

A465 Section 2: Update report

June 2024



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Key messages

Background

- 1 In February 2020, the Auditor General published an interim report looking at the project to upgrade eight kilometres of the A465, the Heads of the Valleys Road¹. The upgrade between Gilwern and Brynmawr is known as the Section 2 project. The project has a long history. It is part of a wider scheme to upgrade 40 kilometres of the A465 between Abergavenny and Hirwaun into a dual carriageway.
- 2 At the time of our interim report, the Welsh Government was projecting that the project would cost the public purse £321 million. This was £98 million (44 per cent) more than anticipated at the start of the detailed design and construction phase in December 2014. However, the Welsh Government and Costain – the Welsh Government’s main contractor – were in dispute over liability for increased costs.
- 3 With the planned completion date for the project having been extended, it was also possible that further cost increases could arise. At the start of construction, the anticipated completion date for construction was September 2018. At the time of our interim report the exact completion date for the overall scheme remained uncertain but was expected to extend to spring 2021.
- 4 With uncertainty about the liability for, and extent of, the cost increases, it was difficult to predict the final cost to the public purse. The Welsh Government had increased its overall project budget at various points, and it stood at £336 million at the time of our interim report.

1 Auditor General for Wales, [A465 Section 2 – Interim Findings](#), February 2020

- 5 This update report describes the status of the project and key developments over the four years since our interim report. Our work to gather evidence for this report has involved interviews with project stakeholders as well as a review of project documentation and data. **Appendix 1** provides more information about our work.
- 6 We have not rehearsed in this report the fuller history of the project. We summarised that history in our interim findings report, including details about the procurement and contracting arrangements under the Early Contractor Involvement (ECI) model².

2 The ECI model involves a two-part contract. The Part 1 contract related to the outline design and early development of the project. Part 1 also included development of a target cost for the detailed design and construction of the project under the Part 2 contract. Either party had the option not to proceed to the Part 2 contract.

Key findings

- 7 We found that while the upgraded road has been open to traffic since November 2021, some limited construction activity is ongoing and negotiations about completing the project have been difficult and prolonged. The Welsh Government is now projecting a cost to the public purse of around £327 million, up slightly since our interim report and much higher than earlier projections.
- 8 More specifically:
 - the project has overcome considerable engineering challenges and the upgraded road has been 'open' for over two years, although some limited construction activity is ongoing.
 - there have been difficult and prolonged negotiations to resolve defects and define the final construction activities.
 - the projected cost to the public purse has increased by a further £6 million to around £327 million. This is 46 per cent more than anticipated when construction began. However, financial risks have reduced given the advanced stage of construction.
 - the project is already delivering some benefits but has also caused significant disruption to local communities.
 - the Welsh Government says it is learning lessons from the project by changing its construction contracts and reviewing its indicators of contractor performance.



The A465 is an important part of Wales’s transport network, but the work to improve this section has been difficult for the parties involved and for the local communities affected. Although expected costs to the public purse have been largely contained since my interim report in 2020, the overall story of the project is one of significant cost increases and delays.

It remains vital that the Welsh Government applies lessons from this project as it delivers future schemes, and one test of that will be the impact of changes already made to its contracting arrangements. And while construction activity is largely finished, the Welsh Government still has work to do to report more fully on benefits from the project, building on evidence to date.

Adrian Crompton
Auditor General for Wales



Detailed report

1 The project has overcome considerable engineering challenges and the upgraded road has been 'open' for over two years, although some limited construction activity is ongoing

After overcoming significant engineering challenges and delays, the upgraded road was opened, without traffic management, in November 2021

- 1.1 As recognised in our interim report, the project has presented significant engineering and environmental challenges. It has involved widening an existing road, in a constrained site, within a steep-sided valley, alongside live traffic. The project has also proven far more difficult than envisaged, due to complications with the site topography, traffic management and ground conditions.
- 1.2 These complications have caused delays. At the time of our interim report, the Welsh Government expected the completion date to extend to spring 2021. When the Welsh Parliament's Public Accounts Committee considered our report in September 2020, the Welsh Government said construction was 90% complete and that it was hoping to complete by summer 2021. Further complications in relation to the refurbishment of the existing Clydach Viaduct³ led to more delays. The upgraded road eventually opened to traffic, without the need for traffic management such as cones and permanent lane closures, in November 2021.
- 1.3 Costain requested formal completion of the project as the public was provided with use of the road without traffic management. The Employer's Agent did not accept that completion has been achieved. Under the contract, removal of traffic management is not the criterion for certifying formal completion of the project. Several other tasks must be concluded including the production of various handover documentation, such as as-built drawings, operation and maintenance manuals and safety audits. Formal completion also requires the issuing of some design, check and construction compliance certificates. The contract allows for some documentation to be produced after formal completion.

3 The deck of the viaduct was in a worse condition than anticipated, requiring extensive additional work and delay to the removal of traffic management.

Nearly ten years on from the start of construction, some limited construction activity is ongoing, while the planned environmental aftercare period will end in 2027

- 1.4 While the Welsh Government website lists the project as completed, during 2023-24 discussions were ongoing about how to resolve various defects or complete unresolved tasks, including:
- rectifying vibrations in three cables of the Jack Williams Gateway Bridge spanning Clydach Gorge.
 - work to address steel corrosion on some project structures, including bridges.
 - replacing warped and delaminated timber cladding on pedestrian bridges.
 - work to address leaking joints in an attenuation tank immediately west of the village of Clydach that regulates the flow of highway drainage water into the Clydach river.
 - resurfacing a short length of carriageway that had settled and caused a surface irregularity near Maesygartha.
 - complications with an access road to Brynmawr Foundation School that resulted in the Welsh Government asking Costain to stop work⁴ near Hafod Road, Brynmawr.
 - amending and approving side road orders⁵, so that the relevant local authorities can take over the operation of side roads that connect to Section 2 of the A465.
 - installing vehicle barriers and fencing at Blackrock and Brynmawr.
 - small areas of earthworks at Gilwern and Blackrock.

4 A stop works notice was issued regarding construction near Hafod Road, on safety grounds. Costain told us the notice had effectively put contract completion on hold. The Welsh Government disagreed, stating that the Project Manager had determined that the work had no impact on completion.

5 Side road orders are legal documents that authorise alterations to, or create new, side roads, i.e., the network of smaller roads that are the responsibility of local authorities.

- 1.5 The majority of this construction activity is now complete. However, as at April 2024, nearly ten years since construction began, limited activity is continuing or incomplete including work in relation to the access to Brynmawr Foundation School, vehicle barriers and fencing at Blackrock, and defects at the Jack Williams Gateway Bridge. This work was forecast to complete in May 2024.
- 1.6 Work is also continuing on a package of legacy projects along the Section 2 route that aim to generate additional benefits for local communities. In February 2020, the Welsh Government said that the project team would work with partners to identify a meaningful and deliverable package⁶. The aim was for these legacy projects to be delivered outside the main construction contract, either in parallel with construction, or once construction is finished.
- 1.7 Funded from the Section 2 budget, the Welsh Government made available a grant funding pot of up to £500,000 for the legacy projects. Blaenau Gwent County Borough Council and Monmouthshire County Council bid for this money. While there were delays in agreeing the details, the specifics of these projects are now confirmed:
- the work in Monmouthshire will consist of improvements to the Clydach ironworks car park and picnic site, and linked public rights of way improvements, including repair works to Devil's Bridge, which crosses the river Clydach.
 - the legacy work in Blaenau Gwent will consist of a new car park and active travel staging area near the Jack Williams Gateway Bridge, to encourage active travel and support access to local businesses. The legacy works are due to run until mid-2026.
- 1.8 The project timetable has always included a five-year Environmental Landscape and Ecological Aftercare period (the 'aftercare period'), which started in April 2022⁷. During the aftercare period, Costain will maintain the landscape planting and undertake surveys to confirm the effectiveness of environmental and ecological mitigation measures. Some traffic management will be required for these activities and was always planned as such.

6 Welsh Government, [Written Statement: A465 Dualling Section 2 \(Gilwern to Brynmawr\) Project Update](#), February 2020

7 All parties agreed that the aftercare period should commence in April 2022, considering the advanced stage of construction and environmental mitigation planting. The only outstanding area of mitigation planting is associated with the legacy works near the Jack Williams Gateway Bridge.

2 There have been difficult and prolonged negotiations to resolve defects and define the final construction activities

A significant dispute was ongoing at the time of our interim report and resulted in a second arbitration

- 2.1 Concerns about rising construction costs began in 2017. A series of adjudication processes followed in 2018 and 2019 to consider liabilities for various costs. Matters relating to liability for costs associated with retaining walls also progressed to arbitration in the second half of 2019⁸.
- 2.2 The dispute about liability for certain costs continued beyond our interim report. The Welsh Government withheld most payments to Costain between September 2019 and February 2021. It did this because the Welsh Government argued that it had paid Costain more than it was due to that point. During this time, Costain received no payment in respect of construction works for the project, except for two small payments in mid-2020. This contributed to financial strain on Costain and continued tension in the relationship between Costain and the Welsh Government.
- 2.3 The Welsh Government began a further arbitration in April 2020 and the arbitrator's award was issued on 2 September 2020. The award was in the Welsh Government's favour and resolved responsibility for design information relating to retaining walls, and Costain's ability to recover additional costs through the contract compensation event mechanism⁹. This decision meant that while the project involved more retaining walls than originally planned, and that some walls were taller than originally designed, Costain was not compensated for the additional scope. On 3 September 2020, Costain issued [a regulatory notice](#) to advise the markets of the impact of the award on its financial reporting.

⁸ Adjudication is the first stage of the dispute resolution procedure within the contract, which usually involves the unilateral decision by one party to refer a dispute to an adjudicator for decision. Adjudication is provided by a third-party adjudicator selected by the parties in dispute, or in accordance with the agreed terms of the contract. Adjudication decisions are binding unless and until they are revised by an arbitration (or litigation). Our interim report provided more detail, including describing the matters that had been at the centre of the dispute and the outcome of adjudication and arbitration decisions at the time.

⁹ In general terms, compensation events are events defined in the Part 2 detailed design and construction contract which, if they occur and do not arise from the contractor being at fault, entitle the contractor to be compensated for any effect the event has on the prices and project timeline.

A Compromise and Variation Agreement in February 2021 improved relations and enabled construction to accelerate for a time

- 2.4 In February 2021, the Welsh Government and Costain signed a Compromise and Variation Agreement that settled the dispute and resulted in payments to Costain restarting. In announcing the agreement, the Welsh Government said that it 'allows the team to ensure their entire focus is on finishing the construction in the most efficient way possible'¹⁰. Initially, the agreement proved effective in improving relations and allowing the work to accelerate.
- 2.5 The agreement included a commercial settlement, where the Welsh Government agreed to make further payments to Costain, based on completion of 12 phased milestones. By assessing the cost of all work remaining in the contract, and following detailed negotiations, all parties agreed that these payments should total £11.3 million. In essence, the agreement changed the existing target cost contract to a lump sum contract¹¹. The Welsh Government adopted this approach to secure greater certainty about the final project cost.
- 2.6 Costain has, to date, received full payment for the first four milestones and partial payments for milestones five to nine. In total, Costain has received £9.8 million of the £11.3 million set out in the agreement.

¹⁰ Welsh Government, [Written Statement: A465 Dualling Section 2 \(Gilwern to Brynmawr\) Project Update](#), February 2021

¹¹ Target cost contracts introduce a mechanism enabling the employer and the contractor to share in the benefits of any cost savings and, conversely, the dis-benefits of any cost overruns. These mechanisms are usually known as 'gain share' and 'pain share' respectively. Our interim report provides further explanation. Lump sum contracts are those that fix the construction price before work begins, so that the employer knows exactly how much planned work will cost in advance.

Further disagreement arose about contractual completion, and while the Welsh Government took over the road as ‘substantially complete’ it has not issued a completion certificate

- 2.7 The Welsh Government and Costain have disagreed about the extent to which the road is complete. Costain has argued that as the road is operational, a completion certificate should be issued under the contract. The Welsh Government has disagreed with this position given certain construction activity was ongoing (see **paragraphs 1.4 and 1.5**). Certifying completion would make the Welsh Government fully responsible for the road, relieve Costain of certain insurance costs, reduce Costain’s retention bond (see **paragraph 2.10**) and trigger certain milestone payments.
- 2.8 The Welsh Government accepts that the road was ‘substantially complete’ as of November 2021, when traffic management was removed. After a period of deliberation and staged road safety audits, the Welsh Government confirmed it was prepared to take over a substantial part of the project. In August 2022, the Employer’s Agent¹² issued a partial takeover certificate, transferring operational responsibility for the highway to the Welsh Government.
- 2.9 Following the Welsh Government’s partial takeover of the road, which included full use of the main carriageway, responsibility for loss of, wear to, or damage to the works transferred from Costain to the Welsh Government. While the Welsh Government agreed to accept certain defects it deemed as ‘usual or normal’, the takeover agreement also specified that certain works would remain the responsibility of Costain, set out in a takeover certificate.
- 2.10 The fact that the Welsh Government has not fully taken over the road has financial implications for Costain. Full takeover would reduce the monthly payments that Costain makes in relation to its retention bond. The bond is a sum of money that the contractor makes available to the employer (in this case the Welsh Government). The employer can draw upon the bond in certain limited circumstances, such as insolvency of, or a major default by, the contractor. The bond therefore provides a financial lever to keep the contractor on site to complete the work. The bond in this project is £8.15 million. Costain pays a monthly fee to a bank to act as a guarantor for this sum. When the completion certificate is issued, the bond will be halved and Costain’s payments to the bank will reduce.

¹² The Employer’s Agent is typically a private sector consultancy acting on behalf of the public sector client/employer to oversee the administration of an ECI contract. The Welsh Government awarded the Employer’s Agent contract to EC Harris. EC Harris merged with Arcadis NV in November 2011. The merged organisation became known as Arcadis.

Negotiations have continued about the remaining defects and activities, and tensions rose again when Costain said it would not complete certain works

- 2.11 Negotiations about how to resolve defects have taken a long time. Costain and the Welsh Government have both expressed their frustration regarding the length of time it has taken. Costain believes the defect resolution process has been overly time consuming, involving re-design and re-approvals. The Welsh Government considers that it has put in place a clear defect resolution process that has served to ensure defects are not accepted without good reason, thereby protecting the public purse. The Welsh Government has extended the contract of the Employer's Agent during the prolonged period of negotiations around defects (see **paragraph 3.5**).
- 2.12 In April 2023, tensions in the project escalated when Costain wrote to the Welsh Government to say that it would not be completing certain tasks relating to vehicle barriers at Blackrock and Brynmawr. Costain told us that the vehicle barrier work was additional to its contract and at the time, it was prioritising contractual work relating to defects. The barrier work is not of high cost and the Welsh Government considers it to be required for the project, although completion is a matter for the Employer's Agent to decide. We understand the remaining works are programmed to start shortly.

3 The projected cost to the public purse has increased by a further £6 million to around £327 million, although financial risks have reduced given the advanced stage of construction

Although still within the revised budget, the projected cost to the public purse has increased from £321 million to around £327 million and is 46 per cent more than anticipated when construction began

3.1 The bullet points below show how the Welsh Government's overall projections of the costs to the public purse have increased over time¹³:

- June 2011 – when the Welsh Government appointed Costain as its contractor for the Part 1 ECI contract, the projected cost was £193.7 million.
- December 2014 – when the Welsh Government awarded Costain the Part 2 contract and construction began, the projected cost was £223.2 million.
- November 2019 – the figures reflected in our interim findings report put the projected cost at £321.1 million.
- September 2020 – when the Welsh Government gave evidence to the Public Accounts Committee, the projected cost had reduced to £308.4 million, following an arbitration decision in favour of the Welsh Government (see **paragraph 2.3**).
- February 2021 – when the Welsh Government and Costain signed the Compromise and Variation Agreement (see **paragraph 2.4**), the projected cost was £319.3 million.
- April 2024 – the projected cost was £326.7 million.

¹³ These figures do not include Costain's portion of the 'pain' of cost overruns under the contractual arrangements.

- 3.2 The latest position is therefore £133.0 million (69 per cent) more than anticipated when the Welsh Government awarded the Part 1 contract and £103.5 million (46 per cent) more than anticipated at the start of construction. **Appendix 2** includes further detail on the financial position and a breakdown of increased costs since our interim report.
- 3.3 The Welsh Government has increased the project's budget progressively. When we last reported, the budget (approved in March 2019) was up to £336.2 million. The latest projected cost of £326.7 million therefore remains within the March 2019 budget. The budget also includes grant funding of up to £500,000 for legacy projects (see **paragraphs 1.6** and **1.7**).

Financial risks have reduced given the advanced stage of construction

- 3.4 While some limited construction activity continues, we cannot be certain about the final cost of the project. However, the advanced stage of construction means that the risk of significant new costs has reduced. The Welsh Government has included risk and contingency sums in its current forecast and is advised monthly by the Employer's Agent on anticipated changes¹⁴.
- 3.5 Due to project delays, the Welsh Government has chosen to extend its contract with the Employer's Agent. The original contract value for the Employer's Agent work on Section 2 was £1.03 million. At the time of drafting, the total contract value had increased to £12.2 million. Currently, the Welsh Government anticipates that any additional Employer's Agent and legal costs for the remainder of the project are likely to be minor and will be accommodated in the current projected cost.
- 3.6 Another financial uncertainty relates to the application of delay damages. Given that construction has continued beyond the completion date determined by the Employer's Agent (4 November 2021), Costain is potentially liable to pay delay damages to the Welsh Government. Costain considers that there is no contractual entitlement to deduct delay damages and that delay damages would not be justified. The Welsh Government has not yet decided its stance on this matter.

¹⁴ The Brynmawr Foundation School issue will result in additional costs to the public purse, although the Welsh Government says it has allowed for these costs within the current overall agreed budget.

4 The project is already delivering some benefits but has also caused significant disruption to local communities

It is too soon to say whether the project will achieve its objectives although some benefits are being delivered

- 4.1 The business case for the project set out three overarching objectives, which were to:
- strengthen resilience between Brynmawr and Gilwern by improving standards and enhancing road safety;
 - contribute towards similar upgrading of the whole route to provide a facility for strategic management of traffic within Southeast Wales; and
 - facilitate economic regeneration of the Heads of the Valleys area by improving accessibility, reducing journey times, and improving journey time reliability between Brynmawr and Gilwern by a minimum of 5% by 2030.
- 4.2 It is too soon to conclude on the extent to which the project will deliver these objectives. When the project is fully complete, the Welsh Government intends to publish a completion report that will include full details of benefits achieved. The report will cover an updated position on the cost benefit ratio, changes to journey times, road safety data and more. The Welsh Government will also publish a Post Opening Review Report, five years after the road opened, which will provide longer-term tracking of benefits.
- 4.3 The Welsh Government will indirectly measure some of the project's wider aims, specifically around improving air quality and reducing driver frustration. The Welsh Government is using traffic enforcement cameras to monitor average speeds and journey times. And the Welsh Government has chosen to install new traffic counting devices, at a cost of around £8,500, that will measure traffic flows, and provide a proxy measure of air quality and driver journey times.

- 4.4 There is evidence to suggest that the project has delivered some road safety improvement already. Basic road safety data suggests that between opening the road without traffic management in November 2021 and September 2023, there was just one road traffic collision on Section 2 reported to the police. The historic data provided to us by the Welsh Government showed that there were 17 collisions between October 2011 and October 2014.
- 4.5 There is also evidence of wider benefits realisation. The project has included setting up a construction training academy, and it has received awards for construction excellence, business in the community and protecting habitats. Our interim report said there had been significant orders to Welsh companies and extensive tree planting in the local area. The project has also achieved consistently high scores on contractual key performance indicators (KPIs) except for time and cost. Highest scores relate to health and safety, and environment¹⁵. Our interim report also detailed wider community outreach work and fund-raising by Costain for local charities.
- 4.6 In 2022, the project won an award for demonstrating exceptional skill and expertise, from the Institution of Civil Engineers. Also, research by the Welsh Economy Research Unit at Cardiff University, commissioned by the Employer's Agent, concluded that of the £325 million in total project spending between 2015 and 2021, 68% was retained in Wales¹⁶. The research pointed to the project having direct benefits for the local economy, totalling almost £179 million of gross value added, as well as generating over 3,700 person years of employment.

15 Other KPIs cover service (for example supply chain management and innovation), quality, and stakeholder and community engagement.

16 Munday, Max & Reynolds, Laura & Roberts, Annette, 2023. Re-appraising 'in-process' benefits of strategic infrastructure improvements: Capturing the unexpected socio-economic impacts for lagging regions, Transport Policy, Elsevier, vol. 134(C), pages 119-127. The project budget includes the cost of the research.

The work has involved significant disruption and many more road closures than planned

- 4.7 At times during the project, it has been necessary to close or partially close the road to allow construction to progress without the associated dangers and restrictions of traffic flowing nearby. The original plan for road closures was set out at the start of construction in December 2014. At that time, the Welsh Government and Costain agreed that the entire length of Section 2 would need to close for six weekends.
- 4.8 The actual number of closures has been much higher than planned. In our interim report, we said that as at the end of November 2019, the section of the road had been closed for 57 weekends and a further 75 weekday overnight closures. As of the end of April 2024, there had been 79 weekend closures and 141 weekday overnight closures.
- 4.9 The disruption caused by these closures has raised complaints from drivers, residents affected by diverted traffic and local businesses. With limited construction activity ongoing, there remains potential for further closures although the extent of these has not been agreed.

5 The Welsh Government says it is learning lessons from the project by changing its construction contracts and reviewing its indicators of contractor performance

The Welsh Government has sought to clarify responsibilities around design and ground conditions in its template contracts

- 5.1 In 2010, the Welsh Government chose Early Contractor Involvement (ECI) as the procurement method for the design and construction of this project. The Welsh Government still believes ECI was the best approach to have taken for A465 Section 2¹⁷.
- 5.2 At the Public Accounts Committee in September 2020, the Welsh Government acknowledged that problems in its template construction contracts had contributed to complications in the project. Officials said the disputes with Costain would not have been so prolonged had the construction contract been more explicit about which party has ownership of the design of the project and who is therefore liable for costs associated with departure from the design.
- 5.3 Costain considers that a key lesson from this project would be for a more stringent review of ground investigations, site information, and design prior to construction contract award. This would aim to ensure that all parties are content with the project scope and budget earlier in the process.
- 5.4 The Welsh Government has since amended its template construction contracts. The Welsh Government has looked to make certain clauses more explicit, with a view to clarifying responsibilities around design and ground conditions. The Welsh Government told us these improvements are now 'baked in' to their templates and are already bringing benefits. We have not assessed the application of these revised arrangements.

¹⁷ As noted in our interim report, the Welsh Government also applied an Early Contractor Involvement model for Section 3 (Brynmawr to Tredegar) completed in 2015. It applied a more traditional design and build contract model for Section 4 (Tredegar to Dowlais Top) completed in 2004 and for Section 1 (Abergavenny to Gilwern) completed in 2008. [Sections 5 and 6 from Dowlais Top to Hirwaun](#) are currently under construction as a single project procured under the Welsh Government's [Mutual Investment Model](#).

5.5 The Welsh Government has made a further change to the template contract, to transfer more risk to the contractor. The change means that if the project cost increases beyond a certain threshold, it increases the contractor's liability. Costain's view is that this transfer of risk would not necessarily prevent a repeat of the issues experienced on this project. Costain considers that risk should be allocated to the party best able to manage the risk, and that the transfer of risks in this way could result in legal disputes. We have not sought to come to our own view on the overall merits of this change.

The Welsh Government has not concluded its review of the indicators it uses to monitor contractor performance

- 5.6 The project includes the use of 50 key performance indicators (KPIs) on various aspects of how Costain is delivering the work under the contract. The marks against the KPIs are determined by the Welsh Government and the Employer's Agent and agreed with Costain.
- 5.7 Our interim report noted that Costain's scores have been consistently high on all KPIs except for time and cost. Achievement of the project KPIs was not specified in the Compromise and Variation Agreement agreed in February 2021. As such, the Welsh Government has not been monitoring the original KPIs since February 2021. It has instead been using milestones to ensure timely delivery.
- 5.8 At the time of our interim report, we understood that the Welsh Government was reviewing the KPIs used in its transport schemes as it recognised that there may be insufficient focus in its current indicators on programme and financial performance. This review is yet to conclude and so the Welsh Government has not yet revised its KPIs for transport schemes. Following the Roads Review¹⁸ in February 2023 and the Lugg Review¹⁹ in June 2023, the Welsh Government is now developing a major asset renewal programme. It intends to develop a set of KPIs informed by the reviews and the lessons learnt from the A465 Section 2 project.

18 The [Roads Review](#) was carried out by an independent panel, to review new road schemes funded by the Welsh Government.

19 The [Lugg Review](#) was an independent review of annual maintenance programmes on the strategic road network in Wales.



Appendices

- 1 About our work
- 2 Updated financial position

1 About our work

Audit question and scope

This update report follows our interim findings report in February 2020. Since the publication of our interim findings, we have maintained contact with the Welsh Government, to keep track of developments. Most of our evidence gathering was during late 2023-24 when various construction activities were ongoing. We have chosen to report on the status of the project as at the end of April 2024.

Our update report considers the question ‘What is the current status of the A465 Section 2 project?’. It summarises the story of what has happened in the project since February 2020. For brevity, we do not repeat much of the detail and historical background set out in our interim report. For example, that report included further information about the original procurement process for the project, the contractual arrangements and parties involved in the project, and about contractual disputes that had arisen since 2018.

In both our interim report and this report, we have sought to provide a factual description of events. We have not sought to assess the overall effectiveness of the Welsh Government’s management of the project. Various matters relating to liability for increased costs have been considered by experts through contractual dispute resolution processes.

Audit methods

We took a similar audit approach to our interim work, by using the following methods:

- interviews: we interviewed Welsh Government officials and officers from Costain and the Employer’s Agent (Arcadis).
- document and data review: we requested and reviewed Welsh Government project documents and data in relation to construction progress, defect resolution and project/financial performance.

We have also considered the evidence provided by the Welsh Government to the Welsh Parliament’s Public Accounts Committee in September 2020. The Committee questioned Welsh Government officials on matters arising from our interim report. The Welsh Government provided additional written evidence to support the session and a transcript of proceedings is publicly available.

2 Updated financial position

These figures reflect the costs that the Welsh Government is currently accepting liability for. The outcome of the ongoing dispute could see the cost to the public purse increase or decrease, and other costs could arise to the point of project completion.

The projected costs shown for November 2019, as reflected in our interim report, did not include an assessment of the cost impacts of an arbitration decision concerning retaining walls which were still being fully assessed by the Welsh Government and Costain. At that time, Costain considered that the overall estimates of Welsh Government liabilities presented in our interim report were understated. The Welsh Government considered that the figures represented a reasonable allowance for its liabilities based on the adjudication decisions to that point. The costs shown for February 2021 reflect the position when the Welsh Government and Costain signed a Compromise and Variation Agreement (see **paragraph 2.4**).

Exhibit 1: update on projected project costs to the public purse since our interim report

	£ millions ¹		
	November 2019	February 2021	April 2024
Historic expenditure – including outline design and development	19.7	19.7	19.7
Detailed design and construction contract target cost	159.5	254.8	254.8
Instructed change	16.7	-	1.6
Estimate of Welsh Government portion of pain and expected liabilities for adjudications in favour of Costain	80.5	-	-
Statutory undertaker costs	18.2	18.4	19.9
Risk	4.7 ²	2.0	0.9
Employer's Agent costs	8.5	9.1	12.2
Lands	11.0	11.3	11.1
Other costs	2.4	4.0	6.5
Cost to the public purse	321.1	319.3	326.7
Estimate of Costain's portion of the pain	Redacted ³	Redacted ³	Redacted ³
Total project cost	Redacted³	Redacted³	Redacted³

Notes:

- 1 Non-recoverable VAT is included in all sums. The figures assume 5% VAT on construction costs.
- 2 Legal fees have been significantly higher than expected. The fees are included in the £4.7 million 'Risk' figure in November 2019 but for the subsequent points in time, the legal fees are included in the Lands costs and Other costs.
- 3 Costain's portion of the pain reflects the Welsh Government's assumptions about its liability for certain costs. We have redacted these figures from the report on the grounds of commercial sensitivity, although Costain has disclosed certain information to the market about the implications. When the Welsh Government has reported previously on the costs of the project, it has also done so based on the estimated costs to the public purse.

Source: Welsh Government



Audit Wales

1 Capital Quarter (ground & first)

Tyndall Street

Cardiff CF10 4BZ

Tel: 029 2032 0500

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and telephone calls in Welsh and English.

Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.