

Adran yr Economi a Thrafnidiaeth
Department for the Economy & Transport



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Darren Millar AM
Committee Chair
Public Accounts Committee
Cardiff Bay
Cardiff CF99 1NA

Eich cyf . Your ref
Ein cyf . Our ref

Dyddiad. Date 9 March 2011

Dear Mr Millar,

RE: Evidence to the Public Accounts Committee

Thank you for your letter of 24 February inviting me to give evidence to the Public Accounts Committee on Wednesday 23 March.

As requested I attach a paper outlining the Welsh Assembly Government's position in relation issues arising from the Wales Audit Office report on Major Transport Projects. I look forward to answering more detailed questions when we meet.

Yours sincerely

JAMES PRICE

Acting Director General / Cyfarwyddwr Cyffredinol Dros Dro



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Written Evidence – Major Transport Projects Report

Introduction

I welcome the findings of the Report and note that there is recognition for the process of continuous improvement in the management of Major Transport Projects in Wales, particularly with regard to Risk Management, Procurement, Performance Indicators, Gateway Reviews and Reporting. There is more to be done, and the WAO report has helped to crystallise how we can improve further to bring greater robustness and transparency to our processes in order to secure more effective delivery of major transport projects. The Report highlights possible further improvements, such as Monitoring and Evaluation, and relationships with Utility Companies, which we will work to address.

The Report is comprehensive and relies on a large volume of detailed information obtained by the WAO over a long timescale. The Report draws many conclusions and sets out a number of recommendations that we must consider how to respond to and incorporate as appropriate. It covers a considerable time period and acknowledges the fact that we have already made significant improvements to our processes. The report is very detailed, with many case studies. Responding to all of them in their entirety would require more detail than is appropriate for written evidence of this nature. Instead this evidence deals with the general findings of the report and we welcome the opportunity at the evidence session to provide more detail.

The Report identifies that cost increases in, and the consequent effect on, the Transport Grant Programme (including Rail projects) have been higher than with the directly managed trunk road schemes. The Welsh Assembly Government recognises that in terms of local transport project delivery we have more that we still need to do. However, the improvements we have made to complete the delivery of the Transport Grant Programme, including the Regional Transport Consortia planning process have improved the rigour of the delivery process locally. The findings of the Report will help to inform our control and management arrangements as we move forward and I hope that, over time, the WAO will see more improvements in this area.

Overview

The Report sets out the increased cost of transport schemes. We fully accept that there are factors within the Welsh Assembly Government's control that account for how these cost increases and time delays occurred. The Welsh Assembly Government will draw from the report and continue to make improvements in those areas. There are also factors which fall outside the Welsh Assembly Government's control, including the broader economic context and we need to maintain flexibility in order to manage these going forward.

During the period covered by the report the UK experienced several years of significantly higher inflation in construction costs than in other sectors of the economy. This put significant pressure on major programme budgets, which were constrained and even reduced on occasion in real cash terms. This necessitated the reprogramming of projects, which is reported as being one of the reasons for delays. As a Government we face a number of competing demands for limited resources. When there is significant pressure on budgets we need to make difficult choices.

The alternative to the reprogramming that we undertook would have been to abandon other projects which we consider necessary.

The report highlights the need to improve the accuracy of forecast expenditure and we have now taken steps to address this. Forecasting inflation, typically as far ahead as 10 years, with all the variables that management of the Programmes entails, is a very difficult thing to do. The graph on page 31 of the Report demonstrates the volatility of the Construction Price Index compared to the Retail Price Index; this could not have been foreseen exactly over the period. Accepting that there will always be volatility, we have now incorporated an allowance to eradicate Optimism Bias in line with the HM Treasury guidance which should lead to more accurate forecasting.

There are also more local issues that can have significant impacts on delivery timescales. For example, unforeseen ground conditions, environmental factors and measures taken to meet public concerns. The Report notes that these local issues are common to projects elsewhere in the UK. It is reasonable to go through due process to ensure that we minimise, as far as possible, impact on local people and the environment.

Similarly, changes to policies and strategies can require reprogramming of our capital programmes. Elections every 5 years means that changes in policy, strategy and priorities are a perfectly valid influence on the scope of programmes.

Trunk Road Forward Programme

In 2002 the Welsh Assembly Government set out its Trunk Road Forward Programme. Against this challenging programme of work, significant progress has been made. All of Phase 1 has been discharged as far as statutory procedures permit (A40 The Kell is now complete). Some 50% of Phase 2 has started close to programme, despite a period of significant economic challenge and increasing environmental and planning constraints and considerations.

The Trunk Road Forward Programmes have been published in the full knowledge that it is not possible to provide cast iron commitments on the delivery of any project. We, like any other administration in the UK, are subject to satisfactory completion of statutory consent procedures and we must work within a limited financial envelope. We can not assume that statutory consent will be granted or that the Assembly Government will approve levels of budget over such extended timescales. It is important to acknowledge that both of these can not be fully predicted at the time of publishing forward plans. We must be flexible enough to adapt programmes to deliver the best value for Wales. However, it is equally true that we have been increasingly careful in our planning assumptions on both technical and financial feasibility.

It is pleasing to note that the Report highlights some of the positive things that we have done to better manage these significant programmes of work, our risk management strategies are particularly highlighted. The Welsh Assembly Government has kept pace and in some cases set best practice in procurement for

its major transport projects. The Report highlights the close control exercised by the Welsh Assembly Government.

Transport Grant Programme

The Transport Grant programme has suffered a greater degree of increased costs. In the past this has been as a result of more limited top down control from the Welsh Assembly Government. We had no detailed knowledge of the projects and relied upon local authorities' knowledge of the schemes, accepting figures at face value at that early stage. In some cases, local authorities were unfortunately underestimating costs before the projects were accepted into the Programme. This was then exacerbated by the factors outlined above.

The approach adopted by the Welsh Assembly Government in handling local authority schemes has changed, in recognition that this method was no longer appropriate. Over the last two years management controls and other processes have been tightened up considerably by the Welsh Assembly Government to ensure that there is more rigorous process controls in place, risk is more appropriately managed and reporting arrangements are more robust. We continue to work in partnership with local authorities to bring about greater improvements.

The report clearly acknowledges that we have been pro-active in tightening the control of costs on the Transport Grant Programme. The Report acknowledges that this process will continue in the delivery of the new Regional Transport Plans. Delivery guidance is being provided to the Regional Consortia. Many of the issues the report raises have already been addressed last year in the initial guidance issued to the Regional Consortia.

The potential for rising costs associated with the 2009-10 Transport Grant schemes have been reduced following the revision of the terms of grant. In response to the question as to how this stricter regime will be applied in practice, each case has to be judged on its merits but we will seek to cap our financial contribution, where appropriate, as we did on Church Village Bypass.

Moving Forward

We have set in place more robust controls and this has brought greater rigour to our processes. These have begun to address a number of the issues raised in the Report. We accept that there is room for improvement in several of the areas indicated, and we are working towards this.

We are currently reviewing the structure of our information and performance management systems to ensure greater control over these delivery programmes. We are continuing to use and expand the Key Stage and Gateway Review processes for all major projects. We accept that we need to work more closely with other parties involved in developing infrastructure, such as utilities.

As a consequence of Economic Renewal: a new direction, the Department for Economy and Transport has been re-organised to deliver a new approach to economic development. While the Transport Division has not been substantially

affected by the re-structure per se, it has been brought together with other infrastructure teams to form the Infrastructure Group. This has created a department of specialists able to develop and deliver major infrastructure projects ensuring a more co-ordinated and better controlled approach to these schemes. This will allow us 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.

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