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Llywodraeth Cymru
Welsh Government

4 January 2017

Dear David

Review of the Welsh Mutual Investment Model

Thank you for your letter of 20 December 2016, which establishes that in the view of the ONS, the Welsh Mutual Investment Model (WMIM) provides for the private sector classification of PPP schemes. This was very welcome news, indeed. As requested, I have provided further information below on issues raised in your letter.

In your letter, I note the reference to the ESA 2010 definition of an institutional unit. The ESCC asked for "...some examples of the types of decisions the Directors of the Special Purpose Vehicle would have to make in order to be sure that that the company is "able to take economic decisions and engage in economic activities for which it is responsible and accountable at law."

The SPV will be a wholly independent corporate entity, engaged to provide the contracted PPP services. It will have separate and complete accounts. Furthermore, conflict provisions exist within the Shareholders' Agreement expressly to ensure that any disputes or conflicts are dealt with without undermining the 'autonomy of decision' as set out in the Manual on Government Deficit and Debt (MGDD), i.e. these provisions would not restrict the SPV's ability to act independently. A non-exhaustive list of the types of decisions which the Directors of the SPV will or may make is set out below:

- Approval of business plans, budgets and any material changes to these documents;
- Entering into liabilities on its own behalf: taking on obligations and entering into contracts for significant amounts;
- Making of material acquisitions or disposals;
- Capitalising profits or company reserves;
- Appointing and removing officers and Directors;
- Engagement of, and setting the terms of engagement of consultants and employees, and any change thereto;
- Engagement of, and setting the terms of engagement of auditors and professional advisers and any change thereto;
- Commencement of, or any settlement of any claim, litigation etc.;



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- Setting up of sub-committees and their composition; and
- Borrowing.

In relation to Board meetings and Board voting, resolutions of the Board will be determined by a simple majority of votes. As the Welsh Government will only ever have a maximum of one Director, it can be outvoted by the other Board Members.

I note the caveats that you have placed on your decision. I would like to reassure you that such issues are very much at the forefront of Welsh Government thinking; and our firm intention is to ensure that changes are not made to the WMIM during procurement or at any other time that would undermine the private sector classification of WMIM schemes. We welcome your intention to review initial WMIM projects in due course; and will be in touch to discuss the timing and handling of future dialogue between ourselves.

In your letter, I note there was some debate around C3. I thought it worth clarifying that a suitable remuneration structure for Directors will be set out at Financial Close. In the event that Directors seek to increase their remuneration above agreed levels, this could be resisted by a Material Shareholder.

Finally, I'd like to express my gratitude for the professionalism and open engagement of your team. The process has run smoothly from start to finish, and has kept pace with the challenging deadlines we set ourselves and this is due in no small part to the approach taken by your team. If you'd like any further information please contact either [REDACTED]

Yours sincerely

[REDACTED]

[REDACTED]

[REDACTED]

Trysorlys Cymru - Welsh Treasury

C.C.

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