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Department for Business, Enterprise, Technology and Science

Cyfarwyddwr Cyffredinol • Director General



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair
Public Accounts Committee

13 February 2015

Dear Mr Millar

Thank you for your letter of 14 January regarding the Public Accounts Committee's inquiry into Value for Money of Motorway and Trunk Road Investment.

I have confirmed my attendance at the meeting on 24 March. Please find attached a written evidence paper for the inquiry.

Yours sincerely

A handwritten signature in black ink that reads "James Price" with "(J R PRICE)" written below it in a smaller, more legible font.

James Price

WALES AUDIT OFFICE REPORT ON MAJOR TRANSPORT PROJECTS

Recommendation	2015 Update
<u>Information systems and analysis of project performance</u>	
<p>Recommendation 1</p> <p>We recommend that the Assembly Government should ensure that the new [management information] system can:</p> <p>a) record information to track the performance of all major transport projects at key stages of their delivery</p> <p>b) incorporate the information needed to facilitate benchmarking project performance against projects in other parts of the UK;</p> <p>c) record all changes in project costs that occur through the lifecycle of the project, including changes in land costs; and</p> <p>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.</p>	<ul style="list-style-type: none"> • 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. • 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.
<u>Project and contract management</u>	
<p>Recommendation 2</p> <p>We recommend that the Assembly Government takes action to ensure that:</p> <p>a) gateway reviews become custom and practice for all current and future major projects;</p> <p>b) all major transport projects completed since the</p>	<ul style="list-style-type: none"> • 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.

Recommendation	2015 Update
<p>end of 2006 are subject to a benefits realisation review; and</p> <p>c) benefits realisation reviews are started within 12 to 18 months of the completion of the main construction works.</p>	<ul style="list-style-type: none"> • 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) • 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: <ul style="list-style-type: none"> ○ Facilitate reporting of the longer term legacies for the Heads of the Valleys economy, ○ 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.

Recommendation	2015 Update
	<ul style="list-style-type: none"> ○ 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.
<p>Recommendation 3</p> <p>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:</p> <ul style="list-style-type: none"> 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 c) share and analyse information on contractor performance to help identify and address common areas of underperformance. 	<ul style="list-style-type: none"> ● 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 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).
<p>Recommendation 4</p> <p>We recommend that the Assembly Government develops and communicates to local authorities</p>	<ul style="list-style-type: none"> ● 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.

Recommendation	2015 Update
<p>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:</p> <p>a) the use of appropriate inflation indices, construction material cost indices and optimism bias when estimating project costs;</p> <p>b) the use of project risk registers, encouraging the public sector employer and construction contractor to agree and maintain a joint risk register</p> <p>c) advice on the use of different types of contractual models;</p> <p>d) the use of key performance indicators;</p> <p>e) expectations in terms of local project management arrangements; and</p> <p>f) how the scope of the processes set out in Welsh Transport Planning and Appraisal Guidance and gateway reviews guidance relate to each other.</p>	<ul style="list-style-type: none"> • Given that the Transport Grant-funded programme has ended, new guidance for local authorities in relation to major transport projects has not been produced. • 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.
<u>Working with utility companies</u>	
<p>Recommendation 5:</p> <p>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</p>	<ul style="list-style-type: none"> • 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.

Recommendation	2015 Update
<p>explore include:</p> <p>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;</p> <p>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;</p> <p>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</p> <p>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.</p>	<ul style="list-style-type: none"> • 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 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.

Recommendation	2015 Update
<u>Overseeing the delivery of local authority managed projects</u>	
<p>Recommendation 6:</p> <p>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.</p>	<ul style="list-style-type: none"> • 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.
<p>Recommendation 7:</p> <p>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 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.</p>	<ul style="list-style-type: none"> • 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 APPROACH TO DELIVERY OF MAJOR TRUNK ROAD PROJECTS

Current investment priorities for the trunk road and motorway network are identified in the National Transport Plan

The Infrastructure Delivery Division (IDD) of the Transport Department plans and delivers those investment priorities. The investment priorities are developed into project-specific objectives.

Retention of a project within the programme is subject to review at key milestones to ensure the project's business case continues to justify the future expenditure.

KSA/ Approval process

The delivery of Welsh Government major road projects follows a linear Key Stage Approval (KSA) process providing the financial approval framework for the projects covering option appraisal, design, the statutory process, construction and aftercare. Project progression is dependent upon a stage gate review and Ministerial approval. The Key Stage approvals process also includes a series of gateway reviews.

Project Procurement

Procurement of all major motorway and trunk roads projects follow European procedures and adopt the Engineering Construction Contract (ECC).

The majority of motorway and trunk road projects use of the Early Contractor Involvement (ECI) form of Contract.

The ECI approach requires the appointment of a contractor to undertake Key Stages 3 and 4, and on satisfactory completion of this work then undertake Key Stage 6

(a). Part 1 (KS3 & 4) involves the use of the NEC3 Professional Services Contract - Option C (Target Cost) for Key Stage 3 and Option E (Cost reimbursement) for Key Stage 4 - to undertake development of the route design, associated environmental impact assessments and successful completion of the Statutory Process.

(b) Part 2 (Key Stage 6) involves the detailed design, construction and aftercare of the project using the NEC3 Engineering Construction Contract (ECC) Option C (Target Cost) for KS6.

Contracts are let under competitive free market conditions ensuring competitive rates are submitted in pursuit of the optimum Value for Money. The tendered sum (Initial Target Cost) forms the basis of the KS6 (construction) Target Cost which is developed and refined as the scheme progresses through the design and Statutory Process.

There is a hold point in the contract between Parts 1 & 2 which enables the Welsh Government (or the contractor) to terminate the contract without penalty should the Welsh Government considers that the scheme no longer demonstrates Value for Money.

Value for Money

Welsh Government utilises the approach recommended by the *HM Treasury Green Book on Appraisal and Evaluation in Central Government* to ensure best value is achieved. The approach is implemented on major infrastructure projects by Transport Department's *Value for Money Manual* to ensure projects make the most efficient use of capital resources, allows consideration of whole life costs and delivers the scheme objectives in the most efficient manner.

Risk Management

Effective identification and management of risk is a key aspect in the management of the final costs and programme of the project, and a core component in the choice of the ECI procurement route.

Risks are considered throughout the development of the project and the risk profile forms a key component of the Key Stage Approval process.

Key Performance Indicators

We have recently developed a new system with a set of evidence-based standardised KPIs to monitor and track the performance of consultants and contractors during schemes and to facilitate future procurement. This system is successfully being used on the A465 Heads of the Valleys Dualling scheme and will be rolled out on to all future major road projects.

The new KPIs have been established with input from contractors and consultants involved on the A465 Dualling schemes as well as consideration of existing scoring metrics from other relevant sources

This has resulted in a set of KPIs which are simple, transparent, based on the following criteria for evaluation:

- Client Satisfaction – Service
- Client Satisfaction – Product
- Stakeholder and Community Engagement
- Management of Programme and Cost
- Health and Safety Performance
- Environmental Performance.

Evaluation

Completed projects are evaluated as follows:

Design Effectiveness Review to consider the technical engineering and environmental design of the scheme.

Cost Reconciliation Report which identifies changes and reasons between the Target Cost established at the start of construction and the final Target Cost and out-turn costs at the end of construction.

Post Opening Project Evaluation (POPE) Report to consider how well the project has met the scheme objectives.

Wider economic benefits of our road schemes has been introduced and reports have been submitted for the A40 Penblewin – Slebech Park scheme and are underway for the A465 Heads of the Valley Dualling project. This will consider the wider economic benefits of the scheme in accordance with the Economic Activity and Location Impacts (EALI) assessment within the WelTag transport appraisal methodology.

The assessment will consider aspects such as:

- Agglomeration effects
- Land and Property Impacts
- Accessibility to Employment opportunities
- Accessibility to key public services such as Leisure, Health & Education.
- Impacts on existing businesses and potential for inward investment.

MAJOR TRUNK ROAD PROJECTS

The table outlines cost of schemes delivered since the Wales Audit Office Report into Major Transport Projects in January 2011. Also included is the M4 Widening Scheme that, although completed prior to 2011, has a revised updated out-turn cost figure to that reported back in Jan 2011.

The total out-turn cost of schemes delivered was £559.5million, with the anticipated cost at the start of KS6 being £549.5million. This is an increase of approximately £10 million or 1.82%. These figures exclude the A465 Section 2 and Section 5/6 schemes that have only recently commenced construction or have yet to reach that point.

Project and current status	Estimated Cost at KSA 3 (£M)	Estimated cost at Construction contract award – KSA6 (£m)	Estimated/final out-turn cost (£m)	Comments
M4 widening Castleton to Coryton Completed Jan 2010	81.5 (Nov 2002)	99.3 (Feb 2007)	95.8 (Mar 2010)	
A40 St Clears to Haverfordwest (a) A40 Penblewin to Slebech Park Completed Mar 2011	27.6 (Ma 2005)	40.5 (Dec 2008)	41.4	Increase in cost from KSA3 as a result of inflation, unexpected 14 month delay caused by the special assembly procedures that were invoked by the County Council's continuing objections and instructed additional work and accepted additional costs resulting from design standard changes.
A470 Penloyn to Tan Lan, Llanrwst Completed Apr 2011	Not prepared	6.4 (Oct 2008)	5.8	
A483 Four Crosses Relief Road Completed Jul 2011	4.1 (at KSA4) (Oct 2006)	6.48 (Jan 2010)	6.67	Increase in cost as a result of unforeseen archaeology uncovered during construction.
A487 Porthmadog, Minffordd and Tremadog Completed Oct 2011	26.4 (Mar 1994)	60.1 (Dec 2009) A figure of 53.7 was previously reported but this excluded inflation.	55.5	

Project and current status	Estimated Cost at KSA 3 (£M)	Estimated cost at Construction contract award – KSA6 (£m)	Estimated/final out-turn cost (£m)	Comments
A470 Cwmbach to Newbridge Completed Dec 2011	25 (Nov 2005)	50.9 (Feb 2010)	50.4	
A487 Glandyfi Completed Jun 2013	Not prepared	14.97	19.95	Increase in cost due to unforeseen ground conditions resulting in additional works/delays. Network Rail imposed design changes during construction causing significant disruption to the programme. Delays also associated with Statutory Undertakers.
A4810 Steelworks Access Road Completed Sep 2013	Not prepared	18.75 (Nov 2011)	24.95 (Sep 2013)	Increase in cost as a result of inflation, an increase in scope and delays with statutory undertaker diversions.
A470 Maes yr Helmau to Cross Foxes Completed Oct 2013	7.9 (2004)	11.33	12.25	Increase in cost as a result of a delayed award of contract (due to statutory procedures) affected construction programme resulting in delays.
A470 Gelligemlyn, Ganllwyd Completed April 2014	7.3 (Nov 2007)	8.61	10.7	Increase in cost as a result of unforeseen ground conditions resulting in design changes and additional costs/prolonged programme and presence on nesting Barn Owl on the site delayed programme.
A477 St Clears to Red Roses Completed April 2014	41.6 (Nov 2006)	64.4 (Jan 2012)	72.1 (Jul 2014)	Increase in costs from KSA3 to start of KSA6 as a result of land cost increases, inflation and an increase in scope. Increase of final out-turn cost as a result of Unchartered Archaeology of National importance, Extreme weather, Unforeseen costs for high pressure Gas Main crossing works where there was an historic failure of the utility company to protect the line against future works.
A465 Abergavenny to Hirwaun - Section 3 Tredegar to Brynmawr Under construction – Due for completion Summer 2015	43.8 (Nov 2000) Historic 148.4 KSA3 (Aug 2009)	167.8 KSA6 (Nov 2012)	163.97 Estimated out-turn as of Jan 15	

Project and current status	Estimated Cost at KSA 3 (£M)	Estimated cost at Construction contract award – KSA6 (£m)	Estimated/final out-turn cost (£m)	Comments
	(167.2 when uplifted using inflation indices to the start of construction date - Nov 12)			
A465 Abergavenny to Hirwaun Section 2 Brynmawr to Gilwern Under construction. Start on site Dec 14, due to be completed summer 18	66.2 (Nov 2000) Historic 186.3 KSA3 (Aug 2010) (221 when uplifted using inflation indices to the start of construction date - Dec 14)	223.2 KSA6 (Dec 14)	223.2 Estimated out-turn as of Jan 15	Increase in cost from KSA3 to start of KSA6 due to recommendations put forward by the Inspector during the Public Inquiry.
A465 Abergavenny to Hirwaun Section 5 Dowlais to A470	47.5 (Nov 00) Historic 165 (Out-turn cost at Nov 11 prices – this is the latest detailed estimate)			Estimates based on schemes being delivered individually using conventional delivery and funding. Schemes combined to be delivered as a single revenue-funded Public Private Partnership (PPP) using a Non-Profit Divided (NPD) model.
A465 Abergavenny to Hirwaun Section 6 A470 to Hirwaun	53.5 (Nov 00) Historic 167.5 (Out-turn cost at 2011 prices - this is the latest detailed estimate)			

Transport Grant Projects

Project & current status	Cost on entry to the Transport Grant programme	2004-05 (£m)	2005-06 (£m)	2006-07 (£m)	2007-08 (£m)	2008-09 (£m)	2009-10 (£m)	2010-11 (£m)	2011-12 (£m)	2012-13 (£m)	2013-14 (£m)	2014-15 Estimated cost
Ceredigion Link Road – Stage 1 Completed October 2009	25.9	28.8	30.1	31.1	34	48.1	43	43	43	-	-	-
Port Talbot Peripheral Distributor Road – Stage 2 Completed October 2013	66	68.2	73.1	72.9	97.9	107.8	115.3	115.3	108.7	111	111	111
Improved Access to Wrexham Industrial Estate Sections 1 & 2 combined Section 2 completed July 2012 Section 1 completed September 2002	17.8	-	28.9	29.3	35	40.2	40	40	40	35.6	35.5	35.5

ORIGINAL BUDGETED COSTS AND ACTUAL OUTTURN COSTS FOR TRUNK ROAD MAINTENANCE AND IMPROVEMENT SCHEMES DELIVERED SINCE 2011

The table below provides a high level breakdown of capital and revenue expenditure delivered on Welsh Motorways and Trunk Roads on maintenance and improvement schemes in 2011/12 and 2012/13:

Financial Year	Capital Allocation	Capital Spend	Variance
2011/12	£70,581,512.97	£68,711,269.68	-2.7%
2012/13	£65,090,753.62	£65,070,507.62	0.0%

Financial Year	Revenue Allocation	Revenue Spend	Variance
2011/12	£44,380,975.67	£46,605,565.54	+5.0%
2012/13	£43,813,636.50	£44,392,889.00	+1.3%

The financial records for both years were independently audited by the Wales Audit Office (WAO) on behalf of the Welsh Government. No qualifications were raised by WAO in either year. There were 977 schemes in 2011/12 and 830 schemes in 2012/13 at either a study, design or construction stage.

Variance

Reasons for the expenditure variances include:

- Detailed design and specification changes
- Unforeseen works
- Weather
- Third party discussions or Statutory Undertaker issues
- Budget constraints and programming issues
- Environmental issues
- Increase in land costs or failed negotiations
- Changes to design standards
- Statutory process and consultation delays
- Inflation increases

Improvement

Improvement initiatives currently being progressed include:

- Challenge scheme delivery methods, programme, durations and costs
- Use of a collaboration portal tool (now in place) whereby Welsh Government project sponsors can constantly interrogate project progress scheme by scheme

ROUTINE MAINTENANCE AND IMPROVEMENT OF THE TRUNK ROAD NETWORK

Routine Maintenance

The routine inspection and maintenance of the network is carried out in accordance with the Welsh Government's specification 'Trunk Road Maintenance Manual' (TRMM). This identifies basic service requirements for service providers engaged in delivering routine, adverse weather and emergency response activities. It specifies frequencies for the inspection and maintenance for the range of assets necessary to keep the highway safe and serviceable and preserve its value.

Capital Maintenance (Renewal) and Minor Improvements

The capital maintenance and minor improvement of the network is carried out through the implementation of annual programmes of work (major carriageway maintenance, skid resistance schemes, highway structure maintenance and upgrades).

Prioritisation:

The schemes in each programme are prioritised on the basis of set criteria that ensure the Welsh Ministers' statutory duty to maintain network safety is met, the serviceability of the existing asset maintained at minimum whole life cost whilst improvements support delivery of the Welsh Government's strategic objectives.

Planning:

Programmes of work on the network are carefully planned to maximise cost effectiveness and minimise disruption. Where possible work is combined to minimise cost. Works are scheduled to avoid peak periods and carried out overnight where possible. From 1st April 2015 the planning function will take place wholly within Welsh Government with the transfer in of planning staff from both agents.

The Condition of the Network and Expenditure on Maintenance

The condition of the network is kept under constant review through safety and detailed inspection programmes and annual machine based surveys which record the surface and structural condition of the carriageway. The results of the latter are reported annually in the Welsh Government's Statistical Bulletin – "Road Lengths and Conditions". The latest Bulletin can be access through the following link:
<http://wales.gov.uk/statistics-and-research/road-lengths-conditions/?lang=en>

Asset management/ investment plans for all network assets are kept under continual review with the overall objective of maintaining the asset at minimum whole life cost. Our approach is being continually improved by the phased introduction of the new Integrated Road Information System (IRIS). Though challenging to deliver with over 20 functional areas to develop, it will provide us with one of the UK's first fully integrated road asset management system.

TRUNK ROAD AGENTS

Over the last 10 years the arrangements put in place to maintain and upgrade the trunk roads in Wales have been subject to a number of step changes, each with the aim of improving the quality of the service provided to the people of Wales and Value for Money. Since 2002 there have been a number of reviews and consultations that has seen the number trunk road agents reduced firstly from eight to three and later from three to two which is the current arrangement.

These changes have produced some savings both in terms of the management and service delivery through reducing duplication and streamlining delivery. Despite these changes, however, the Welsh Government is of the view that more can be achieved and this was confirmed by an EC Harris audit in 2013. The audit team had concerns over the transparency of the contractual relationship with the partnering authorities and the visibility of their costs and was not able to provide assurance that the arrangements are delivering Value for Money.

A review of the management arrangements for the network was announced on 4 June 2014. The review considered a number of alternative delivery models, including where the interface between the Welsh Government, the Managing Agents and the Service Delivery Partners should best lie. The likely performance was assessed against 5 key objectives contributing to the overall aim of stimulating **jobs and growth** in the Welsh economy: control; accountability; agility; value for money; and deliverability. These objectives align with key principles in the Welsh Public Procurement Policy (WPPP). The key outcomes from that review, as contained in the Minister's Statement of November 2014, are:

1. That greater direction and control over the service would be achieved by locating all planning staff within the Welsh Government. All eligible staff (approximately 20) involved in the planning of works will transfer to the Welsh Government under TUPE regulations from the 1st April 2015.
2. The Minister challenged the two existing Trunk Road Agents, working with their local authority supply chain partners, to demonstrate substantial savings. The evidence of these savings to be delivered by April 2015 and then be subject to an independent audit

Since the announcement, we have been working closely with the Agents and have established structures and processes that will both support and challenge the TRAs in seeking to meet the Minister's request. Regular meetings between senior Welsh Government and TRA staff have been established at which the key areas where savings might be made, the principles underlying the changes required and the level of evidence likely to be required to support the savings claimed are all discussed.

PRIVATE FINANCE INITIATIVES – ROAD PROJECTS

Past/Existing

The Design, Build, Finance and Operate (DBFO) concession operates and maintains the 32km A55 trunk road running from Llandegai (A55 J11) to Holyhead UK Highways A55 Ltd (UKH) is the concessionaire. The concession commenced on 16 Dec 1998 and is scheduled to end on 16 Dec 2028.

The contract includes the management and maintenance responsibilities for two major listed structures, Britannia Bridge (costs shared with Network Rail) and Menai Suspension Bridge.

The annual costs are currently in the region of £17M but vary, based on a number of factors including traffic flows, RPI, GDP and contract factors.

An investigation was carried out by the National Audit Office subsequent to construction of the road and they reported on 16 February 2005. The NAO concluded in its report that the structure of the Contract was reasonable and reflected industry best practice at the time of the procurement.

Planned

In May 2014 the Welsh Government committed to a resource funded programme of investment to support the delivery of Programme for Government commitments and the Wales Infrastructure Investment Plan (WIIP).

One of the (WIIP) pipeline of projects to be delivered by this mechanism is the completion of the A465 Heads of the Valleys Dualling Project by constructing the two remaining sections between Dowlais Top and Hirwaun.

Background on the Non-Profit Distribution (NPD) form of procurement

Delivering the project using a PPP/PFI would mean the construction of the dualling of the 16km of the A465 between Dowlais and Hirwaun by a private contractor and the operation and maintenance by the same company of a length of the A465 trunk road up to the end of an agreed concession period generally a minimum of 30 years.

The NPD procurement model retains the characteristics of private finance projects such as risk allocation, whole-life costing, performance-based payments, and a single-point delivery system. However NPD is considered to offer enhanced benefits over traditional PFI by limiting the potential financial return to be made by investors with any surpluses created by the Project Company beyond a capped market rate can be reinvested in the public sector.

The use of NPD for this project would, along with the Velindre, Specialist Cancer Care Facility and 21st Century Schools, be the first schemes in Wales to adopt this procurement route.