer to this was—and I think we're particularly talking about the loan guarantee aspect of this now. So, this was the second loan guarantee Welsh Government has ever given is the first answer to that, and the officials involved followed the Welsh Government guidance of the day pretty much to the letter. The guidance has now been improved, partly as a result of the WAO's investigation into this. However, it is useful on this occasion that, having gone through the files and looked at the value for money achieved, I do not believe that there were any negative consequences of not following it. But there could have been, so it's really important that we improve this process for the future. And in answer to the previous question, the EU reference is in paragraph 3.13.

[156] **Lee Waters:** But my question remains: why you didn't take a more discerning view, given the context I've set out.

[157] **Mr Price:** And my answer to that was that officials followed the guidance that was in place at the time. We have now amended the guidance.

[158] **Lee Waters:** So, that is a reflection or an inference that you could have handled it better.

[159] **Mr Price:** Well, I'm not sure I would use the term 'better'. I think we are now in a place where we've got different guidance than we had then, and it's hardly surprising—genuinely hardly surprising—that, given this was only the second guarantee that Welsh Government had ever been involved in, things have evolved and improved since that date. And I would expect—I don't want, but I would expect—that if I were here in three or four years' time looking at a different thing, that we would have learnt other things and improved processes further still.

[160] **Lee Waters:** Okay. Clearly, it's possible to infer from the fact that you've revised the guidance that you recognise that you'd do it differently if you did it again. I really don't see an issue in you sitting here and saying that—

[161] **Mr Price:** Absolutely, I agree with that. Yes.

[162] **Lee Waters:**—without obfuscating.

[163] **Mr Price:** I'm not. Sorry, I'm not trying to obfuscate.

[164] **Lee Waters:** Okay, thank you.

[165] **Nick Ramsay:** Mike Hedges.

[166] **Mike Hedges:** A fairly straightforward question again. Why are you confident that you didn't break state-aid rules in terms of either the loan guarantee or those elements of the property development grant that are outside the scheme's requirements?

[167] **Mr Price:** Okay. So, if we take a step back, and I'll just put Tracey on notice—I may bring Tracey in for some of this. There are two ways, at a very high level, that any Government agency or any public agency can provide funds to business, one of which is in a no-aid space—and I'm probably simplifying this too far—but that is normally what we would describe as the market economy operator or market economy investment principle.

14:45

[168] That's the basis on which the loan is operated under, or the loan guarantee is operated under. Then you have agreed grant schemes or implied agreed grant schemes, which would include *de minimis* funding.

[169] The funding for this fell into both of those categories, but if we talk about the big amount first, the loan guarantee—in fact, let's talk about all of it. So, all of it was subject to ministerial advice, legal advice and proper consideration. So, that's the first answer to how can I be sure that state aid, or illegal state aid, wasn't provided. The second thing to look at is the market economy piece, which was the loan guarantee. What guidance encourages you—in fact, mandates you—to do, is ensure that you would act in the same way that a reasonable private sector organisation would act, and that you would put similar terms and conditions on your intervention. If you can demonstrate that you have provided similar terms and conditions as a reasonable private sector investor would—and that's a very difficult thing to do, and different parts of Europe have played games with this for years—but if you can demonstrate that, then there is no aid. If you look at the loan aspect of this, we were charging 16.5 per cent interest at a time when you had basically zero or negative interest rates.

[170] **Mike Hedges:** Just to clarify this—not necessarily about this scheme—but what you've just said means that anybody can give state aid to any organisation, as long as they call it a loan.

[171] **Mr Price:** No, if—

[172] **Mike Hedges:** I mean, you could give me a loan that I would guarantee, even though I haven't got the money to back it up, of £10 billion, or £1 billion, or £100 million—whatever number we're going to talk about. You could charge me 25 per cent interest, you could charge me 100 per cent interest; it's not going to matter, I'm not going to be able to pay it back anyway. But as long as you go into that situation, as long as you call it a loan and you set an interest rate, then you can give money to any organisation without breaching state-aid rules. Or did the organisation have the collateral to show they could pay that money back?

[173] **Mr Price:** At a very simple level—a very simple level—and I know, to a certain extent, you're sort of playing with me here—you're absolutely right. What you just said is correct, but the bit that isn't correct is that wouldn't be state aid, because it would be market terms. But market terms don't just

refer to the fee, they refer to checking that there was a reasonable prospect of you being able to pay it back, or checking that there was a reasonable prospect that what you were wanting the money for had a chance of being successful. When you come into 'reasonable prospect', different people's reasonable prospect and different companies' definitions of 'reasonable prospect' will be very different, from an investment banker at one end, who will take very risky odds with things, through to an insurance institution or a pension institution, who will look for very low levels of return, but very certain levels of return. So, yes, provided that you act as a market investor would, there is no aid.

[174] **Mike Hedges:** But surely a market investor would want to see some reason why the people they were lending money to would be in a position to pay it back, at some stage, wouldn't they?

[175] **Mr Price:** Well—

[176] **Mike Hedges:** I know very little about this scheme, apart from what I've read from the auditor general and what I've read in the *Western Mail*, which doesn't necessarily make me an expert on it by any stretch of the imagination. But surely, if I'm lending money to any organisation, I want to have some certainty, or some high probability, or even some probability, of having it back. How do you work out that—? Because you set interest rates at whatever you like. How can you have a level of certainty that the money's going to come back?

[177] **Mr Price:** Okay, so there are two—three things, probably, that are important to talk about in this. The first is—let's talk about interest rates to start with, because I've forgotten the third thing, which will come back to me. But in terms of interest rates, there are two mechanisms to do this. There's something called reference rates, which the EU publishes for different types of projects with different types of risk. So, they'll go from AAA-rated schemes, all the way down through to basically junk, and they will tell you what premium over and above the base rate to charge in order for it to be deemed non-state aid. That's the first way.

[178] The second way you can do this is you can seek advice from a reputable third party, who will analyse what other similar investors might do with a similar project, and they would give you advice. I believe on this one, it was the second route rather than the reference rate route that we went down.

[179] There was a third point. Could you restate your question? The third point has eluded me.

[180] **Mike Hedges:** I was just trying to test out, really, how you can be certain that they would be able to pay it back. For those of us who are relatively poor and end up having mortgages from banks, their real interest is how you are going to pay it back.

[181] **Nick Ramsay:** I think Mike Hedges's point—sorry, Mr Price—with this is that if this can't be justified in any meaningful way, it does look very much as though the Welsh Government has provided risk-free finance, in one manner or another, to the Circuit of Wales project, which of course would mean breach of state-aid rules, would it not?

[182] **Mr Price:** Well, it depends what you mean by what you said then. I think what's really important in answering the 'paying it back' question is that this wasn't a question of, 'Could they pay it back?', this is a question of 'How likely did the Welsh Government—' or 'How likely would an investor see the likelihood of the project being successful?' and the returns that would come in on that. If you look at the advice that was provided via legal services and via the Welsh Government to Ministers at the time, the advice pretty much said that, if the project succeeds in raising finance—and that is a very high level of risk—then all of this money will come back. If it doesn't, then it's highly likely none of the money will come back, which is why I was making the point in response to Lee earlier that this wasn't really about a cost per job. This was either going to be no cost per job or a high-cost project. But I think the important thing is, when faced with a project that potentially could be delivered for no funding, which could have a significant impact on the economy, I don't think it's unreasonable for the Welsh Government to look at being able to take that level of risk, particularly when the private sector had already invested, I believe, £2.5 million before we put any money into this. As we stand now, the private sector has put in the balance between £9.2 million and £55 million, so this is not just a Welsh Government project. We are in the minority here, by far.

[183] **Mike Hedges:** Okay. I won't take that any further. But can I just ask: did the Circuit of Wales scheme pass the economic efficiency test?

[184] **Mr Price:** Okay. So, this is an area where I need to—well, I don't think I need to, but I feel I ought to, and I will, apologise to Mike upfront, because I think that the auditor general's report is wrong in this regard, and some of

my officials should have pointed that out to Mike before. So, the detail of this, having gone back and looked at the paperwork, was that this was failed at the UK level, not at the Wales level. So, there's some wording in there that says that it would have lost—I'm going to make up the figure now—£40 million to £70 million to the Welsh economy. That figure is a UK figure, not a Welsh figure. In prepping for this committee, I have been advised to be careful what I say on this, because I've got very strong personal views on this particular test. This test is a test that has been in existence prior to devolution. I've used it when I worked in Treasury and Whitehall, when I worked in Newcastle in England as well, and it was intended to ensure no displacement or dead weight across the UK. I would argue that regional policy, by implication, will have displacement at the very least, hence this test is marginally out of date. If you were to ask me, 'Well, why are you still using it, then?'—I've asked for this to be reviewed on a number of occasions. It's a UK framework. It's currently being looked at. I suspect it will need to be looked at again in the context of Brexit. About 20 per cent of projects that go through the Welsh Industrial Development Advisory Board fail the test and are deemed to be good projects to deliver nonetheless.

[185] **Mike Hedges:** But if failing the test doesn't stop you going ahead, why have the test? Why do it? If you do a test—can I just compare it to a driving test? If you do a driving test and you don't pass, you fail. They don't say, 'Well, you've failed, but it's okay for you to go out and drive anyway'. Either the test is meaningful or it isn't. To have it and then fail it and say, 'Well, we won't worry about that'—it's meaningless as a test. Or am I missing something?

[186] **Mr Price:** No, I don't think you are missing anything. You've kind of made my point for me, really. I don't think it's a test that's particularly attuned to the policies of the Welsh Government or the policies of a devolved nation. But I am not the person who makes up these tests. I have asked for it to be looked at. It's been looked at twice before. I believe it needs to be looked at again, particularly in the context of Brexit.

[187] **Mike Hedges:** Who decides whether we use it or whether we don't use it in Wales?

[188] **Mr Price:** I don't know; Tracey, do you?

[189] **Ms Mayes:** I think it's the economists in the central team—

[190] **Mr Price:** I think this is a hangover from the Department for Business, Innovation and Skills—I was trying to remember the organisation before BIS—at a time when we used to have to get permission from different parts of the UK to get involved in an inward investment decision that might be moving projects around the UK. I don't think it's a pointless exercise, because if there was a project that was delivering bad value for money, was failing the efficiency test and didn't align with policy in any way, well, you'd probably knock it on the head. So, I don't think there's no point in it, but it is not a sufficient reason to not take forward a project. And I think we could have a better test that's more applied to the policy in a devolved context.

[191] **Mike Hedges:** Sorry, last question. But, really, the last point, you can never fail because any Government of whatever colour will always want to bring jobs into the economy, so any scheme that is bringing lots of jobs in would be bound to meet the third point, even if it failed the first two.

[192] **Mr Price:** But you would look at displacement within the country and within the locality, for example.

[193] **Mike Hedges:** But we've set up enterprise zones that have got a history of doing that.

[194] **Nick Ramsay:** [*Inaudible.*]

[195] **Mike Hedges:** I'm sorry, Nick; it was just a statement of fact.

[196] **Mr Price:** But we have purposefully tried to avoid that history, which was a late 1980s history; agreed.

[197] **Nick Ramsay:** Okay, we need to make some progress. Some very brief supplementaries before we move on: from Rhianon Passmore, first of all, and then from Neil McEvoy.

[198] **Rhianon Passmore:** Just really clarity, then. So, from your perspective and experience, you would see that there would be reason to review the devolved UK framework now that we are devolved in terms of the economic efficiency test.

[199] **Mr Price:** That's my personal and, I guess, professional opinion as a previously practising economist, yes. So, yes.

[200] **Rhianon Passmore:** Okay.

[201] **Nick Ramsay:** Okay, and Neil McEvoy.

[202] **Neil McEvoy:** Can you just clarify your comments or statement that the private sector is putting £45.7 million into this project?

[203] **Mr Price:** Yes, you've done the maths for me. I'm sure that number is the answer to my implied statement. And where does that number come from? That number comes from a total cost to date of £55 million minus the amount of money that we have put in. The £55 million is set out in the auditor general's—

[204] **Ms Mayes:** [*Inaudible.*]

[205] **Mr Price:** No, it's not.

[206] **Ms Mayes:** The auditor general's report says it's £30 million, but we've had more recent figures from Heads of the Valleys that say it's £50 million.

[207] **Mr Price:** Okay. So, we probably need to write to you on the point, then.

[208] **Neil McEvoy:** Where's the evidence on paper? Because if you look at the—. Where is the evidence?

[209] **Mr Price:** The auditor general's report talks about how much—£30 million?

[210] **Ms Mayes:** [*Inaudible.*]

[211] **Mr Price:** Is it thirty or thirteen?

[212] **Ms Mayes:** Thirty.

[213] **Mr Price:** Thirty. Three zero. In which case, the answer would be £30 million minus £9.2 million. In going through the files, I've seen evidence of £55 million, which is why I was quoting £55 million.

[214] **Neil McEvoy:** Okay. If you look at the auditor's report, paragraph 3.20 says that, to date, these services—which you say have been provided—do not

appear to have been disclosed in the Heads of the Valleys filed accounts; that's contingent liabilities. So, other than them saying, 'Well, we've put this amount of money in, or provided these amounts of services', where's the evidence?

[215] **Mr Price:** Okay, so I think this is a technical accounting point we're getting into now. Tracey, do you want to—?

[216] **Neil McEvoy:** Well, where's the evidence, really? That's the question.

[217] **Mr Mayes:** The Heads of the Valleys Development Company have provided a breakdown of the £55 million. I don't understand why it's not in their accounts. But we have got that from the Heads of the Valleys Development Company.

[218] **Neil McEvoy:** So, has that been verified, or—? Do you just accept that they've done that and that they've provided those services without actually putting it down into their accounts? It's more than a detail, with respect.

[219] **Mr Price:** I believe it has been at least partly verified. To what level of detail, I can't stand here this morning and tell you, but I am aware of quite a few companies that have done a significant amount of work—who have told me they have done a significant amount of work—and they are household-name companies who are at risk and have decided to put their fee in abeyance to be settled at financial close of this project.

15:00

[220] **Neil McEvoy:** Verified by—?

[221] **Mr Price:** Well, I think what I would like to do is to come back with a detailed note on that point.

[222] **Neil McEvoy:** Okay, so you've said that they've been verified, but you're not sure who's verified—

[223] **Mr Price:** No, I said to what level of detail I am not sure.

[224] **Neil McEvoy:** Verified by who?

[225] **Ms Mayes:** They're verified as part of the ongoing due diligence of the

new project.

[226] **Mr Price:** So, we're beginning to slip into the project for tomorrow, which again I don't want to do.

[227] **Neil McEvoy:** No, not really, no.

[228] **Mr Price:** This is why I'm saying it would be better to provide a note.

[229] **Neil Hamilton:** To verify this point, you would need to see the contracts between the company and the service providers.

[230] **Ms Mayes:** We have seen some contracts.

[231] **Neil Hamilton:** You have, all right.

[232] **Neil McEvoy:** Some, or all?

[233] **Ms Mayes:** I've only seen some, but—.

[234] **Neil McEvoy:** So, therefore, there's not the evidence via contracts to prove that this amount has been put in, only some.

[235] **Ms Mayes:** It will depend on what the due diligence providers have seen. I've not seen all the—

[236] **Mr Price:** I think the best approach to this—because we are slipping into the due diligence process of the live project, which is being considered by Cabinet tomorrow, because all of these things are material factors for that—is to come back to you in writing.

[237] **Neil Hamilton:** But this is water under the bridge; it's not relevant to the decision tomorrow.

[238] **Mr Price:** It is relevant to the decision tomorrow, but I can't get into necessarily—. Well, no, it's very relevant to the decision as of tomorrow because some significant contractors, including the construction company involved in this, have not yet been paid for the work they have done and they have chosen to get paid on financial close.

[239] **Neil Hamilton:** There's nothing wrong with that.

[240] **Mr Price:** The amount that they want to be paid on financial close and the amount of work they have done, and the value for money of that work, and the contractual status of that work are very important things in us agreeing or not agreeing to provide any finance. That is why—

[241] **Neil Hamilton:** Are they? I'm surprised to hear that.

[242] **Neil McEvoy:** When did the due diligence begin?

[243] **Mr Price:** On this particular round of the project?

[244] **Mike Hedges:** On the first one.

[245] **Neil McEvoy:** On the—

[246] **Rhianon Passmore:** Phase 1.

[247] **Neil McEvoy:** Phase 1, yes.

[248] **Mr Price:** On phase 1, in and of itself, it would have begun in 2012.

[249] **Neil McEvoy:** Is somebody else going to cover due diligence or can I address it now?

[250] **Nick Ramsay:** We are going to move into that later.

[251] **Neil McEvoy:** Okay, I'll leave it for now.

[252] **Nick Ramsay:** And I appreciate that we do need to be a bit mindful of the process tomorrow. I think that we're fine—

[253] **Neil McEvoy:** It's the initial due diligence that I'm concerned with.

[254] **Nick Ramsay:** —with the initial due diligence. We will deal with that. Right, Mohammad Asghar.

[255] **Mohammad Asghar:** Thank you very much, Chair. Mr Price, listening to you for the last one hour and 45 minutes, actually, more questions have come into my mind than you've given answers. I'll be very quick and sharp, 'yes' and 'no'. You know that the company for the Circuit of Wales, when

they initially started their business project—it's in my region, I was very attracted—said 6,000 jobs. It was attractive to the public—great. But, do you know how much Silverstone provides—the maximum number of people—when they're in action?

[256] **Mr Price:** I did know, yes, and it's nowhere near 6,000.

[257] **Mohammad Asghar:** How much? Two hundred. They're one of the best circuits in the world, and the oldest, and the money—. You know, the all-Wales circuit is a highly specialised area, it's not like buying or setting up a car factory or anything like that, or the manufacturing industry, or the retail industry; it's highly specialised and you are under contractual obligations with other circuits. Have you got some specialised people in Welsh Government who actually looked initially at this project?

[258] **Mr Price:** So, in terms of the due diligence of this project, all the way through—and I think the auditor general's report recognises this in saying that we sought a range of views from external parties, including people who do this type of work for banks and for investment houses on a regular basis—we sought their views before going forward. So, this was not just something that officials within the Welsh Government looked at; this was contracted out in 2012–13, and more recently, where a significant amount of due diligence has just been completed.

[259] **Mohammad Asghar:** The thing is, you just keep saying 2 per cent. We are talking £9.3 million of public funds. You are a custodian of public funding. You just mentioned in one of the earlier questions here that some of the contracts are still on the table. Are they contracts that were initially placed when the 9,000—? You know, nearly 6,000 jobs were involved, and it has now come down to 1,000, which you mentioned earlier. So, are those contracts still there? Because in financial terms, if you go to a bank for borrowing, and after a certain period if the bank doesn't lend you the money, they revalue again. They will ask for another business plan, they will ask for another valuation of the property. Have you done that?

[260] **Mr Price:** Yes, and this is getting into an area where it is inappropriate to get into. So the full due diligence of the project, as of today, as of with all the contracts I began to just touch on, which is the 30 or the 55 figure, is being looked at—or has been looked at—in conjunction with the potential impact on the economy. And I believe we have used the best people in the market, wherever they might be, to help us come to an answer on that.

[261] **Mohammad Asghar:** Another area, which is, when you lend to a company especially, you always look at the people who are involved in the company. In old times, there were the CRB checks, or whatever they called them, regarding credit worthiness. Have you done that also for the company?

[262] **Mr Price:** From day one on this project, at different levels, in the same way as we do for all projects in the first place, we always look at the individuals behind the project, whether they've been disqualified before, what their track record is, what their experience is. But for this project, because of the level of exposure for the public purse, because of the amount of interest from the public, from the media, from the political process, and the amount of scrutiny involved, we've gone way beyond where we normally would, and have applied a process that, in fact, goes beyond the old Financial Services Authority process for fitness to operate. So, I am absolutely convinced that we have looked into all individuals involved in this project in detail, as part of the current round of due diligence.

[263] **Mohammad Asghar:** What you just said, looking by people, is different from being looked at by professionals who are in this field. That's what my point is. And I think you just said earlier the Wales Audit Office is not—. I think they're very fair and their report is better than expected. But I get information from different sources, which is totally, totally—. We are not asking the players of the game here, we are asking the people who are sitting so many miles away, and trying to protect the team that has lost the game. That's what my point is here, because you're trying to protect some people who have—*[Inaudible.]*—gather information. Could I get the worthiness of this company? That sort of thing is not there.

[264] **Mr Price:** All of that is part of the due diligence that has been undertaken.

[265] **Neil Hamilton:** The thing has no assets, so the question of credit worthiness doesn't arise, really. It's a question of how credible the project is.

[266] **Mohammad Asghar:** Another final point, Chair.

[267] **Nick Ramsay:** A final point and then we'll move on.

[268] **Mohammad Asghar:** Thank you very much. If this business is so profitable, surely there are hundreds of companies in the city, London and

everywhere— private companies—that would love to come and invest in that sort of project. Why the public purse? And why was the Welsh Government so keen to give them public-purse money without looking into many areas, which they had to, before they parted with 1p?

[269] **Nick Ramsay:** I think that's a very general question, which probably isn't relevant at this point.

[270] **Mr Price:** I can have a little go at that. When the project first came to the Welsh Government, seeking originally about £30 million in total—£30 million of grant was the original proposition—that was a time when the markets were very down. People weren't looking to invest or take risk, and the private sector proposition—. And this was a time when an organisation called Regeneration Investment Organisation had just been set up by the UK Government, which I was on the board of, which went around the world trying to bring investment into the UK. And that was partly why the UK Government set up the UK guarantee scheme for infrastructure, which guarantees up to £40 billion-worth of infrastructure schemes in the UK, including schemes in the centre of London. So the scheme outside of King's Cross—the big scheme there—had a big UK Government-backed guarantee to enable that to be delivered in the height of recession. It's not my role to speak for a private sector investor, but the private sector investor would have looked at that and said, 'We're proposing to do something in what is quite a difficult part of Wales to get investment in. Do you have confidence in what you're saying? If you do, put your money where your mouth is.'

[271] **Nick Ramsay:** Okay. I think that's fine as an answer, because I think we are getting off the subject of the auditor general's report, and going back too far. Neil Hamilton has a question.

[272] **Neil Hamilton:** I'd like to explore the question of separation of duties in officials in paragraph 3.35 of the auditor general's report. He refers to officials who were involved in advising Ministers about the Circuit of Wales project also playing a significant role in the payment authorisation process. For very obvious reasons, these two functions are usually separated, and that doesn't seem to—according to the auditor general's report—have been applied consistently as a rule. So, I wondered if you could just comment on that and if, in the light of the auditor general's report, tell us whether you've made any tightening up of the rules or made any other changes we ought to be aware of.

[273] **Mr Price:** This is the other point that the report talks about European funding, but specifies WEFO in paragraph 3.41. I'm not sure that I fully agree with the sentiment of the AGW's report on this. I have been assured by many different parts of the Welsh Government that we did, in fact, have separation of duties in place. We are looking at it again. I have, just this morning, asked to ensure that we properly look at this and don't just say, 'No, we've got separation of duties; it's fine.' So, that is being doubly looked at. But, Tracey, perhaps you could get into the detail of how we ensure separation of duty.

[274] **Ms Mayes:** The grant payment system has automatically got separation of duty programmed into it. So, the process that was undertaken here was that the team received who made the recommendation for fund; they received the invoices from the Heads of the Valleys Development Company; they checked those invoices to make sure they were in line with the offers that were on the table, either the PDG or the guarantee; they then submitted those invoices to the finance colleagues and the finance colleagues gave an independent view of whether those invoices should be paid. There would have been one individual who would have then agreed what funding level should be paid. They would then put it onto the system, and then somebody who was senior to them would approve that expenditure, once they'd reviewed the invoices again. So, there's a three-stage invoice-checking system in place before any of the payments were made. Admittedly, only the PDG ones were put through our system, but the other ones would have gone to the bank and the bank would have then put separate checks in as well. So, we're quite content that there's a significant amount of checking of those invoices.

[275] **Neil Hamilton:** Because in paragraph 3.37 of the report, the auditor general says,

[276] 'the finance team (which was less familiar with the detail of the Project) tended to defer to the budget holder's judgement when approving claims for payment.'

[277] So, even though, superficially, the separation that I referred to took place, in practice, the auditor general seems to think that that might not mean very much.

[278] **Ms Mayes:** The people who were involved in the finance decisions, I know, were very black and white. Although they would have deferred back to the budget holder's judgment, they would need to be convinced of those

rationales before they took those opinions on board. I think, in fact, they did reject a number of payments because they weren't in line with the offer.

[279] **Neil Hamilton:** So, you're satisfied that all the payments that were made were properly authorised and within the terms of reference of the various grant funding mechanisms from which they ultimately derived.

[280] **Ms Mayes:** Yes.

[281] **Neil Hamilton:** Yes? Very good. Well can I, then, move on to ask separate but related questions about applying and enforcing funding conditions, and what level of experience, training and supervision there is for Welsh Government staff involved in managing substantial sums of public money of this kind?

[282] **Mr Price:** Yes. So, I'll start to take this one, but, again, I might bring Tracey in because this is Tracey's particular background, I guess. So, the systems that we have in place—the IT systems that we have in place—force people to have the relevant training. You have to be trained, otherwise you can't be—I can't remember what the terms are now, but you can't issue or you can't authorise, et cetera, et cetera.

15:15

[283] The issue of experience I think is a much more difficult one, personally, and it's something that I think needs to be addressed going forward. I've just implemented, or am implementing, some changes within my group within the Welsh Government that should, hopefully, move experience around the group and also draw experience from outside the Welsh Government in. But, in the event of this particular project, the people involved, both on the finance side and on the project side, were probably some of the most experienced individuals we have. So, I think the experience comment for me is more relevant, actually, to other parts of the business, rather than this one.

[284] **Neil Hamilton:** Right. Okay.

[285] **Nick Ramsay:** Excuse me there, Neil. I'm a bit confused by this because recommendation 5 of the auditor general's report suggested that the Welsh Government:

[286] 'Strengthen the process by which project claims are checked, authorised and passed for payment, to ensure that appropriate separation of duties is maintained.'

[287] Welsh Government has accepted that recommendation, so clearly you do accept that there has been a problem in this area.

[288] **Mr Price:** No.

[289] **Nick Ramsay:** You don't accept there's been a problem.

[290] **Mr Price:** No. I don't think that you have to accept that there's a problem to agree that you should make something better.

[291] **Nick Ramsay:** Well, surely there must be some element of a problem or you wouldn't think it's necessary to accept the recommendation.

[292] **Mr Price:** No. I'm genuinely not trying to be a pedant here, but, clearly, if the auditor general, having looked at all the evidence, believes we could things even better, then, to the extent that doesn't damage the business that we—

[293] **Nick Ramsay:** Better than it being done badly—surely, that's the corollary.

[294] **Mr Price:** No. Better than we already do it. We should be a business that seeks to constantly improve. Even when you think you're the best, you should try and be even better. So, I have got no problem, and I'm not saying we are the best, but, even if you reached a point where I thought we were doing everything perfectly, you could improve it, and I would not want to reject a recommendation to say we should do things better.

[295] **Nick Ramsay:** You could've made the point there, though, that you feel that things are okay, but you didn't, did you? You said that you will review the current process.

[296] **Mr Price:** Well, I don't think being defensive is in the spirit of working with the auditor general or working with PAC. I genuinely think we're all looking for the same thing, which is to get better. Therefore, to the extent that we can make our processes better, I see no reason to reject that, and we would want to make our processes better.

[297] **Nick Ramsay:** Would you understand that, to the outside eye, it might appear that you are, to your credit, trying to put the necessary processes in place to improve things, but you're trying to do that without accepting there's a problem, or without admitting there's a problem? That would be one way of viewing the situation.

[298] **Mr Price:** My initial look at this had me asking the same questions that you're asking, but, having gone through and spoken to, depending on your view, some of the most difficult and stubborn and pedantic people within the Welsh Government about these processes, who all have told me that these processes were okay, or some of the best possible people in doing governance, and, on different days, those two things will be true to different people—. But my point would be: what can we do to make it better? Because I would want to be in a position where the auditor general was not able to say, 'You could have made it better', because we were completely in line.

[299] **Nick Ramsay:** 3.4 of the auditor general's report says that:

[300] 'On 11 January, the Welsh Government official'—

[301] alluded to earlier—

[302] 'instructed his finance colleagues to approve payment of the full £200,000...paid to HoVDC on 16 January 2013, although Welsh Government officials had not seen the relevant parts of the conditional sale contract.'

[303] **Mr Price:** Which paragraph was that, sorry?

[304] **Nick Ramsay:** This is 3.4. It's on page 39. Sorry, 3.40. Sorry, my mistake. So, clearly, either you accept that that was a proper way to behave in approving that payment of the full £200,000 or it wasn't, and I assume it wasn't the appropriate way to behave, which is why recommendation 5 of the auditor general's report was accepted.

[305] **Mr Price:** Okay. So, I think it would be useful for—. This is the escrow thing we were talking about earlier. So, again, I am not sure, having looked at the detail of this and spoken to internal governance colleagues, that this process was as far out of the ordinary as this report implies. The money was paid into an escrow account, not into the company's account, and could only be drawn out of the escrow account, I believe, if—

[306] **Rhianon Passmore:** Chair, for clarification, what is an escrow account?

[307] **Mr Price:** An escrow account is an account where funds are placed so they are available, but those funds can only be drawn down if certain terms and conditions are delivered against, and the terms and conditions that were needed were protecting that money. So, I don't think that plays into the separation of duties issue at all, actually.

[308] **Nick Ramsay:** So, you dispute the auditor general's comments on 3.40 at this point.

[309] **Mr Price:** I think it's a strong thing to say that I'm disputing the auditor general's comments, but what I am saying is—

[310] **Nick Ramsay:** It is quite strong; you're quite right.

[311] **Mr Price:**—the conversations held with officials on that, and the use of escrow accounts or not, and how often they are used or not, does not seem to be fully reflected in the wording that is particularly in that paragraph. I don't know, Tracey—. Maybe, not getting drawn into the paragraph—

[312] **Nick Ramsay:** But you accept—. Okay, you accept recommendation 5, that the processes need to be improved.

[313] **Mr Price:** Yes.

[314] **Nick Ramsay:** Okay. I interrupted Neil Hamilton. Did you want to continue?

[315] **Neil Hamilton:** I think the point of the question here is that you don't generally give money to intermediaries like solicitors in these circumstances to be used as and when a condition might be met. I don't know whether that is or isn't the case, but that seems to me the inference to be drawn from the relevant paragraph in the auditor general's report.

[316] **Mr Price:** Tracey, do you want to just talk about PDGs and whether we do or don't?

[317] **Ms Mayes:** The nature of property development grants means that we can use escrow accounts, and it's not a common occurrence, but it's not a

rarity either. It is something that does happen, and we do pay through those escrow accounts. I agree with the wording—‘not normally eligible’—because it’s only in specific instances, but in this instance we believe it was correct.

[318] **Neil Hamilton:** Right. Okay, fine. I’d just like to move onto another related question, in relation to the adoption of best practice with providing financial support for businesses. Regardless of whether the ultimate funds are Welsh Government or UK Government or EU funds but spent within Wales, I presume there is a consistent set of rules of what is best practice in these circumstances. Can you confirm whether that is the case, or is this an ad hoc thing, or what?

[319] **Ms Mayes:** The Welsh Government manages a significant number of grant schemes, some of them to third sector, some of them to private sector, some of them to public sector. Some of them are very, very small, a couple of thousands of pounds; some of them are very big, millions of pounds. We cannot apply the same processes to every one in the same manner, so there is a level of proportionality. There are instructions on what is best practice, and they’re available on the intranet, for managing grants, but officials have to use some skills and some knowledge and their expertise to make sure that the work that they actually put in place is proportionate, so that it doesn’t take you three years to get a £5,000 grant paid, or put some business out while they’re waiting for payment. So, proportionality is key, but there is best practice and it is available on the intranet.

[320] **Neil Hamilton:** Right.

[321] **Ms Mayes:** We can include the link to that, if you want, in the note from James.

[322] **Neil Hamilton:** Well, I’m sure the auditor general will be interested in that. My level of interest may not be sustained that far, but there we are. [*Laughter.*] And my last question is in relation to value-for-money requirements and sustainability, which you mentioned a moment ago, in agreements for business funding. To what extent are you going to revise the way in which you do things for the future as a result of the experience that you’ve had in relation to this business? It’s a huge project—very unusual. I can well understand that you’re breaking new ground in a sense, and the way in which you have seen this project develop over an immense length of time, and the different questions of value for money, in particular, which arise in relation to different parts of the project, given its speculative nature. To what

extent has this changed your perception of how to handle projects of this kind—or, even, smaller projects, where there may be lessons to be learned?

[323] **Mr Price:** I think all of these investigations and reports are useful to us to be able to improve our processes and procedures. The thing, of course, which is really difficult to deal with, which is a bigger issue that hasn't really happened here, is when people don't adhere to processes and procedures. That's the biggest human error. That's the biggest problem, I think, that I end up dealing with on a daily basis, actually, and that's normally for understandable reasons, but it doesn't make it any better. The biggest thing, I would say, that we will have learned on the back of this, which I don't believe went wrong in this instance, but perhaps could have done, was the related parties issue. Even then, I think it's worth exploring what we're proposing to do, because what we're proposing—or have done; sorry, what we have already done is to include a question which basically says, 'Have you got related parties involved?' and 'Are you intending to put any money through a related party?' If the company or the applicant lies, and pushes something through a related party, we are not proposing that we will engage people to try and catch them out upfront. What we would then rely on are the courts and the processes, because someone would have been engaging in criminal or fraudulent behaviour, and pursue them in that way. But I could well see, in three or four years' time perhaps, the committee saying, 'Well, why didn't you put further checks and balances?' And, of course, the answer to that is that we can only do so much with the staff that we have available, and you have to make a judgment on what is and what is not proportional. We will always, hopefully, learn and seek to have a learning culture in that, and PAC and WAO are very important in that process.

[324] **Neil Hamilton:** Thank you very much.

[325] **Nick Ramsay:** Okay. We're having a bit of a marathon session here. You are, for very good reasons, the substantive item on our agenda this afternoon. I propose, if Members are happy, that we take a five-minute break at this point, if it's okay with you, and if then we could have you for an extra 10 minutes or so because we've still got a few questions to go through. Is that okay?

[326] **Mr Price:** That's okay. Thank you.

[327] **Nick Ramsay:** I think we could benefit from a—well, I would certainly benefit from a—short break at this point, anyway, to collect my thoughts.

Okay. Return in about five minutes.

*Gohiriwyd y cyfarfod rhwng 15:27 a 15:33.
The meeting adjourned between 15:27 and 15:33.*

[328] **Nick Ramsay:** Welcome back to this afternoon's meeting of the Public Accounts Committee. The next question is from Rhianon Passmore.

[329] **Rhianon Passmore:** Thank you, Chair. How did the Welsh Government ensure that officials making decisions acted within competence or delegated authority, in terms of the FTR early phase?

[330] **Mr Price:** Okay. So, there is a clear delegation framework within Welsh Government today, and there was a clear delegation framework within Welsh Government at the time at which that was done. However, that delegation framework has changed. So, at the time, the formal delegation framework would have meant that any expenditure over £25,000—which I think is still the same today, actually—would have required ministerial sign-off, hence the requirement to have a submission folder or, now, a ministerial advice folder to a Minister, to get sign-off for that. And then there's a series of schedules and delegations for people to sign off different elements. I believe the processes we have in place now are better than then. The two or three ways in which they are better for the property aspect of the department are: there's something called the property leadership team, which wasn't in place at the time. The property leadership team will look at all PDG applications and scrutinise them from a technical perspective. Further to that, the investment panel, which is like an internal version of WIDAB, will also scrutinise the PDG alongside any other funding. Then finally, if the PDG is above £1 million—I think there's some conditionality around this one—but if it's above £1 million it will typically go to WIDAB as well. So, those additional layers of checks, if you like, have been brought in over and above what was the case in 2012.

[331] **Rhianon Passmore:** So, in regard to the phase 1, 2012 decision making and repayable/non-repayable loan allocation—in terms of that, how did you at the time ensure appropriate supervision and clear accountability? You say that it's moved forward now and that's of interest to this committee.

[332] **Mr Price:** So, at the time, it would have been signed off after the Minister had approved it at head of division level. So, that's senior civil service level—the first tier of senior civil service—without the formal need for

this wider scrutiny that we now have in place. However, looking at the PDG and the loan aspect, there was significant scrutiny provided to both of them. That scrutiny was provided to both of them as a result of things like CGU—central governance unit—getting involved, legal services raising some questions, and them getting involved. So, it was more by happenstance rather than by system design. I think what we have now would have just delivered that same level of process and checks regardless as a consequence of the system.

[333] **Rhianon Passmore:** So, you would say that those changes in that framework of surety are clear and accountable compared to what's—

[334] **Mr Price:** I would say they provide further levels of scrutiny to the decision-making process.

[335] **Rhianon Passmore:** So, what were the procedures for documenting decisions on that funding approval previously in 2012?

[336] **Mr Price:** Maybe I should actually bring Tracey in on this because 'procedures' is perhaps quite a strong word. There's a series of guidance that people have to follow, but there is some latitude in terms of how people follow that guidance. But Tracey—

[337] **Ms Mayes:** In terms of discussions that are ongoing between the applicant and the officials measuring it, they should be taking records and noting down any decisions that were made or any discussions made. Then, those recommendations from officials would then go to Ministers in an MA. I'm not totally convinced I've answered the question properly.

[338] **Rhianon Passmore:** I'm just trying to build a picture in terms of processes and mechanisms that were in place previously in terms of that.

[339] **Ms Mayes:** For the PDG?

[340] **Rhianon Passmore:** Yes.

[341] **Ms Mayes:** So, for the PDG, officials would have had the conversations with officials—and in this case, it went through the MA process—where it would have gone to legal advice and through the corporate governance team if necessary, then up to the Minister for her decision.

[342] **Rhianon Passmore:** So, in terms of how robust that situation is for the approval of PDG now, compared to what it was previously, you would rehearse what you just said in terms of supervision—

[343] **Mr Price:** Yes. I think the additional levels of scrutiny are bound to make the evidence trail stronger, because people will be asking questions and generating paperwork in that. If you were to ask me—and this is definitely challengeable, what I'm about to say—what I would say would be good practice is the minimum level of record keeping necessary to demonstrate why you did what you did to line management or to audit. I say 'the minimum necessary' because otherwise we could have an industry of people just writing everything down, which would be an inefficient use.

[344] **Rhianon Passmore:** In regard to the discourse around what was there in place in 2012 in terms of PDG and in regard to the holy grail of strong economic growth, huge numbers of jobs in a Valleys community, against the criticism of Welsh Government, which is that it's risk averse, how do you balance what's occurred previously in terms of those improved mechanisms, those improved frameworks around allocations, and how would you evidence to this committee and reassure this committee the current due diligence process is robust and optimally robust?

[345] **Mr Price:** When you say the current due diligence process, do you mean in general?

[346] **Rhianon Passmore:** Yes, so outside of the allocations of PDG, in terms of the current due diligence process that we're undergoing at the moment, that is live—

[347] **Mr Price:** For the circuit—yes?

[348] **Rhianon Passmore:** For the whole programme. How would you evidence that that is rigorous and optimum?

[349] **Mr Price:** I guess I need to be a little bit careful as to how much detail I go into, but I believe, if I was to provide more detail at a later date, that you would be convinced that it was detailed and rigorous. We have gone out to a whole series of different people to do different parts of the business.

[350] So, there's someone looking at the business plan, there are people looking at the assumptions under the business plan, including specialists in

motor sports, specialists in engineering, specialists in extreme sports, specialists in music and events. Cost consultants—some of the same ones that we use on transport projects, routinely—have been employed to look at the total cost of building the circuit. Does that look like value for money? Do the contracts in place look like they're reasonable? The fit-and-proper-person test, as we've talked about, that is really akin to the old FCA test, but I suspect goes a bit further than that. A whole series of legal tests, state-aid tests, balance sheet tests.

[351] And added to that, we've had an internal governance group created within the Welsh Government, where we've almost purposely picked out the people who will ask the most difficult questions to ask questions of the project team to ensure that whatever the decision is tomorrow that it is as informed as it possibly can be.

[352] So, I think we have done a proper process this time. It's very time consuming, though, I would say, and has involved an awful lot of people and will have cost quite a lot of money in and of itself. The judgment is, 'What type of project do you go to this level of expense on?' I guess part of the answer is the type of project that is asking the public sector to take a £200 million risk.

[353] **Rhianon Passmore:** In terms of previous criticism of Welsh Government that it's risk averse, would you have any comment on that?

[354] **Mr Price:** Well, I find myself in, quite often, a difficult position, or, as I describe it, sitting on the fence on this one, because one person's risk-averse stance is another person's protection of Government funding. Depending on where an individual finds themselves sitting vis-à-vis a particular project or a particular policy, quite often, one individual will think that one thing was a really good idea—'Why on earth was the Welsh Government spending time checking it out?'—and another person will say, 'That's a completely bad idea, you should be doing far more scrutiny'. I think it's my role to balance out the need for risk taking and the need for good governance. My personal view—although I haven't yet been able to achieve it—is that it ought to be possible to take riskier decisions quicker, in a safer way.

[355] **Rhianon Passmore:** So, finally, to finish my line of questioning, then, does that mean that we have suitable, appropriate and reasonable frameworks in place to balance the two issues, in terms of projects that have

public funding to a higher level with that level of risk, in terms of our economic desires across Wales, and if not, what needs to change? You mentioned earlier on the UK framework around the economic efficacy test, I think you called it. So, have we got those suitable frameworks in place?

[356] **Mr Price:** I think we've got suitable frameworks in place, but I think we're evolving them all the time. In any future economic plan or economic strategy that comes up, I would like to personally see something embedded—and this is the wrong term I'm about to use—but something that's almost like an automatic stabiliser. Because, in my view, we—well, not just we; governments worldwide tend to set up an economic plan that is good for the point at which they started writing it.

15:45

[357] Quite often, time goes by, and you enter a growth time, or a decline time, and then you spend another 18 months, two years, going through scrutiny to set up another plan, by which point it's out of date again. So, some kind of framework that is good for the longer term, I think, would be very helpful for us to take this type of decision, within a wider economic context.

[358] **Nick Ramsay:** Lee Waters.

[359] **Lee Waters:** You've just set out the range of risk assessments you've put in place for the current bid—it sounds like you've gone to town on it. This time, you said, just a few minutes ago, that you think you've got it right this time. Implied by that, I assume, is that you didn't get it right at the beginning.

[360] **Mr Price:** Well, we haven't yet been in a position where we've had a live project that has been asking for £200 million to be put into it. So, I think, perhaps, I used the wrong form of words there. So, previously, the question was: should we invest £2 million, and were we then prepared to take a risk on guaranteeing what turned out to be £7.2 million of finance, as to whether we would get it back? The question today—and I'm not giving anything away in this, because it's been in the newspapers—is, roughly speaking, should we guarantee £200 million? So, I think—well, it's more than 'I think'; £200 million is clearly a very different sum of money than £9.2 million. So, I think it's right and proper that that should have a whole lot more scrutiny, of another level, than £9.2 million.

[361] **Lee Waters:** Because the trouble is, reading the auditor general's report, there's a degree of mission creep to this whole thing—having given a level of guarantees for one stage, you then find yourselves committing yourself to more and more, and the level of risk goes up and up. So, do I take it from your response that the level of risk assessment at the beginning, you still feel, was proportionate to the size of the project at that time, but wouldn't be proportionate now?

[362] **Mr Price:** Yes. I think the level of due diligence—if you want to call it that, because this was looking at potential economic impact, potential economic risk, which was done right at the very beginning—was proportionate for what we were being asked to look at, which, at that time, was £30 million, not £9.2 million, but £30 million, in a project that would be fully financed by the private sector. What we're now looking at is, actually, a significantly different project as well, if you go into the detail of it, which I can't do today. But it's a significantly different project, financed in a significantly different way.

[363] **Lee Waters:** Back in March 2012, when this proposal first came forward, you commissioned external consultants' advice, and they looked at the risk. And one of the risks they identified was opportunities for disproportionate returns for companies associated with delivering the project, in some cases regardless of investment performance, and for private investors, and a lack of significant investment equity by the principal shareholders. Was that prescient?

[364] **Mr Price:** I think that's a very relevant point, and a point that is being considered—well, hopefully, it's not still being considered as we speak, but certainly a point that was being considered very heavily in the run up to any decision tomorrow, as part of a negotiation. Because any private investor will want to make the maximum amount of money that they possibly can, and that's just business, I guess. The role of the public sector in this, I think—but this is open to debate, given the level of guarantee that is being looked for—is to ensure that that profit is minimised to the lowest level it can be, while still allowing some incentive for success.

[365] **Lee Waters:** So a risk highlighted in March 2012 remains a live question in June 2017?

[366] **Mr Price:** Well, with respect, it's bound to, because the project has

iterated three times, with different financiers involved in different levels. And I genuinely think, if we didn't have that as a live issue, all the way through, that that would be an error in our judgment.

[367] **Lee Waters:** Those two specific points do concern me, because it's about disproportionate returns for the investors and a lack of them putting their own money on the table. And you're confirming that remains a concern.

[368] **Mr Price:** No. What I'm confirming is that will remain something that I would want to look at in any project that had Government money going in alongside private money.

[369] **Lee Waters:** You tantalised us about 10 minutes ago with saying that a very robust fit-and-proper purpose test had been carried out this time, far more robust than would normally be the case. You didn't tell us what the conclusion of that fit-and-proper purpose test was.

[370] **Mr Price:** And I can't because it's inappropriate ahead of any announcement tomorrow.

[371] **Lee Waters:** Do you wish you'd conducted that more rigorous test at the beginning?

[372] **Mr Price:** Do I wish? I think it might have helped with some of the presentational issues we faced in the media. I don't think it would have led to a different decision.

[373] **Lee Waters:** Right. [*Inaudible*.]—their cover against always saying that they weren't fit and proper people. Okay, that answers the question, thank you. In June 2014, Welsh Government offered repayable business finance of £16 million. Six months later, the Welsh Government refused to underwrite a £40 million loan to Blaenau Gwent district council for the Circuit of Wales because the risk that the loan guarantee could be called upon was unacceptably high. So, within six months, you'd gone from authorising £16 million of your own to telling Blaenau Gwent, 'Don't touch it because the risk is too high.' What changed in that six-month period?

[374] **Mr Price:** So, this wasn't about the project; this is about the total amount of money that may be going into a project and the appropriate way to deliver funding to a particular business. So, from memory—and I want Tracey to jump in if I'm wrong here—that money that the local authority were

offering, the local authority were asking for us to guarantee that funding. So, that would have been the equivalent of us putting in that funding. The company, I believe, were also looking for funding from us at the time. If the local authority had wanted to put money in or had been able to put money in without reference to us as a guarantee, and therefore had taken it upon themselves to do due diligence and checks, I think that would have been a different thing. But this, in my view, was just another cut of the same question, which is, 'Can Welsh Government put money in?'

[375] **Lee Waters:** So, it's fair to say you've had significant doubts all along about whether or not this was a good investment of public money.

[376] **Mr Price:** I apologise if what I just said could lead people to say, 'Doubts about whether this is a good investment or not'. I think what I'm trying to say is that our view is that if Welsh Government's going to put the money in, then Welsh Government should put the money in. Welsh Government putting the money in, in effect, through another vehicle doesn't sound like a very good idea to me. It's adding additional layers of complexity. We would be relying on a smaller local authority in Wales to do the level of due diligence that you're questioning me about as to whether we can do this. If this is unusual for the Welsh Government, it would truly be unusual for Blaenau Gwent. So, I just think, from a governance perspective, people thought that wasn't the route to go down.

[377] **Lee Waters:** And, on reflection, because from the outside—and I've only followed this loosely over the years—it does seem as if great claims were made, and in an area like Blaenau Gwent these are seductive claims, because it's an area that economic policy hasn't successfully reached in 100 years. So, everybody, naturally, wants to do something to help. It seems that the developers are constantly—. Aneurin Bevan used to talk about the coattails of power disappearing round the corner; you couldn't quite touch them. And it seems there's a parallel with this: they're constantly offering the promise of a great economic miracle, and they're always saying it's private sector-led and the greatest risk is to the private sector, but, from the story we're reading in this, it's constantly come with a prelude of demands for further Welsh Government funding, which you've been hesitant—rightly hesitant—to deliver. So, reflecting back upon it, do you think that the developers have been straight with you from the beginning about the level of public funding they require to make this viable?

[378] **Mr Price:** That is a question that's almost impossible to answer, I

think, because I don't know what goes on inside anyone's heart or mind. I guess what I can say is that the people involved in the project have changed quite significantly from the beginning, and, if we look at the project team as we see today in comparison to the project team right at the very beginning, it has become much more 'corporatised'. That's the word I would probably use. So, they have brought on board people with significant relevant experience, and those individuals who have been brought on board with that experience, I believe, have been quite clear in the meetings I have had with them, because I have been involved much more in the very latter stages of this project than at the beginning. I believe they have been clear with me all along about what it is they have expected for the last 12 months. Before that, what anyone's intention was, I don't know, but they certainly didn't deliver what they originally said they would deliver.

[379] **Lee Waters:** And they've been unafraid of being rather muscular in using external pressure to ratchet up the pressure on the Welsh Government. The latest claim we've had is of Scottish Government interest. There's been quite a deft, if not aggressive, use of public affairs media tactics. Does that cause you concern or is that par for the course?

[380] **Mr Price:** Honestly, it doesn't bother me at all. I think, perhaps, it's unfortunate that we live in an environment where that type of thing happens, but stuff often is played out in the press. It certainly doesn't influence—I say that. Does it? I think I'm confident in saying it certainly doesn't influence me, and, in the current environment in which we operate, I suspect if I was sat on the other side of the table, I might well engage. I hope I wouldn't engage in any tactics that would be wrong or misleading, in answer to your first question. But, in terms of ramping up pressure, I guess that's the environment we now live in. I think it would be much better if we didn't live in that environment and if people could just stick to the basic facts on all sides at all points. But that's a big challenge in today's world.

[381] **Lee Waters:** And you don't feel they've been wrong or misleading in any way.

[382] **Mr Price:** I think that's a question I can't—genuinely, I don't think it would be right for me to try and answer that question.

[383] **Lee Waters:** Why not?

[384] **Mr Price:** Because I would either be confirming things on people when

I don't think it's my place to say they'd been 100 per cent correct all along, or I would be casting doubts without necessarily any particularly strong evidence. So, without looking at every single thing they have said publicly, and testing it all out, genuinely I think it's inappropriate for me to comment.

[385] **Lee Waters:** With respect, you're in charge of due diligence on, as you said, a significant amount of Welsh Government funding. It's not unreasonable for us to ask you whether or not you feel the people you're dealing with have been overstating.

[386] **Mr Price:** Right, so, my test at this point is around the capability of the individuals to deliver and around the project that they are proposing, and whether the project is a good project that has the potential to deliver. I am much less interested in whether people have been, for media purposes, overstating or understating particular aspects of it. Business, unfortunately, kind of does this all the time. We see overstatement of claims of things, and, provided it's not in a market-sensitive way, society seems to accept that. I'm not saying that I think that's a good thing. I'm just saying I think my responsibility is to look at the core of the project, the core business plan, and see: does that work, or does that not work? The purported facts that are in that are what is absolutely being tested. What is in the media from a due diligence perspective is absolutely irrelevant.

[387] **Lee Waters:** I guess this is why the Welsh Government has set up this arm's-length body, WIDAB—correct me if I'm wrong: the Welsh Industrial Development Advisory Board—to help advise on the veracity of these proposals.

[388] **Mr Price:** That's part of their remit, absolutely, yes.

[389] **Lee Waters:** And just to take you on a little bit to an element of the auditor general's report that we haven't touched upon yet, I don't believe, unless I drifted off, it was the way that the Welsh Government handled this process. In June 2014, WIDAB were asked to make a decision on an £80 million repayable business finance application, and the auditor general found that the Welsh Government did not make WIDAB aware of the offer of loan guarantee support by the Welsh Government to the developers whilst it was under review by WIDAB. Do you have a response to that?

[390] **Mr Price:** Yes. I think the auditor general's report states—and I might be wrong in this—that we were unable to evidence that we had told WIDAB,

rather than we didn't tell WIDAB.

[391] **Lee Waters:** It says, actually,

[392] 'Welsh Government officials told us that they had decided not to inform WIDAB of the potential loan guarantee support'.

[393] **Mr Price:** There we are then.

[394] **Lee Waters:** Is this another area where you aren't happy with the report?

16:00

[395] **Mr Price:** No, no. But I think that the timings on this are really important. I did have the timings in my head and they've largely left me now, but I'll bring in Tracey. The facts of the matter were that the WIDAB paper—and this is just a partial mitigation, it's not an answer—was written before the Minister had agreed to look at providing loan finance.

[396] **Lee Waters:** Yes, the submission was written on 28 May 2014—

[397] **Mr Price:** And therefore—

[398] **Lee Waters:**—and it was on 2 June that officials were instructed by the Minister to explore the provision of loan finance support.

[399] **Mr Price:** Yes, so the officials concerned—. The answer to that question from the officials concerned would be that they had no firm proposal to put on the table. All they had been asked to do was to explore whether any loan finance could work or not for the company. Therefore, for that fact, and for the fact that at the time this was outside the remit of WIDAB, it didn't go to WIDAB. I think our processes now would encourage people to put as much information on the WIDAB table as is possible.

[400] **Lee Waters:** So, it was germane to that decision and they should have updated them is essentially what we're saying.

[401] **Mr Price:** Well, I don't think it was particularly germane actually, because there was nothing to put on the table, but I think good practice would dictate that it would have been a good idea to raise it. And in any

event, the £16 million that was approved by WIDAB, which is what the WIDAB meeting was about, is not of use and will not be drawn down in any event of any decision on this project.

[402] **Lee Waters:** That is irrelevant, because that's post facto, isn't it? We didn't know that at the time. We're talking about the processes followed and whether or not you were as transparent as you ought to have been with WIDAB.

[403] **Mr Price:** Yes.

[404] **Lee Waters:** Okay, thank you.

[405] **Nick Ramsay:** Neil Hamilton, briefly.

[406] **Neil Hamilton:** I'd just like to follow that up a little bit, because the project, as it has always been, in the grand, sort of, blue-sky sense, but the level of exposure that is now being required of the Welsh Government to make this work is very significantly reduced from the start of the project. In 2014, I think it was, the potential exposure was £357 million, and then when that was refused, the company went away again and got a much higher proportion of private sector funding, and so that level of exposure came down to £234 million. Now, it's going to come down even further, assuming the decision goes in favour of the company, to something like £210 million.

[407] So, the company, Heads of the Valleys, has proved itself to be significantly more capable of raising private finance than perhaps it thought itself capable of at the start of the project. Perhaps, going back to the initial question that Lee Waters asked about whether your view of the promoters has changed by experience in this time, to what extent, therefore, I suppose, inferentially, you could have relied upon whatever they told you right at the start being now very significantly different from what you're being told today in terms of financing needs—. I think it's important that we keep a sense of perspective about this. Personally, I think it was a reasonable punt that you took with a very small amount of public money at the very start, £2 million plus the £7.3 million repayable loan. Now we're talking about much, much bigger sums of money, as you rightly said, and therefore it's right in those circumstances that a considerably greater degree of examination be undertaken.

[408] But there may be lessons here for the future in as much as, obviously,

when you're first approached, people are going to ask for as much as they can possibly get out of you. Now that we're being asked to provide, over a very extended period of time, relatively small amounts of money on an annual basis, but, in composite, a very large sum, which will be payable over 30 years, you will be committing Welsh Governments of the future for a whole generation to come. But, nevertheless, the Welsh Government has been playing a very hard ball in all this as well. So, although the promoters of the scheme, of course, have been hard-nosed businessmen playing this very hard, I think you've been very cautious overall in the way that this is done. That's caused a certain amount of irritation as well, and of course they've said, 'Well, this threatens the project.' Well, it doesn't look as though it has done, in the event.

[409] **Mr Price:** I think you've just played out what perhaps the circuit would say if they were here. They would say that potentially we have been too difficult with them, we've been too slow et cetera, et cetera. I think I would say there's been at least three key iterations of this project. So, the very first iteration of this project promised to fully finance it, excluding the £30 million from Welsh Government, then there was the iteration that you described, which was a much bigger sum, and that has come down, and that coming down coincides with, as I call it, the corporatisation of the company where they brought on board some really quite impressive individuals who had given their best shot, I guess, at getting an investable proposition. The due diligence, which I can't talk about, has been an attempt to say: is that best shot—which I believe it their best shot—good enough in terms of delivering something that's a proposition that is value for money for the taxpayer? That, of course, is the very difficult decision that Cabinet will have to take tomorrow.

[410] **Neil Hamilton:** Thank you.

[411] **Nick Ramsay:** Okay. Neil McEvoy—back to due diligence.

[412] **Neil McEvoy:** Yes, thanks for that. I'll touch on the—. I note you say you can't comment on the present due diligence. Yes?

[413] **Mr Price:** Yes.

[414] **Neil McEvoy:** Okay. That takes out some of my questions. I'm going to go back to the report, page 31, at 9(c)—the Government did not undertake due diligence reviews of companies supplying goods and services to the

project. So, £9.3 million was spent without any due diligence of companies supplying goods and services to the project. Do you think that's in any way acceptable?

[415] **Mr Price:** So, I think this comes back to what we were talking about earlier around linked or associated companies, and we've had quite a detailed conversation around how we were proposing to change the rules, which say you need to define upfront if you are planning to use—

[416] **Neil McEvoy:** Rather than go through a long and drawn-out answer—

[417] **Mr Price:** [*Inaudible.*]—due diligence, even under the rules today—the revised rules—I'm not sure that we would do anything that you would describe as due diligence. So, the question is whether we were getting value for money, not whether we've done due diligence.

[418] **Neil McEvoy:** Given the—. You were prepared to put up the £25.3 million then, when you look at the repayable business finance, without having done any due diligence on the related companies. If you think that's fine, and those are the procedures, fine.

[419] **Mr Price:** No, I think the detail is important in this. So, out of that £25 million, £16 million of which is the grant, the grant would only have been payable if the business had received full financial support only from the private sector and had reached financial completion, at which point the £9.2 million would be paid back. So, that is a pure commercial deal. The £16 million could never be drawn down in conjunction with the guarantee.

[420] **Neil McEvoy:** Okay. Do you accept that there have been shortcomings in the overseeing of the expenditure of public money on this?

[421] **Mr Price:** So, I think accepting that there are shortcomings is a strong statement. I will accept that we have learnt lessons that will allow us to do things better in the future, and protect us from things that could have gone wrong, but what I'm saying is, having looked at the detail, I don't think any of those things that could have gone wrong did go wrong. So, this is, in a way, a win-win—I get to improve the processes at no damage to the public purse.

[422] **Neil McEvoy:** No damage—£9.3 million has been spent.

[423] **Mr Price:** Sorry?

[424] **Neil McEvoy:** It's £9.3 million.

[425] **Mr Price:** But £9.3 million that I believe we can demonstrate was value for money.

[426] **Neil McEvoy:** Okay. All right, Chair.

[427] **Lee Waters:** If the project goes ahead.

[428] **Mr Price:** Well, £9.3 million that I can demonstrate as value for money regardless of whether the project goes ahead, because what you would have to do is take a step further back and say, 'Is this the type of thing Welsh Government should risk £9.3 million in at all?', and that, which we've not talked about at all, actually, is not the subject of this report. That is the decision that had the biggest amount of scrutiny within the Welsh Government: is that a reasonable thing to do or not? If it is a reasonable thing to do, then the question is: is what you're paying £9.2 million or £9.3 million for—are you buying a reasonable set of services for that that are value for money?

[429] **Nick Ramsay:** Neil McEvoy.

[430] **Neil McEvoy:** Okay. Do you think that you did enough, then, to manage public funds properly?

[431] **Mr Price:** Sorry?

[432] **Neil McEvoy:** Do you think you did enough to manage public funds properly, or do you agree with the auditor general that you didn't?

[433] **Mr Price:** I think that officials involved in this adhered to the processes in place at the time and did their best to manage public money. I also think that we have learnt lessons as a result of this, which will allow us to do it better next time around.

[434] **Neil McEvoy:** Okay. Why do you think the Heads of the Valleys Development Company elected not to have their accounts audited as they could have done?

[435] **Mr Price:** Tracey, can you take this one?

[436] **Ms Mayes:** They didn't have their accounts audited because they don't need to have their accounts audited due to the size of the company. There is no requirement for them to be audited, therefore they haven't done it, and we haven't asked them to audit their accounts because that would mean that they'd be using some of the public funds from the Welsh Government to audit the accounts, so—.

[437] **Neil McEvoy:** Okay. On, again, page 35 of the committee papers—paragraph 20—the Government accepted assurances that

[438] 'directors would not benefit from payments to related companies and permitted payments'.

[439] That wasn't the case, though, was it? Because £1 million was paid to Aventa.

[440] **Mr Price:** Okay, so I think we need to separate out what is a personal benefit and what is payment for services received. Having gone through the invoices and the services that were delivered, the team has convinced me that we pay for services received rather than pay for any personal benefit. There was, of course, the question around gardening expenses, which is referred to in the report, where the auditor general concluded that public funding had not been made available for that use.

[441] **Neil McEvoy:** Okay. A press statement went out in April 2016 relating to the funding of the project, with significant factual errors. Why was that?

[442] **Mr Price:** Okay. So, I am simply going to apologise for this. That was incorrect. It should have been checked better and it should have said something different. There are some mitigating factors, but I don't think the committee would be particularly interested in them, and I'm not particularly interested in them either, but included in that mitigating factor was that the press statement had used the wrong name for the company that was being asked about. So, when it was put into the internal search engine, it wouldn't have come out with the answer that we now know was correct. But checking procedures should have found that. So, that was error by officials for which I apologise, and for which I believe we have already apologised.

[443] **Neil McEvoy:** Okay. Your press statements really do concern me. When

I'm talking to you sometimes I hear the word 'grandstanding'. Have you got a definition for that? I don't really know what it means, to be honest.

[444] **Mr Price:** I'm not sure I know what you're referring to.

[445] **Neil McEvoy:** It was the Welsh Government's source, which states that the Chair of the committee was 'grandstanding'.

[446] **Mr Price:** Okay. So, that Welsh Government source is not me—that's the first thing. I wrote quite a few letters to the Chair, which were all very polite, and I understand where the Chair's coming from as well. So, I hope there's no animosity at all between us.

[447] **Neil McEvoy:** It's not animosity, it's propriety, really, because you've got this committee, which is doing a job of work, which I think plays an important role in scrutinising the Government, and—

[448] **Mr Price:** So, perhaps it would be useful to get into—rather than the press statements—the issue at the heart of that, which is why two officials aren't sat beside me.

[449] **Neil McEvoy:** I'd rather stick with the press statement at the minute.

[450] **Mr Price:** Okay.

[451] **Neil McEvoy:** Because you've said you've not made that statement. Have you investigated who did, and will you be investigating who did?

[452] **Mr Price:** I don't know that—. Well, I'll take that away, but I'm not sure that investigating that is my role.

[453] **Neil McEvoy:** I think it is quite important because you've got a committee trying to do a job, and then to be criticised by the Government—from a Government source—for 'grandstanding'—. Again, do you know what 'grandstanding' is? Because I'm accused of it quite often; I'm not actually sure what it is. I don't know what it means. I'm serious.

[454] **Mr Price:** I think it would be useful to get into the heart of what this is talking about, which we haven't done yet, actually, which is why—

16:15

[455] **Neil McEvoy:** So, why are they missing?

[456] **Mr Price:**—why the two individuals are not here. I genuinely feel quite—well, very—strongly my grounds on saying this, but I appreciate it is unfortunate, that those two individuals are the two individuals who have completed and are now finalising advice for Cabinet tomorrow, including dealing with things like, ‘How do we handle the company? How do we handle press? How do we handle any correct requests for information by Assembly Members, and dotting i’s and crossing final t’s?’

[457] **Nick Ramsay:** That’s today, isn’t it, James Price? That’s today that they’re completing that process. As you’ve raised this, they were offered a range of other dates, for which they said they were unavailable as well.

[458] **Mr Price:** We should probably talk about this after the event, because there were three other dates offered after today, and, unfortunately, all three of those dates, one of those individuals was on holiday for, which I guess is not surprising because we’re in July. But I would be very happy to come back again with the two individuals, depending upon their availability, and with Tracey, depending on whether that’s required or not, to give further evidence.

[459] **Nick Ramsay:** That’s a very welcome thing you’ve just said, and I’m sure the committee would look on that—. We would appreciate that.

[460] **Neil McEvoy:** Can I just finish with one final question?

[461] **Nick Ramsay:** Hang on a minute. Mike, is it particularly pertinent to this? And then I’ll bring you back.

[462] **Mike Hedges:** What I don’t understand is how the Welsh Government works, because every organisation I’ve ever known, at this stage, it would be you seeing the papers. The papers would be created by people who are lower down the organisation than you, but you would now be checking them as the person in charge of that section. Are you saying that those people are going to go before Cabinet without you, as the head of that service area, seeing them and checking them and agreeing them?

[463] **Mr Price:** I have seen a very near final draft of the documentation that’s going through. The group that I am now responsible for has got 2,500

civil servants in it, and is all of the civil service excluding the health service, local government and schools, basically. So, I don't think it would be good governance for me, as an individual, any longer, to be double checking the detail of something that I am not necessarily completely on top of myself in terms of the due diligence—400 pages of due diligence, et cetera. So, Mick McGuire, as the additional accounting officer, which is what he is for that area, is the person who is doing those final checks, but even he has reference to a much greater group of people. In terms of you saying you don't understand the way Welsh Government works, it is very unusual for one individual in any part of Government to ever be in a position to be able to take a decision, certainly on anything as big as that. There would be a number of people involved in that process.

[464] **Mike Hedges:** I understand that bit, but I would've thought that you, as the head of service and the head of that area, would see a paper that is going before Cabinet. I think that it doesn't go before Cabinet in the name of your section. It just goes before Cabinet in the name of the two individuals inside the organisation. My experience of other organisations, both local government and the health service, is that the head of service is the person who finally signs off the report. That doesn't happen in Welsh Government; it's signed off much lower down the organisation.

[465] **Mr Price:** I don't think a director is much lower down the organisation. If we go back in time, there were 24 people, about 14 of which did my job. Then there were seven, four of which did my job. Now there's one. There is not enough time for me to do what you're proposing, and if I did it, I think I would do it really badly, because I don't—.

[466] **Mike Hedges:** I just see this—sorry, I'll stop here—I just see this: a major decision is going to be made by Cabinet tomorrow and the person who is head of the area concerned doesn't see the final report.

[467] **Mr Price:** I have seen the report, and I have been involved in many scrutiny sessions on it, but I think it's most appropriate for the additional accounting officer in that area, which is Mick McGuire, to be doing the final checks and sign-offs.

[468] **Nick Ramsay:** We are running very short of time now.

[469] **Mr Price:** Sorry. I understand your points though.

[470] **Nick Ramsay:** Neil, would you like to—?

[471] **Neil McEvoy:** Yes. I've just got a final question. Just 'yes' or 'no' answers really, first of all, in terms of, 'Was your department responsible for the following?' Kancoat, where £3.4 million was lost. Was that you guys or was it another department?

[472] **Mr Price:** That is the economy and infrastructure part of the group I now lead, yes.

[473] **Neil McEvoy:** That's a 'yes'. Okay. The Lisvane land deal—the disposal of the land there—was that your department or somebody else's?

[474] **Mr Price:** That, actually, technically isn't this group, no.

[475] **Neil McEvoy:** Who was involved in setting up the regeneration investment fund for Wales—that company?

[476] **Mr Price:** We're now trying to get at particular individuals.

[477] **Neil McEvoy:** Okay, departmentally. So, it was—

[478] **Mr Price:** It wasn't that the—.

[479] **Neil McEvoy:**—economic development land. That's what I'm getting at.

[480] **Mr Price:** No, but it wasn't. Technically, it wasn't this group.

[481] **Neil McEvoy:** Okay, we'll park that one. There was £39 million lost there. The Rhoose land deal, £7 million there. OysterWorld, where it was £1.4 million, that was you guys again.

[482] **Mr Price:** That was E&I, yes.

[483] **Neil McEvoy:** Pontypridd shops, where you didn't do an up-to-date valuation—lessons learned there. Another £1 million, that was you guys.

[484] **Mr Price:** I think you're missing the context on all of these things.

[485] **Neil McEvoy:** There's no context: £1 million was lost to the public purse.

[486] **Mr Price:** I think the important thing to look at—

[487] **Neil McEvoy:** £1 million was lost. An up-to-date valuation wasn't done. Was that you or not? Was it your department or not?

[488] **Mr Price:** It was—

[489] **Neil McEvoy:** Okay, I'll leave it there. A couple more—

[490] **Mr Price:** —E&I many years ago, but I think, in response—

[491] **Neil McEvoy:** Cardiff Aviation—was that your department?

[492] **Mr Price:** Sorry?

[493] **Neil McEvoy:** Cardiff Aviation, with the rent arrears of £1.5 million—was that your—?

[494] **Mr Price:** Absolutely.

[495] **Neil McEvoy:** Kukd.com—was that your department?

[496] **Nick Ramsay:** I think you've made your point.

[497] **Neil McEvoy:** I'm making the point.

[498] **Mr Price:** Can I make a point in return, which is that there were 1,000 investments over five years, of which 3.4 per cent have gone wrong?

[499] **Neil McEvoy:** I'd like to ask you one final question—

[500] **Rhianon Passmore:** [*Inaudible.*]

[501] **Lee Waters:** [*Inaudible.*]

[502] **Nick Ramsay:** We need to focus. Calm down, everyone. Silence. We need to calm down and focus on the issue at hand.

[503] **Neil McEvoy:** The issue is whether or not colleagues around the table would like to address it. Do you not think that all of these—?

[504] **Nick Ramsay:** To be fair to James Price, he has offered us the opportunity to have the two officials who we initially requested to come to this meeting to come back in at an appropriate time, and I think that is—

[505] **Neil McEvoy:** Okay, maybe I'll save the question for when those two officials come, then.

[506] **Mr Price:** Can I just very quickly respond? Most of what you just set out was the responsibility of E&I—most of it—but I think that it needs to be seen in the context of the total number of investments that are made: so, roughly 1,000 investments over a five-year period, of which 3.4 per cent have gone wrong, which is better than the record of the banks, all of which are included in the list that you just read out. I could have a list for an hour of all the things that didn't go wrong.

[507] **Neil McEvoy:** But, in Pontypridd, you didn't even get an up-to-date valuation. It's inexcusable. It's a separate matter, but in line with the culture, I think, that we see in this building.

[508] **Nick Ramsay:** Oscar, very, very briefly, a question.

[509] **Mohammad Asghar:** Thank you, James, for your patience and everything. I'm just keeping myself on the Circuit of Wales. Given the level of funding already committed to this scheme, are you confident that the Welsh Government's structures are robust enough to continue to effectively conduct due diligence if the project moves forward, or has the pressure on this scheme become too great at this stage?

[510] **Mr Price:** No, I am very confident that in the event of either an announcement to proceed or an announcement not to proceed, I can evidence that we have taken that decision in a proper way, using all of the proper tools at our disposal.

[511] **Nick Ramsay:** Referring to Neil McEvoy's questions earlier, I've just been reminded of the auditor general's work on business finance overall, and we'll be looking at some of those issues, so we will return to that. Can I just ask you, James Price—? You probably wisely side-stepped Neil McEvoy's question with regard to the definition of grandstanding, and probably we can ask the Members' Research Service to report to us with the dictionary as the source. I appreciate that you weren't the source involved in the Welsh

Government's comments last week. However, that did follow the earlier response to the auditor general's report from the Welsh Government, which criticised the auditor general for not giving sufficient notice of the time that that report was going to be released. What is your take on that? Was the Minister informed in advance by the officials about the date of the auditor general's report or was he not?

[512] **Mr Price:** I think—I might stand corrected very quickly on this—that our press response wasn't solely relating to the amount of time we had to clear the report, but also expressed surprise at the timing of the publication of the report, given that we were in two successive purdah periods, given that I hadn't had a chance to sign off the report and given that the Cabinet was no longer happening on the timescales as previously discussed. So, against that backcloth—. Again, I don't issue press lines personally. For 20 years, I've preferred to stay below the radar as much as possible. Honestly, was I a bit surprised at the timing of it? Yes, I was. I can understand why you might say, 'Well, how is that, given that you, yourself, James, had an e-mail a month before that saying the intention was to publish on a particular date in line with Cabinet?' What I would say is, 'Well, Cabinet changed and no-one foresaw a general election.' So, for those two reasons—. I had a conversation with a senior member of the auditor's staff—who isn't the auditor—about this and made my views quite clear before the ultimate decision was taken to go ahead and publish.

[513] **Nick Ramsay:** The auditor general's office is not bound by the purdah period that binds Government, is it?

[514] **Mr Price:** I understand that. I think the wording used is stronger than or weaker—depending on your view—than not 'bound by'. So, you have to 'take cognisance of' but you are not 'bound by'—wording something like that. Mike would know the exact wording. But, I think it was my view that—and this is nothing to do with the press statement—if what we're trying to do is engage in really good governance, then it would not have hurt to spend another three or four weeks, which is time we had, to deal with some of the detailed points in here to try and get a report that is even better than it is, and, importantly, was published outside of the purdah period.

[515] **Nick Ramsay:** Just to be clear though, with regard to the 'grandstanding' comment, that was, I accept, from an anonymous Welsh Government source. However, the surprise to the publication of the auditor general's report wasn't in a press statement, was it? That was in a ministerial

statement, which, okay, may have been framed by a press officer, but that did come from the Minister.

[516] **Mr Price:** What I said is that I personally didn't write that statement, I don't believe. I personally was surprised, but I can equally understand a different viewpoint on it. I was surprised, because I had explained that Cabinet wasn't taking place, which was the rationale for having it on that date; that there were still things in the report that I wanted to get double checked and Mick Maguire was on holiday at the time, for example; and—

[517] **Nick Ramsay:** He seems to have a lot of holidays.

[518] **Mr Price:**—we were not in just one purdah period, we were in two purdah periods.

[519] **Nick Ramsay:** I want his job.

[520] **Mr Price:** He has the same amount of holidays as everybody else. I probably would have said the same thing as you just said.

[521] **Nick Ramsay:** There we are. It was a flippant comment.

[522] **Mr Price:** It's a good one.

[523] **Nick Ramsay:** Well, I'm glad you think so. Did you inform the Minister in advance when this report was likely to be published? The Minister was aware.

[524] **Mr Price:** I think the Minister was made aware on the twenty-fourth of whichever the previous month was.

[525] **Nick Ramsay:** Okay. Lee Waters, did you have one final question?

[526] **Lee Waters:** Yes. I think there's an issue about you being surprised, given you're informed. But I actually agree with you that I think the decision to publish in the run-up to the election was unfortunate, even though it was in the rights of the auditor to do so. I think it would be better if he hadn't. A number of times during your evidence you've drawn attention to elements of the report that you, upon further reflection and examination of the papers, have found not to be fully correct in your view.

[527] **Mr Price:** Well, I guess—.

[528] **Lee Waters:** Sorry, can I just finish my question?

[529] **Mr Price:** Sorry, yes.

[530] **Lee Waters:** So, I'm just inviting you to say whether or not you think that if you'd had more time to check the report it would have been better, and whether or not you thought the report was a little rushed as a result.

[531] **Mr Price:** I think that's a really difficult question to answer and I don't want to be critical of the auditor general's team, who've got a very difficult job to do.

[532] **Lee Waters:** Well, we're critical of you and you've got a difficult job to do. It just seems only fair.

[533] **Mr Price:** I'm trying to promote good joint working. I think if we had had longer, we would have had a better report, almost certainly. I am frustrated at my own team, who I don't think did a good enough job in giving the auditor general the information he needed quickly enough to get the report to the stage it needed to be, which frankly is something that I repeatedly find. When I get the report to look at I quite often go through it and say, 'Really, are you sure? Can we dig out all the files? I cannot believe we did that.'

16:30

[534] Then, quite often, people quite sheepishly come up and say, 'Actually, we didn't do what it says in there', which is really unhelpful for PAC. It's really unhelpful for WAO. And it's really unhelpful for me, when I'm here defending some stuff, which is absolutely right, but other stuff, which maybe I—. It might not have been so unpleasant for me had we got it right in the first place. So, for me, part of the learning here is that people need to be much more diligent in record-keeping in the first place, and then as diligent when the WAO is going through that record-keeping, and taking the WAO process itself as seriously as writing any business.

[535] **Nick Ramsay:** And, to be fair, you have been with us for a considerable length of time this afternoon, and longer than originally anticipated. So, can I thank you, deputy permanent secretary, for the generosity of your time?

Thanks to James Price and Tracey Mayes for being with us today. That's been helpful. As usual, we will send you a copy of the transcript. I'm sure you will want to study it very closely for accuracy, particularly this time. And we will be discussing and taking you up on your offer of returning with the other officials who couldn't make it today.

[536] **Mr Price:** Thank you.

[537] **Ms Mayes:** Thank you.

16:31

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod**

**Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd o weddill y exclude the public from the reminder
cyfarfod yn unol â Rheol Sefydlog of the meeting in accordance with
17.42(vi). Standing Order 17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[538] **Nick Ramsay:** I propose, in accordance with Standing Order 17.42, to resolve to meet in private for items 5, 6 and 7 of today's meeting.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 16:31.

The public part of the meeting ended at 16:31.