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Archwilydd Cyffredinol Cymru
Auditor General for Wales

The Welsh Government's Initial Funding of the Circuit of Wales Project



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



I have prepared and published this report in accordance with the Government of Wales Act 2006.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

Contents

	What this report is about	6
	Summary timeline of key events relating to Welsh Government support for the CoW project	8
	Key conclusions	10
	Recommendations	12
1	The Welsh Government provided over £9.3 million to support initial development of the Circuit of Wales project and has also agreed to provide a further £16 million of repayable finance if certain conditions are met	14
	The Welsh Government provided a £2 million grant to help the CoW project meet costs associated with site planning and development	15
	The Welsh Government paid over £7.3 million under a bank loan guarantee agreement, and is entitled to demand repayment of this sum, plus interest, from HoVDC	15
	The Welsh Government has agreed to provide £16 million of Repayable Business Finance if the CoW project meets certain conditions before the end of March 2018	16
	The Welsh Government has declined two proposals from HoVDC to support construction costs but is currently considering another proposal to underwrite private investment	16
	The Welsh Government declined to consider underwriting a potential loan to the CoW project from a local authority	18
2	Despite appropriately commissioning extensive advice and considering a range of benefits and risks, the Welsh Government's appraisal of information which underpinned its funding decisions to date was flawed	20
	In accepting significant financial and legal risks, the Welsh Government followed its established procedures for supporting ministerial decisions in most respects, although some key information was omitted from submission papers	21
	The Welsh Government drew on extensive advice, but gaps in information have created additional risks as the public funding commitment has increased	25

3	Following decisions to provide initial financial support to the CoW project, the Welsh Government did not do enough to manage public funds properly	27
	Funding arrangements did not provide strong enough security for public money	28
	Conditions applied to different funding streams were inconsistent and, where they were in place, were not always enforced	29
	The Welsh Government's understanding of the companies involved in the CoW project was limited	32
	The Welsh Government permitted payments to related companies, including almost £1 million to Aventa, without sufficient evidence that services provided to the CoW project represented value for money	34
	The Welsh Government's arrangements for authorising payments to HoVDC were insufficiently robust	38
4	The £2 million grant included £0.3 million to acquire FTR, a motorcycle engineering company, which is inconsistent with the grant scheme's purpose	40
	The Welsh Government has been unable to explain to our satisfaction why it approved grant funding intended for property development so that HoVDC could acquire a motorcycle engineering company	41
	Funding for FTR Moto Limited was written off in the HoVDC company accounts and then in October 2016, FTR Moto Limited went into administration	43
	Appendices	
	Appendix 1 – Our audit approach and methods	46
	Appendix 2 – Glossary of terms and abbreviations	49
	Appendix 3 – Timeline of key events	53
	Appendix 4 – Correspondence between Mr David TC Davies MP and the Auditor General for Wales	57
	Appendix 5 – Circuit of Wales project company structure	63

What this report is about

- 1 The Circuit of Wales (CoW)¹ is an ambitious venture to construct a car and motorcycle racing circuit on moorland near Ebbw Vale in Blaenau Gwent. The racing circuit is intended to be of a high enough standard to accommodate a range of motorsports, including motorcycle world championship racing, although it will not be constructed to Formula One motor racing requirements².
- 2 A group of private companies has been established to advance the CoW development. In the initial phases the CoW project is led by The Heads of the Valleys Development Company (HoVDC), established in 2011.
- 3 The first phase of the CoW project involves securing land options, planning consents, construction contracts and finance. These elements are necessary to proceed to the second project phase; actual construction of the racing circuit, grandstands and paddock.
- 4 To date, the Welsh Government has provided over £9.3 million of initial support to the CoW project's first phase, which comprised:
 - a awarding a £2 million Property Development Grant (PDG) in October 2012 to help meet costs associated with site planning and development, paid in four tranches between January 2013 and April 2014; and
 - b paying over £7.3 million to HoVDC's bank in May 2016 under a bank loan guarantee agreement,³ which is repayable by HoVDC to the Welsh Government on demand.
- 5 The Welsh Government has also agreed to provide a further £16 million of Repayable Business Finance (RBF)⁴ to the CoW project's second phase if it meets certain conditions. To date, no RBF has been paid and the offer of RBF expires at the end of March 2018.
- 6 The Welsh Government refused requests from HoVDC to underwrite private finance for the CoW project's second phase in April 2016, when the Welsh Government was asked to guarantee £357 million; and again in July 2016, when the Welsh Government was asked to guarantee £234 million⁵.

1 Terms used throughout this report are explained in a glossary in Appendix 2.

2 Information about the planned scheme is available on the [CoW project's website](#). HoVDC informed us that the circuit and facilities have been designed to be capable of upgrading to host Formula One motor racing.

3 The Welsh Government agreed to repay HoVDC's bank loan if HoVDC was unable to do so itself.

4 Information about how the Welsh Government provides financial and non-financial support for businesses is included in the Auditor General for Wales report: [The Welsh Government's funding of Kancoat Ltd](#), July 2016.

5 Welsh Government guarantees address the scarcity of long-term debt funding available from financial markets for large capital projects. They transfer risk to the Welsh Government for the amount guaranteed, thereby reducing the overall risk to private sector lenders and investors, encouraging them to accept lower rates of interest and smaller dividend payments from HoVDC. This would increase the effective rate of return (profit) available to the developers and so the Welsh Government charges an equivalent commercial fee for providing such guarantees.

- 7 On 26 January 2017 the Cabinet Secretary for Economy and Infrastructure gave HoVDC a two-week deadline to submit a revised proposal for the Welsh Government to consider. Welsh Government support depends upon the CoW project demonstrating that it is viable. Securing the level of private investment necessary ('financial close')⁶ is a key requirement for the CoW project to proceed to the second phase. In addition, the Welsh Government has indicated that it is not prepared to use public funds to underwrite more than 50% of the total investment required.
- 8 On 8 February 2017 HoVDC submitted a revised proposal to the Welsh Government, which it is currently evaluating for a final decision by the whole Cabinet. The total investment required for the second phase now stands at £430 million. HoVDC has requested that the Welsh Government underwrite £210 million of private sector investment once the circuit's construction is completed. The CoW project continues to attract considerable public, political and media interest.
- 9 The developer's ambitions for the site area extend beyond the current CoW project to develop and construct a race circuit. Its long-term vision is for a range of motorsport-related facilities, an automotive technology business park, hotel and leisure facilities, and renewable energy generation on the site. HoVDC has emphasised this overall scheme's potential to contribute to the Welsh economy, including through job creation. The potential economic and wider social benefits are likely to arise mainly from longer-term development, rather than from the construction and operation of the race circuit itself. These further developments may in turn involve requests for public funding support.
- 10 This report sets out the key matters relating to the Welsh Government's management of its initial financial support package for the CoW project. We have focused our audit review upon how well the Welsh Government has:
 - a made decisions to provide initial financial support to the CoW project;
 - b managed risks by applying conditions under which public funds were provided to the Project; and
 - c assured itself that funds it provided were being used for the purposes it intended.

6 'Financial close' is a complex series of coordinated interdependent transactions whereby a sequence of conditional agreements are activated so that the CoW project can proceed; involving investor finance commitments, property purchase completions, debt repayments and construction contract awards.

- 11 We have not:
- a examined directly the conduct of individuals or entities connected with the Project;
 - b reviewed the viability of the business cases for the construction and operation of the race circuit, or for the overall CoW scheme⁷, or tested assertions made by the developers about job creation and economic activity arising from the overall scheme; or
 - c assessed the merits of providing further publicly funded support to the CoW project.
- 12 **Appendix 1** sets out in detail our audit scope, approach and methods.
- 13 The Auditor General is not the external auditor of HoVDC or the various associated companies. However, the Auditor General has statutory powers to follow the public pound and to assess compliance with Welsh Government funding terms and conditions. The Auditor General may decide to undertake further audit work in relation to the CoW project, including on any future publicly funded support.

Summary timeline of key events relating to Welsh Government support for the CoW project

October 2012	The Welsh Government awarded £2 million PDG to HoVDC to support phase one of the CoW project including HoVDC's acquisition of FTR, a Buckinghamshire-based specialist motorcycle engineering company, for £0.3 million.
December 2012	HoVDC entered into a conditional sale contract to purchase common land on which the circuit will be constructed if the CoW project goes ahead.
September 2013	Blaenau Gwent County Borough Council (BGCBC) granted outline planning permission for the CoW scheme.

⁷ We have reviewed the Welsh Government's consideration of information provided by HoVDC, which supported its bids for initial funding.

June 2014	The Welsh Government wrote to HoVDC offering £16 million of RBF to support phase two, the CoW project's construction phase, subject to the Project meeting certain conditions. No money has been requested or paid to date and the offer expires in March 2018.
July 2014	The Welsh Government agreed to guarantee a bank loan to enable HoVDC to pay suppliers, some of which are related companies, including Aventa, which is wholly owned by Michael Carrick (HoVDC Chief Executive).
November 2015	The Deputy Minister for Farming and Food granted HoVDC's application for declassifying and exchanging common land, following a public inquiry.
April 2016	The Welsh Government refused to underwrite £357 million of private investment in constructing the CoW, which involved a lease agreement for the completed circuit.
May 2016	The Welsh Government paid HoVDC's bank £7.335 million under a loan guarantee agreement because HoVDC was unable to repay the loan. The full amount plus additional costs, interest and charges is repayable by HoVDC to the Welsh Government on demand.
July 2016	The Welsh Government refused a revised request from HoVDC to underwrite £234 million of private investment for constructing the CoW.
October 2016	FTR Moto Ltd, which is wholly owned by HoVDC and which was acquired with Welsh Government grant funding of £0.276 million, went into administration with debts of £0.5 million.

January 2017	The Welsh Government gave HoVDC a two-week deadline to provide a viable proposal for the Welsh Government to consider.
February 2017	HoVDC submitted a revised proposal to the Welsh Government. HoVDC considers it meets the 50% private finance investment level stipulated by the Welsh Government. Total funding required for phase two stands at £430 million and HoVDC has asked the Welsh Government to underwrite £210 million of this private sector investment (48.8%) once the circuit's construction is completed.

Note: see Appendix 3 for a full timeline of key events.

Key conclusions

To date, the Welsh Government has provided over £9.3 million to support initial development of the ambitious CoW project, but there have been significant shortcomings in how the Welsh Government has managed the associated risks to taxpayers' money.

More specifically:

- 14 Despite appropriately commissioning extensive advice and considering a range of benefits and risks, the Welsh Government's appraisal of information which underpinned its funding decisions to date was flawed:
 - a in accepting significant financial and legal risks, the Welsh Government followed its established procedures for supporting ministerial decisions in most respects, although some key information was omitted from submission papers; and
 - b the Welsh Government drew on extensive advice, but gaps in information have created additional risks as the public funding commitment has increased.

- 15 Following decisions to provide initial financial support to the CoW project, the Welsh Government did not do enough to manage public funds properly:
- a funding arrangements did not provide strong enough security for public money;
 - b conditions applied to different funding streams were inconsistent and, where they were in place, were not always enforced;
 - c the Welsh Government's understanding of the companies involved in the CoW project was limited;
 - d the Welsh Government permitted payments to related companies, including almost £1 million to Aventa Capital Partners Limited (Aventa), without sufficient evidence that services provided to the Project represented value for money; and
 - e the Welsh Government's arrangements for authorising payments to HoVDC were insufficiently robust.
- 16 The £2 million grant included up to £0.3 million to acquire FTR, a motorcycle engineering company, which is inconsistent with the grant scheme's purpose:
- a the Welsh Government has been unable to explain to our satisfaction why it approved grant funding intended for property development so that HoVDC could acquire a motorcycle engineering company; and
 - b funding for FTR Moto Limited was written off in the HoVDC company accounts and then in October 2016, FTR Moto Limited went into administration.
- 17 During the course of our audit work in response to concerns raised with the Auditor General by a Member of Parliament ([Appendix 4](#)), we have examined certain payments made between December 2014 and June 2016 to establish whether they involved the use of public funds. We established that these payments, relating to gardening invoices and political events, were not made by HoVDC, but were instead made by Aventa – a separate company wholly owned by the controlling shareholder and Chief Executive of HoVDC, Mr Michael Carrick. Given that Aventa derives income from the provision of services to HoVDC under contract, we are satisfied that expenditure by Aventa itself does not constitute the use of public funds.

- 18 The Member of Parliament also expressed concerns about whether HoVDC used Welsh public money to finance MotoGP races held in England. A company owned by HoVDC, Circuit of Wales Limited, secured a ten-year contract for the rights to host MotoGP in the UK on 1 April 2014. We confirmed that none of HoVDC's claims for PDG payment or for payments under the loan guarantee agreement with the Welsh Government included any direct payments to the MotoGP rights holder or to other race circuits for staging the British rounds of the 2015 and 2016 motorcycle world championship.

Recommendations

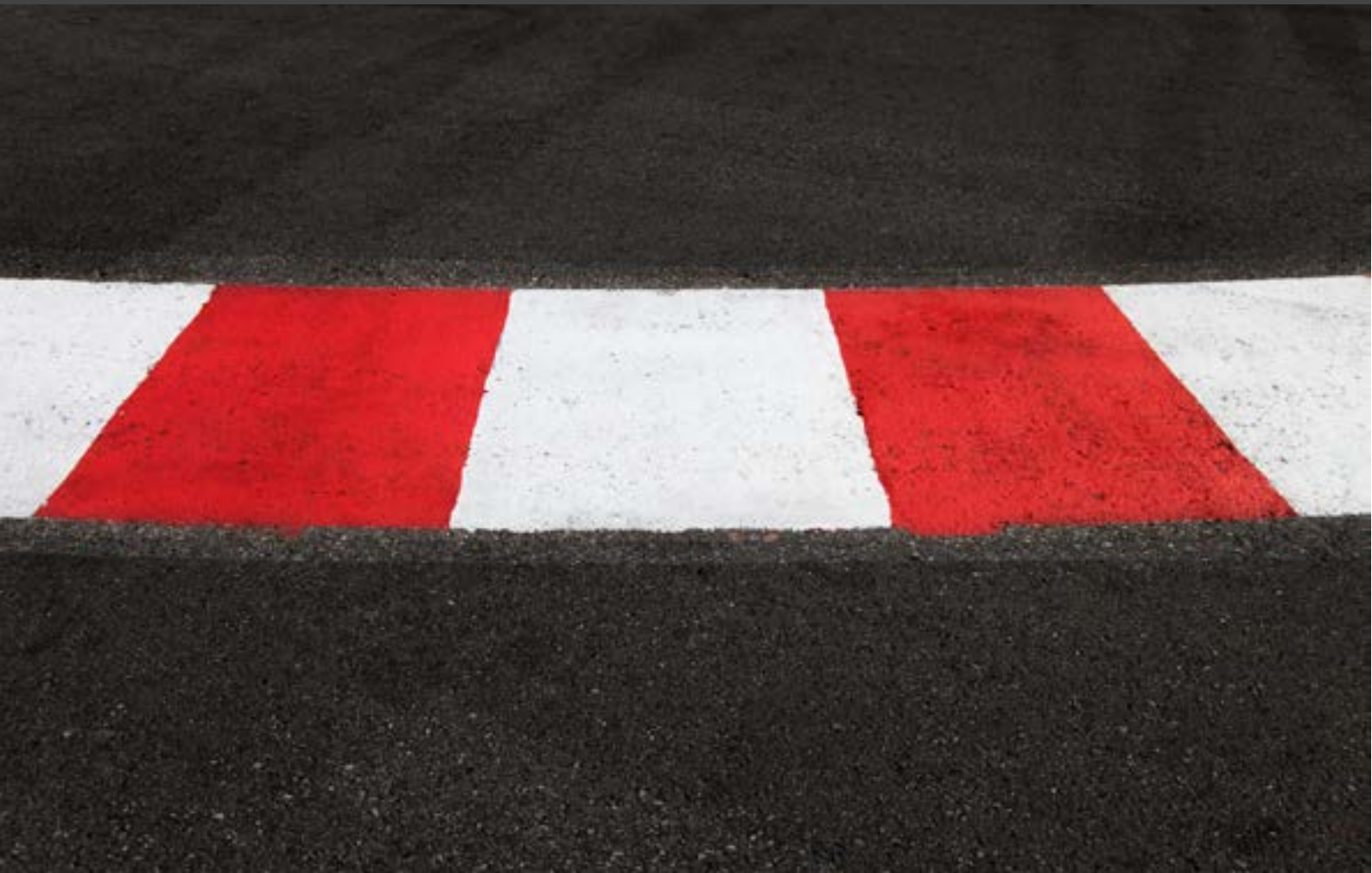
- 19 The Welsh Government uses public finance to encourage and support private investment in major infrastructure projects in pursuit of its regeneration and economic development objectives. Its decisions involve evaluating a project's merits and balancing risks and rewards. Frequently, projects' benefits and outcomes for Wales can be wide-ranging, long-term and difficult to quantify.
- 20 The Welsh Government's financial support to the CoW project to date (covered by this report) is a relatively small amount when compared with the race circuit's likely construction costs and with the Welsh Government's initial assessment of the potential economic and wider social benefits of the overall scheme. However, we have identified weaknesses in how the Welsh Government made its decisions and managed this initial financial support. We concluded that there have been significant shortcomings in how the Welsh Government managed the associated risks to taxpayers' money.
- 21 It will be important that the Welsh Government learns from this audit review, not only in considering whether to provide underwriting support for the CoW project to progress, but also in relation to its approach to supporting other potential projects in the future.

22 The Auditor General makes the following recommendations to the Welsh Government:

Recommendations	
R1	Ensure that submissions to Welsh Ministers for decision approval include all information relevant to any items of proposed expenditure which may be novel, contentious or repercussive.
R2	Include within the Repayable Business Finance (RBF) application form a question asking whether any transactions involving RBF funds are to be conducted through related companies, and undertake robust due diligence in all cases where this is proposed.
R3	Ensure that the Welsh Industrial Development Advisory Board (WIDAB) is informed about all other Welsh Government support to a project that it is asked to consider, whether or not that support has yet been approved.
R4	Record and retain a note of all discussions between Welsh Government officials and funding applicants in relation to determination of items which are/are not to be included within approved expenditure.
R5	Strengthen the process by which project claims are checked, authorised and passed for payment, to ensure that appropriate separation of duties is maintained.

Part 1

The Welsh Government provided over £9.3 million to support initial development of the Circuit of Wales project and has also agreed to provide a further £16 million of repayable finance if certain conditions are met



The Welsh Government provided a £2 million grant to help the CoW project meet costs associated with site planning and development

- 1.1 In October 2012 the Welsh Government awarded a £2 million Property Development Grant (PDG) to HoVDC. The grant was claimed by HoVDC and paid by the Welsh Government in four tranches between January 2013 and April 2014. The grant was intended to support phase one of the CoW project⁸ by contributing towards £9.7 million of planned expenditure by HoVDC which was deemed eligible within the PDG scheme. Areas of expenditure eligible for grant funding were set out in terms and conditions in the grant offer letter.

The Welsh Government paid over £7.3 million under a bank loan guarantee agreement, and is entitled to demand repayment of this sum, plus interest, from HoVDC

- 1.2 In July 2014 the Welsh Government agreed to provide a £7.85 million guarantee for a bank loan to HoVDC. In effect this agreement committed public funds to underwrite the entire remaining balance of HoVDC expenditure on phase one of the CoW project that was eligible for PDG support, and was in addition to the £2 million already granted.
- 1.3 In April 2016 HoVDC's bank requested immediate repayment of the loans by HoVDC. As HoVDC was unable to do so, the bank then called upon the Welsh Government's guarantee. In May 2016 the Welsh Government therefore paid the bank over £7.3 million⁹. HoVDC is contractually liable to repay this sum, plus additional interest and fees, to the Welsh Government on demand. However, as HoVDC was established specifically for the CoW project, it is unlikely to be able to repay this debt unless the CoW project secures the private investment for it to proceed. The latest proposal from HoVDC, which is currently being considered by the Welsh Government, includes repaying this debt in full if the CoW project goes ahead, before construction begins.

8 Securing land options, planning consents, construction contracts and finance necessary to proceed to the second project phase; actual construction of the race circuit, grandstands and paddock.

9 The Welsh Government's payment of £7.335 million to HoVDC's bank was £0.52 million lower than the original sum guaranteed due to exchange rate changes in respect of an element of the bank loan denominated in Euros.

The Welsh Government has agreed to provide £16 million of Repayable Business Finance if the CoW project meets certain conditions before the end of March 2018

- 1.4 In June 2014 the Welsh Government offered to provide HoVDC with RBF of £16 million to support the CoW project's second phase. The RBF is repayable in instalments over a period of 18 years. The Welsh Government will provide the RBF if the CoW project:
 - a secures private finance of £175 million (of total CoW project finance that was estimated by HoVDC at the time of the RBF offer letter to be £247 million); and
 - b creates 304 jobs.
- 1.5 To date, the CoW project has not fulfilled these conditions and so no RBF has been requested or paid. The offer expires on 31 March 2018. The latest proposal from HoVDC to the Welsh Government does not include drawing upon any of the agreed RBF funding.

The Welsh Government has declined two proposals from HoVDC to support construction costs but is currently considering another proposal to underwrite private investment

- 1.6 The Welsh Government has rejected two proposals from HoVDC to provide further public support as part of the finance package necessary to construct the CoW racetrack:
 - a in April 2016, in response to a proposal from HoVDC, the Welsh Government considered providing a 100% guarantee to a 33-year lease of the completed circuit in order to secure £357 million of finance from a private investor. The Welsh Government did not provide the guarantee because it considered that to do so would constitute an award of unlawful State Aid¹⁰.
 - b In July 2016 the Welsh Government declined a revised proposal. This involved a loan of £220 million from a private investor with an 80% guarantee from the Welsh Government, along with a commercial loan of £90 million from Monmouthshire County Council and Blaenau Gwent County Borough Council (BGCBC), made under their prudential borrowing powers, backed by a £60 million Welsh Government guarantee. The two local authorities told us that they would only have

¹⁰ Providing public support to businesses may constitute a type of anti-competitive State Aid, which if particular conditions are met is prohibited by the Treaty on the Functioning of the European Union and can be judged by the European Commission to be unlawful.

put the business case to enter into a commercial loan arrangement to their respective councils for decision, if the Welsh Government had been prepared to provide a guarantee. However, the Welsh Government did not accept HoVDC's revised proposal because the level of public support involved would have resulted in the CoW project being, in effect, publicly owned. Therefore decisions on whether or not to provide loan support were not put before either of the councils.

- 1.7 The Welsh Government is currently considering another proposal submitted by HoVDC on 8 February 2017, which is being evaluated prior to a final Cabinet decision. This latest proposal covers construction of the race circuit, grandstands and paddock, but it does not include other elements of the wider scheme such as constructing an automotive technology business park, hotel and leisure facilities, and renewable energy generation on the site. The potential economic and wider social benefits are likely to arise mainly from these further, longer-term developments; rather than from constructing and operating the race circuit itself. No public funding support has been offered, or requested, to date in respect of these further elements of the wider scheme.

Exhibit 1 - An impression of the completed Circuit of Wales scheme, viewed from the air.



Source: HoVDC

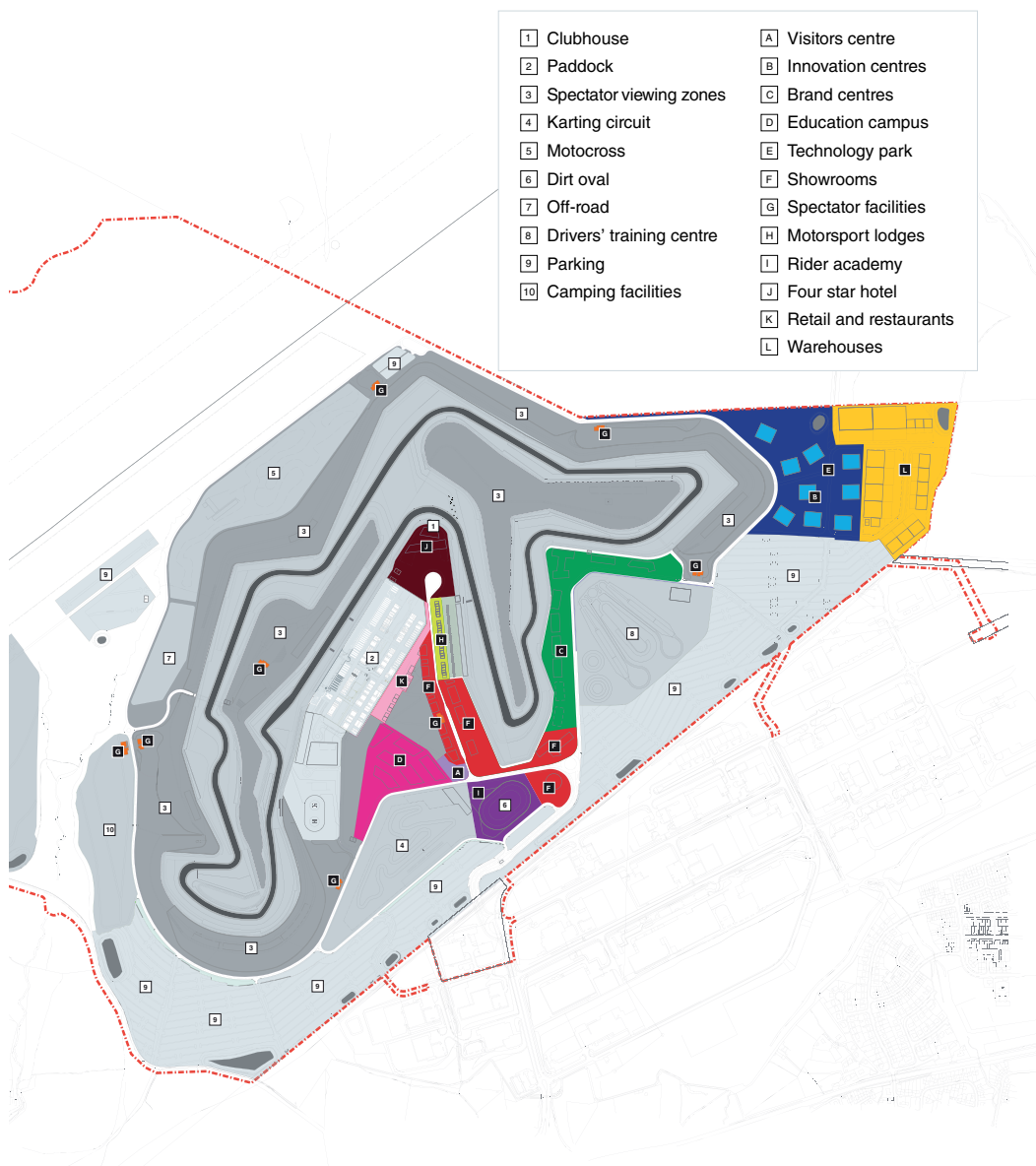
- 1.8 The total investment required for the second phase now stands at £430 million, none of which is being provided by the public sector. However, HoVDC has requested that the Welsh Government underwrite £210 million (48.8%) of this private sector investment once the circuit's construction is completed. Under the terms of the current proposal:
- a if the CoW project does not achieve 'financial close' and so does not proceed to the construction phase, then none of the £9.33 million of Welsh Government support provided to date is likely to be recoverable.
 - b if the CoW project achieves 'financial close' and so proceeds to the construction phase, then the loan guarantee (plus associated fees and interest charges) will be repaid to the Welsh Government. In this event, the net cost of the Welsh Government's direct financial support up until construction is completed will have been the £2 million PDG.
 - c the £16 million RBF facility previously agreed by the Welsh Government does not form part of the current financing proposal for the construction phase, and so will not be utilised even if the CoW project proceeds in accordance with this proposal.

The Welsh Government declined to consider underwriting a potential loan to the CoW project from a local authority

- 1.9 The Welsh Government received an initial inquiry from BGCBC about whether the Welsh Government would consider underwriting a £40 million loan from BGCBC to the CoW project, if it was formally requested. In December 2014 the Welsh Government responded that it would not agree to provide such a guarantee because it assessed that the risk that the loan guarantee would be called upon (with the Welsh Government ultimately bearing the full costs) was unacceptably high. In light of the Welsh Government's response to the inquiry, a proposal on whether or not to provide loan support was not put before a meeting of the council.
- 1.10 In April 2014 BGCBC decided in principle to allow, subject to compensation from the CoW developers, some of its land to be reclassified as common land. This reclassification is intended to facilitate an exchange allowing land on which the circuit is to be constructed, which was at that time classified as common land, to be declassified; which would then permit its development. This arrangement is conditional upon the CoW project securing the private finance to go ahead.

Exhibit 2 - Layout of the Circuit of Wales scheme, mapping out the racing circuit and intended leisure and business facilities.

The CoW project, currently under Welsh Government consideration, comprises items labelled 1 – 10, A, G as well as the associated infrastructure to enable further development. Items B – F and H – L are not part of the current development project.



Source: HoVDC

Part 2

Despite appropriately commissioning extensive advice and considering a range of benefits and risks, the Welsh Government's appraisal of information which underpinned its funding decisions to date was flawed



In accepting significant financial and legal risks, the Welsh Government followed its established procedures for supporting ministerial decisions in most respects, although some key information was omitted from submission papers

- 2.1 Key decisions about providing initial funding support to the CoW project were taken by the (then) Minister for Economy, Science and Transport, following detailed briefings from Welsh Government officials and advice from Welsh Government Legal Services in relation to State Aid. However, it is not possible to establish with certainty whether the Wales Industrial Development Advisory Board (WIDAB)¹¹ was provided with all of the available information that we consider was relevant to the context of WIDAB's recommendation that the Welsh Government should provide RBF funds of £16 million to the CoW project.
- 2.2 Also, the submission paper seeking ministerial authority to commit £2 million of PDG funding to the Project did not make clear that £0.3 million of this was to be used for a purpose that did not align with the usual PDG scheme objectives (paragraphs 4.1 to 4.7 refer).

The £2 million Property Development Grant

- 2.3 HoVDC submitted a business case for financial support from the Welsh Government in March 2012. Officials considered various ways in which support could be provided to phase one of the CoW project before recommending to the Minister on 6 August 2012 that the Welsh Government should provide a PDG grant¹² as the most appropriate means of providing funding.
- 2.4 The Welsh Government recognised that if the CoW project proceeded to phase two, further public funding may be sought to support construction costs. At that time, the Welsh Government expected the potential public funding commitment necessary to complete the circuit's construction to be £30 million. Officials also recognised that the CoW project phase one did not fit with the standard profile of PDG-funded projects because it would not directly lead to any physical development of the land. However, officials recommended its use to enable land acquisition and development, which could then lead to construction of a race circuit during phase two.

11 WIDAB is an advisory board within the Welsh Government, external to the (then) Economy, Science and Transport Department (ES&T), which considered HoVDC's application for RBF on 3 June 2014. WIDAB makes recommendations to the Minister about whether projects should be supported.

12 Property Development Grants (PDG) usually contribute towards building design, obtaining planning consent and construction costs for a business building upon land and or buildings already owned or leased by the applicant for employment use. The PDG grant scheme provides allowable State Aid as long as the grant purposes fit within the scheme requirements and grant money is used solely for the purposes for which it was given.

- 2.5 The paper briefing the Minister and recommending PDG support did not contain any breakdown of the proposed areas of phase one expenditure that the £2 million grant would fund. However, it did refer to some of the purposes for which the grant, if approved, would be given¹³. These included land purchase, and acquiring the rights for staging the UK round of the MotoGP world motorcycle championship¹⁴. The briefing paper did not consider the extent to which rights acquisition fitted with the eligibility rules of the PDG scheme or with the standard profile of PDG-grant-funded projects. The Welsh Government has not provided us with any documentation which supports its acceptance of inclusion of the MotoGP licence rights within the PDG or demonstrates consistency with the usual reasons for which PDG is given. However, Welsh Government officials have told us that in their view, the rights acquisition was an essential prerequisite for the CoW project in order for HoVDC to attract potential private investors.
- 2.6 The Welsh Government's PDG offer letter to HoVDC also included approval for up to £0.3 million to acquire FTR (a specialist motorcycle engineering company based in Buckinghamshire). However, the paper briefing the Minister and recommending PDG support did not contain any mention of FTR or seek specific approval for £0.3 million of PDG funding to be used by HoVDC to acquire it (see also [paragraphs 4.1 to 4.7](#)).

The £16 million of Repayable Business Finance

- 2.7 In March 2014 HoVDC submitted an application to the Welsh Government for £18 million of RBF. Applications to the Welsh Government for RBF for amounts above £1 million are considered by WIDAB.
- 2.8 The 28 May 2014 submission to WIDAB for RBF support identified that:
- a the CoW project failed the economic efficiency test as it produced a negative net present value, which would generate a net loss to the Welsh economy of between £48 million and £70 million¹⁵.
 - b seven of the ten events targeted in the Circuit of Wales's business plan already had a UK venue in the 2014 race calendar. Potential economic displacement from existing race circuits of this magnitude implied that the net loss identified by the economic efficiency test was underestimated.

¹³ The briefing and recommendation were dated 6 August 2012. The Minister approved the grant award on 9 August 2012. The purposes were subsequently reflected in the Welsh Government's PDG offer letter to HoVDC, dated 11 October 2012.

¹⁴ Circuit of Wales Limited secured a ten-year contract for hosting MotoGP in the UK on 1 April 2014, by which date HoVDC had submitted its final claim for PDG payment. None of HoVDC's claims for PDG payment or for payments under the loan guarantee agreement included any direct payments to the MotoGP rights holder or to other race circuits for staging the British rounds of the 2015 and 2016 motorcycle world championship.

¹⁵ The CoW project evaluation in the submission to WIDAB was based upon information provided to the Welsh Government as at May 2014 and therefore does not reflect any subsequent revisions made by HoVDC to the business case and funding model.

- c however, if the race circuit were to be constructed and subsequently proved to be successful, further development of a technology park, hotel complex and leisure facilities at the site could generate additional local economic benefits which were not accounted for within the economic efficiency test.
- 2.9 HoVDC told us ‘...we would be surprised to see the Project fails any form of economic efficiency test. The events proposed are not intended to displace existing events but to retain and grow the events in the UK. Given the existing state of the UK infrastructure there is a significant risk that the international events would not be capable of being hosted in the UK in the future. Additionally the events proposed are seeking new facilities to substantially grow their activity and so rather than being substitution events from other circuits they are additive in volume and capacity.’
- 2.10 The written submission to WIDAB for RBF was prepared on 28 May 2014. On 2 June, officials from the Welsh Government’s Department of Economy, Science and Transport (ES&T) were instructed by their Minister to explore the provision of loan finance support for the CoW project, which would be repayable at financial close. The minutes of the WIDAB meeting held on 3 June make no reference to this potential financial support, and so it is not possible to establish whether or not WIDAB was made aware of its existence when it considered the RBF submission. The loan guarantee was approved by the Minister on 1 July and agreed between the Welsh Government and HoVDC on 18 July 2014 (see also [paragraphs 2.13 to 2.19](#)).
- 2.11 On 30 June 2014 the Minister accepted the recommendation from WIDAB to provide £16 million of RBF. The briefing provided to the Minister along with the recommendation to approve RBF did include information about the loan guarantee.
- 2.12 Welsh Government officials told us that they had decided not to inform WIDAB of the potential loan guarantee support because:
- a the loan guarantee had not yet been agreed by the date of the WIDAB meeting;
 - b loan guarantee decisions at that time were not within WIDAB’s remit; and
 - c the loan guarantee would be repaid at financial close, whereas the RBF would only become available following financial close.

However, we consider that WIDAB should have been made aware of the Welsh Government’s total potential financial support for the Project at the point when its views were sought.

The £7.3 million loan guarantee

- 2.13 By mid-2014 the limits of HoVDC's existing bank loan security (a loan secured against Mr Carrick's home) had been reached, the CoW project was facing cost overruns due to delays associated with common land declassification, and so had not been able to secure the necessary private finance. It therefore needed further funding, without which the CoW project would almost certainly collapse with the loss of the £2 million PDG that it had already received. HoVDC therefore approached the Welsh Government seeking additional financial support.
- 2.14 The Welsh Government agreed to HoVDC's request that it should provide a guarantee for a £7.85 million private bank loan to HoVDC, as they considered this to be lower risk than providing financial support directly to HoVDC itself.
- 2.15 The CoW project had already been unable to meet a condition attached to the PDG of raising private finance by 31 May 2013. Therefore, we consider that there was a significant likelihood from the outset that the loan guarantee would be called upon by the bank. This would result in the Welsh Government not only paying off the loan and associated interest but also paying the bank's own fees and transaction charges, all without the bank assuming any meaningful commercial or financial risk itself in relation to this part of the loan. In this event the Welsh Government would, in effect, have provided risk-free finance to the CoW project.
- 2.16 Welsh Ministers have no powers to do anything that is incompatible with their obligations under EU law (including State Aid rules)¹⁶. Officials advised that providing the loan guarantee in addition to the RBF might be problematic in relation to State Aid. They considered that there were significant risks in relation to State Aid compliance. They thought it likely that, if considered by the Commission or a court, the guarantees in particular would be very likely to be considered to be in breach of the State Aid rules. They were therefore unable to offer any reassurance to Ministers that the proposals would stand up to either judicial scrutiny or analysis by the European Commission.
- 2.17 This advice was included in a ministerial submission dated 26 June 2014, which requested a ministerial decision about the loan guarantee, but which post-dated the WIDAB review of RBF. Where officials identify that potential expenditure is novel, has repercussions or is contentious, the ministerial submission is also considered by the Welsh Government's Corporate Governance Unit which must ensure that all relevant matters have been

¹⁶ Government of Wales Act 2006, section 80 (8)

considered before a decision is made. The ministerial submission for the HoVDC loan guarantee, including the full legal opinion, was referred by officials to the Corporate Governance Unit and approved by it on 26 June 2014. Its approval was noted in the final submission to the Minister which stated:

‘They are content that all relevant information on the outcomes of the project, the significant risks accruing and measures to mitigate them have been adequately included in the submission.’

- 2.18 On 18 July 2014 the Welsh Government agreed with HoVDC to provide a guarantee for a private bank loan to HoVDC, rather than provide an equivalent level of funding support directly by alternative means.
- 2.19 At that time, applications for PDG funding were not within WIDAB’s remit, but they now are. Loan guarantees remain outside WIDAB’s remit, but are reviewed by the Economy and Infrastructure Department’s senior management team before approval.

The Welsh Government drew on extensive advice, but gaps in information have created additional risks as the public funding commitment has increased

- 2.20 Following the formal case for initial financial support submitted by HoVDC to the Welsh Government in March 2012, the Welsh Government commissioned external advice which examined the CoW project’s initial funding model and the proposed terms of potential Welsh Government grant support. Further commercial finance advice was commissioned to inform the Welsh Government’s decision to agree RBF support. The Welsh Government also obtained internal and external legal advice in relation to its decisions to provide PDG funds, the loan guarantee and to agree RBF support.
- 2.21 The external consultants’ advice concluded that the underlying financial assumptions within the initial funding model were robust, although the model would change as private investors came on board. The consultants identified potential economic and social benefits to Wales, and particularly to areas in need of regeneration, which could arise from development of the overall scheme beyond the CoW project’s initial phases¹⁷.

17 The CoW project considered by the Welsh Government for initial funding consists of two phases. Phase one comprises acquiring land, obtaining the necessary planning consents, agreeing construction contracts and raising finance; Phase two comprises constructing the race circuit, grandstands and paddock.

- 2.22 The consultants identified a series of interrelated risks associated with the CoW project, including¹⁸:
- a raising private capital;
 - b the ownership of and operational structures adopted by companies related to HoVDC, involved with the CoW project;
 - c the level of financial risk to public funds;
 - d the lengthy payback period and low rates of return to the public purse;
 - e opportunities for disproportionate returns for companies associated with delivering the CoW project, in some cases regardless of investment performance, and for private investors;
 - f the lack of significant equity investment by the principal shareholders;
 - g the relative absence of security for public investment; and that
 - h providing initial financial support would increase the pressure upon the Welsh Government to provide further support.
- 2.23 However, the consultants noted that their advice was based upon incomplete information because the CoW project continued to evolve. The Welsh Government did not undertake or commission due diligence¹⁹ reviews of the companies supplying goods and services to the CoW project which had existing relationships with individuals involved in HoVDC. Specific risks to public funds associated with these areas increased as the amount of financial support provided by the Welsh Government to the CoW project also increased.
- 2.24 The Welsh Government has informed us that it is now undertaking extensive external due diligence in relation to HoVDC's current proposal to enable the CoW project to proceed, for which Welsh Government underwriting support is requested.

¹⁸ These risks were identified from information provided by HoVDC to support its bids for initial Welsh Government funding and informed decisions relating to funding provided to date. We have not examined information relating to the CoW project's bids for substantive funding. Therefore, we cannot comment on whether these risks were subsequently mitigated in submissions for further funding, including the latest proposal which the Welsh Government is currently considering.

¹⁹ The process of knowing enough about who the Welsh Government is intending to do business with, including particular reference to the type of transaction and its intended outcome, in order to identify potential risks. Due diligence checks include reviewing the individuals' backgrounds and track records, company structures, financial position, assets and liabilities (current and future), taxation status and any identified legal issues. Where Welsh public money is involved, values and principles relating to sustainability, governance standards and business ethics should also be considered.

Part 3

Following decisions to provide initial financial support to the CoW project, the Welsh Government did not do enough to manage public funds properly



- 3.1 Public funding to the CoW project was supposed to be safeguarded by security against HoVDC's assets, and also protected by applying conditions relating to:
- a restrictions on how funds could be used;
 - b targets which the CoW project needed to meet;
 - c requirements for managing public money; and
 - d procedures for submitting claims and receiving payments.

Funding arrangements did not provide strong enough security for public money

- 3.2 On 6 April 2016 because the CoW project had not yet secured the private investment finance necessary for phase two, HoVDC was unable to meet its obligations to its bank under the loan agreement guaranteed by the Welsh Government. HoVDC's bank therefore wrote to the Welsh Government, calling in the guarantee and requesting payment. On 6 May 2016 the Welsh Government paid £7.33 million in full settlement to the bank (including HoVDC's bank charges, fees and interest payments totalling £0.8 million).
- 3.3 HoVDC is legally liable to repay on demand this £7.33 million, plus additional interest and fees, to the Welsh Government. However, unless the CoW project secures the private investment necessary for it to proceed, HoVDC is unlikely to be able to repay any of it.
- 3.4 It is usual for the Welsh Government to obtain security for public funds provided to a business against the value of that company's assets. Welsh Ministers hold debenture charges over HoVDC's assets dated 2012 and 2014, relating to the PDG and the loan guarantee. In recognition of the low quality of the available collateral, interest charges were set by Welsh Government at 13.5%, rising to 16% on default. However, this arrangement has not provided the Welsh Government's intended level of security for the bank guarantee because:
- a HoVDC was created solely for the purposes of the CoW project and undertakes no other trading activities²⁰.

²⁰ The CoW project is HoVDC's only project. The CoW project has received a Welsh Government grant and loan guarantee and has also received private bank loan finance. The CoW project has also secured financial support from sources which do not provide funds directly to HoVDC, including a UK-Government-backed investment scheme and a development grant provided by a motorsport body. These funders make payments directly to suppliers. In addition, several suppliers of services to HoVDC (including companies related to HoVDC) have agreed to defer receipt of payments for their services until the CoW project achieves financial close.

- b if HoVDC had possessed sufficient funds or physical assets from which to meet its liabilities, then the bank would not have required the Welsh Government to underwrite the loan.
 - c the value of the debenture security to the Welsh Government could only be realised if an insolvency were triggered and the business could be sold as a going concern.
 - d the Welsh Government's debenture charges are subordinated to a charge held by HoVDC's bank, dated 28 October 2012, covering all sums owed to the bank by HoVDC. Therefore, a claim by the bank to any assets of the company would take priority over a claim by the Welsh Government if the bank had been unable to recover the debt through other means.
- 3.5 The PDG is not legally repayable unless HoVDC fails to meet the grant conditions. Depending on the scale of any such breach, part or all of the grant could be repayable.

Conditions applied to different funding streams were inconsistent and, where they were in place, were not always enforced

- 3.6 The PDG agreement set out the terms and conditions under which the grant was made, including:
- a the grant amount;
 - b the purposes for which grant money could be used;
 - c specific conditions applied to the grant;
 - d areas of eligible expenditure and the maximum amounts claimable in each area; and
 - e requirements for submitting claims.
- 3.7 The PDG conditions included dated targets and required HoVDC to notify the Welsh Government whether they had been achieved. A failure by HoVDC to comply with the grant conditions, depending upon the severity of the breach could result in the Welsh Government withholding some or all of the grant or in a repayment of some or all money paid to that point. The PDG conditions required HoVDC to acquire an interest in the land by 31 May 2013. A further condition was that no grant would be paid until the Welsh Government had been provided with a copy of the land purchase contract. This condition was included because once the land purchase

is completed, the Welsh Government acquires an interest in the land as security for its financial support. On 18 December 2012 HoVDC entered into a conditional sale agreement for the principal area of land required for the CoW project. The Welsh Government judged that this met the PDG condition, although HoVDC did not provide the Welsh Government with a copy of the full contract and a conditional purchase agreement does not in fact provide any security to the Welsh Government (see also paragraphs 3.38 and 3.39).

- 3.8 The PDG conditions also required HoVDC to obtain planning permission for the circuit construction by 30 April 2013. In February 2013 HoVDC submitted an application for outline planning permission to BGCBC. The council granted outline permission for the CoW scheme on 25 September 2013, subject to a condition relating to common land reclassification. The Deputy Minister for Farming and Food granted the subsequent application for common land reclassification and exchange in November 2015. Although the grant condition relating to planning permission was not met by the target date, the official with responsibility for promoting the CoW project within the Welsh Government has informed us that...
'Throughout the period in question Welsh Government officials were in direct dialogue with the local planning authority, Blaenau Gwent CBC, who confirmed that due to the complex nature of the CoW project planning consent was unlikely to meet our target deadline of 30 April 2013, but Council officers fully expected consent to be granted within 6-8 months of that date. With that direct confirmation from the council an unrecorded decision was made not to require the company to give notice of a notification event.'
- 3.9 The Welsh Government had itself contributed to delays in obtaining planning permission by issuing a holding direction, preventing BGCBC from granting planning permission for the CoW project, pending a Welsh Government decision on whether to call in the application for determination by the Welsh Government. In August 2013 the Minister for Housing and Regeneration, with responsibility for planning, lifted the Welsh Government's holding direction.
- 3.10 The Welsh Government has discretion in relation to taking action arising from breaches in grant conditions. It was not therefore compelled to require repayment from HoVDC when it did not meet the PDG target date and also failed to notify the Welsh Government of this event when the company submitted its subsequent grant claim. However, any such enforcement decisions by Welsh Government officials should always be properly made and recorded. Proper documentation also supports the ability of Assembly Members to scrutinise decisions effectively and hold the Welsh Government to account²¹.

21 See also the report of the National Assembly for Wales Public Accounts Committee, The Regeneration Investment Fund for Wales, January 2016, pages 35 to 38.

- 3.11 The Welsh Government set targets for the CoW project to raise the finance necessary to proceed to phase two; construction of the circuit, grandstands and paddock. The PDG conditions required HoVDC to secure private capital funding of £155 million by 31 May 2013. HoVDC was unable to meet this condition (see also [paragraphs 3.8 and 3.9](#)). A condition of the loan guarantee agreement, which the Welsh Government entered into on 18 July 2014, was that the CoW project should raise main finance of £229 million by 31 December 2014. This was not achieved either and the CoW project also failed to meet subsequent extensions to this date. As a consequence, the bank requested repayment of the loan. When HoVDC was unable to repay it, because HoVDC lacked sufficient funds or assets to meet the debt, the bank issued a formal notice requiring the Welsh Government to honour its commitment under the guarantee to pay to the bank the full loan amount plus its fees and interest.
- 3.12 Commercial, private sector bodies, such as HoVDC, are not covered by EU procurement law²². However, they are expected to use fair and open practices, including competitive tendering, when letting contracts related to public services and public funds. Clause 18 of the PDG offer letter states ‘You must buy all goods and services... in a competitive and sustainable way so as to demonstrate that you have achieved best value in the use of public funds.’ The Welsh Government does not have any evidence of HoVDC complying with this condition in relation to the £2 million PDG; either by these services being subjected to competition or by undertaking value for money comparisons.
- 3.13 The Welsh Government told us that it does not seek evidence of compliance, as it does not enforce competitive tendering apart from where European funding is provided where compliance with European Union procurement directives is required as a condition of funding criteria. The Welsh Government did not stipulate any value for money requirements at all in the loan guarantee agreement under which the Welsh Government permitted payments to suppliers totalling over £6.5 million. HoVDC told us that ‘...the Company has followed a robust and competitive tendering process for the selection of its consultants, its prime contractor and its service providers’.

²² To demonstrate that good value for money is achieved from public funding, where public bodies procure goods or services, they are required to follow EU law. EU law requires public bodies to advertise contracts above a certain limit in the Official Journal of the European Union.

- 3.14 The Welsh Government and the CoW project's developers have emphasised the CoW scheme's potential contribution to job creation and the Welsh economy. The Welsh Government's agreement with HoVDC to provide RBF applies to Project phase 2; construction of the circuit, grandstands and paddock. The RBF agreement specified a target date for the CoW project to create 304 full-time jobs at the site by 1 March 2017. The CoW project must provide evidence of meeting this target in order to receive £11.2 million of the £16 million RBF agreed. RBF conditions require that not less than 50% of all employment and suppliers of goods and services to the CoW project must be sourced from within the Welsh economy. No similar requirements were applied to the other £9.3 million of public funds provided by the Welsh Government to date, under the PDG and the loan guarantee agreement²³.
- 3.15 The loan guarantee agreement included the condition that HoVDC should provide audited financial statements for the period ending 31 May 2014 to the Welsh Government²⁴. The PDG conditions required access to financial information but did not specify any requirement for external audit. The RBF agreement includes the requirement that the latest audited accounts are available before any RBF is paid²⁵. HoVDC's accounts for the period to 31 May 2014 have not been audited and nor were the filed accounts to 31 May 2015 or for the period to 31 May 2016²⁶.

The Welsh Government's understanding of the companies involved in the CoW project was limited

- 3.16 The Welsh Government commissioned external advice to inform its decisions relating to initial funding. However, the due diligence undertaken at that time in relation to the corporate structure of companies which supported the CoW project (other than HoVDC itself) was limited because many of the companies involved were new, the full structure was not in place and the structure continued to change as it evolved. Structure diagrams and information provided to the Welsh Government at various times by HoVDC were inconsistent and did not accord with published information held at Companies House.

²³ In January 2017, press reports indicated that CoW had awarded the main construction contract to a Spanish company.

²⁴ Small companies, with annual turnover less than £6.5 million, do not have to submit their profit and loss accounts to Companies House and are not required to be independently audited (an independent opinion that the company's annual accounts and financial statements present a true and fair view). However, they can choose to be audited, and the Welsh Government can also require them to obtain audits as a condition for providing public funding. See also paragraph 3.19.

²⁵ To date, none of the agreed RBF has been requested or paid.

²⁶ Annual accounts are usually due on the anniversary of a company's establishment. However, companies can change when their annual accounting period ends, subject to notification to Companies House.

- 3.17 The application dated 13 March 2014 from CoW to the Welsh Government for £18 million of RBF is from Rassau Infrastructure Company Limited. The application form identified that the company had not been formed. To date, no such company has been incorporated. However, the RBF application submitted by Welsh Government officials to WIDAB for signoff prior to ministerial approval, dated 28 May 2014, incorrectly stated: 'The applicant is the Rassau Motorsports and Infrastructure Company Ltd, which is owned by the Circuit of Wales Ltd which is in turn owned by the Heads of the Valleys Limited Partnership, a special purpose vehicle into which the equity investment is drawn²⁷.'
- 3.18 However, the final RBF agreement was made between the Welsh Government and HoVDC. The Welsh Government told us it made the agreement with HoVDC as this company had been incorporated and to avoid the need for parent company guarantees. The Welsh Government also told us that it is not unusual for it to receive funding applications from companies that have not yet been incorporated.
- 3.19 In advance of funding decisions, the Welsh Government did not undertake or commission due diligence relating to any of the companies or individuals supplying services to the CoW project. These suppliers were the ultimate intended recipients of the public funds the Welsh Government would provide to HoVDC and the Welsh Government was already aware of potential issues ([paragraphs 3.22 to 3.34](#)). Instead, before and after the Welsh Government made its funding decisions, it relied solely upon information provided to it by HoVDC. The Welsh Government did not seek sufficient clarity and transparency from HoVDC regarding its related supplier companies, either as preconditions for providing support, or when approving payments relating to support which had been agreed²⁸. The Cabinet Secretary for Economy and Infrastructure has since announced that the due diligence of the current HoVDC proposal will include analysis of all companies and individuals involved in the project. The Welsh Government told us that, having recently changed its procedures, this due diligence will include related companies and individuals who stand to benefit financially.
- 3.20 We looked at accounts submitted to Companies House by HoVDC and by its associated companies. None of the companies involved are required under UK company law to be audited or to submit their profit and loss accounts to Companies House (see also [paragraph 3.15](#)). Therefore the extent of financial information available from filed accounts is limited. In addition, companies within HoVDC ownership structure have a variety of different annual accounting periods which makes external scrutiny of

²⁷ Rassau Motorsports and Infrastructure Company Limited is not incorporated; Heads of the Valleys Limited Partnership is not incorporated; Circuit of Wales Limited is incorporated but is dormant.

²⁸ The National Audit Office urges adoption of 'open-book accounting' practices which provide transparency of payments, performance and profits in relation to outsourced services, as a fundamental condition of doing business with the public sector. [National Audit Office, **Open-book accounting and supply-chain assurance**, June 2015]

related company accounts difficult. Various companies have provided goods and services to CoW 'at risk' to themselves on a 'success fee' basis. These companies include the main contractor, which has incurred 'at-risk' costs of £8 million over five years. In many cases, accrued costs and fees are expected to be converted into share equity in HoVDC at financial close. We understand from HoVDC that services totalling £30 million have been provided to HoVDC on this basis. However, to date these services do not appear to have been disclosed in HoVDC's filed accounts as contingent liabilities²⁹.

- 3.21 The PDG and loan guarantee agreement approved the use of funds to enable HoVDC to acquire the hosting rights for the UK round of the motorcycle grand prix world championship, MotoGP. On 1 April 2014 HoVDC successfully concluded negotiations to acquire a ten-year hosting agreement for the UK MotoGP round. The contract is agreed between the rights holder and Circuit of Wales Limited, a company wholly owned by HoVDC. However, the Circuit of Wales Limited company accounts to June 2015 report that it is dormant and has no assets or liabilities (see also [paragraph 18](#)).

The Welsh Government permitted payments to related companies, including almost £1 million to Aventa, without sufficient evidence that services provided to the CoW project represented value for money

- 3.22 The PDG award letter identified areas of approved expenditure against which HoVDC could make claims up to the total of the £2 million awarded. The schedule of agreed expenditure included a list of suppliers from whom evidence of payment would be expected to support HoVDC's claims for instalments of the grant, which was claimed and paid in four tranches totalling nearly £2 million between January 2013 and April 2014. The conditions stated that such evidence should be of a form deemed to be satisfactory by the Welsh Government, but the PDG award letter did not stipulate clearly what the requirements for this satisfaction were³⁰. The Welsh Government told us that it does not specify the evidence of payments it requires to support grant claims so that it can be flexible in its approach to dealing with different circumstances. In this case it required, and received, supplier invoices and bank statements evidencing that the suppliers had been paid the invoiced amounts.

²⁹ As part of our audit work, we have not sought to establish whether such fees are identified as debtors in suppliers' accounts.

³⁰ See also [paragraph 3.12](#) in relation to value for money.

- 3.23 Under the loan guarantee agreement, HoVDC submitted claims for payment to the Welsh Government, usually supported by suppliers' invoices. The Welsh Government checked the claims and authorised the bank to make payments directly to HoVDC's suppliers up to the total of the amount loaned by the bank to HoVDC. Between 18 July 2014 and 14 January 2016 the Welsh Government authorised payment of 22 claims. Payments to suppliers made under the loan guarantee agreement totalled over £6.5 million, excluding payments to HoVDC's bank.
- 3.24 Many companies providing services to HoVDC have direct relationships with current or previous shareholders, board members and individuals contracted to provide services to HoVDC and Aventa. Many of these relationships predate Welsh Government financial support for the CoW project, and some are IR35 arrangements³¹. We have identified nine such relationships between individuals and companies to whom payments involving public funds were made (by or on behalf of HoVDC) with Welsh Government approval, and two further relationships whose costs were deemed eligible but no claims were submitted.
- 3.25 We have identified that nearly half of the total value of payments to suppliers, excluding bank charges, made involving public funds through the PDG and the loan guarantee were conducted with or through related parties. However, invoices submitted by related companies were approved by the Welsh Government for payment without evidence of value for money. In many cases, these invoices simply represented monthly retainers without evidence of any actual services being delivered. The Welsh Government does not have any evidence of contracts for these services being subject to competition or of controls in operation within HoVDC to manage potential conflicts of interest. The Welsh Government has told us that:
- a as the contracts were already in place, the Welsh Government was not in a position to influence the terms on which these had been negotiated;
 - b officials had satisfied themselves as to value for money at the overall project level, rather than at the individual service contract level; and
 - c officials regarded CoW project progress, in terms of obtaining planning consent and negotiating construction contracts, to be sufficient evidence of services having been provided.

31 IR35 is a set of income tax and national insurance rules which govern whether responsibility for making payments lies with a client or a contractor.

- 3.26 Under the bank guarantee agreement, because at that time, HoVDC lacked other sources of funds (see also [paragraph 3.2](#)), the Welsh Government agreed with HoVDC to approve payment of business and travel expenses in advance of the costs actually being evidenced. HoVDC would then submit actual invoices with its next claim and the Welsh Government would adjust the amount then paid. Two expenses claims (totalling £19,000) were approved by the Welsh Government and paid by the bank to HoVDC before the Welsh Government cancelled the arrangement because HoVDC failed to provide sufficient evidence to support the claims.
- 3.27 HoVDC is not licenced by the Financial Conduct Authority (FCA) to undertake regulated investment fundraising, and so had to contract with a third party to provide that service to it. On 1 January 2012 HoVDC contracted with Aventa, an FCA licenced company wholly owned by Michael Carrick; HoVDC Chief Executive. Mr Carrick signed the contract between HoVDC and Aventa on behalf of both parties. This agreement predated any Welsh Government funding. The Welsh Government has no evidence that HoVDC awarded Aventa's service contract following a competitive process. HoVDC told us that 'Two corporate entities entered into [a] contract for services. They happen to share a common shareholder whose potential conflicts were disclosed.'
- 3.28 Under the contract with HoVDC, Aventa can provide a broad range of services covering all areas of HoVDC activity, not just FCA regulated services and fundraising, as well as for any other services subject to agreement by both parties. The contract is unlimited, in time and money, and is retrospective, permitting payments for services provided before the contract date. The contract requires payment of monthly fees from HoVDC to Aventa plus a contingent monthly fee and a bonus upon achievement of 'financial close' (CoW project finance from private investors in place). The contract also allows for HoVDC and Aventa to agree further, additional payments to Aventa. HoVDC told us that '...the practice of issuing retainer invoices for financial services of the nature provided by Aventa represents the normal manner of billing for these services'.
- 3.29 The PDG award letter to HoVDC dated 11 October 2012 did not list any payments to Aventa amongst approved expenditure. The Welsh Government amended the schedule of approved expenditure in February 2013 following a letter from Mr Carrick. The amended schedule of approved expenditure attached to his letter included £10,000 for 'fund raising professional advisory fees' which was not previously included within approved expenditure listed in the grant letter. Mr Carrick's covering letter did not identify this proposed change or specify whether these payments would be to Aventa. The Welsh Government approved the variation and adopted the amended schedule but by this time, HoVDC had

already claimed £6,873 of the £10,000. However, it had not yet been paid to HoVDC by the Welsh Government. Because this element of the claim was not supported by any invoices, the Welsh Government rejected it and so did not in fact pay the £6,873 which HoVDC had claimed.

- 3.30 In July 2014 during discussions between HoVDC and the Welsh Government prior to agreeing the loan guarantee, HoVDC sought to include payments to Aventa within the loan guarantee arrangement because HoVDC stated these were pre-existing contractual obligations for services necessary to deliver the CoW project. However, officials within ES&T were concerned that Aventa was a related company which they stated ‘...conducts no other business than delivery of the Circuit³².’ In a letter to the Welsh Government, dated 8 July 2014, HoVDC wrote to the Welsh Government and provided a range of assurances to officials, including that Michael Carrick’s ownership of Aventa had been fully disclosed to the HoVDC Board and that ‘...any conflicts are discussed at the regular Board meetings.’ In a subsequent internal Welsh Government note to the Additional Accounting Officer, an official stated: ‘Following on from your briefing to the Minister last week I have been engaged in further dialogue with representatives [of HoVDC]... I am now satisfied that none of the Directors of HoVDC would personally benefit from these payments, consequently I am in a position to recommend that, subject to certain contractual controls, these payments be permitted³³.’
- 3.31 The internal note contained no evidence to support the assertion that directors of HoVDC would not benefit. Furthermore, the official did not state directly that Mr Carrick in his capacity as owner of Aventa would not benefit. HoVDC told us that ‘None of the Directors of HoVDC nor Aventa have received any employee related income since [HoVDC] was incorporated’. We note that Aventa’s subsequently filed accounts show that between December 2013 and March 2016 Aventa made two loans to Mr Carrick totalling £225,000. However, this information was not publicly available at the time of the decision, nor was it disclosed by Aventa to the Welsh Government.
- 3.32 The Welsh Government stipulated in the loan guarantee agreement that HoVDC would not make payments to Aventa without the Welsh Government’s prior written consent. The loan guarantee received ministerial approval on 1 July 2014 and was agreed between the Welsh Government and HoVDC on 18 July 2014. Under the loan guarantee agreement, between July 2014 and January 2016, the Welsh Government itself authorised payments totalling nearly £1 million from HoVDC’s bank to Aventa. Invoices submitted by Aventa to the Welsh Government for payment approval simply comprised monthly payments of a retainer which, on their own, do not provide evidence of value for money or of services being delivered (see also [paragraph 3.28](#)).

³² Email, 15 July 2014

³³ Email, 15 July 2014

- 3.33 In correspondence to the Auditor General in July 2016, Mr David TC Davies MP raised concerns that public money provided to HoVDC may have been used to:
- a pay invoices amounting to nearly £35,000 between May 2014 and June 2016 for gardening and landscaping services at Mr Carrick's home in Cambridgeshire; and
 - b pay invoices totalling £4,110 relating to political events between December 2014 and November 2015.
- 3.34 We established that these payments were not made by HoVDC, but were instead made by Aventa – a separate company wholly owned by the controlling shareholder and Chief Executive of HoVDC, Mr Michael Carrick. Given that Aventa derives income from the provision of services to HoVDC under contract, we are therefore satisfied that expenditure by Aventa itself does not constitute the use of public funds.

The Welsh Government's arrangements for authorising payments to HoVDC were insufficiently robust

- 3.35 We found that the Welsh Government officials who had liaised with the CoW project in bidding for public funds, drafted briefing notes and provided advice to the Minister for funding decisions also played a significant role in the payment authorisation process.
- 3.36 The Welsh Government had put in place arrangements in ES&T whereby the officials involved in supporting a project were allocated a budget based on the funding approved by Ministers for that project. These officials would then check whether payment claims were in line with the anticipated expenditure and supported by appropriate documentation (see [paragraph 3.22](#)). They would then pass the claim to directorate finance officers who would also check the claim and the budget holder's authorisation before passing it for payment.
- 3.37 Whilst these arrangements should create an appropriate separation of duties, we found that in practice they were applied inconsistently. In particular, 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.

- 3.38 In December 2012 HoVDC submitted its first claim to the Welsh Government for PDG drawdown. This included a claim for payment of £200,000 for the conditional acquisition of the main site. To support the claim, HoVDC provided information from its solicitors relating to completion of the transaction as well as copies of the cover and signature sheets from a contract agreed between HoVDC and the landowner, but did not provide the Welsh Government with a copy of the full contract.
- 3.39 The Welsh Government accepted the extracts as evidence that a conditional contract had been agreed and therefore that the grant condition relating to acquiring land was met (see also [paragraph 3.7](#)). On 3 January a Welsh Government official within its project team informed Mr Carrick:
'I have also been through the drawdown notice you submitted on 17 December and note that the two items against which you are claiming are indeed within the eligible expenditure as set out in Schedule 1 to the grant offer... please confirm to me that these amounts have been released from the solicitors to the respective clients and the payments are wholly non-refundable.'
- 3.40 On 4 January 2013 HoVDC's solicitor confirmed to the Welsh Government official that £100,000 had been transferred to the seller's solicitor on 17 December 2012 and paid to the seller but that, in accordance with the contract, a further £100,000 was being held by the seller's solicitor 'in escrow' as a deposit. It is common in such transactions for a deposit to be held, and either paid or repaid depending upon whether or not the final sale is completed. Such deposits are not normally eligible for grant until paid to the seller. However, on 11 January, the Welsh Government official instructed his finance colleagues to approve payment of the full £200,000. This sum was paid to HoVDC on 16 January 2013, although Welsh Government officials had not seen the relevant parts of the conditional sale contract.
- 3.41 We note that, in contrast to the arrangement operating within ES&T which was applied to managing funding for the CoW project, the Wales European Funding Office (WEFO)³⁴ clearly separates the duties of officials involved in supporting funding bids from officials involved in approving claims and monitoring CoW project progress.

³⁴ WEFO is part of the Welsh Government which is responsible for administering EU funding.

Part 4

The £2 million grant included £0.3 million to acquire FTR, a motorcycle engineering company, which is inconsistent with the grant scheme's purpose



The Welsh Government has been unable to explain to our satisfaction why it approved grant funding intended for property development so that HoVDC could acquire a motorcycle engineering company

- 4.1 HoVDC submitted a formal case for a £2 million PDG to the Welsh Government, dated 20 March 2012. The grant was intended to support phase one of the CoW project by contributing towards £9.715 million of planned expenditure by HoVDC which was deemed eligible within the PDG scheme. The application submission did not refer to the acquisition of FTR. However, a motorcycle engineering company, FTR Moto LLP, wrote a letter of support for the CoW project, dated 11 September 2011, stating willingness to consider relocation from Buckinghamshire to Ebbw Vale. The letter was provided to the Welsh Government by HoVDC in support of its case for PDG.
- 4.2 In October 2012 the Welsh Government awarded a £2 million PDG to HoVDC. The grant award letter from the Welsh Government to HoVDC dated 11 October 2012 identified 'FTR' under the 'land acquisition' heading within the schedule of approved expenditure. The FTR transaction took place on 28 September 2012, before the Welsh Government awarded the PDG to HoVDC. However, the grant award letter backdated the period covered by the grant to 1 August 2012, which was before the Minister's decision on 9 August 2012 to award the grant. The submission to the Minister recommending that the Welsh Government should award the PDG to HoVDC had not mentioned approving any public funding for acquiring FTR (see also [paragraph 2.6](#)) and did not state that the grant would be backdated.
- 4.3 Notably, we found that the Welsh Government had not obtained a copy of the contract agreed between HoVDC and FTR's sellers; this contract was instead provided to us by HoVDC. Under the terms of the contract, HoVDC agreed to acquire the FTR Moto brand name and the assets of FTR Moto LLP as well as the assets of an associated company, Fabrication Techniques UK Limited. HoVDC transferred these to a new company, which it then named FTR Moto Limited, and to which it appointed directors. Mr Carrick is not a director of FTR Moto Limited although it is wholly owned by HoVDC, in which he has a controlling interest.
- 4.4 The acquisition by HoVDC of a Buckinghamshire-based specialist manufacturer of racing motorcycle components is not consistent with the purpose of the PDG, which was to support phase one of the CoW project; land acquisition, obtaining the necessary planning consents, and raising finance.

- 4.5 The Welsh Government has been unable to explain to our satisfaction how such an acquisition might contribute to the pre-construction planning preparations necessary for a race circuit in Ebbw Vale. The Welsh Government has also been unable to provide us with any contemporaneous documentation relating to approval of the acquisition within the PDG. However, we have seen an earlier draft of the grant award letter, dated 31 August 2012, which did not include the 'FTR' item.
- 4.6 Mr Carrick has explained to us that HoVDC intended to capitalise upon FTR's relationships within MotoGP and ultimately to re-establish the business in Wales. In November 2016 he sent the Welsh Government a note in which he explained the rationale for the acquisition:
'The Heads of the Valleys Development Company acquired the assets and brand of Fabrication Technique Racing (FTR) in September 2012 for approximately £300,000. This was an approved purpose under the WG funding agreement. A further £325,000 of private funding has been invested into developing and managing the business.

FTR is a small UK-based precision engineering firm based in Buckinghamshire that designs racing bikes for Moto 2, Moto 3 and MotoGP. They had a winning pedigree and.... The acquisition rationale was:

- a to establish a UK racing team that would result in a Welsh rider... competing on a Welsh manufactured bike at a MotoGP event in Wales in 2014. This, it was expected, would increase the spectator attendance in Wales by approximately 15-20,000...
- b to provide a deepening and strengthening of the relationship with [an automotive body – name redacted] and endorse their objective of establishing a MotoGP Clinic and Academy in the UK.
- c to provide a manufacturing base for bikes and race machines for circuits, a standardised UK series and track days.
- d to participate in providing some of the more advanced precision engineering requirements on the circuit construction and to use the space-frame technology to produce track and off-track bikes and vehicles for academy and corporate entertainment use.
- e to develop a unique Welsh branded Café Racer bike for retail sales and support.
- f to partner [a Formula One motor racing team – name redacted], to create an electric bike platform.'

- 4.7 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, for which the Welsh Government provided the PDG.

Funding for FTR Moto Limited was written off in the HoVDC company accounts and then in October 2016, FTR Moto Limited went into administration

- 4.8 HoVDC submitted its claim for payment of the first tranche of PDG to the Welsh Government, dated 17 December 2012, which included '£300,000 acquisition price and associated transaction costs and working capital for FTR Moto LLP'. On 3 January the Welsh Government official responsible for approving HoVDC's grant claims for payment confirmed to Mr Carrick that this claim was within the eligible expenditure set out in the PDG offer, but requested further documentation to support the claim (see also paragraphs 3.38 and 3.39).
- 4.9 On 10 January 2013 HoVDC provided documentation to support its grant claim. This comprised a copy of a transfer of £300,000 from the HoVDC bank account to the client account of a Milton-Keynes-based law firm, dated 1 October 2012, together with a copy of the solicitor's completion statement, dated 3 January 2013. The Welsh Government correctly deducted an item identified on the completion statement as 'balance remitted to FTR Moto Ltd on 10 October 2012 £24,039' because it represented working capital and was not eligible under the grant conditions. On 16 January 2013 the Welsh Government therefore paid £275,961 in settlement of the claim.
- 4.10 HoVDC transferred some funds to FTR Moto Limited which were subsequently written off³⁵. The HoVDC accounts filed at Companies House for the year ended 31 May 2013 identify 'fixed asset investments' of £500,001 described as 'shares and loans to a subsidiary undertaking'. The HoVDC 2013-14 accounts record a loss of £356,000 by FTR Moto Limited. HoVDC's 2014-15 accounts show a further loss of £57,000 and a loan from HoVDC to FTR of £29,149 were written off. HoVDC's accounts for 2015-16 wrote off another loss of £96,000. However, FTR Moto Limited's own accounts are difficult to reconcile with those of its parent company because the companies have different accounting periods, even though FTR Moto Limited has changed its accounting period several times since 2012, and HoVDC has also changed its accounting period. Neither company's accounts are required to be audited under UK law.

³⁵ HoVDC told us that it had funded FTR Moto from non-PDG sources to provide continuing support whilst decisions on the CoW project were being advanced.

- 4.11 FTR Moto Limited failed to file its own accounts for the period to 31 December 2015 with Companies House, and so on 30 August 2016 Companies House issued a notice of compulsory strike-off, to remove the company from the register of companies. The 2015 accounts were finally filed on 30 September 2016, showing net liabilities of £508,709. FTR Moto Limited went into administration on 16 October 2016.
- 4.12 We have seen no evidence that the Welsh Government considered whether HoVDC's acquisition of FTR, using public funds, represented good value for money. The Welsh Government also failed to conduct any due diligence or any other inquiries into the financial standing of FTR.
- 4.13 A Welsh Government press statement issued on 8 April 2016 in response to concerns raised by Mr David TC Davies MP about HoVDC's acquisition of FTR Moto Ltd stated:
'We can confirm that no Welsh Government funds were used for the acquisition and ongoing running costs of FTR Moto Ltd by the HoVDC. Notes – The Welsh Government provided £7.35m on commercial terms towards the costs associated with the development of this complex project.'

The press statement is both incorrect and misleading because:

- a HoVDC did not acquire 'FTR Moto Ltd', but instead acquired assets from FTR Moto LLP and Fabrication Techniques UK Limited, which were transferred to a new company which was then named FTR Moto Limited;
 - b the Welsh Government did in fact approve PDG funding of £300,000 for the purchase, of which £275,961 was paid to HoVDC; and
 - c the Welsh Government had in fact provided a total of £9.33 million of funding to the CoW project, of which £2 million was PDG.
- 4.14 The Welsh Government has explained to us that these errors arose within the team responsible, which had only checked against the £7.33 million loan guarantee expenditure, forgetting about the £2 million PDG. We find these errors surprising, given that this team was also directly involved in:
- a agreeing the FTR acquisition as eligible expenditure within the PDG grant award; and
 - b reviewing claims under the PDG grant expenditure schedule which included FTR Moto.

Appendices



Appendix 1 - Our audit approach and methods

Scope

In July 2013 an Assembly Member wrote to the Auditor General about the CoW project, expressing concerns about the race circuit's commercial viability, the thoroughness of the Welsh Government's due diligence, and the wisdom of public investment in the CoW project. The Welsh Government told us that it had already awarded a £2 million grant but would thoroughly review any further proposal from HoVDC before committing more funds to the CoW project's construction phase. At that time, the Welsh Government anticipated that any such support, if agreed, would amount to around £30 million. The Auditor General responded to the Assembly Member that he would maintain a close watching brief and may decide to undertake detailed audit work if further public funds were committed to the CoW project.

In July 2016 Mr David TC Davies MP wrote to the Auditor General raising concerns about how public funds provided by the Welsh Government to the CoW project may have been used (see [Appendix 4](#)). In particular, payments made by HoVDC relating to:

- invoices for gardening and landscaping services at Mr Michael Carrick (HoVDC Chief Executive)'s home in Cambridgeshire amounting to nearly £35,000 between May 2014 and June 2016;
- transfers of money amounting to £969,000 from HoVDC to Aventa, a company wholly owned by Mr Carrick which provides services to HoVDC;
- the purchase of FTR Moto Limited, a Buckinghamshire-based specialist manufacturer of racing motorcycle components, acquired by HoVDC in September 2012 with Welsh Government grant funding of £275,961;
- whether invoices to Aventa totalling £4,110 relating to political events between December 2014 and November 2015 were paid with public funds provided by the Welsh Government to HoVDC; and
- whether public funds had been used in the acquisition by HoVDC or other company or companies controlled by Mr Carrick, of the hosting rights for the British round of the MotoGP motorcycle world championship.

In August 2016 on behalf of the Auditor General, we began looking into Mr Davies' concerns and in October 2016 the Auditor General announced that we would be extending our audit review beyond these concerns to also examine further aspects of the Welsh Government's funding for the CoW project. We have focused our audit review upon how well the Welsh Government has:

- made decisions to provide initial financial support to the CoW project;
- managed risks by applying conditions under which public funds were provided to the CoW project; and
- assured itself that funds it provided were being used for the purposes it intended.

We have not:

- reviewed in detail how public money provided to the CoW project was actually used;
- examined directly the conduct of individuals or entities connected with the CoW project;
- reviewed the acquisition by Circuit of Wales Limited (a dormant company wholly owned by HoVDC) of a ten-year agreement for MotoGP hosting rights on 1 April 2014;
- reviewed staging the British rounds of the MotoGP championship at Silverstone in 2015 and 2016, which generated financial losses for the HoVDC group of companies;
- examined the viability of the business cases for the race circuit or for the CoW scheme³⁶ or tested claims made by HoVDC about job creation, economic activity or wider social benefits arising from the overall scheme;
- evaluated reviews of the CoW project's business case commissioned by the Welsh Government, or the value for money of external advice procured by the Welsh Government³⁷; or
- assessed the merits of providing further publicly funded support to the CoW project.

³⁶ We have reviewed the Welsh Government's consideration of information provided by HoVDC which supported its bids for initial funding, but we have not evaluated the information itself.

³⁷ Up to May 2016 these costs amounted to £393,000, excluding time costs relating to the Welsh Government's internal services. Fees associated with the loan guarantee provided by the Welsh Government to HoVDC are recoverable on demand from HoVDC, along with the £7.35 million the Welsh Government paid to the HoVDC's bank.

Methods

In undertaking the review we gathered and reviewed documentary evidence from the Welsh Government and from public sources such as Companies House. We also met with and reviewed certain information provided to us by Mr David TC Davies MP.

We have met Welsh Government officials and also have met key individuals from the CoW project to put questions to them.

We have provided the opportunity to the Welsh Government and to CoW for them to provide comments on our report prior to publication, in relation to factual accuracy, completeness and balance.

Our published report sets out the underlying facts, the Auditor General's conclusions and his specific recommendations to the Welsh Government, for consideration by the Public Accounts Committee of the National Assembly.

Appendix 2 - Glossary of terms and abbreviations

Aventa	Aventa Capital Partners Limited, a company wholly owned by HoVDC Chief Executive Michael Carrick, contracted by HoVDC to raise private investment funds for the CoW project.
Circuit of Wales Limited	A dormant company wholly owned by HoVDC. On 1 April 2014 Circuit of Wales Limited secured a ten-year lease for hosting MotoGP motorcycle world championship races in the UK.
Common land	The common land upon which the CoW racing circuit is planned was land upon which development was strictly controlled and over which people other than the landowner held rights, such as livestock grazing. To permit development, in November 2015, the Deputy Minister for Farming and Food granted HoVDC's application for declassifying and exchanging common land.
CoW	The Circuit of Wales racetrack.
CoW project (the Project)	The initial two phases of the CoW scheme, to which the Welsh Government has provided support. To date the Welsh Government has provided support for phase one and has agreed RBF for phase two of the CoW project.
CoW scheme	The developers' overall intentions beyond the CoW project for further development on the site, including an automotive technology business park and leisure facilities, for which the developers are likely to request further public funding. The potential economic and wider social benefits arise mainly from these further, longer-term developments; rather than from constructing and operating the race circuit itself.
Due diligence	The process of knowing enough about who the Welsh Government intends to do business with in order to identify potential risks; including particular reference to the type of transaction and its intended outcome.

ES&T	The Welsh Government's Department of Economy, Science and Transport which liaised with HoVDC about Welsh Government support and also managed claims and approved payments. (Now the Economy and Infrastructure Department.)
FCA	The Financial Conduct Authority; the licensing and regulatory body for the financial services industry. HoVDC pays Aventa for FCA regulated services under a service contract.
Financial close	A complex series of coordinated interdependent transactions enabling the CoW project to advance from phase one to phase two with private investment, land ownership and public finance commitments in place.
FTR	HoVDC acquired the assets and trading names of FTR Moto LLP and Fabrication Techniques UK Ltd and transferred them to a new company which it named FTR Moto Ltd.
HoVDC	Heads of the Valleys Development Company Limited, the company established by the developers to manage the CoW project's initial phases.
IR35	A set of income tax and national insurance rules, which govern whether responsibility for making payments lies with a client or a contractor.
Loan guarantee agreement	A Welsh Government guarantee agreed on 18 July 2014 whereby if HoVDC were unable to repay a bank loan the Welsh Government would meet the full costs. When HoVDC were unable to repay the loan, the Welsh Government paid the bank £7.334 million in May 2016. HoVDC is liable for repaying this sum, plus interest and fees, to the Welsh Government.

<p>Payment claims</p>	<p>Requests from HoVDC to the Welsh Government to approve sums for payment. Under the PDG agreement HoVDC claimed reimbursement from the Welsh Government for payments HoVDC had itself already made to suppliers. The Welsh Government paid HoVDC £1,999,870 in four tranches between January 2013 and April 2014.</p> <p>Under the loan guarantee agreement, HoVDC submitted batches of payment requests to the Welsh Government for checking. The Welsh Government would then authorise HoVDC's bank to make payments directly to suppliers, up to the agreed total loan amount. Between 18 July 2014 and 14 January 2016 the Welsh Government authorised 22 payment claims.</p>
<p>PDG</p>	<p>£2 million awarded to HoVDC by the Welsh Government for phase one of the CoW project, of which the Welsh Government paid HoVDC £1,999,870. The PDG is not repayable unless HoVDC has failed to meet the grant conditions. Depending on the scale of the breach, part or all of the grant may be repayable.</p>
<p>PDG scheme</p>	<p>The funding scheme intended to create jobs by supporting costs associated with developing employment land and business premises; under which the Welsh Government provided a £2 million grant to HoVDC for CoW project phase one.</p>
<p>Phase one</p>	<p>The first phase of the CoW project involving securing land options, planning consents, construction contracts and finance necessary to proceed to phase two.</p>
<p>Phase two</p>	<p>The second phase of the CoW project, involving actual construction of the race circuit, grandstands and paddock. The investment necessary for phase two is £430 million.</p>

RBF	Repayable Business Finance; a £16 million approved loan from the Welsh Government to HoVDC. To date no money has been requested or provided because the CoW project has not yet fulfilled the conditions in the RBF offer, dated 30 June 2014 and which expires on 31 March 2018.
State Aid	Public support to businesses may constitute anti-competitive State Aid, which, if particular conditions are met, can be judged by the European Commission to be unlawful.
Underwriting	Welsh Government guarantees address the scarcity of long-term debt funding available from financial markets for large capital projects. They transfer risk to the Welsh Government for the amount guaranteed, thereby reducing the overall risk to private sector lenders and investors, encouraging them to accept lower rates of interest and smaller dividend payments from HoVDC. This would increase the effective rate of return (profit) available to the developers and so the Welsh Government charges an equivalent commercial fee for providing such guarantees.
WEFO	The Wales European Funding Office; part of the Welsh Government responsible for administering European Union funding within Wales.
WIDAB	The Wales Industrial Development Advisory Board; an advisory board within the Welsh Government, which makes recommendations to the Minister about whether projects should be supported.

Appendix 3 - Timeline of key events



July

2013

An Assembly Member wrote to the Auditor General expressing concerns about the CoWs commercial viability, the thoroughness of the Welsh Government's due diligence, and the wisdom of public investment. The Auditor General responded that he would maintain a close watching brief and may undertake detailed audit work if further public funds were committed to constructing the CoW.

2013

August

The Minister for Housing and Regeneration, with responsibility for planning, lifted the Welsh Government's holding direction, which had prevented BGCBC from granting planning permission for the CoW project.

December

2013

The CoW project applied for common land on which the circuit construction is planned to be declassified and for replacement land to be classified as common land instead.

2013

September

BGCBC granted outline planning permission for the CoW scheme. A condition attached to the consent required the common land, on which the circuit is planned, to be declassified.

April

2014

Fourth and final payment of PDG by the Welsh Government to HoVDC. The four payments totalled £1,999,870. Circuit of Wales Limited, a dormant company wholly owned by HoVDC, secured a ten-year lease of the hosting rights for MotoGP in the UK.

2014

March

HoVDC submitted an application to the Welsh Government for an RBF loan to support phase two of the CoW project.

July

2014

The Welsh Government agreed to guarantee a bank loan to enable HoVDC to pay suppliers, many of which are related companies; including Aventa, which is wholly owned by Mr Carrick.

2014

June

Following a WIDAB meeting on 3 June, the Welsh Government wrote to HoVDC offering £16 million of RBF to support phase two, the CoW project's construction, subject to the CoW project meeting certain conditions. No money has been requested or paid to date and the offer expires in March 2018.

An inquiry requested by the First Minister found that The Minister for Natural Resources and Food had breached the Ministerial Code by not distinguishing sufficiently between his roles as the Minister responsible for Natural Resources Wales and as the Assembly Member for Blaenau Gwent, in his communications with Natural Resources Wales about the environmental impact of the CoW.

December

2014

The Welsh Government responded negatively to an initial inquiry from BGCBC about whether the Welsh Government would consider underwriting a £40 million loan from BGCBC to the CoW project.

November

2015

The Deputy Minister for Farming and Food granted HoVDC's application for declassifying and exchanging common land, following a public inquiry.

April

2016

HoVDC's bank requested repayment from HoVDC of the bank loan which the Welsh Government had guaranteed. HoVDC was unable to repay the loan.

The Welsh Government refused to underwrite £357 million of private investment in constructing the CoW, which involved a lease agreement for the completed circuit.

July

2016

The Welsh Government refused a revised request from HoVDC to underwrite £234 million of private investment for constructing the CoW. Mr David TC Davies MP wrote to the Auditor General and to the Chair of the National Assembly Public Accounts Committee to raise concerns about how public funds provided to the CoW project may have been used.

2015

August

The UK round of the MotoGP world motorcycle championship was staged by the companies associated with HoVDC at Silverstone.

2016

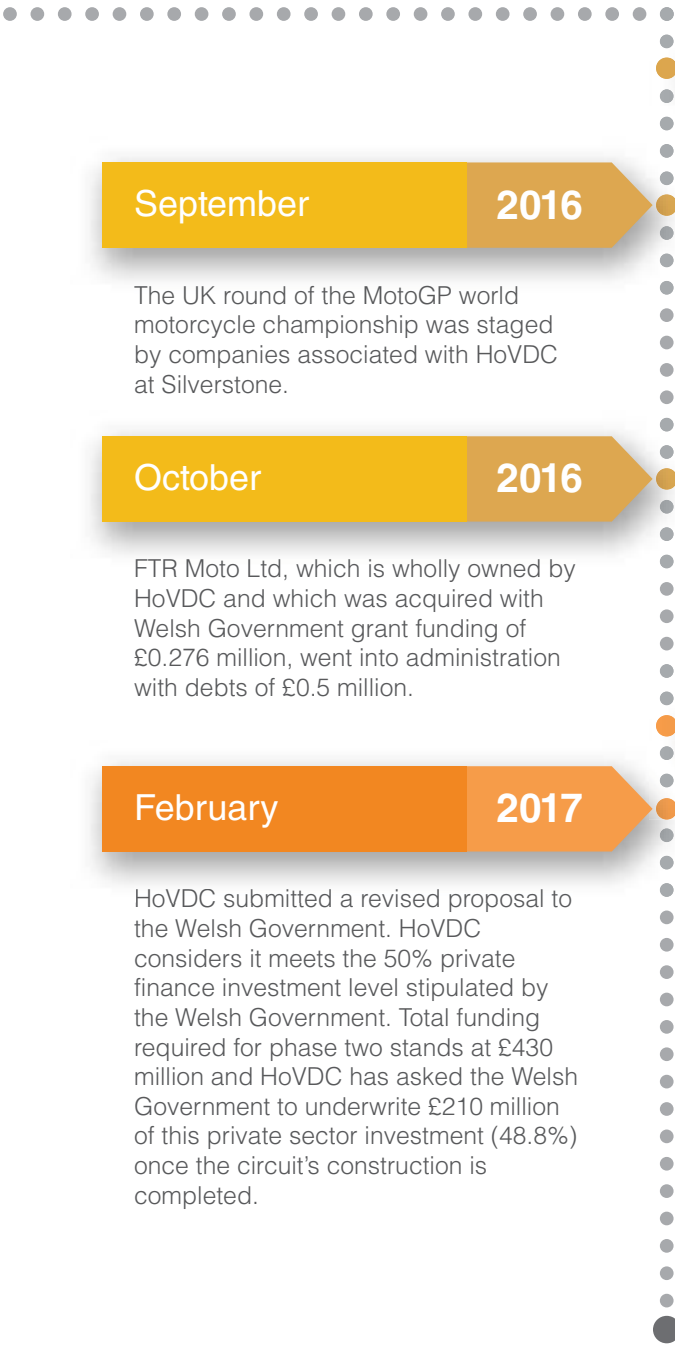
January

The Welsh Government approved the last of 22 payment claims made by HOVDC under the loan guarantee agreement. Under this arrangement, the Welsh Government approved over £6.5 million of payments to HoVDC suppliers (excluding HoVDC's bank), many of which were to related companies, including nearly £1 million to Aventa.

2016

May

The Welsh Government paid HoVDC's bank £7.335 million under a loan guarantee agreement because HoVDC was unable to repay the loan. The full amount plus additional costs, interest and charges is repayable by HoVDC to the Welsh Government on demand.



September 2016

The UK round of the MotoGP world motorcycle championship was staged by companies associated with HoVDC at Silverstone.

October 2016

FTR Moto Ltd, which is wholly owned by HoVDC and which was acquired with Welsh Government grant funding of £0.276 million, went into administration with debts of £0.5 million.

February 2017

HoVDC submitted a revised proposal to the Welsh Government. HoVDC considers it meets the 50% private finance investment level stipulated by the Welsh Government. Total funding required for phase two stands at £430 million and HoVDC has asked the Welsh Government to underwrite £210 million of this private sector investment (48.8%) once the circuit's construction is completed.

2016 August

The Auditor General replied to Mr David TC Davies MP to inform him that the Wales Audit Office would undertake audit work in response to his letter.

The Welsh Government undertook an internal assurance and governance review of decision-making processes in response to the MP's concerns. It concluded that: In the main, its internal controls were sound; but identified weaknesses in how it had ensured that funds were used for the intended purposes; and a lack of evidence that it had sought assurance of effective controls to manage relationships in which there may be conflicts of interest.

2017 January

The Welsh Government gave HoVDC a two-week deadline to provide a viable proposal for the Welsh Government to consider supporting.

Appendix 4 - Correspondence between Mr David TC Davies MP and the Auditor General for Wales

Date: 22 July 2016
Our Ref: G(1)/ld

Mr H Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9JL

Dear Mr Vaughan Thomas

Re: The Circuit of Wales

I am writing to ask if you, as Auditor General for Wales, will investigate the funding which has been given by the Welsh Government to Heads of the Valleys Development Company (HOTVDC). I believe the total sum, provided in grant funding and loans, is around £9m.

I have a number of concerns about this, which I discussed directly with the individual behind the Circuit of Wales project. I met Mr Michael Carrick, Chief Executive Officer of Aventa Capital Partners, on 8th July 2016 and took a careful note of his responses. My concerns were not allayed by the discussion we had.

I will set out these concerns followed by the action which I am hoping you will consider taking:

Transfers of money between Heads of the Valleys Development Company (HOTVDC) and Aventa Capital Partners

Background: HOTVDC is almost entirely owned by Mr Michael Carrick with shares held directly in his name, and also by a dormant company whose shares are in his name. Aventa Capital Partners Limited is a company entirely owned by Mr Michael Carrick.

Money has been transferred from HOTVDC into Aventa. Mr Carrick told me the sums transferred amounted to “£35,000 per month over the last 18 months”. He added that the payments stopped last January.

Therefore, a sum of several hundred thousand pounds has been moved from HOTVDC into Aventa. I asked Mr Carrick what the purpose was of making payments from HOTVDC to Aventa. He told me: “They’ve got an advisory fee. There is a contractual arrangement between Heads of the Valleys and Aventa Capital Partners for capital raising and financial advisory.”

I am concerned that a company in receipt of public funds is transferring large sums of money to a privately owned company for advice, even though the company receiving the funds (Aventa) is run by the same individual.

I would like to request that the Auditor General for Wales establishes:

- **The total amount of money paid by HOTVDC to Aventa;**
- **The purpose of these payments;**
- **The quality of the services provided by Aventa to HOTVDC and whether this provided value for money for the taxpayer.**

Political funding

Aventa Capital Partners has spent thousands of pounds funding various Labour Party events. I have attached receipts for some of these (Appendix A), although I understand there are others.

I would like to request that the Auditor General for Wales establishes whether any of the payments which went from HOTVDC into Aventa were used to fund political events.

I believe we have a right to be certain that public money is not being channelled back into the political party which controls the Welsh Government.

Personal benefits

A series of invoices for landscape gardening at Mr Carrick’s private residence in Cambridgeshire, amounting to around £35,000, were submitted to HOTVDC over a period of two years (Appendix B).

Mr Carrick has said these bills were paid by Aventa. As the bills were made out to HOTVDC, which is publicly funded, then this needs to be independently corroborated.

I would like to request confirmation from the Auditor General for Wales that the landscape gardening bills made out to HOTVDC were not paid by HOTVDC.

If the bills were indeed paid by Aventa, then the public needs to be assured that these payments were not made using the public money transferred over from HOTVDC.

I would like to request confirmation from the Auditor General for Wales that if the gardening bills were paid by Aventa, the payments were not made using money which had been transferred to Aventa from HOTVDC.

FTR Moto

HOTVDC bought FTR Moto in 2012. Accounts on the Companies House website (Appendix C) show that FTR Moto has outstanding liabilities of over £400,000.

I asked Mr Carrick why HOTVDC had bought a loss-making motorcycle business which is still making a loss. He said: “It will continue making a loss until we turn it around”.

Mr Carrick then launched into a very long explanation which was hard to follow. He seemed to be suggesting that the company, which is based in Buckinghamshire, could be relocated to the Circuit of Wales site where a Welsh motorbike would be built, thereby attracting thousands of people into Wales.

I find it concerning that public money has been used to buy a loss-making motorcycle business in England based on an assumption that if a £380 million project goes ahead, the business will prosper in Wales. There is no guarantee of the Circuit of Wales development proceeding and therefore I question why public money has been spent in this fashion.

Mr Carrick specifically said the company had been bought for “asset price”. As you will see from the attached accounts, the “asset price” is shown as £14,997.

The Companies House website shows the annual return is overdue.

I would like to request that the Auditor General for Wales:

- **Establishes the full price that was paid for FTR Moto and whether it exceeded the asset price;**
- **Establishes why a company bought with public money has failed to submit accounts to Companies House;**
- **Investigates this purchase and establishes whether or not it delivers value for money for the Welsh taxpayer.**

MotoGP at Silverstone

I understand from various press reports that either HOTVDC or Circuit of Wales (another company controlled by Mr Carrick) have purchased the rights to hold the British Grand Prix MotoGP until 2019, with a possible extension until 2024. I understand the right to hold this event was purchased from Dorna Sports in Spain. Furthermore, this decision was based on an assumption by Mr Carrick that the Circuit of Wales race track would be the host venue.

I find it hard to understand why Welsh public money was used to purchase the rights to hold a sporting event at a venue which is not even under construction. As a result, the event will take place at Silverstone.

I would like the Auditor General for Wales to investigate whether the public interest in Wales is served by using public money to run a motorcycle racing event in England.

Summary

To date over £9 million of public money has been given to HOTVDC in grants and loans. Subsequently, a motorcycle event is being held in Silverstone, England; a loss making motorcycle company has been bought in Buckinghamshire, England; and a company linked to the Circuit of Wales project has spent thousands of pounds sponsoring Labour Party events and paying for landscape gardening at a luxury home in Cambridgeshire.

I would like to request that the Auditor General for Wales investigates the entire Circuit of Wales project and publicly reports on how every penny of the public money put into it has been spent, and whether this represents good value for money for the taxpayer.

I would like to request that the Auditor General for Wales asks the Wales Government to withhold making further loans to HOTVDC or any companies connected with Mr Carrick until a full investigation has been carried out with the results made public.

Yours sincerely

David T C Davies MP

Cc: Ken Skates AM, Cabinet Secretary for Economy and Infrastructure

Mr David TC Davies MP
16 Maryport Street
Usk
Monmouthshire
NP15 1AB

Date: 4 August 2016
Our ref: HVT/2594/fgb

Dear David

THE CIRCUIT OF WALES

Thank you for your letter of 22 July 2016, in which you raised with me a range of issues relating to the Heads of the Valleys Development Company (HoVDC), Aventa Capital Partners Limited and public funding for the proposed 'Circuit of Wales' project.

You asked that I should investigate various specific concerns to which you referred in your letter (and in respect of which you enclosed some supporting information), and also that I should conduct a wider value for money examination of the public funding being provided to support the development of the Circuit of Wales project.

Over the last couple of years, staff of the Wales Audit Office have been keeping a close watching brief on the progress of the Circuit of Wales project, and the involvement of the Welsh Government in the project. They are also monitoring the extent of involvement of the three local authorities (Blaenau Gwent, Monmouthshire and Torfaen). Given the scale of the project and the potential extent of public sector support that could be involved if the financing package can be resolved, it is certainly possible that I may decide to conduct a value for money examination¹ at a later date. However, I do not think that such a wide-ranging study would be an appropriate use of my audit resources at present, especially given that last month the Welsh Government's Cabinet Secretary for Economy and Infrastructure asked HoVDC to reconsider its proposals for Welsh Government financial support.

Turning to the more specific concerns that you raised in your letter, these were as follows:

- a) the transfer of money between HoVDC and Aventa Capital Partners;
- b) the potential use of public funds by HoVDC / Aventa Capital Partners for party political purposes;

¹ A value for money examination of the public sector support for the 'Circuit of Wales' project would be undertaken using my statutory powers under: (i) GOWA 2006 in respect of the Welsh Ministers; and (ii) the Public Audit (Wales) Act 2004 in respect of local government.

- c) the potential use of public funds for personal benefit;
- d) the purchase of FTR Moto Limited; and
- e) the purchase of the rights to hold the British Grand Prix MotoGP.

In light of the questions that you have posed in your letter, I consider that issues (a) – (d) merit audit examination at this time, and I have asked staff of the Wales Audit Office to conduct work accordingly. In due course, I will determine the nature of my audit reporting on those matters. This could take the form of a substantive written response directly to you. However, in the event that I identify more significant matters of concern then I may instead opt to publish an audit report for consideration by the Public Accounts Committee of the National Assembly for Wales.

As regards issue (e) above, I consider that this is best addressed as part of a wider value for money examination into public support for the Circuit of Wales project, and so I will defer a decision on any potential audit work on that topic until a later date.

Finally, I note that in the final paragraph of your letter you requested that I should 'ask the Welsh Government to withhold making further loans to HoVDC...until a full investigation has been carried out with the results made public'. Whilst I understand the reasoning behind your request, I should explain that it would be inappropriate for me to seek to intervene pre-emptively in the exercise of Ministerial functions in the manner that you suggest.

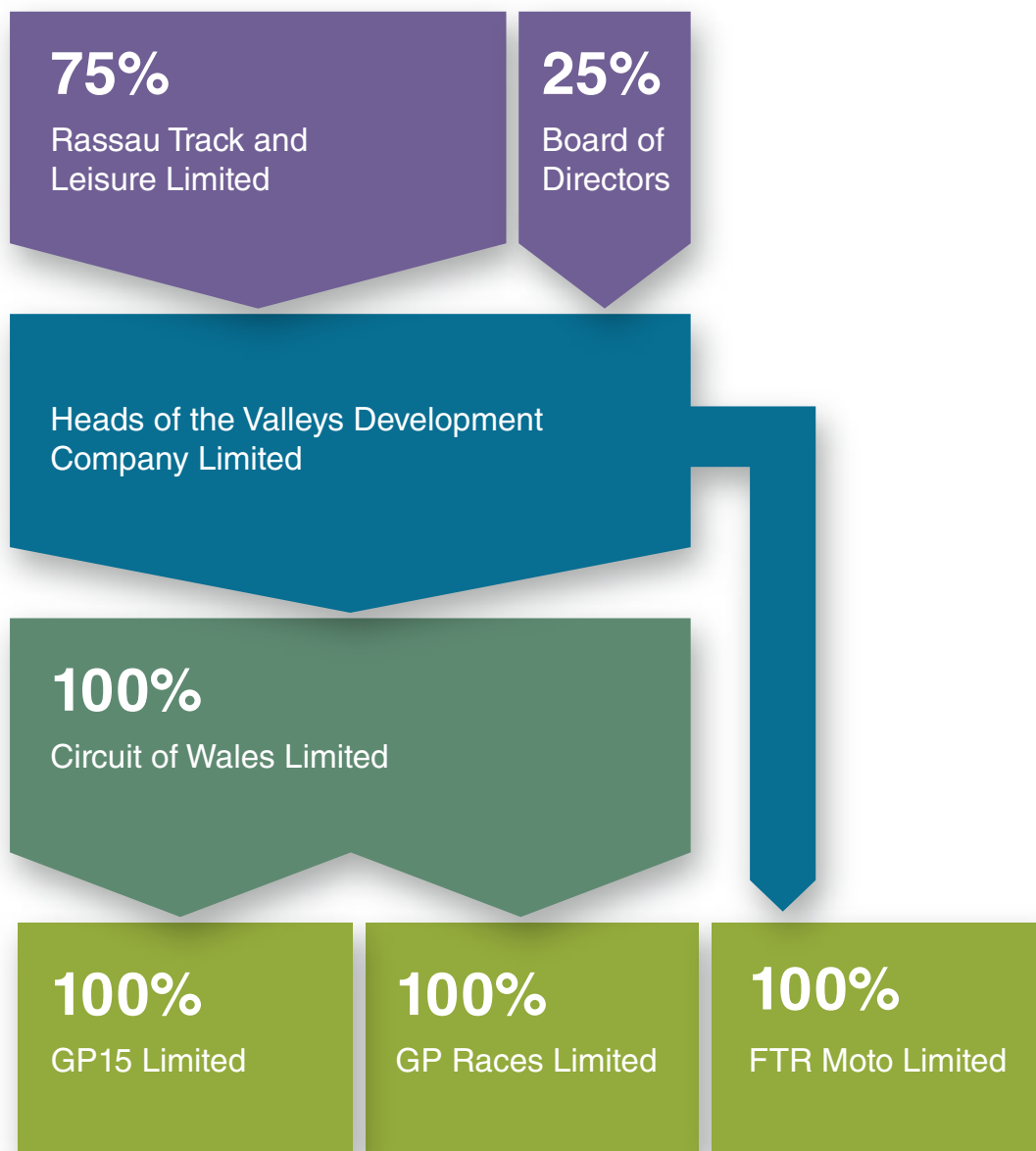
I hope that this initial response is of assistance to you. I will write to you again once my audit examination of issues (a) – (d) is complete. I am copying this letter, for information, to the Chair of the Public Accounts Committee, as I am aware from the Clerk that you have written to the Chair in very similar terms.

Yours sincerely,

Huw Vaughan Thomas
Auditor General For Wales

cc Mr Nick Ramsay AM, Chair, Public Accounts Committee

Appendix 5 - Circuit of Wales project company structure



Source: HoVDC

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