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Cardiff Bay
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Dea Darren

MOTORWAY AND TRUNK ROAD INVESTMENT

The PAC's clerking team has invited me to comment on the material submitted by the Welsh Government on 13 February 2015 in respect of the Committee's inquiry into the value for money of motorway and trunk road investment. Wales Audit Office staff have reviewed the information supplied by the Welsh Government, although they have not had the opportunity to discuss the detail of it with Welsh Government officials.

The information provided by the Welsh Government includes a response to recommendations from my January 2011 report on *Major Transport Projects*. I have appended to this letter some commentary on the Welsh Government response to my recommendations which highlights a number of areas where the Committee could ask for more detailed information and clarification during the course of its inquiry.

My report highlighted that major road and rail projects completed in the period from 2004 to 2010 had cost substantially more and taken longer to complete than expected. However, my report recognised that the Welsh Government had, over time, taken steps to strengthen its management of schemes under its direct control and to exercise greater control over local authority managed projects which it was funding through the Transport Grant mechanism (which has since come to an end). My report noted that these major transport projects can have a total lifespan in excess of 20 years from the point of their initial conception through to completion.

The Welsh Government has provided a breakdown of estimated and outturn costs for trunk road projects completed since the start of 2011, as well as an updated outturn cost figure for the M4 widening. Focusing specifically on the cost increases from key stage six (construction contract award) to the final outturn, these figures suggest some improvement in performance. My 2011 report pointed to a 15 per cent increase in costs between these stages for nine previously completed trunk road projects. The analysis at that time assumed that the M4 widening would be delivered at the same cost as estimated at key stage six, rather than at the lower cost now reported by the Welsh Government. However, even using the revised figure I would still have reported a 14 per cent increase in total costs between these stages for the nine projects examined.

My report noted that the Welsh Government's procurement of trunk road projects had evolved in line with common practice, moving towards Early Contractor Involvement as the preferred approach for contracts worth more than £18 million. Early Contractor Involvement (ECI) is a partnering approach to contracting, in which the construction contractor is engaged before the detailed design stage and completion of statutory processes, to assist in planning the project and estimating its cost. The papers supplied by the Welsh Government confirm that the majority of major trunk road projects have adopted this form of contract. The Committee could explore further with the Welsh Government the extent to which Early Contractor Involvement was applied across the range of schemes summarised in the figures that the Welsh Government has provided. In percentage terms, some of the lower value schemes appear to have experienced more significant cost increases after key stage six.

I am not in a position to comment on the evidence provided by the Welsh Government in respect of trunk road maintenance. These issues were outside the remit of my January 2011 report and Wales Audit Office staff have not examined this area since that time. I understand however that the PAC's clerking team may have requested some further information from the Welsh Government about its previous reviews of the trunk road agencies.

The Committee might also benefit from some additional breakdown of the Welsh Government's capital and revenue expenditure, and the associated expenditure by the trunk road agencies, including figures for 2013-14 and future expenditure plans. Apart from some reference to the remaining stages of the A465 improvement, the material provided by the Welsh Government does not comment on major projects in progress. For example, in addition to the obvious example of the development of plans for the M4 Relief Road, I am aware of plans for the A487 Caernarfon to Bontnewydd Bypass. That scheme has progressed beyond the preferred route stage (key stage three). As at mid-2014, the Welsh Government was estimating an outturn cost for that scheme of £145 million. There are also two trunk road schemes that featured in the list of projects in preparation at the time of my 2011 report that I understand have not progressed since that time (A40 St Clears to Haverfordwest [b] Llanddewi Velfrey – Penblewin; and A483 Llandeilo Eastern Bypass). Some indication of short-term priorities for expenditure within the context of the Welsh Government's published budget would therefore be helpful and the Committee could explore further with the Welsh Government how it is prioritising its expenditure.

I would note that the Welsh Government's material states that the financial records related to the data the Welsh Government has provided for 2011-12 and 2012-13, for both capital and revenue expenditure, were independently audited by the Wales Audit Office on behalf of the Welsh Government. This is a misleading statement. Whilst the Welsh Government's overall financial statements were audited by Wales Audit Office staff on my behalf to support my statutory audit certificate, the specific figures quoted by the Welsh Government do not feature explicitly in the financial statements, nor has my

financial audit team reviewed the detail of the Welsh Government's revenue and capital expenditure on motorways and trunk roads.

On other matters, the Welsh Government has supplied some information about the A55 PFI contract and has stated that the National Audit Office carried out an investigation subsequent to the construction of the road, reporting in February 2005. The work undertaken by the National Audit Office Wales at that time, on behalf of the then Auditor General for Wales (Sir John Bourn), did not constitute a full value-for-money examination. The work was undertaken in response to concerns raised in correspondence by the former Assembly Member Jenny Randerson and passed on to the Auditor General via the then Audit Committee of the National Assembly. Based on the evidence reviewed at that point in time, the response from the Auditor General concluded that:

- There had been benefits and disbenefits in adopting the PFI approach.
- The structure of the contract was reasonable and reflected industry best practice at the time of the procurement.
- The payment mechanism contained certain safeguards to limit the Welsh Government's exposure to variations in cost, although a 'safety performance' adjustment – a minor element of the contract – did not offer good value for money as it compared safety on the A55 to busier highways elsewhere in Wales.
- During its first three years, the costs of the contract had been slightly lower than expected. In addition, the Net Present Value of the contract was significantly lower than that of the Public Sector Comparator, which suggested that it had the potential to offer good value for money when the contract was let, but the actuality depended on the extent to which risk transfers to the private sector partner. In this case, the contractor faced considerable construction problems, which led to additional costs, despite which the road opened well ahead of schedule.
- UK Highways retained responsibility for the maintenance of the road, the associated environmental mitigation measures in a highly sensitive area, and was contractually obliged to comply fully with the Welsh Government's trunk road maintenance standards.
- Welsh Government officials had indicated that a shortage of capital for major road schemes would have rendered the construction of the A55 across Anglesey unlikely, at least in a single project, without PFI.

To close, you also wrote to me recently about the purchase of land and property along routes under consideration for the proposed M4 Relief Road. My financial audit team for the Welsh Government has been looking into this issue and I am aiming to respond to you separately on that matter in advance of the evidence session that you have scheduled with the Welsh Government on 24 March 2015, although we still need to check some matters of factual detail with the Welsh Government.

Finally, I am aware that you have also received correspondence relating to safety issues and associated work on the A470/A494 junction near Dolgellau. The same issue has been raised with me and I am aware that related concerns have also been raised with the Petitions Committee. Wales Audit Office staff will be discussing with Welsh Government officials the background circumstances. However, in the first instance I am waiting to consider the extent to which the Committee's inquiry addresses the specific or broader issues of concern raised in that correspondence before determining the scope for and merits of any further audit scrutiny.

Yours



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Enc: ***Annex: Welsh Government response to recommendations in the Auditor General's January 2011 report on Major Transport Projects***

WELSH GOVERNMENT RESPONSE TO RECOMMENDATIONS IN THE AUDITOR GENERAL'S JANUARY 2011 REPORT ON MAJOR TRANSPORT PROJECTS

RECOMMENDATION

WELSH GOVERNMENT UPDATE -
FEBRUARY 2015

WALES AUDIT OFFICE
STUDY TEAM COMMENTARY

Information systems and analysis of project performance

Recommendation 1

We recommend that the Assembly Government should ensure that the new [management information] system can:

- a) record information to track the performance of all major transport projects at key stages of their delivery;
- b) incorporate the information needed to facilitate benchmarking project performance against projects in other parts of the UK;

- The delivery of all major road projects is tracked through a Key Stage Delivery Process. Progression of projects is subject to a review of the Business Case to ensure continued policy fit and a value for money assessment and requires Ministerial sign off.

- Information to track the performance of major road projects is recorded in a suite of spreadsheets, with individual projects combined to oversee the delivery of the roads programme. This suite of spreadsheets is subject to review to reduce complexity and ensure accuracy of management information. An Integrated Road Information System (IRIS) is now operational, we will explore ways of integrating with this system.

This recommendation was based on the Welsh Government's own recognition that it had been without an adequate information system to support the collection and analysis of data on the performance of major trunk road projects.

While it merits confirming with the Welsh Government, we understand from enquiries made during the course of our current study on rail services that the Welsh Government had plans to procure a new information management system to work in conjunction with its financial management system. However, a change in the Welsh Government's financial management system meant this was no longer possible.

The reference in the Welsh Government response to a suite of spreadsheets appears to reflect the position described in the Auditor General's report (paragraphs 2.20-2.21). There would be merit in the

- c) record all changes in project costs that occur through the lifecycle of the project, including changes in land costs; and
- d) facilitate the analysis and sharing, on an annual basis, of the reasons for cost increases and delays on individual projects across all Assembly Government transport programmes.

- Projects are benchmarked against industry wide data when budgets are reviewed at key stage boundaries. The procurement of all transport projects is subject to EU compliant competitive tendering process.

Committee exploring further with the Welsh Government issues relating to its management information systems and the possible integration with the IRIS system that has been developed to support network maintenance.

The key stage process that the Welsh Government has referred to was outlined in the Auditor General's report. We are not aware of any significant changes to the process since 2011, although the Committee might wish to confirm this during its evidence sessions.

Project and contract management

Recommendation 2

We recommend that the Assembly Government takes action to ensure that:

- a) gateway reviews become custom and practice for all current and future major projects;

- Gateway Reviews (Assurance Reviews) are a mandatory element within the key stage process and are conducted at critical stages of the projects lifecycle on all major projects, in general accordance with the OGC gateway process.

- Fifteen major transport projects have been completed since 2006. Five of these schemes have been complete for approximately 18 months or less. Post Opening Project Evaluations (POPE) for these five schemes are underway or programmed to commence shortly.

This recommendation reflected our finding that although the Welsh Government introduced Gateway reviews for all major trunk road and Transport Grant funded projects in late 2006, the reviews had not been carried out consistently and the requirement to undertake them had not been included in Transport Grant guidance and terms and conditions.

b) all major transport projects completed since the end of 2006 are subject to a benefits realisation review; and

c) benefits realisation reviews are started within 12 to 18 months of the completion of the main construction works.

- Of the remaining ten schemes, full benefits realisation assessments have been completed or are ongoing as part of the Post Opening Project Evaluation review. The only exception to this is the A465 Section 1, where current construction work on the adjoining Sections 2 & 3 would affect any results obtained. This review will therefore be finalised once the other two sections have been completed.

- The content of the POPE reviews undertaken is based on Highways Agency guidelines and is in the process of being included within Transport Division's Procedures Guidance.

- An evaluation of the Wider Economic Benefits and impact on Cross Cutting Themes (Equality & Diversity, Tackling Poverty and Social Exclusion) will be completed on the A465 Section 3 project once it is open to traffic (12 months & 5 years post-opening)

The Welsh Government's response provides some assurance that it has addressed this issue. However, it is not entirely clear whether the reference to benefits realisation reviews for 15 major projects completed since 2006 includes Transport Grant funded projects.

Not only should the Post Opening Project Evaluations provide benefits evaluation at the end of a project, but if the Welsh Government is making full and consistent use of the Gateway process, each review at each key stage of the project should provide assurance on whether the project is on track to deliver the stated benefits. The Gateway 5 review concerns itself with whether the benefits of the project have been realised and how these benefits can be sustained, owned and monitored once the project has been transitioned into business as usual. It would appear, albeit at face value, that the Post Opening Project Evaluation review is the equivalent of the Gateway 5 review.

- We have also introduced the 'Community Benefit Measurement Toolkit' which has been compiled in line with the guidance 'Delivering Maximum Value for the Welsh Pound -2014'. It is a mandatory requirement that this toolkit is populated for all our schemes to track the direct contribution they make to the local and national economy during delivery. This information is recorded quarterly.
- In addition, on the A465 dualling schemes we are working with Cardiff Business School to produce a socio-economic dashboard of information which quantifies the indirect effects to the local and Welsh economy of the spend on the project during delivery. Contractors involved in these schemes provide the relevant information and it is intended that this work will:
 - Facilitate reporting of the longer term legacies for the Heads of the Valleys economy.

There would be merit in the Committee exploring with Welsh Government officials the extent to which the evidence emerging from its post-project evaluation work demonstrates that the benefits envisaged from projects are being realised. The Committee could also explore how this evidence is shared with relevant stakeholders, notably local authorities.

- Show how the construction elements of the projects lead to socio-economic benefits in surrounding local authority areas, in particular highlighting economic effects linked to local purchasing, and the spending of wage incomes in the area.
- Chart the local development of skills and training as part of the road building projects
- Explore how the managing contractors work with the local community through the construction process, and identify how best practice feeds through to softer social and economic outcomes.

Recommendation 3

We recommend that the Assembly Government should encourage the use of a common set of key performance indicators across all major transport projects in Wales and, in doing so:

- a) ensure that contractors are clear about the way in which the key performance indicator system gives credit for the delivery of projects earlier or at lower cost than planned, while ensuring that quality is not compromised;
- b) for projects under its direct control, quality assure the performance indicator scores given by the independent project manager (employer's agent); and

- Maintenance of a common set of KPIs through an extranet platform has been operated on WG major road projects for a number of years, to monitor performance and influence procurement. This system has been reviewed in order to reduce complexity and improve transparency.

- As a result, a new Key Performance Indicator (KPI) system with a set of evidence-based, standardised KPIs to monitor and track the performance of consultants and contractors during schemes has been developed. This system is currently being piloted on the A465 dualling schemes, and will be rolled out on all future WG major road projects.

- The KPIs have been developed with input from contractors and consultants and through research of the metrics used by as Constructing Excellence (Wales), Highways Agency, CEEQUAL, Considerate Constructors Scheme and other soft Welsh Government KPIs.

The Auditor General's report found that the Welsh Government's key performance indicators were designed to provide an incentive for contractors to perform well and assessed performance then informs the tender process for future projects. However, the application of these key performance indicators was not fully developed and there were mixed views on the value of the key performance indicators. The latest Welsh Government response suggests that the system has been the subject of further review, with a new approach now being piloted.

The key performance indicator system used at the time of our previous report focused on cost and time, quality and project/relationship management issues. Overall results would contribute to 30 per cent of a contractor's pre-qualification mark for future procurement exercises.

c) share and analyse information on contractor performance to help identify and address common areas of underperformance.

- The KPI assessment is conducted quarterly at meetings between the Employer's Agent and Contractor.
- Account of the KPI data will continue to be part of the selection process for suppliers of future projects.
- The new KPI system is due to be presented to the Civil Engineering Contractors Association (CECA) Wales and the Association of Consulting Engineers (ACE).

In light of the Welsh Government response, the Committee might wish to explore how the new system differs from the system in place at the time of the Auditor General's report. The Committee could also confirm how, specifically, the Welsh Government is addressing through the new system the recommendations in the Auditor General's report, for example how it is quality assuring the process.

Recommendation 4

We recommend that the Assembly Government develops and communicates to local authorities detailed guidance that sets out its expectations and general good practice in the planning and delivery of major transport projects. Particular issues highlighted by our examination which might be addressed in any new guidance include:

- With the exception of legacy road schemes where there are outstanding land issues, there will be no further major local authority transport projects funded by Welsh Government through the Transport Grant process.
- Given that the Transport Grant-funded programme has ended, new guidance for local authorities in relation to major transport projects has not been produced.

This recommendation was formed on the basis that the Welsh Government had not provided any detailed guidance for local authorities in terms of how they should manage the key stages of major transport projects. We saw no reason why the core practices that underpin the successful delivery of local authority managed major transport projects should be any different from those managed by the Welsh Government.

- a) the use of appropriate inflation indices, construction material cost indices and optimism bias when estimating project costs;
- b) the use of project risk registers, encouraging the public sector employer and construction contractor to agree and maintain a joint risk register
- c) advice on the use of different types of contractual models;
- d) the use of key performance indicators;
- e) expectations in terms of local project management arrangements; and
- f) how the scope of the processes set out in Welsh Transport Planning and Appraisal Guidance and gateway reviews guidance relate to each other.

- Learning from our management of trunk road schemes to transport grant schemes by allocating a project engineer to all local authority major road projects to advise on delivery and project management as well as overseeing financial control.

- Detailed Regional Transport Consortia Grant Delivery Plan Guidelines set out our expectations in relation to risk management, and project management.

- The Welsh Transport Planning and Appraisal Guidance is being reviewed so that it can be applied appropriately not only to major schemes but also to packages of small schemes and to minor projects.

Although we accept there are no longer any local authority transport projects funded through the Transport Grant process, some of the principles relating to major projects should still be applicable for smaller projects.

We understand that while local authorities are being encouraged to be creative in seeking additional funding to support transport spending, Welsh Government funding could be made available for local authority schemes in future where identified and prioritised in the approved local transport plan. This could include larger projects and, on that basis, we consider that our recommendation still holds.

The Committee might therefore wish to clarify aspects of the Welsh Government response to this recommendation, although the scope of the inquiry does not extend to local authority managed projects.

Working with utility companies***Recommendation 5***

We recommend that the Assembly Government engages with local government and the utility companies to develop some clearly agreed principles in terms of how they should work together throughout the lifecycle of major transport projects. Options that the Assembly Government could explore include:

a) developing a more formal memorandum of understanding with utility companies, for example to include provision for the regular monthly reporting of actual and forecast costs and timescales of utilities work during the construction phase;

- We are a member of the Welsh Highways Authorities & Utilities Committee and, through that Committee, we are developing a Streetworks Strategy. The Streetworks Strategy will set out an agreed approach to a range of issues including effective management of utilities work. This is currently in draft and will go out for consultation in Spring 2015, prior to Ministerial approval. Co-ordination has also taken place via the Trunk Road Agents attending regional HAUC Co-ordination meetings.

- We have revised our standard contract documents to transfer the programme risk of the statutory undertaker performance to the contractor as they are best placed to manage the risk.

- We participate in a number of UK expert groups, for example the UK Network Operators Group and the UK Network Management Board, which provide an opportunity to share good practice.

We made this recommendation having concluded that relationships with utility companies were often problematic, leading to construction delays and cost increases.

Our recommendation was not prescriptive about how best to resolve these issues but encouraged the Welsh Government to consider a range of options. Although the Welsh Government has made some progress in developing a 'Streetworks strategy' and revising standard contract documents, it seems from the evidence provided by the Welsh Government that issues relating to utilities are still part of the reason for some of the more significant delays or cost overruns on some recently completed trunk road schemes.

The Committee might also wish to confirm that the Streetworks Strategy will cover issues relevant to major transport projects. At the time of the Auditor General's report, the Welsh Government had already collaborated with the UK Government to produce, in 2007, a good practice guide on managing works in the street aimed at project employers and utility companies.

b) working with the UK Government's Department for Transport to update the existing good practice guide to managing works in the street to refer more explicitly to the delivery of major transport projects;

c) whether there is scope, particularly within an Early Contractor Involvement approach, for the construction contractor to undertake more preparatory work on behalf of utility companies; and

d) if necessary, the scope for a change in the supporting legislation (the New Roads and Street Works Act 1991 and the Street Works - Sharing the Cost of Works [Wales] Regulations 2005) to place a greater onus on utility companies to deliver their work in a way that is cost-effective and timely from the perspective of the public sector employer.

- We encourage our contractors where possible to undertake the civil elements of necessary diversion work on behalf of utility companies but cannot compel them to do so. There are issues around where liability for the work sits between the utility company and the contractor and both are often reluctant for the work to be completed in this way.
- We do not propose to make any legislative change at the current time.

However, that guidance did not refer explicitly to major projects and the potentially significant impact of poor communication between highways authorities and utility companies.

When James Price appeared before the previous Public Accounts Committee in March 2011, he said that the Welsh Government had begun to explore how it could strengthen the relationship with utility companies. He stated that the Welsh Government was looking to get a high-level agreement at a UK level because this was a common problem across the UK. It is not clear from the Welsh Government response whether it has obtained the sort of bilateral agreement on a way forward that appeared to have been envisaged at the time of the Auditor General's report.

Overseeing the delivery of local authority managed projects

Recommendation 6

We recommend that, towards the end of 2011-12, the Assembly Government should commission a review to provide an early check of the effectiveness of its arrangements for overseeing the delivery of the regional transport plans.

- In response to the Report, work was undertaken which led to a strengthening of the oversight of delivery of Regional Transport Plans. Key Performance Indicators were introduced to measure performance associated with the delivery of the Regional Transport Plans and to drive improvements. These were reviewed on a quarterly basis. Since April 2014, funding to support transport improvements has been directed through local authorities. The processes adopted with the Regional Transport Consortia have informed the management processes adopted for the new funding arrangement. A subsequent Internal Audit exercise gave the grant processes full assurance.

We note the Welsh Government's response. It appears that this recommendation has been discharged and that events have since overtaken the recommendation.

Recommendation 7

We recommend that the Assembly Government should examine whether the technical capacity it employs is being deployed to best effect between the management of trunk road projects and the Assembly Government's oversight of

- All major road schemes being delivered through the Transport Grant process are now open to traffic. Resources have been allocated to assist local authorities to manage the remaining issues arising from these improvements. In the main, these relate to land matters. The Transport Grant programme is no longer open to new applications.

The Welsh Government response confirms that resources were allocated to assist with the legacy Transport Grant programme. It is not clear whether, in committing these resources, the Welsh Government delegated more responsibility for managing trunk road projects to the employer's agent.

local authority managed projects. In doing so, the Assembly Government should consider the risks and benefits of delegating more responsibility for managing trunk road projects to the employer's agent.

Taking into account the impact of workforce reduction and early departures, the Committee might wish to explore with the Welsh Government whether it is confident that it has sufficient in house capacity and capability to manage its trunk road programme and how it strikes the balance between in house resourcing and the use of external consultants.

Evidence that the Welsh Government submitted to the previous Public Accounts Committee in March 2011 set out details of the re-organisation of the then Department for Economy and Transport and the creation of an Infrastructure Group. This group was designed to 'develop and deliver major infrastructure projects ensuring a more co-ordinated and better controlled approach to these schemes' and to 'consider how the expertise we have can be best used to deliver improvements in the way we manage the design and delivery of major projects and how we support our partners to do this also'.

The Committee may wish to explore whether the Infrastructure Group was successful in delivering these aspirations. The latest Welsh Government response indicates that these projects are still the responsibility of an infrastructure delivery division of the Transport Department.
