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# The Welsh Government's Location Strategy



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I have prepared this report for presentation to the National Assembly under the Government of Wales Act 2006.

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**Report presented by the Auditor General for Wales to the  
National Assembly for Wales on 25 March 2014**



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## Summary

- 1 The Welsh Government published its Relocation Strategy report in 2002. In line with the Welsh Government's broader policy in the years following devolution, the Strategy aimed to decentralise services from Cardiff and bring them closer to the people of Wales. The Location Strategy Programme ('the Programme') to deliver the Strategy centred on the construction of three new office buildings in Merthyr Tydfil, Aberystwyth, and Llandudno Junction. It also included the relocation of posts and movement of staff into the new offices.
- 2 The Welsh Government delivered the Programme during a period of significant change. Changes included the merger of four Welsh Government Sponsored Bodies into the Welsh Government in 2006, and the loss of more than 1,000 staff through voluntary severance schemes between 2008 and 2012. The Welsh Government completed the Programme in December 2011, nearly 10 years after it started, at a cost of £91.5 million and with 553 Welsh Government posts relocated from Cardiff.
- 3 This report examines whether the Location Strategy Programme has delivered its objectives in a way that provides value for money. We have set out our methodology in [Appendix 1](#). [Appendix 2](#) provides a timeline of the most significant events during the Programme.
- 4 We concluded that the Welsh Government has delivered the objectives of the Location Strategy, but the overall value for money of the Programme is uncertain. This is because,

although the Welsh Government delivered the new office buildings to the expected quality and within contracted costs, limited consideration was given to alternative accommodation options, robust estimates of programme costs were lacking, and realisation of all the Programme's continuing benefits is no longer being monitored.
- 5 The Location Strategy had clear objectives, but the Welsh Government did not establish effective governance arrangements until 2008 and underestimated the cost of the Programme**

**5 The Welsh Government had a clear objective to increase the proportion of staff working outside Cardiff, but workforce planning was hampered by limitations in the information on staff numbers, limited consideration was given to accommodation options, and the costs of the Programme were under-estimated.** In October 2001, the Welsh Government agreed principles for a review of the Welsh Government's office accommodation, and in August 2002 produced the *Relocation Strategy* report. The report proposed a target 'to re-locate outside Cardiff a minimum of 400 existing Cardiff-based Assembly Government staff'. However, at the time of the report, there was only limited information available on staff numbers and data held centrally by the Welsh Government did not allow robust workforce planning. Following an assessment of potential sites and locations, the Welsh Government decided to build three new offices, in Merthyr Tydfil, Aberystwyth and in Llandudno Junction.



- 6** The Welsh Government did not fully evaluate the alternatives to establishing three large new regional offices, and therefore it is unclear whether alternative options would have provided better value for money. Although the *Relocation Strategy* report did not include options for how the relocation of posts from Cardiff should be delivered, the Welsh Government subsequently did not fully consider alternative options to constructing the three new offices. The Programme's Strategic Business Case, developed in 2004, included a brief assessment of some alternative options, but it did not appraise the costs and benefits of the alternatives to setting up three new regional offices, as recommended in HM Treasury's Green Book.<sup>1</sup>
- 7** Financial appraisals were generally robust but the Welsh Government under-estimated how much the Programme would cost to deliver. Each of the three construction projects cost more to deliver than had been originally estimated in the business cases, with the total estimated cost of the Programme over 20 years rising from £137.4 million in 2004 to £171 million in 2006. We found that at no stage was there a reassessment to confirm that the construction of three regional offices remained the best option. A reassessment of options might have proved particularly beneficial when the Welsh Government Sponsored Bodies merged with the Welsh Government in 2006 and when the Llandudno Junction office project was paused in September 2007. However, following selection of the sites for the new offices, the Welsh Government did carry out financial appraisals of the costs and benefits of each of the new buildings, although the appraisals did not include sufficient allowance for optimism bias, construction inflation, and subsequent changes to the specification.
- 8** **The Welsh Government did not establish effective governance over the Programme until 2008.** A *Gateway review*<sup>2</sup> in April 2003 found weaknesses in the governance of the Programme. In July 2003, the Welsh Government revised its governance arrangements and made human resources a central part of the Programme, to ensure that the new offices met the needs of customers, and the functions and staff based in each building. The division of the Programme into discrete projects in this way was in-line with good practice.
- 9** Successive Gateway reviews between 2005 and 2008 identified further inadequacies with governance. Following the 2008 review, which was highly critical of the Programme's governance, the Welsh Government reorganised the Programme Board, resulting in more integrated and balanced programme delivery via project teams containing the right skills. For individual projects and for the Programme as a whole, the Welsh Government strengthened the application of project management techniques and produced documents identifying the lessons that they had learned.
- 10** **In its first 10 years the Location Strategy Programme has cost more than £91 million to deliver but, in the absence of robust estimates of the total cost of the Programme, it is difficult to determine whether it was delivered in a cost-effective way.** We estimated that the Welsh Government spent more than £91 million on the Programme between 2002 and 2011. However, we found no robust estimates of the total cost of delivering the Programme, and the Welsh Government did not routinely monitor and report overall programme expenditure until changes were made to

<sup>1</sup> The Green Book is HM Treasury guidance for the appraisal and evaluation of all policies, programmes and projects. It sets out the key stages in the development of a proposal from the articulation of the rationale for intervention and the setting of objectives, through to options appraisal and, eventually, implementation and evaluation.

<sup>2</sup> *Location Strategy Gateway Review*, Welsh Government, 2003



the governance of the programme in 2008. The Welsh Government's most recent estimate of the total cost of the Programme, in August 2008, was £85.6 million. Although monitoring of the costs of each construction project improved from 2008, without a robust estimate of the total cost of the Programme at the outset, it is not possible to determine the extent to which the Welsh Government's expenditure of £91.5 million represented good value for money.

**The Welsh Government delivered the new office buildings to the expected quality and within contracted costs, but had difficulty in relocating posts to the new offices**

- 11 The Welsh Government delivered the new office buildings to the expected quality and within contracted costs.** Due to a lack of capital funding, the Welsh Government decided to fund the Merthyr Tydfil office project through a more expensive lease-purchase agreement. In May 2004, and without having explored other options such as sharing office accommodation or using an existing building, the Welsh Government entered into a lease purchase agreement at a cost of £1.3 million per year, for 15 years with effect from December 2006. Following the completion of the lease purchase agreement, the total cost of the Merthyr Tydfil project is expected to be £29.3 million, £400,000 under budget. The Welsh Government will acquire the building in 2021, at the end of the lease, for a nominal sum of £1.
- 12** The Welsh Government delivered the Aberystwyth construction project on time and under the contract target cost of £20.8 million. In 2004 the business case for the project had estimated a project cost of £12.4 million, but this estimate pre-dated the tender exercise and was not based on any detailed design, but extrapolated from the Merthyr Tydfil projects

costs. At the early stages of the project, the Welsh Government and Ceredigion County Council agreed a joint procurement exercise to design and build two offices next to each other. Although the OJEU<sup>3</sup> advert in December 2005 did not include an estimated cost, and the design of both buildings was in outline only, the Council and the Welsh Government estimated that each building would cost around £13.5 million.

- 13** In September 2006, when the Welsh Government and the Council each awarded their design contract to Carillion, the estimated cost of the Welsh Government's building, again based on an incomplete design, was £14.7 million. However, as the design developed further, the estimated construction cost of each building increased towards £20 million. In June 2007, the Council decided that building to Carillion's design was unaffordable, and appointed a different contractor to construct its offices to a significantly reduced specification. The Council's offices were completed in June 2009. The Council told us that the final construction cost was £15.4 million.
- 14** The Welsh Government remained contracted to Carillion, continuing with a larger and more highly specified building than the Council had procured, and agreed a target price of £21 million. Carillion completed the Welsh Government's offices in July 2009, for £20.8 million.
- 15** The Welsh Government commissioned a review to compare the cost of constructing its new offices with the cost of the offices built on behalf of Ceredigion County Council. However, the review team had no access to any source data on either the specification for or final cost of building the Council's offices, and had to base its comparison on observations made during site visits. The

<sup>3</sup> Official Journal of the European Union is published online and contains notices including invitations to tender, prior information notices, qualification systems and contract award notices.





review concluded that most of the difference in cost was attributable to differences in the design. However, because it had only limited access to the Council's costing information, the review was unable to quantify the value of the design differences.

- 16** After a difficult start, the Welsh Government decided to re-procure the contract for the Llandudno Junction office, which resulted in a reduced projected cost of the project of about £10 million. In May 2006, the Welsh Government awarded a professional services contract for the design of the Llandudno Junction offices, with the construction contract to be negotiated after the design had been completed. The estimated cost of the construction contract at that time was £13.5 million. Following completion of the design, the Welsh Government's cost consultants estimated the cost of the building and all the fixtures and fittings to be more than £30 million and that the project would take an extra 30 weeks to deliver. The Welsh Government found that numerous design changes and enhancements to the specification, together with its own lack of coordination of the design process, had contributed to the increase in estimated cost and the extended project timetable.
- 17** In September 2007, following the conclusion of the professional services contract for the design of the building, the Welsh Government decided not to award the construction contract to the incumbent contractor. Following a pause and review and a re-procurement exercise, in October 2008 the Welsh Government awarded a design and build contract to a new contractor at an estimated cost of £20.8 million. The contract offered greater cost certainty to the Welsh Government, and the contractors completed the project in April 2010 for £20.78 million.
- 18** **The Welsh Government had difficulty relocating posts to the new offices.** The Location Strategy Programme covered a period of administrative change within the Welsh Government. For example, in April 2006, four Welsh Government Sponsored Bodies merged into the Welsh Government<sup>4</sup> increasing the number of staff by 1,400 and substantially increasing the size of the estate. As a consequence of the mergers, the Welsh Government increased the size and capacity of its Llandudno Junction and Aberystwyth offices. Other changes, including departmental restructuring and reductions in staff numbers through voluntary severance, also had an impact on the Welsh Government's ability to relocate posts and staff as planned.
- 19** Staff were widely consulted over the parts of the Strategy that could have an impact on them, although the consultation led to some additional costs and delays in the design of the Aberystwyth building. Methods used to consult with staff included meetings, site visits, questionnaires and viewing models of the proposed offices. Senior managers also involved staff in naming meeting rooms and choosing artwork, and held one-to-one discussions with staff identified for relocation.
- 20** The Welsh Government's relocation of two divisions to the Merthyr Tydfil office led to almost full occupancy, but the costs were significant. In January 2007, 451 employees moved into the new office, with 79 per cent of staff transferred from offices in Cardiff. The total cost of the Merthyr Tydfil project included £2.9 million on staff relocation packages, £2.1 million of which was for excess fares. The Welsh Government decided that, as there was so much resistance from staff due to move from their Cardiff offices to Merthyr Tydfil, it would subsidise excess transport fares for five years rather than the standard three-year period.

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<sup>4</sup> The Welsh Development Agency, Welsh Tourist Board, Education and Learning Wales and the Qualifications, Curriculum and Assessment Authority for Wales.

**21** There were particular difficulties in relocating posts to Aberystwyth and Llandudno Junction because of constant changes in the posts and the number of staff expected to relocate. However, occupancy of both the Aberystwyth and Llandudno Junction offices has increased over time. As at December 2013, the Aberystwyth office had 392 occupants (70 per cent occupancy on the basis of eight workstations to 10 people) and the Llandudno Junction office had 571 occupants (88 per cent occupancy on the basis of eight workstations to 10 people).

**22** One of the main reasons why fewer posts relocated to the Aberystwyth and Llandudno Junction offices at the time the buildings were opened was that more than 1,000 employees left the Welsh Government through voluntary severance. Other reasons included the re-organisation of divisions and departments, changes of mind about whether or not some posts needed to remain in Cardiff and a lack of engagement and urgency from officials and departmental leads in identifying and moving posts. To address the significant level of under-occupancy in Llandudno Junction, the Welsh Government has agreed for the Student Loans Company to occupy some of the available space.

**Although fewer employees than planned have relocated and the Welsh Government is no longer monitoring all benefits, the Location Strategy Programme has provided a range of benefits**

**23** The Programme has increased the percentage of staff working outside Cardiff, but the Welsh Government has not relocated as many employees as planned. In 2011, the Welsh Government changed its target from 'the number of staff transferred to the new offices' to 'increasing the percentage of posts located outside Cardiff', and set the target that 60 per cent of posts should be located outside Cardiff by 2012.<sup>5</sup> As at April 2012, 53 per cent of Welsh Government posts were located outside Cardiff. Although less than the target set, the proportion of posts located outside Cardiff is a significant increase from the 2002 baseline of 23 per cent. When occupancy rates were low, the unit costs (per full-time equivalent staff member) of the Aberystwyth and Llandudno Junction offices were considerably higher than the average for the Welsh Government's estate as a whole.

**24** The Welsh Government did not develop robust arrangements to realise the benefits of the Programme until 2009, and is no longer monitoring the realisation of all continuing benefits. The Welsh Government set out the potential benefits of the Strategy Programme in a number of documents. However, the benefits listed in these documents were markedly different from each other, and during the first six years of the Programme the Welsh Government did not have an approach to managing the realisation of benefits that was in line with good practice. A Gateway Review in 2008 identified a lack of ownership of the Programme's benefits management process.

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<sup>5</sup> The Welsh Government's target for the number of staff transferred to the new offices was 400 at the outset of the Location Strategy in 2002. The Welsh Government changed the target in the Full Business Case in 2008 to 800 staff transferring. However, in 2011 the Welsh Government changed the target to increasing the percentage of posts located outside Cardiff, seeking to raise this from 23 per cent in 2002 to 60 per cent in 2012.



In 2009, in response to the review, the Welsh Government improved its approach to benefits management. However, we found that the Welsh Government is no longer systematically capturing and reporting all of the benefits of the Programme, including some that are likely to continue to be realised into the future.

- 25 The Location Strategy Programme has provided a range of benefits.** As well as providing a range of benefits for staff, the public and the environment, in 2011 Bangor University estimated that the net economic impact of the Programme was more than £150 million over the period from the start of construction to 2015. However, the estimate did not take into account the negative economic impact in locations where staff had transferred from or where Welsh Government offices had closed because of the Programme.
- 26** Although it was not an original aim of the Location Strategy, the Programme has contributed to the rationalisation of the Welsh Government's estate, with some offices closing as staff relocated into the three new buildings. During the course of Programme, the Welsh Government reduced the size of its estate by 60 per cent, to 41 properties. Through the Location Strategy 2 programme, the Welsh Government aims to reduce the estate further, to just 13 core office properties<sup>6</sup> by April 2015.
- 27** The Welsh Government took the opportunity offered by the facilities management needs of its new office buildings to rationalise the 109 facilities management contracts that previously existed across Wales. Facilities management for the whole estate was rationalised into seven contracts, generating an estimated £1 million efficiency savings over three years.
- 28** Each new office has achieved the BREEAM 'Excellent' rating for environmental performance, providing a potential for saving on energy costs. The environmental performance of the new offices, when considered with the rationalisation of the estate, means that the Welsh Government has delivered against its sustainability objectives for the Programme. The Welsh Government told us it has improved green travel options from Cardiff to Merthyr Tydfil and put in place green travel plans for its Aberystwyth and Llandudno Junction offices, but it has not evaluated the impact of these plans.
- 29** Both the Aberystwyth and Llandudno Junction offices have provided public access areas known as 'Y Bont', to facilitate community engagement and public access to information. Up to May 2011, 115,367 people had visited Y Bont facilities in the Aberystwyth office and 43,728 had visited a similar facility in the Llandudno Junction office. No comparable facilities are provided at the Merthyr Tydfil office.
- 30** One of the aims of the Programme was to provide a better working environment for staff. The Welsh Government surveyed staff who had relocated and found that staff were generally content with the new offices which provided modern, flexible working environments.

<sup>6</sup> Offices where there is a long-term commitment.

## Recommendations

- 31** The Welsh Government delivered the Location Strategy Programme over a nine-year period. During this period the programme and project management arrangements of the Welsh Government have progressively improved, such as through the application of the Five Case Business Model, which HM Treasury developed and incorporated into the Green Book.
- 32** As a stimulus for some of this improvement, in recent years the Wales Audit Office has published a number of reports on major capital projects.<sup>7</sup> These reports, and the associated reports of the National Assembly's Public Accounts Committee, included recommendations that would also have been relevant to the Location Strategy. Included were recommendations on estimating project costs (including allowing for optimum bias), producing detailed specifications, learning and disseminating lessons, using gateway reviews, and assembling project teams with the right mix of skills and personalities. In addition to the recommendations of previous reports that are applicable also to the Location Strategy Programme, we have identified some areas for further improvement.

## Options and financial appraisals

- 33** HM Treasury's Green Book guidance on the appraisal and evaluation of programmes and projects was available from the early stages of the Location Strategy Programme. However, in developing the Programme to fulfil the Strategy's objectives, the Welsh Government did not undertake a full appraisal of alternatives to building three new offices.
- R1** **The Welsh Government should strengthen the way it identifies and appraises options to inform key decisions on how its strategic objectives should be delivered. In particular the Welsh Government should:**
- a** undertake option appraisal and cost-benefit analysis in line with Green Book guidance for all major programmes and projects; and
  - b** revisit option and financial appraisals at key stages, such as when major changes to a programme or project takes place, to check that the chosen option continues to offer the best value for money.

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<sup>7</sup> *The Senedd* (2008); *Funding for the Wales Millennium Centre* (October 2008); *Major Transport Projects* (January 2011); and *The delivery of ICT services and ICT projects under the Merlin contract* (August 2011).



## Governance and programme and project management

**34** Until major changes were made to the governance of the Programme in 2008, the Programme Board did not exercise adequate strategic overview and scrutiny of the Programme. In particular, the Programme Board did not receive the financial information it needed to exercise effective financial control.

### **R2** The Welsh Government should make sure that:

- a** major projects and programmes are subject to effective strategic overview and scrutiny, and that robust governance and financial controls are in place; and
- b** the terms of reference of major project and programme boards include the frequent and regular monitoring and review of estimated costs against budgets so that they can make timely interventions.

**35** Although there were weaknesses during the Programme's early stages, programme management subsequently improved as the Welsh Government strengthened the governance of the Programme, resulting in a more joined-up approach to programme delivery through project teams of staff who had the right skills.

### **R3** In determining how to manage larger programmes and projects, the Welsh Government should follow the example set in the latter stages of the Location Strategy Programme by ensuring the right mix of skills within programme and project teams.

## Benefits realisation

**36** Until 2008, the Welsh Government's approach to benefits management was inadequate. There was a lack of clarity about anticipated benefits, and baseline data against which to measure achievements had not been collected and agreed. Although some benefits were difficult to quantify, even after 2008 the Welsh Government could have improved aspects of its benefits management.

### **R4** At the outset of any programme or project, the Welsh Government should make sure that the anticipated benefits are clearly established, realistic and deliverable. In addition, the Welsh Government should compile a benefits realisation strategy to support the delivery of benefits. The strategy should include:

- a** identifying at the outset clearly-defined benefits which are linked to strategic objectives;
- b** maintaining throughout the duration of the programme or project a clear and consistent understanding of the expected benefits;
- c** managing the delivery of these benefits, where possible measuring progress against robust baseline data, steering projects and programmes to realise the benefits identified, and taking advantage of opportunities to enhance benefits;
- d** ensuring business areas are committed to realising the benefits allocated to them;
- e** engaging relevant stakeholders so that they own and support the delivery of benefits;

- f** undertaking robust and evidence-based analysis of the benefits achieved, including the wider impact of the programme or project; and
- g** continuing to monitor and analyse the benefits for a sufficient period after programme or project closure, to allow the full impact of benefits to be recognised.

### **Public access areas**

**37** The number of visits by members of the public to the Welsh Government's offices in Aberystwyth and Llandudno Junction suggest that the 'Y Bont' facilities have had some success in making the Welsh Government more accessible to the public. There is no such public access area at the Merthyr Tydfil office.

**R5** **The Welsh Government should evaluate the extent to which the 'Y Bont' facilities in the Aberystwyth and Llandudno Junction offices have successfully increased the public's engagement with, and awareness of, the Welsh Government. If the evaluation is positive, and if it is practicable and cost-effective to do so, the Welsh Government should introduce 'Y Bont' facilities at the Merthyr Tydfil office.**





## Part 1 – The Location Strategy had clear objectives, but the Welsh Government did not establish effective governance arrangements until 2008 and underestimated the cost of the Programme

**The Welsh Government had a clear objective to increase the proportion of staff working outside Cardiff, but workforce planning was hampered by limitations in the information on staff numbers, limited consideration was given to accommodation options, and the costs of the Programme were underestimated**

**In 2002, the Welsh Government made a policy decision to increase the proportion of staff working outside Cardiff, but the option chosen to develop three new offices and relocate 400 posts from Cardiff was not supported by robust workforce planning**

- 1.1** In October 2001, the Welsh Government's Cabinet agreed a set of principles to underpin a review of the location of its office accommodation in Wales. The review had the overall policy objective of reducing the proportion of the Welsh Government's staff located in Cardiff and increasing the proportion of staff located in other parts of Wales. The principles were to:
- a** deliver services closer to customers;
  - b** improve operational efficiency and effectiveness;

- c** provide policy advice to Ministers;
- d** accommodate the wishes of staff;
- e** achieve local economic impacts;
- f** achieve value for money; and
- g** promote sustainable development.

- 1.2** Between October 2001 and April 2002<sup>8</sup>, the Welsh Government evaluated its estate and future accommodation requirements and in August 2002, produced the *Relocation Strategy* report. The purpose of the report was to provide recommendations to Cabinet on the relocation of posts from Cardiff. The report proposed a strategy and programme for the relocation from Cardiff of a minimum of 400 existing Cardiff-based Welsh Government jobs across a range of grades by 2007, with the possibility of further decentralisation after 2007.

- 1.3** In August 2002, the First Minister and the Minister for Finance, Local Government and Communities agreed that the Welsh Government should implement the recommendations of the *Relocation Strategy* report, and the Welsh Government's Cabinet endorsed the Strategy in October 2002. The *Relocation Strategy* report subsequently became the Welsh Government's *Relocation Strategy*, later renamed as the *Location Strategy*. The Welsh Government delivered the *Location Strategy* through the *Location Strategy Programme* ('the Programme').

<sup>8</sup> *Relocation Strategy 2002 – 2007*, Welsh Assembly Government, 2002

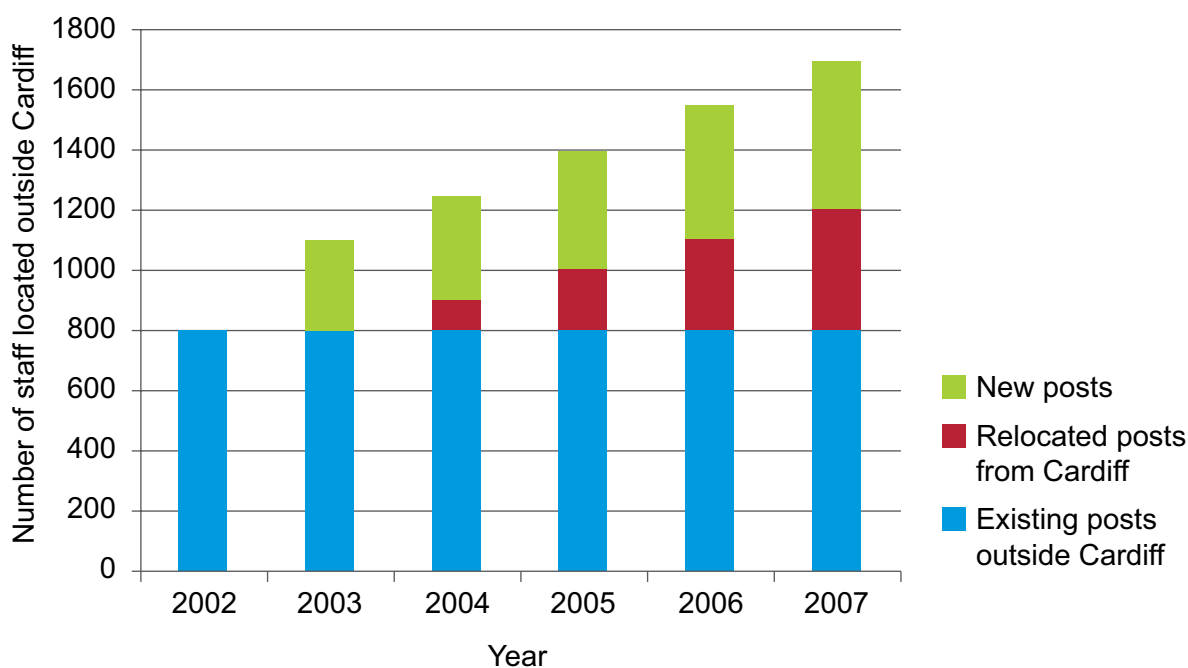
**1.4** At the time of the *Relocation Strategy* report, the relocation of 400 posts represented more than 15 per cent of the posts located in Cardiff. Subsequently, the target number of posts relocating from Cardiff increased to 700 in the 2004 Strategic and Outline business cases, and then to 800 in the 2008 Full Business Case.

**1.5** The *Relocation Strategy* report claimed that if the number of posts in Cardiff remained static, by 2007 nearly half (43 per cent) of all of the Welsh Government's posts would be located outside Cardiff, compared to 23 per cent in 2002. The Programme anticipated that by 2007 the number of posts outside Cardiff would total 1,700, consisting of 800 existing posts, 400 posts relocated from Cardiff, and an estimated 500 new posts created by predicted growth in the work of the Welsh Government (Figure 1).

**1.6** The decision to relocate posts from Cardiff was consistent with the Welsh Government's broader policy in the years following devolution to decentralise services from Cardiff and bring them closer to the people of Wales. We found no evidence of any detailed underpinning workforce planning to determine the nature, extent and location of future accommodation needs, the number of posts to relocate outside Cardiff, or the likely number of new posts. The Welsh Government told us that robust workforce planning was not possible at the time of the *Relocation Strategy* report because only limited information on staff numbers was available.

**1.7** The *Relocation Strategy* report made 23 recommendations to bring about a more geographically dispersed organisation (Appendix 3). As well as recommending the number of posts to move out of

**Figure 1 – Projected cumulative staff numbers located outside Cardiff**



Source: Welsh Government Relocation Strategy, 2002



Cardiff, the report made a number of other recommendations that would shape the Programme as it developed over subsequent years. These included:

- a** The Assembly should acquire three new offices in North, Mid and South Wales, each accommodating at least 300 members of staff, in areas of relative economic disadvantage (such as Objective 1 areas).
  - b** The implementation of the strategy should be 'accommodation led'<sup>9</sup>.
  - c** Work should be moved to locations that reflected the nature of the work or contain the main customer base. For example, staff working on rural policy should be located in an area with a large rural and farming community.
  - d** Accommodation should aim to achieve the appropriate BREEAM standard<sup>10</sup>.
  - e** Unless there are strong operational reasons otherwise, all functions new to the Assembly should be based outside Cardiff.
  - f** Offices should have reception facilities and the public should have access to the Welsh Government's information sources on a 'drop-in' basis.
  - g** Some rationalisation of office space in Cardiff should take place, concentrating almost all Welsh Government activity within the Cathays Park offices in the longer term (post 2007).
- 1.8** By October 2002, Welsh Government officials had identified an opportunity to locate the South Wales office at the Rhydycar Business Park in Merthyr Tydfil. This followed a commercial assessment of possible sites, with Ministers selecting Merthyr Tydfil because the site could potentially aid social and economic regeneration in the South Wales Valleys Objective One area. The Merthyr Tydfil site was also of sufficient size to locate a building to accommodate 300 staff, with room for future expansion.
- 1.9** Between October 2003 and February 2004, the Welsh Government identified three possible sites in the Ceredigion area for the Mid Wales office and eight potential sites for the North Wales office. Officials evaluated each site against six key criteria:
- a** accessibility of the site for new and existing staff;
  - b** environmental considerations;
  - c** transport links;
  - d** economic development potential;
  - e** quality of the site (for example, in terms of ground conditions, engineering issues and current use); and
  - f** value for money.
- 1.10** In February 2004, the Welsh Government began negotiations to acquire the site for the Mid Wales office at Parc y Llyn, Aberystwyth, and concluded these negotiations in March 2004. The Welsh Government short-listed two sites for the North Wales office: a site at Conwy for development in partnership with Conwy County Council, and a site at Llandudno Junction. However, the Council decided against redeveloping its offices at Conwy, making this site unavailable, and the Welsh Government chose the site at Llandudno Junction for the new office.

<sup>9</sup> An accommodation-led strategy focuses primarily on property acquisition with the functions, people and business change aspects to follow-on afterwards. For the Location Strategy, the Minister for Finance, Local Government and Communities wanted an accommodation-led approach in order to implement the Programme as quickly as possible (Merthyr Tydfil Project Assurance Review, September 2003).

<sup>10</sup> BREEAM is an environmental assessment and rating system for buildings.

**The Welsh Government did not fully evaluate the alternatives to establishing three large new regional offices, and therefore it is unclear whether alternative options would have provided better value for money**

**1.11** HM Treasury's Green Book provides good practice guidance on how to appraise the costs and benefits of investment proposals. The Green Book suggests identifying likely options for delivering a policy objective and then undertaking a systematic assessment and financial appraisal of each option. This assessment should include setting out the cost of each option and, where reasonable, quantifying the benefits in financial terms. Options to be appraised should include a 'do nothing' option to test the effect of not proceeding with an investment. After selecting a preferred option, the financial appraisal should refine the costs and benefits of the proposal as the project progresses and more detail becomes available.

**1.12** The *Relocation Strategy* report recommended the acquisition of three new regional offices. However, the report did not include options for how the relocation of posts from Cardiff should be delivered. We also found that, in response to the recommendations of the *Relocation Strategy* report, the Welsh Government did not fully identify or evaluate any alternatives to this proposal. In May 2004, the Welsh Government developed a Strategic Business Case that identified some different options for delivering its policy objectives. However, by then the Welsh Government had already advanced its negotiations to develop new office buildings in Merthyr Tydfil, Aberystwyth and Llandudno. The options identified in the May 2004 Strategic Business Case were to:

- a** do nothing;
- b** develop several smaller offices across Wales;
- c** expand existing offices across Wales;
- d** deploy greater access to information and communication technology equipment and desktop video conferencing facilities;
- e** use public buildings on a 'drop-in' basis;
- f** examine co-occupancy in existing public buildings like local authority or health service properties; and
- g** establish a number of large offices of sufficient size and physical presence that they would make a noticeable impact and have a unique identity.

**1.13** The Strategic Business Case rejected the option to do nothing because of 'corporate, reputational, financial, directional, cultural, political and legal risks', but it did not specify what these risks were or how they had been evaluated. Other options were dismissed for various reasons, including poor economic benefits; lack of career opportunities; insufficient staff relocation; loss of identity for the Welsh Government; and insufficient visible impact from the Programme.

**1.14** The options appraisal set out in the Strategic Business Case was cursory and was unsupported by any financial analysis of relevant costs and benefits. The Welsh Government had already decided to commission the construction of three new offices, and the options appraisal was retrospective and did not inform the investment decision, as it should have.



**1.15** The Welsh Government reviewed the business case for the Location Strategy several times between 2004 and 2009, making some changes to proposals. An example of such a change was to increase the size of the Llandudno Junction office to accommodate additional staff from the Welsh Government Sponsored Bodies when they transferred into the Welsh Government in 2006. However, at no point during the near 10 years of the Programme did the Welsh Government re-appraise its decision to relocate operations outside Cardiff at the three new offices.

**1.16** The merger of Welsh Government Sponsored Bodies into the Welsh Government in 2006 was a major change that significantly increased the number of staff and properties of the Welsh Government. The merger represented a missed opportunity for the Welsh Government to re-assess whether the original approach was still appropriate or whether other options, such as using existing offices within its expanded estate, would have provided better value for money. The Welsh Government also missed an opportunity to re-appraise its options during the pause and review of the Llandudno Junction office project in September 2007, and when the Programme received a critical Gateway review in July 2008.

### **Financial appraisals were generally robust but the Welsh Government under-estimated how much the Programme would cost to deliver**

**1.17** The financial appraisal set out in the 2004 Strategic Business Case valued the net present cost<sup>11</sup> of the preferred option for the Location Strategy at £25.2 million. This figure comprised net costs of £137.4 million against benefits of £112.2 million over a 20-year period (Figure 2). The appraisal followed the guidance in the Green Book, and included all the main foreseeable costs and a reasonable estimate of the benefits that were likely to flow from the programme. Over time, the Welsh Government amended the financial appraisals as costs and benefits became clearer. The Welsh Government used these appraisals to select between financing options for each site, including options to purchase outright or to lease each office.

**1.18** The Strategic Business Case included some sensitivity analysis,<sup>12</sup> but only of the impact on costs and benefits of changes in the size of the buildings to accommodate a larger number of staff. Later versions of the business case also modelled the impact of lower than expected receipts from rationalising the Welsh Government's estate.

<sup>11</sup> Net present cost is the result of a financial appraisal of all relevant costs over a project's lifetime (at least 20 years for buildings) and deducts any savings and other quantifiable financial benefits expected over the same period, all at current day prices.

<sup>12</sup> Sensitivity analysis is a key element of robust investment appraisals and used to test the vulnerability of options to unavoidable future uncertainties. The calculation shows by how much a variable would have to fall (if it is a benefit) or rise (if it is a cost) to make it not worth undertaking an option.



**Figure 2 – Costs and benefits for the Location Strategy Programme as at May 2004**

Net present value/cost of the Location Strategy over 20 years from the start of the programme, based on the Strategic Business Case approved in May 2004

Item	Benefit/(cost) (£m)	
	Unit Cost	Total Cost
<b>Costs</b>		
Net set-up cost	26.1)	
Net recurrent costs	(111.3)	
<b>Total costs</b>		<b>(137.4)</b>
<b>Benefits</b>		
Increased local wealth through Welsh Government relocated posts (individual disposable income)	60.3	
Additional speculative development around selected site in Merthyr Tydfil	12.6	
<b>Total Economic regeneration benefits</b>		<b>72.9</b>
Remove the need for further accommodation in Cardiff	10.3	
Rationalise surplus, redundant and non-compliant premises across the Welsh Government estate	8.0	
5% reduction in new building running costs	0.8	
<b>Total other benefits</b>		<b>19.1</b>
<b>Residual asset value of new offices</b>		<b>20.2</b>
<b>Net present value/(net present cost)</b>		<b>(£25.2m)</b>

Source: Strategic Business Case for the Location Strategy Programme, Welsh Government, May 2004

**1.19** The financial appraisals included a general contingency of 15 per cent to cover increases in capital and running costs during the first five years of the appraisal period. However, the Green Book suggests that cost over-runs are often much higher than this for capital projects and recommends that additional contingency should be built into estimates to allow for what is known as ‘optimism bias’ (Box 1).

**1.20** Additional security requirements and a desire for excellence in design and environmental performance introduced specialist elements to the construction projects that increased the risk of cost escalation. Based on the guidance in the Green Book, we consider that the financial appraisal should have allowed for more optimism bias.

**Box 1 – Optimism bias**

There is a well-documented tendency to under-estimate the costs and overstate the benefits of projects, and the Green Book recommends specific adjustments to account for this effect. This under-estimation is termed ‘optimism bias’, and is based on experience and research of the type of project under consideration. Construction costs are more likely to be under-estimated than running costs, and the risk of cost escalation is higher for specialist buildings than for standard construction.

Mott McDonald (*Review of Large Public Procurement in the UK*, HM Treasury, 2002) recorded average optimism bias of 24 per cent for a sample of large standard construction projects, and 51 per cent for specialist buildings.

Source: The Green Book, HM Treasury, 2003





**1.21** In the event, the cost of delivering each project turned out to be considerably more than the Welsh Government had estimated in its financial appraisal. The Welsh Government increased its estimate of the total 20-year programme costs from £137.4 million in the Strategic Business Case in 2004, to £171 million in an investment appraisal undertaken two years later as part of an updated Outline Business Case. Although this adjustment suggests a more realistic assessment of optimism bias, some of the increase was due to capacity changes to the North Wales office to accommodate staff transferred from the merged Welsh Government Sponsored Bodies.

## The Welsh Government did not establish effective governance over the Programme until 2008

### Gateway reviews found significant weaknesses in governance during the first five years of the Programme

**1.22** From the beginning of the operational stage of the Programme in March 2003, the Welsh Government sought to establish sound leadership and a robust decision-making and programme management structure. Although the Welsh Government had determined that the Strategy should be accommodation led, a Gateway Review 0 (Box 2) in April 2003 classified the programme as Amber, and identified concerns that the Programme was far wider reaching than just the provision of accommodation, and that successful delivery of the Programme was at risk. In particular, the review highlighted risks associated with identifying posts to move, how posts moving would affect staff and how to compensate the staff who relocated. The review also noted risks in managing business change and ineffective management of opportunities and

risks because the Programme had made slow progress and made little use of good practice. In addition, at that time there was no estimate of the total cost of delivering the Programme.

#### Box 2 – Gateway reviews

OGC Gateway reviews are reviews of an acquisition programme or procurement project carried out at key decision points by a team of experienced people, who are independent of the project team. Gateway 0 is a review carried out throughout the life of a major programme that investigates the direction and planned outcomes of the programme, together with the progress of its constituent projects. The team undertake Gateway 0 reviews over the life of the programme at key decision points. The status of the programme is measured as:

- Red - successful delivery of the programme appears to be unachievable;
- Amber/Red - successful delivery of the programme is in doubt with major risks or issues apparent in a number of key areas;
- Amber - successful delivery appears feasible but significant issues already exist;
- Amber/Green - successful delivery appears probable however constant attention will be needed; or
- Green - successful delivery of the programme to time, cost and quality appears highly likely.

**1.23** In July 2003, Ministers revised the Programme's governance to ensure greater consideration of human resource matters, including the identification of the posts to relocate and how the Welsh Government should recruit to the relocated posts that were vacant. The revised governance arrangements included the establishment of a Programme Board, chaired by a Programme Director, with the remit of providing support and scrutiny to facilitate effective decision making, and a Programme Manager and Programme Management Office Team to deliver the Programme's objectives. The redesigned Programme comprised the three major construction projects, at Merthyr Tydfil, Aberystwyth and Llandudno Junction, and several associated 'client' projects (Appendix 4).

**1.24** Although the Welsh Government strengthened its governance arrangements for the Programme in 2003, subsequent Gateway 0 Reviews in July 2005 and July 2006 also found inadequacies with governance, and gave the programme Red and Amber status respectively. The Welsh Government responded to the recommendations made by each of the reviews, but changes to the Programme were not always evident and their effectiveness was uncertain. For example, the 2006 review recommended the development of contingency plans to manage the cost and business continuity implications of delays in recruiting to vacant posts relocated to the new offices, and delays to staff re-allocation where the post has moved to one of the new offices but the post holder had not. However, we found no evidence to suggest that the Welsh Government had developed and implemented these contingency plans even though the response to the recommendation had said that it would.

### **Following a highly critical Gateway review in 2008, the Welsh Government made significant changes that strengthened the governance of the Programme**

**1.25** In July 2008, the Welsh Government commissioned a fourth Gateway 0 Review that identified the need to strengthen further the governance of the Programme. The review gave the Programme a 'Red' status, and warned of the need for immediate action to address the shortcomings identified.

**1.26** The main weakness identified by the review was that the Programme Board was not providing effective strategic direction or challenge, and was not functioning optimally as a decision making body. In particular, the Programme Board was receiving poor quality information, including on the costs of the Aberystwyth and Llandudno Junction

construction projects and for the Programme overall. Roles and responsibilities within projects were also unclear and there was a deteriorating working relationship between the Programme Management Office and the construction project teams, leading to the poor management of risks within the Programme. In addition, the Senior Responsible Owner did not have full-time responsibility for the Programme, leading to delays in decision-making and programme delivery.

**1.27** The Welsh Government responded to the 2008 Gateway Review in autumn 2008 by bringing in a new full-time Programme Director and a new Programme Manager. The Programme Director reported to the Senior Responsible Owner, and had extensive experience in delivering construction projects, having previously managed the construction of the National Assembly for Wales' Senedd building.

**1.28** The Programme Manager recommended reorganisation of the Programme Board to improve decision-making, and the appointment of two non-executives to provide external challenge. The Programme Manager also oversaw changes in the Programme's governance arrangements so that each project had its own project board, and re-organised the programme team into four key areas for delivery of standards and risk; business change and benefits; money and procurement; and communications. The re-organisation also brought together the construction and human resource elements of the Programme under the same management (**Figure 3**). Our interviews with Welsh Government officials and private sector contractors involved in the Programme indicated that the governance changes had resulted in a more integrated and balanced approach to programme management and delivery.



**Figure 3 – Location Strategy programme governance structure post 2008 Gateway Review**



Source: Welsh Government

**1.29** In June 2009, the Welsh Government commissioned a further Gateway 0 Review, which found that the changes to governance made since the previous review had been effective and gave the Programme an Amber/Green rating. The review also found that improvements to the management of the Programme had contributed to the 'remaining projects being on track to deliver' to the current timescales.

**1.30** Although the Programme still had a complex governance structure, Location Strategy project managers and other Welsh

Government officials involved in delivering the strategy considered that the arrangements mostly worked well and that, when required, changes were made. The Programme generally followed good practice by initiating the appropriate Gateway reviews that provided an independent, external review of the business case and the investment decision. In addition, the Gateway Review 5 on benefits realisation undertaken in July 2011, which rated the programme Amber/Green, was the first such review carried out by the Welsh Government on any project or programme.

**1.31** The significant changes made to the Programme following the 2008 Gateway Review 0 and subsequent turnaround of what was described in the 2009 review as a previously ‘failing situation’, are testament to the usefulness of Gateway reviews and the value of a robust response to them. The findings and impact of the Gateway reviews highlight the need for regular independent external challenge and review during the delivery of major projects and programmes.

### **Programme and project management significantly improved from 2008**

#### **The Programme used established project and programme management techniques, but until 2008 there were significant weaknesses in their application**

**1.32** The Location Strategy sought to apply established good practice project and programme management techniques<sup>13</sup> throughout the design and delivery of the Programme. However, Location Strategy project managers told us that there were weaknesses in the application of these techniques, and they were not used to their full potential.

**1.33** It was not until 2008, following the restructure of the Programme’s governance, that the majority of the Programme team received training in the use of the particular programme and project management techniques being used. The training facilitated a common approach to programme and project management across the team. Several of the Welsh Government officials trained in these techniques told us that the training had brought immediate benefits to the Programme. These included viewing the Location Strategy as an integrated programme rather than a

collection of individual projects, which had been a criticism of the first phase of the Programme.

#### **Following the 2008 Gateway Review 0, the Welsh Government took steps to ensure that their programme and project teams employed the right people with relevant skills**

**1.34** Good practice advises that it is important to invest time in forming the right project teams. In particular, it is important to assess the quality and experience of individuals and their ability to work together as part of an integrated project team, and to establish project teams at the earliest possible stage.<sup>14</sup>

**1.35** We asked officials who were involved in delivering the Programme what they thought were the main factors associated with the success of the Location Strategy. More than half said that following the 2008 Gateway Review 0 and the subsequent changes to the Programme’s governance, the Welsh Government placed a greater emphasis on developing project teams with the right people who had the right skills, enthusiasm and commitment. The lessons learned report for the Llandudno Junction office project also highlighted that having the right combination of roles, cross sector skills and experience enabled successful project delivery. The 2009 Gateway Review 0 identified the project teams as a particular strength of the Programme, indicating the improvements achieved in this area by the Welsh Government.

**1.36** Following the 2008 Gateway Review 0 and the introduction of new governance arrangements, the Welsh Government also co-located project teams to enable more integrated working. For example, the Welsh Government co-located the Llandudno Junction project client and

<sup>13</sup> Established good practice project and programme management techniques include PRINCE2, a process-based method for effective project management used extensively by the United Kingdom Government, the private sector and internationally; Managing Successful Programmes, a framework comprising of a set of principles and processes for use when managing a programme; and Management of Risk that considers risk from different perspectives within an organisation: strategic, programme, project and operational and also links to other Cabinet Office Best Practice.

<sup>14</sup> *The Integrated Project Team, team working and partnering*, Office of Government Commerce, 2007



construction teams. Project teams said that this relocation provided benefits through better communication, a more joined-up approach across projects and quicker decision making.

**The Welsh Government carried out a lessons learned exercise for each project under the Programme, and communicated the learning within the Welsh Government and the wider public sector**

**1.37** Good practice guidance on project evaluation and benchmarking<sup>15</sup> highlights the need to share lessons learned between projects, not just within the same organisation but also across government. The Welsh Government developed a Lessons Learned Strategy to capture and share the lessons learned from each of the projects within the Programme, but the strategy did not set out how, or with whom, to share the learning. Within the Programme, the Welsh Government applied many of the key lessons learned from the Merthyr Tydfil project to both the Aberystwyth and Llandudno Junction projects. The learning included greater acknowledgement of human resource issues in delivering change; the importance of communications with staff; and the application of good practice in project management, with particular regard to project leadership, planning, financial modelling, and budget management.

**1.38** The Welsh Government shared some of the knowledge and experience gained from the Location Strategy in regard to project and programme management across the organisation and the wider public sector. It seconded a key member of the Location Strategy programme team to Conwy County Council, delivered a Construction Excellence Wales<sup>16</sup> seminar in Llandudno Junction and

shared lessons learnt across the Welsh Government and other central government organisations situated in Wales, such as the Intellectual Property Office and DVLA. In addition, the majority of the core Location Strategy Programme team still works on Welsh Government projects, and therefore they are in a good a position to apply the lessons learnt to current projects.

**In its first 10 years the Location Strategy Programme has cost more than £91 million to deliver, but in the absence of robust estimates of the total cost of the Programme it is difficult to determine whether it was delivered in a cost-effective way**

**1.39** The Welsh Government did not calculate or report the total final cost of the Location Strategy Programme, but we estimated that it spent more than £91 million on the Programme between 2002 and 2011 (Figure 4). The total cost does not include the cost of some staff, because the Welsh Government did not monitor the costs of its officials working on the Programme over its near 10-year duration.

<sup>15</sup> *Improving performance, project evaluation and benchmarking*, Office of Government Commerce, 2007

<sup>16</sup> Construction Excellence Wales a Welsh Government policy delivery vehicle whose role is to help the construction industry to improve its performance to deliver better quality and value for money to its clients and end users. It champions collaboration and best practices across the industry and encourages individuals and organisations to share their experiences, knowledge and information with the wider industry.

**Figure 4 – Location Strategy Programme costs 2002 to 2011**

	Merthyr Tydfil	Aberystwyth	Llandudno Junction	Total
<b>Costs (£ millions)</b>				
Building cost	7.3	20.9	20.7	48.9
Land cost	0.4	1.2	0	1.6
Fees	0.7	3	1.5	5.2
Furniture	1.4	1.8	2	5.2
IT costs	0.7	2.4	1.4	4.5
Lease costs	18.8 <sup>1</sup>	-	-	18.8
Llandudno Junction phase 1 & pause and review costs	-	-	2.3	2.3
Construction total	29.3	29.3	27.9	86.5
<b>Relocation costs</b>				
Excess fares	2.1	0.1	0.3	2.5
Disruption allowance	0.5	0.2	0.7	1.4
Relocation costs	0.1	0.3	0.4	0.8
Motorbike/car loan	0.3	-	-	0.3 <sup>2</sup>
Relocation total	3	0.6	1.4	4.7
<b>Total (construction + relocation)</b>	<b>32.3</b>	<b>29.9</b>	<b>29.3</b>	<b>91.5</b>

Notes:

1 The lease costs of the Merthyr Tydfil office relate to the period between December 2006 and December 2021.

2 These loans have subsequently been recovered.

Source: Wales Audit Office calculation based on figures provided by the Welsh Government





- 1.40** Although the Welsh Government used independent cost consultants to verify the construction costs of each office from design through to construction, it is difficult to determine whether the Welsh Government delivered the overall programme in a cost-efficient way. This is because the Welsh Government did not set an overall budget for the Programme until 2008. We found that the Welsh Government only routinely monitored total programme costs after 2008, when the Minister agreed that the budget was £53.3 million for the remainder of the programme.
- 1.41** The Welsh Government estimated total programme costs at various stages during the Programme. However, the estimates were not robust, and different estimates included different items of cost. Also, none of the estimates was used as a budget against which programme expenditure was monitored. Given the unique nature of the Programme, other than by monitoring spend against budget there was little else against which to compare or benchmark the outturn cost, or to determine if the Welsh Government's expenditure of £91.5 million represents good value for money.
- 1.42** Where the Welsh Government had made an estimate of the total cost of the Programme, the estimate varied between £47 million and £100 million:
- a** In April 2003 the Programme Team advised the Programme Board that the capital cost of the Programme would be £100 million.
  - b** In June 2003, a paper to Cabinet identified an indicative total cost of between £47 million and £59 million over the life of the Programme.
  - c** In May 2004, the Strategic Business Case included a financial appraisal of the Programme that estimated total programme costs at £50 million.
  - d** In December 2004, the Outline Business Case estimated the cost of the Programme to be 'in the order of £80 million'.
  - e** In August 2008, the Finance Minister formally committed an additional £53.3 million capital budget to cover construction activities for both the Aberystwyth and Llandudno Junction buildings. Including the costs of the then completed Merthyr Tydfil building, this addition would have given a total programme cost of £85.6 million.
- 1.43** The 2008 Gateway Review 0 found significant weaknesses in the Programme's financial controls. The review highlighted that there was no mechanism to provide the Programme Board with continuously updated estimates of outturn of the Aberystwyth and Llandudno Junction construction projects. In addition, the Programme Board did not have the necessary strategic overview of total programme costs to enable them to perform their governance role effectively. The 2003 Gateway Review 0 had identified similar weaknesses.
- 1.44** The Welsh Government responded to the 2008 Gateway Review 0 by ensuring that all future Programme Board meetings received financial updates on a monthly basis, which all the Programme Board Members were required to approve. The finance reports to the Programme Board included capital and revenue outturn for the programme as a whole, as well as the forecast expenditure for each financial year.

## Part 2 – The Welsh Government delivered the new office buildings to the expected quality and within contracted costs, but had difficulty in relocating posts to the new offices

### The Welsh Government delivered the new office buildings to the expected quality and within contracted costs

**Construction of the Merthyr Tydfil office was funded by a more expensive lease-purchase agreement as there was insufficient capital funding available at the time**

**2.1** The Merthyr Tydfil project was the first construction project in the Programme. The Welsh Government advertised the project in the OJEU, inviting tenders for the construction of the building to a pre-determined design, and stating that funding would be by means of a lease purchase rather than capital funding. At the time the Welsh Government committed itself to the construction project in the OJEU notice, it had not fully explored other feasible options, such as sharing office accommodation or redeveloping an existing building.

**2.2** In summer 2003, and after advertising the project in OJEU, the Welsh Government became concerned that their estimates were showing an unaffordable increase in the cost of the project, and commissioned a review of the project that reported in September 2003.<sup>17</sup> The review included an economic appraisal that identified that capital funding would have offered the best value for money. However, with no capital available to fund the project, the options would have been to postpone

commencement of the project until sufficient capital funding was available, or to fund the project by another means, such as a lease. The September 2003 review was critical of failures to include in the OJEU notice:

- a** the option of capital purchase; and
- b** the option of full design and build, which would have widened the competition and the scope for innovative designs.

**2.3** In May 2004, the Welsh Government appointed David McLean Developments as the main funder for the lease, with construction sub-contracted to Carillion Construction Ltd. The Welsh Government agreed a lease purchase contract of £1.3 million per year for 15 years from December 2006. Consequently, the Welsh Government will not own the Merthyr Tydfil office building until December 2021.

**2.4** Following award of the construction contract, the Minister for Finance, Local Government and Communities invited the Design Commission for Wales<sup>18</sup> to carry out a review of the design. In August 2004, the Commission suggested a number of significant design changes that the Welsh Government accepted. These included turning the building through 180 degrees and changing the shape of the building to enhance aesthetics and customer access, changes to reduce the cost of materials used, and changes to enhance environmental performance.

<sup>17</sup> *Merthyr Tydfil Office Project Assurance Review*, Welsh Government, September 2003. Following concerns about the potential cost/affordability of the proposed Merthyr Office, the Senior Responsible Owner commissioned a formal review to seek assurance about the cost, affordability, procurement and project management aspects of the proposed delivery solution.

<sup>18</sup> The Design Commission for Wales is a national organisation established in 2002 by the Welsh Government, to champion good design and a high quality built environment. The Design Review service provides early consultation on significant development proposals through expert and independent professional advice, leading to recommendations for improvement and for better value.



**2.5** At the end of the lease purchase agreement, the total cost of the Merthyr Tydfil office is expected to be £29.3 million, £400,000 under the budget set in September 2003 (Figure 5). Although we were unable to verify some costs at a detailed level, the Welsh Government told us that savings in other areas of the project, for example the use of value engineering to reduce the spend on information technology by £400,000 and reduced fees, offset the additional costs resulting from the August 2004 redesign. The Welsh Government will acquire the building at the end of the lease for £1.

**Figure 5 – Costs of the Merthyr Tydfil office building**

Item	Budget (£s millions)	Actual cost (£s millions)
Building cost	7.2	7.3
Land cost	0.4	0.4
Fees	0.8	0.7
Furniture	1.4	1.4
IT costs	1.1	0.7
Lease costs	18.8	18.8
<b>Total</b>	<b>29.7</b>	<b>29.3</b>

Source: Merthyr Tydfil Project Closure Report, Welsh Government, July 2008

**The Welsh Government completed the Aberystwyth construction project on time and under the contract target cost, although the project cost £8.4 million more than the budget set out in the business case**

**2.6** In March 2004, Ceredigion County Council expressed an interest in locating to new premises next to the proposed Welsh Government office in Aberystwyth. With the aim of achieving cost savings, the Welsh Government agreed to a joint venture with the Council to commission the design and construction of shared offices. The Council proposed semi-detached buildings with shared canteens and public areas, but the Welsh Government required a separate building with additional security and enhanced internal design, fittings and finishes to ensure BREEAM 'excellent' status. Both parties agreed to a joint procurement for the design and build of two otherwise identical offices.

**2.7** The Welsh Government's options appraisal in the December 2004 Outline Business Case estimated the design and construction cost of each building at £12.5 million, which was the figure used in the original estimate for the construction contract. However, the Welsh Government did not base this pre-tender estimate on a detailed design and the estimate did not include any allowance for optimism bias or inflation. This estimate was primarily extrapolated from the Merthyr Tydfil project costs with some allowances for location and inflation. However, the buildings became very different in nature and construction.

- 2.8** The Welsh Government and the Council jointly tendered for the design and construction of the two buildings in December 2005. Although the OJEU<sup>19</sup> advert did not include an estimated cost, following further design work at that time both the Council and the Welsh Government expected each building to cost around £13.5 million.
- 2.9** In September 2006, the Welsh Government and the Council awarded a single design and construction contract for both offices to Carillion. Although at that time the detailed design of the building was still incomplete, the estimated construction cost of each office was £14.7 million.<sup>20</sup> However, following further design work, Carillion estimated that the cost to construct their design for each of the offices was almost £20 million. The increase in the estimated cost of the offices led to the Council and Carillion seeking to reduce costs. Although the Council increased its budget to £15 million, Carillion could only lower the estimated cost of Ceredigion's office to just below £16 million, through a significant reduction in the specification of the office. The Council decided that the building was not affordable, and in June 2007 evoked the break clause in their contract before construction began. The Council subsequently awarded the contract to Wilmot Dixon, the second placed contractor shortlisted in their procurement. Wilmot Dixon completed the Council's office in June 2009. The Council told us that the final construction cost was £15.4 million.
- 2.10** Following the design stage, the specifications of the two buildings were quite different, and the Welsh Government's building is bigger by 280m<sup>2</sup> and had enhanced both the security arrangements and the internal specification of its building. The Welsh Government decided that the estimated cost of about £21 million was affordable and represented good value for money.
- 2.11** The Welsh Government agreed with Carillion a target price contract<sup>21</sup> worth £21 million for the construction of its Aberystwyth office. Carillion completed construction in July 2009 at a cost of £20.8 million, £200,000 less than the target price. In accordance with incentives within the contract, the total cost to the Welsh Government for the construction was £20.9 million.
- 2.12** The cost to construct the Aberystwyth office was £8.4 million (67 per cent) higher than the original estimate in the December 2004 Outline Business Case and £6.1 million (43 per cent) more than Carillion's initial indicative cost estimate. However, the Welsh Government do not believe that these were robust and accurate estimates and based on a very limited design brief. A robust and accurate cost would not be known until the design of the building was complete.
- 2.13** Although the final cost was substantially larger than that originally estimated, we found that all five companies tendering for the contract to construct the Aberystwyth office submitted bids that were within £1 million of the £14 million tender offered by Carillion. Similar tender prices provide some reassurance that the Welsh Government awarded this contract at a fair price. However, the nature of the NEC3 type contract (Box 3) used for the Aberystwyth project meant that when Carillion was appointed, the design brief for the building was not fully developed. At this stage, Welsh Government was not contractually committed to a construction contract. In order to develop the design of the building and agree a target price for the construction of Aberystwyth

19 Official Journal of the European Union is published online and contains notices including invitations to tender, prior information notices, qualification systems and contract award notices.

20 Official Journal of the European Union, Contract Award Notice, September 2006

21 In a 'target price contract' the client and contractor work towards an agreed target price, either sharing any savings if the final cost is less than the target or sharing any overspend if the final cost is greater than the target.





office, the Welsh Government entered into a Professional Services Contract<sup>22</sup> with Carillion. When this was done, a number of elements of significant cost were identified and included within the scheme. Once the design was finalised, the Welsh Government were in a position to agree a construction contract target cost with Carillion.

### Box 3 – NEC3 contracts

The development of the NEC3 suite of contracts was in reaction to a construction industry that had been blighted by cost overruns, delays and disputes.

NEC Engineering and Construction Contracts are a system of contracts created by the Institution of Civil Engineers that guides the drafting of documents on civil engineering and construction projects for obtaining tenders and then awarding and administering contracts. The contracts are intended to:

- facilitate the implementation of sound project management practices;
- define clearly the legal relationship between the employer and the contractor; and
- provide for a fair apportionment of risk between the employer and contractor.

**2.14** In February 2009, the Welsh Government commissioned a review<sup>23</sup> to compare the cost of constructing its new offices with the cost of the offices constructed on behalf of Ceredigion County Council, in anticipation of challenges that the Welsh Government had paid more than it should have for its building. However, the review had no access to any source data on either the specification or the cost of the building and had to base its review on site visits and discussions with the architect and the mechanical and electrical engineer working on the Council's project.

**2.15** The report identified a number of significant differences between the specifications of the two buildings. It concluded that most of the difference in cost was attributable

to design differences, and in particular, the enhancements to the building frame, mechanical and electrical engineering, external works, environmental performance of the Welsh Government's building and that the floor area of Ceredigion's building is smaller than the Welsh Government's building. However, the absence of detailed costs meant that the review was unable to quantify the value of the differences in design.

**After a difficult start, the Welsh Government decided to re-procure the contract for the Llandudno Junction office, which resulted in a reduced projected cost of the project of about £10 million**

**2.16** Under the original timetable for the Programme, the Welsh Government had planned to complete the Llandudno Junction office before starting to construct the Aberystwyth office. However, due to an escalation in the projected cost, the Welsh Government evoked the break-clause between the design and construction stages for the Llandudno Junction project in September 2007, delaying the project. As a result, the Llandudno Junction building was only in mid-construction when the Aberystwyth project was completed.

**The Welsh Government made the correct decision to re-procure the construction of the Llandudno Junction offices because the projected cost of the project was escalating**

**2.17** In May 2006, the Welsh Government awarded a professional services contract for the design stage of the Llandudno Junction offices to HBG Ltd, with the construction contract to be negotiated after the construction costs had been completed. The estimated cost of the construction contract at the time was £13.5 million.

<sup>22</sup> This contract is for anyone providing a service, rather than doing any physical construction works. It can be used for appointing project managers, supervisors, designers, consultants or other suppliers under NEC contracts.

<sup>23</sup> Independent property experts, Chandler KBS, undertook the review.

**2.18** Four months later, following detailed design of the building, the estimated construction cost had increased to £19.7 million, compared with the Welsh Government's pre-tender estimate of £12.5 million that was included in its OJEU Invitation to Tender<sup>24</sup>. The Welsh Government extended the design phase for amendments, but this had little effect on reducing construction costs. By February 2007, the estimated design and construction costs had increased to £26.3 million, more than double the original estimated cost. With the inclusion of furniture, fixtures, fittings, and information and communication technology, the Welsh Government's cost consultants estimated that the cost was about £30 million, was likely to rise further, and that the project would have taken an additional 30 weeks to deliver. The Welsh Government initiated a pause in the project to allow it to review why the costs and project delivery timescales had increased so significantly.

**2.19** The review<sup>25</sup> found that a number of factors had contributed to the increase in the estimated cost and the extended project timetable. These factors included design changes and the Welsh Government's lack of co-ordination of the design process, such that the design contractor had an incomplete understanding of the Welsh Government's requirements. The estimated costs had increased to a level that risked breaching European Union procurement regulations because the contract had become materially different from that advertised in the OJEU Invitation to Tender. In September 2007, following the conclusion of the design stage contract, Ministers decided not to award to the construction contract to the incumbent contractor to evoke the break-clause between the design and construction phases of the

contract. The Welsh Government was correct to pause and review the project and this action reduced the projected cost overrun by about £10 million.

### **Greater cost certainty helped the Welsh Government to complete the restarted Llandudno Junction construction project to the revised budget**

**2.20** Following a further competitive tendering exercise, in October 2008 the Welsh Government awarded the construction contract for the Llandudno Junction office to Pochins, at a cost of £20.8 million. Pochins completed the construction at a cost of £20.8 million in April 2010. The total cost of the project, including design, construction, information and communications technology, furniture, fit-out, fees to other contractors such as the Managing Agent, and fees from the abandoned phase of the project, was £27.9 million.

**2.21** We found that the Welsh Government had learnt the lessons from the first procurement exercise and there were significant improvements in the management of the Llandudno Junction project following the re-procurement of the construction contract. In particular, the Welsh Government introduced more robust change control procedures and governance arrangements that included clearer roles and responsibilities. It had also developed a much tighter specification so that the contractor knew more clearly the Welsh Government's requirements and, consequently, was able to find ways to reduce construction costs.

<sup>24</sup> A shortlist of bidders selected via a Pre-Qualification Questionnaire (PQQ) receives the Invitation to Tender (ITT), allowing them to make a formal and detailed offer to supply the services or goods required. The ITT should contain all the information and detail needed to enable a bidder to compile a fully formed tender for the requirement.

<sup>25</sup> *Llandudno Junction Office Building Acquisition Pause and Review*, Welsh Government, August 2007





## The Welsh Government had difficulty relocating posts to the new offices

**2.22** A key client project in the Location Strategy Programme was the management of the relocation of posts to move to the new buildings (Appendix 4). An employee would be entitled to follow his or her post if it moved to one of the new offices, and there would be a financial package to encourage people to move with their posts. For people who did not wish to move, the Welsh Government would try to identify alternative posts in their existing location.

## The merger of Sponsored Bodies into the Welsh Government in 2006 substantially increased the number of Welsh Government staff and the size of its estate

**2.23** In April 2006, four Welsh Government Sponsored Bodies merged into the Welsh Government, increasing the Welsh Government's estate from 70 to 93 properties and adding 1,400 staff. At the time of the announcement of the mergers in July 2004, the Welsh Government had just purchased the site for the Merthyr Tydfil office and planning for the Aberystwyth and Llandudno Junction offices was at a very early stage.

**2.24** In July 2005, the Welsh Government confirmed that the WGSB mergers and the Making the Connections agenda<sup>26</sup> had implications for the Location Strategy Programme, as the new offices would need to accommodate more employees and a wider range of activities than had been anticipated previously. The Welsh Government subsequently decided that the mergers presented an opportunity for the North Wales office to accommodate staff from three of the merged WGSBs with an existing presence in

North Wales - Education and Learning Wales, the Welsh Development Agency and the Wales Tourist Board.

**2.25** To accommodate the additional staff, the Welsh Government increased the planned capacity of the North Wales office from 550 to 650 staff, and that of the Aberystwyth office from 500 to 535 staff. The Welsh Government also estimated that the costs of the Programme would rise by between £5 million and £7 million during 2005-06.

## Staff were widely consulted over the parts of the Strategy that could have an impact on them although the consultation led to some additional costs and delays in the design of the Aberystwyth building

**2.26** The Outline Business Case for the Location Strategy produced in December 2004 said that, in refining, reviewing and developing the Strategy, one of the key areas of work was to consult staff to consider their needs in both the design of the buildings and the related client projects.

**2.27** The staff potentially involved in relocating that we spoke to told us that the Welsh Government's consultation with them about the Location Strategy was thorough and effective, particularly given their different needs and expectations. Staff were consulted about building design and the layout of facilities, the process of relocation and compensation for those affected. The opportunity to relocate to either Aberystwyth or Llandudno Junction was open to all Welsh Government staff and the consultation invited a response from any staff member. Methods used to consult with staff included meetings, site visits, questionnaires, viewing models, naming meeting rooms, and choosing artwork. Senior managers also held one-to-one discussions with staff identified for relocation.

<sup>26</sup> *Making the Connections - Delivering Beyond Boundaries: Transforming Public Services in Wales*, Welsh Government, November 2006

**2.28** Staff consultation was a vital part of the programme to ensure that the buildings would be fit for purpose and meet business requirements. However, ChandlerKBS, the independent Managing Agent<sup>27</sup> for the Aberystwyth construction project, told us that staff engagement had caused delays in approving the design of the Aberystwyth office. Gateway Reviews also identified that managing stakeholder expectations arising from consultation had caused increased costs and delayed the Merthyr Tydfil project.

**The relocation of two divisions to the Welsh Government’s Merthyr Tydfil offices led to almost full occupancy, but the costs were significant**

**2.29** Because Merthyr Tydfil has a high level of social deprivation and is located within the South Wales Objective 1 area, the Welsh Government decided in November 2002 that posts in its Social Justice and European Funding divisions should move there. When the Merthyr Tydfil office opened in January 2007, 451 people moved into the new building: 79 per cent transferred from Cardiff, 13 per cent were newly recruited employees, and eight per cent moved from other Welsh Government offices outside Cardiff (Figure 6). Forty people chose not to move with their posts and the Welsh Government found them alternative posts in Cardiff. Currently, the Merthyr Tydfil office is 81 per cent occupied on the basis of eight workstations to 10 people.

**Figure 6 – Relocation of posts to Merthyr Tydfil in January 2007**

Division	Original location	Posts identified	People moved
Communities Directorate Community Safety Division Housing Directorate WEFO Location Strategy Programme Office	Cathays Park, Cardiff and Ffynon Las, Cardiff	358	319
South Wales Office of the Rent Officer Service	Mamhilad, Gwent	19	19
WEFO	Cwm Cynon. Mountain Ash	54	53
Recruited		60	60
<b>Total</b>		<b>491</b>	<b>451</b>

Source: Merthyr Tydfil Project Closure Report, Welsh Government

<sup>27</sup> The Welsh Government appointed a Managing Agent for each construction project to act as an independent agent to manage the project on its behalf.



**2.30** Aided by the early decision about which posts would be moving, we found that the relocation of posts to the Merthyr Tydfil building was relatively straightforward. Moving almost entire divisions helped in this respect, but the Welsh Government did not follow this approach when occupying the Aberystwyth and Llandudno Junction offices. Relocation packages that cost a total of £2.9 million helped to temper early resistance from some employees not wishing to move with their posts to Merthyr Tydfil. For eligible employees, relocation packages included a disruption payment of £2,500, payment of excess fares over five years rather than for the standard three year period, and a motor bike or car loan provision through an advance of salary repayable over six years.<sup>28</sup>

**There were particular difficulties in relocating posts to Aberystwyth and Llandudno Junction because of constant changes in the posts and the number of staff expected to relocate**

**2.31** In February 2005, following extensive consultation with its entire staff, the Welsh Government produced a report that identified a wide range of risks, concerns and potential benefits associated with the relocation of functions to the Aberystwyth and Llandudno Junction offices.<sup>29</sup> The main risks identified were the impact on business continuity if functions moved without existing staff, failure to meet key strategic and policy objectives, increased stress on staff and their families and inconsistencies in service delivery. The Welsh Government's report also acknowledged, but did not specify, some concerns and potential benefits related to the relocation.

**2.32** The Welsh Government considered that it had sufficient time to manage these risks over the three years before the Aberystwyth and Llandudno Junction offices became operational. However, the Welsh Government subsequently encountered a number of problems that led to both of the new offices being under-occupied.

**There was a reluctance to move posts to Aberystwyth and Llandudno Junction**

**2.33** In February 2005, the Welsh Government identified 501 posts to relocate to Aberystwyth, an office that would have capacity for 535 staff. The posts identified were from a range of policy areas, but the majority were in relation to rural policy, with 214 posts from the then Environment, Planning and Countryside department and 120 from the then Countryside Council for Wales and Forestry Commission Wales. The Welsh Government planned to relocate 179 of the posts (36 per cent) from Cardiff. Moving these parts of the Welsh Government's business to the Aberystwyth office was consistent with the aim of moving the Welsh Government's work to locations that reflect the nature of the work or the main customer base. At the same time, the Welsh Government identified 525 posts to relocate to Llandudno Junction, an office with capacity for future expansion to accommodate 650 employees.

**2.34** Over the subsequent few years, the number and types of posts to relocate to Aberystwyth and Llandudno Junction kept changing. The net result was a reduction in the number of posts relocating, with fewer posts from Cardiff relocating to the new offices than had been planned in February 2005 (Figure 7). For example, the Welsh Government had planned for more policy posts to be relocated

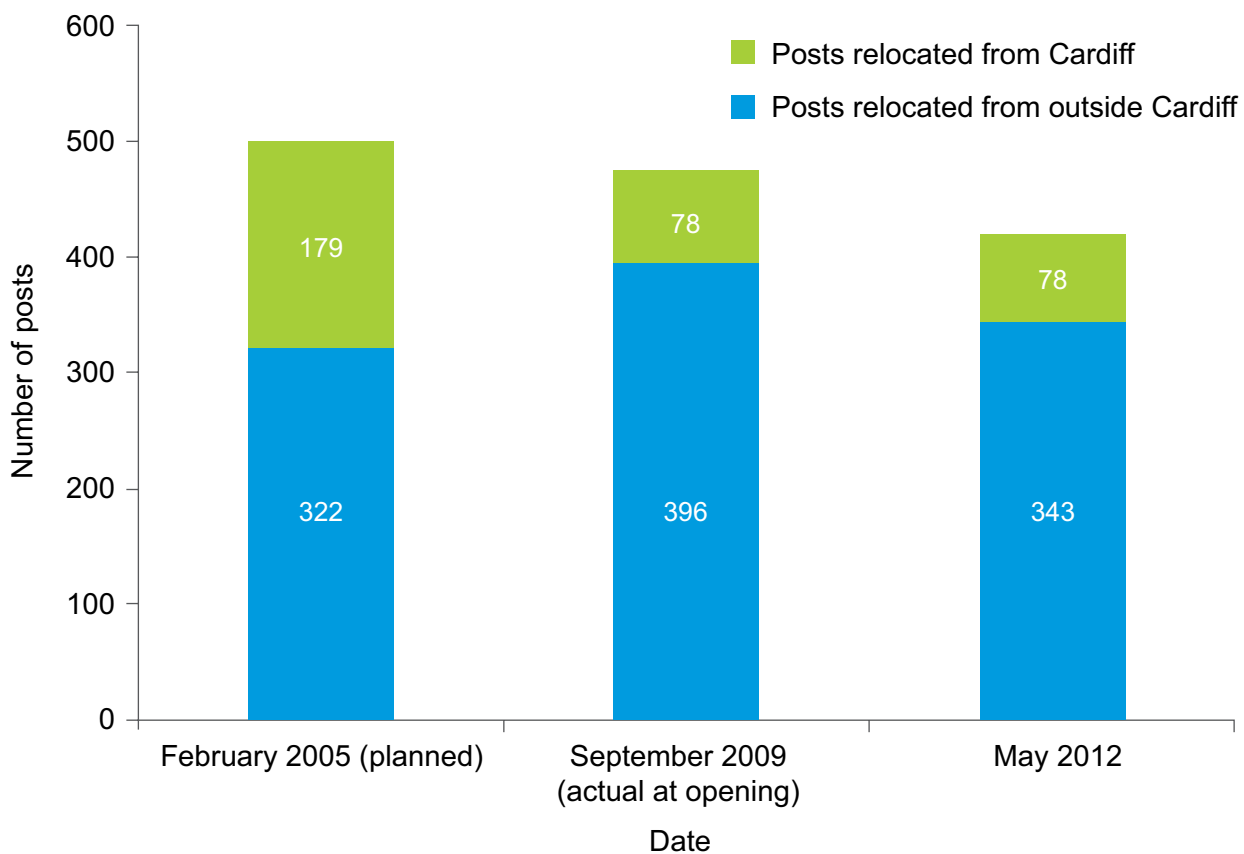
<sup>28</sup> Merthyr Tydfil Project Closure Report, Welsh Government, July 2008

<sup>29</sup> Location Strategy – Functions for Aberystwyth and Llandudno Junction offices, Welsh Government, February 2005

to Llandudno Junction, with up to 180 of these posts expected to relocate from Cardiff, than turned out to be the case. Our review of business continuity plans, other relevant files and interviews with Welsh Government officials identified a number of reasons why the number of posts relocating to Aberystwyth and Llandudno Junction were less than planned (Figure 8).

**Figure 7 – Planned and actual numbers of posts relocating to the Aberystwyth and Llandudno Junction offices**

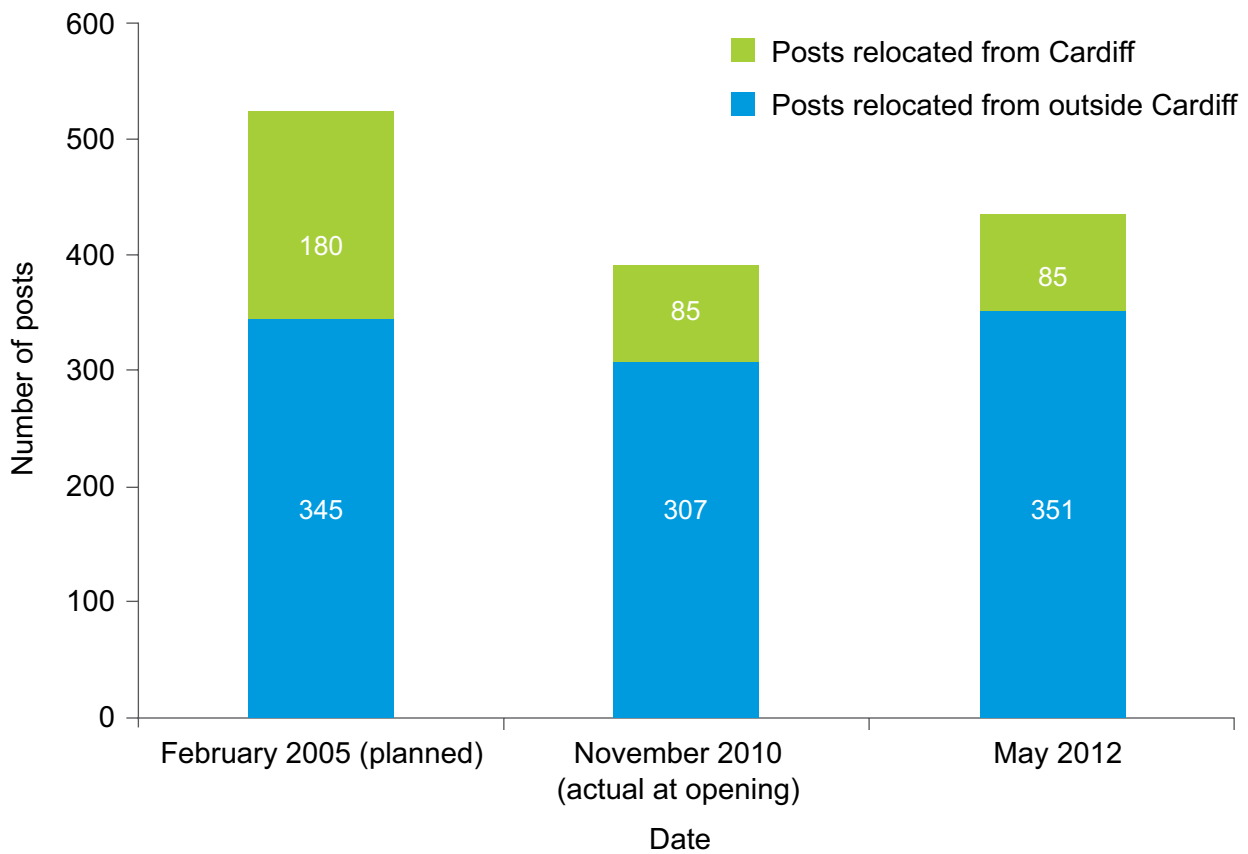
**Aberystwyth**



Source: Welsh Government



## Llandudno Junction



Source: Welsh Government

**Figure 8 – Reasons for reduced number of posts relocating to Aberystwyth and Llandudno Junction**

Reason	Details
Voluntary severance – reduction in overall Welsh Government staff numbers	The Welsh Government’s voluntary exit arrangements resulted in 1,083 people, around one-fifth the workforce, leaving the organisation between 2008-09 and 2011-12. Staff who subsequently took voluntary severance filled some of the posts due for relocation. Voluntary severance also led to re-organisations of teams and divisions.
Reorganisation of teams, divisions and departments	<p>A number of posts identified for relocation at the start of the process no longer existed later in the process, or the numbers identified for relocation had reduced. These changes were frequently the outcome of Organisational Development reviews, and/or divisional restructuring, such as major changes in May 2007 to develop the current structure based around Directorates.</p> <p>We also found examples of posts identified for relocation that the Welsh Government had moved to another division, subsequently to find that the new division was not willing for them to transfer.</p> <p>Between January 2006 and April 2006, the number of posts relocating to Aberystwyth had decreased by 58 because of organisational restructuring.</p>
Some posts needed to remain in Cardiff	We found examples of departmental submissions to the Client project teams setting out reasons why some posts that had been earmarked for relocation needed to remain in Cardiff and were not appropriate to move to the new offices. For example, the Legal Services department argued that they ‘had no plans to have a permanent presence outside the centre ie, Cardiff’.
Lack of engagement from some officials in identifying posts to move	Client project teams told us that some officials who had responsibility for identifying posts for relocation within their division did not actively engage in the process.
Tendency to revert to locating new posts in Cardiff rather than in regions or pan-Wales	<p>The Programme team encouraged the advertisement of all new Welsh Government posts as pan-Wales or location neutral. A report to the Programme Board in January 2010 said that the number of posts transferring [from Cardiff] was still far too low.</p> <p>A review of posts advertised on the Welsh Government’s intranet in March 2011 found that, of the 23 posts advertised, 22 were located in Cardiff/South East Wales, one in Mid Wales and none in North Wales. The review also found that the number of posts in Merthyr Tydfil had fallen by 10 per cent since the office opened and this was a ‘worrying trend which probably highlights a cultural issue that the default location for posts is still seen to be Cardiff.’</p>

Source: Welsh Government: Location Strategy Business Continuity Plans; interviews and other relevant files



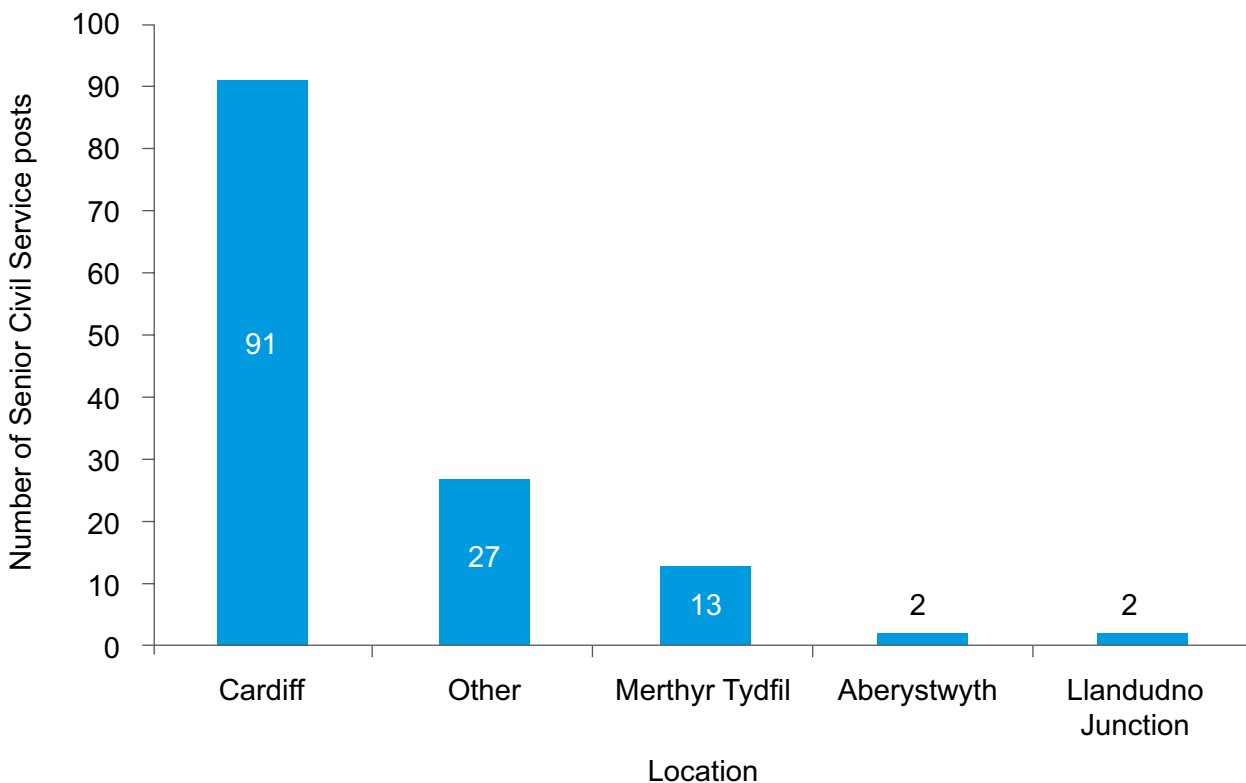


**2.35** The main purpose of the Programme was to transfer posts from Cardiff to the regions, and the Location Strategy lessons learned report identified that transferring posts from Cardiff, and maintaining them in the new locations, was a major issue.<sup>30</sup> However, the Welsh Government had not carried out any sensitivity analysis to model the impact on the viability of the projects of such large reductions in the planned number of employees moving to Llandudno Junction or Aberystwyth. When the Welsh Government planned the projects it had expected growth in the number of Welsh Government posts across the business. In the event, Welsh Government officials told us

that the transfer of vacant posts happened at the same time as departmental budgets were reducing, which had the effect of reducing the number of vacant posts including those to be transferred.

**2.36** The Relocation Strategy report had recommended increasing the number of senior civil servants based outside Cardiff, by 'at least one in each of the three new multifunctional offices established between now and 2007.' As at April 2013, there were 13 senior Civil Service posts located in Merthyr Tydfil, two in Llandudno Junction and two in Aberystwyth (Figure 9).

**Figure 9 – Location of senior Civil Service posts in the Welsh Government as at 30 April 2013**



Source: Welsh Government

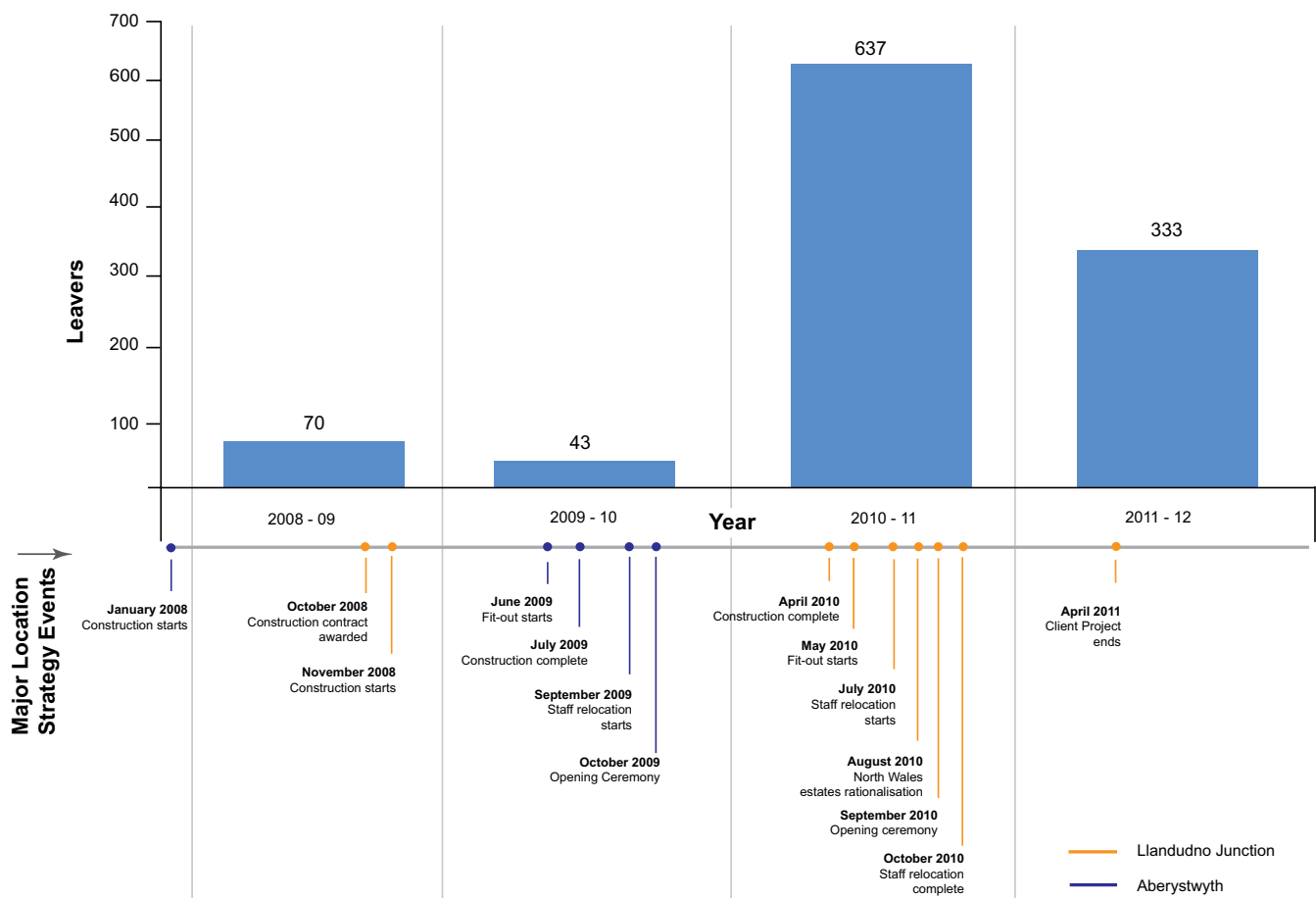
<sup>30</sup> Location Strategy Programme Lessons Learned, Welsh Government, March 2011

**The Welsh Government's loss of more than 1,000 staff through voluntary severance had a significant impact on the planned relocation of posts to Aberystwyth and Llandudno Junction**

**2.37** Voluntary exit schemes have resulted in 1,099 people, one-fifth of the workforce, leaving the Welsh Government between 2008-09 and 2012-13. The economic downturn coincided with the period when the Welsh Government was planning for the relocation of employees to the new offices in Aberystwyth and Llandudno Junction, and the subsequent cuts to public services that led to staff reductions were not foreseeable when the Welsh Government planned the construction projects.

**2.38** The majority of voluntary exits happened during 2010-11 and 2011-12, after the Aberystwyth office had opened and construction of the Llandudno Junction office had been completed (Figure 10). The Welsh Government told us that the voluntary exit scheme had some impact on the number of posts relocating to both the Aberystwyth and Llandudno Junction offices. The confidential nature of negotiations about voluntary exit with individual members of staff, which the Location Programme teams were not party to, coupled with uncertainties about whether or not individual members of staff would accept voluntary exit, further complicated plans for relocating posts.

**Figure 10 – The final stages of the Aberystwyth and Llandudno Junction office projects coincided with more than 1,000 voluntary exits from the Welsh Government**



Source: Wales Audit Office analysis of Welsh Government documentation



**2.39** The substantial reduction in the number of staff and posts between 2008-09 and 2011-12, and plans that sometimes changed on a daily basis, added significant complexity to the Welsh Government's ability to plan accurately the relocation of staff to the new offices. The Welsh Government told us that the changes in the numbers of staff relocating, and in particular the lower than anticipated numbers of staff relocating from Cardiff, were the biggest contributing factors to the under-occupation of the Aberystwyth and Llandudno Junction offices.

**The Welsh Government had particular difficulties in finding posts to relocate to Llandudno Junction, and a significant number of posts that relocated were vacant**

**2.40** The Welsh Government experienced particular difficulties in identifying posts to relocate to Llandudno Junction. In November 2009, a report to the Programme Board<sup>31</sup> stated that 103 of the 518 posts scheduled to relocate were vacant. The Programme Board considered this to be a 'huge concern' and that the 'situation [was] reaching [a] critical stage'.<sup>32</sup> The Programme Board introduced a change control process for both Aberystwyth and Llandudno Junction, to better manage the number of posts relocating and limit subsequent changes. However, Location Strategy project managers told us that departments did not consistently apply the change control process and the numbers of posts due to relocate continued to change.

**2.41** The Llandudno Junction office opened in September 2010 with 392 of the posts located there filled, and a further 52 vacant posts relocated from Cardiff where the post holder had chosen not to relocate. At that time, the Welsh Government recognised that it was unlikely to fill many of these vacancies or to increase the number of staff relocating to North Wales.

**2.42** To use the estate more efficiently and to make up the shortfall of posts relocating to Llandudno Junction, in August 2010 the Welsh Government set up the Llandudno Junction Wave 2 project. The project aimed to close a further five offices<sup>33</sup> in North Wales and to relocate the staff and posts to the new Llandudno Junction office. At completion of the Wave 2 project in April 2011, an additional 44 posts transferred to the new office at Llandudno Junction.

**2.43** At £2.9 million, the overall cost of relocation compensation packages paid by the Welsh Government represents nearly 10 per cent of the total Merthyr Tydfil office project costs. In comparison, the Welsh Government spent less than five per cent of project costs on relocation packages for Llandudno Junction and only two per cent of project costs on the Aberystwyth project (Figure 11). The main reason for the higher cost of the Merthyr Tydfil relocation packages is excess fares. This was because more people relocated to Merthyr Tydfil than to Aberystwyth and Llandudno Junction.

<sup>31</sup> Brief for Programme SRO on Llandudno Junction post numbers, November 2009

<sup>32</sup> Location Strategy Programme Board, 20 November 2009

<sup>33</sup> Llys Britannia, Parc Menai, Bangor; Llys y Bont, Parc Menai, Bangor; Unit 21, St Asaph; Broncoed House, Mold; and Unit 19, Mold Business Park.

**Figure 11 – Compensation costs for the Location Strategy Programme**

Package	Merthyr Tydfil	Aberystwyth	Llandudno Junction
Excess fares	2,055,508	127,050	339,123
Disruption allowance	517,500	170,197	672,880
Relocation costs	276,429	290,135	436,888
Motorbike/car loan	111,164	-	-
<b>Total</b>	<b>2,960,601</b>	<b>587,382</b>	<b>1,448,891</b>
<b>Percentage of total project cost</b>	<b>10</b>	<b>2</b>	<b>5</b>

Source: Welsh Government

**The Welsh Government made an agreement with the Student Loans Company to occupy space at Llandudno Junction**

**2.44** As at December 2013, the Aberystwyth office had 392 occupants, an occupancy level of 70 per cent. Occupants as at December 2013 included staff of Natural Resources Wales, a Welsh Government Sponsored Body that had 100 staff working from the office.

**2.45** As at December 2013, the Llandudno Junction office, housed 571 staff, an occupancy level of more than 88 per cent. The Welsh Government told us that voluntary severance was the main reason for under-occupancy in Llandudno Junction.

**2.46** The Welsh Government has been looking for a tenant to occupy part of the Llandudno Junction office since 2006, when it first realised that the office would have spare capacity. However, security requirements limited the options to public sector tenants only, and the high specification of the building

and the need for a tenant to have separate information and communications technology systems meant that lease and other costs were relatively high.

**2.47** Since 2006, the Welsh Government has been in negotiations with the Student Loans Company about finding suitable accommodation for the Company’s activities in Wales. Negotiations broke down in 2010 because of disagreements about the apportionment of office space, but subsequently restarted and the Welsh Government reached an agreement with the Student Loans Company to commence a lease from 24 June 2013. The lease agreement is for 10 years with the option of a break after five-years. Occupation by the Student Loans Company will raise the occupancy level of the Llandudno Junction office to full capacity). Because the Student Loans Company is fully funded for functions delivered on the Welsh Government’s behalf, as part of the Student Finance Wales project, occupation by the Company is rent-free.



## Part 3 – Although fewer employees than planned have relocated and the Welsh Government is no longer monitoring all benefits, the Location Strategy Programme has provided a range of benefits

### The Programme has increased the percentage of staff working outside Cardiff, but the Welsh Government has not relocated as many employees as planned

**3.1** The overall aim of the Programme was to re-locate Welsh Government jobs at a range of grades from Cardiff to other parts of Wales. However, the target number of posts to relocate changed over the course of the Programme (Figure 12).

**3.2** Up until 2009, successive versions of the business case referred to a target in terms of the number of posts to relocate from Cardiff. However, in its 2011 Benefits Realisation Plan the Welsh Government expressed the target as increasing the percentage of posts located outside Cardiff to 60 per cent by 2012, against a 23 per cent baseline in 2002.<sup>34</sup> The Welsh Government reported against this target most recently in April 2012, with 53 per cent of posts at that time located outside Cardiff<sup>35</sup>.

**Figure 12 – Targets of number of posts to relocate from Cardiff**

Source	Target number of posts to relocate
Relocation Strategy report (2002)	400
Vision and Blueprint (2004)	600
Strategic and Outline Business Cases (various versions May 2004 to July 2006)	700
Financial Appraisal (February 2006)	700
Full Business Case (March 2008)	800
Full Business Case (April 2009)	No target stated
Benefits Realisation Plan (2011)	Target changed to increasing the percentage of posts located outside Cardiff (23 per cent in 2002 to 60 per cent in 2012)

Source: Welsh Government

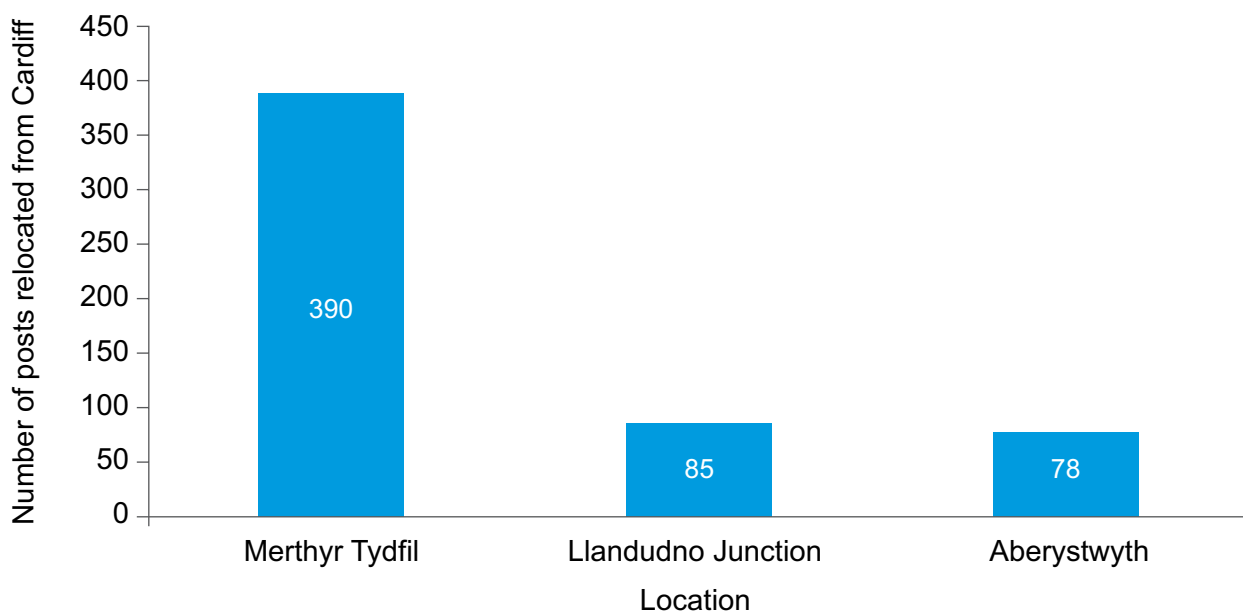
<sup>34</sup> Location Strategy Benefits Realisation Plan, Welsh Government, August 2011

<sup>35</sup> Location Strategy – Benefits Realised, Welsh Government, April 2012

**3.3** Our analysis found that, as at April 2012, the Welsh Government has relocated 553 posts from Cardiff to the three new offices (Figure 13). This exceeded the original target of 400 posts set out in the Relocation Strategy report, but is some way short of the target of 800 set out in the Full Business Case (March 2008).

**3.4** The Welsh Government's performance indicator for the cost per full time employee of running its offices in 2011-12 shows the impact of spare capacity at the Aberystwyth and Llandudno Junction offices. When occupancy rates were low, the unit costs (per full time equivalent staff member) of the Aberystwyth and Llandudno Junction offices were considerably higher than the average for the Welsh Government's estate as a whole (Figure 14).

**Figure 13 – Posts relocated from Cardiff to the three new Welsh Government offices**

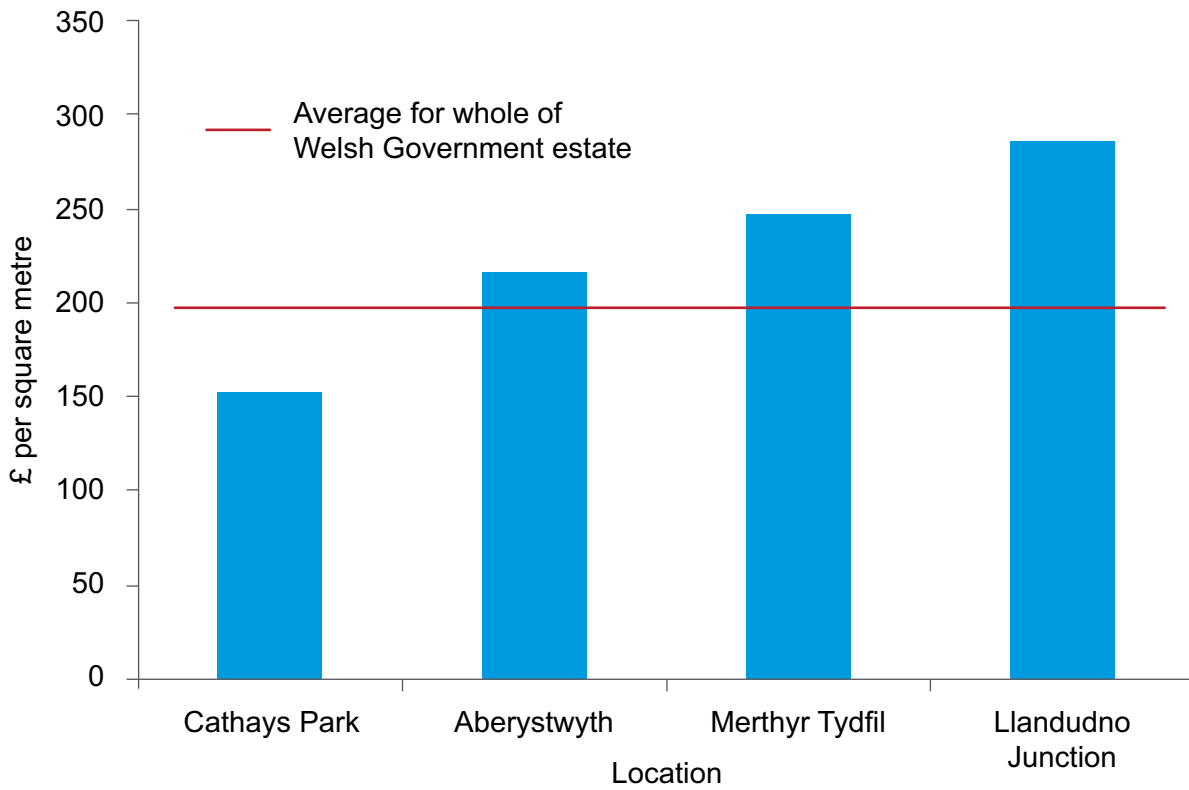


Source: Wales Audit Office analysis of Welsh Government relocation data





**Figure 14 – Cost efficiency of new buildings and across the whole Welsh Government estate**



*Source: State of the Estate report 2012-13, Welsh Government*

## The Welsh Government did not develop robust arrangements to realise the benefits of the Programme until 2009, and is no longer monitoring the realisation of all continuing benefits

The Welsh Government did not put in place robust arrangements to realise benefits during the first six years of the Programme, but strengthened its arrangements following a Gateway review in 2008

- 3.5** The Welsh Government set out the potential benefits of the Location Strategy in a number of documents relating to the Programme. The 2004 Location Strategy Programme Vision and Blueprint listed 12 anticipated benefits under four strategic themes: equality, social inclusion, sustainable development and economic regeneration. The 2004 Strategic Business Case listed 28 separate benefits, under the same themes and the additional theme of diversity. The 2011 Benefits Realisation Plan listed 21 benefits under four slightly different themes: sustainable development, economic regeneration, engagement and awareness, and better working environment ([Appendix 5](#) shows anticipated benefits as listed in the Benefits Realisation Plan).
- 3.6** We found that some of the benefits listed in the different documents were markedly different from each other. For example, the Vision and Blueprint identifies ‘improved employment opportunities for the general public’ as a potential benefit, but the Strategic Business Case only makes reference to the relocation of posts.

- 3.7** During the first six years of the Programme, the Welsh Government did not have an approach to managing the realisation of benefits. Good practice guidance<sup>36</sup> states that benefits management needs to be a core programme activity delivered through a benefits realisation strategy. The strategy should include benefits profiles,<sup>37</sup> a benefits map to illustrate how benefits align with each other, a benefits realisation plan, benefits reviews and a benefits realisation manager. None of these components was in place before 2008.
- 3.8** At the start of the Programme, the Welsh Government did not establish baseline data against which to assess the delivery of benefits. In learning the lessons from the Programme in 2011, the Welsh Government noted that although it had identified anticipated benefits at the beginning of the Programme there was no ownership from the business to formulate this baseline data<sup>38</sup>. Also, some of the anticipated benefits that had been identified, such as ‘helping to break down the north - south divide’ or to give greater ‘community presence’, would have been difficult to measure.
- 3.9** The Gateway Review 0 in 2008 identified the lack of ownership of the Programme’s benefits management process. In late 2008, the Programme Board assessed whether the benefits previously identified remained relevant. This assessment led to the development of the *Benefits Realisation Plan* (extracts at [Appendix 5](#)). The Welsh Government included the benefits listed in the *Benefits Realisation Plan* in the final version of the business case in 2009 and implemented the Plan during the latter stages of the programme. However, by this stage, the Merthyr Tydfil office was fully occupied,

<sup>36</sup> Good practice guidance in *Managing Successful Programmes*.

<sup>37</sup> The benefit profile is a full description of a benefit and includes details on measures, ownership, responsibilities, dependencies and timing.

<sup>38</sup> *Location Strategy Programme, Programme Lessons Learned*, Welsh Government, 2011



the Aberystwyth office was due to open just three months later and the Llandudno Junction office was five months into the construction phase.

- 3.10** The July 2009 Gateway Review 0 recommended that the management of benefits should continue for a reasonable period beyond building occupation, to ensure new working practices are embedded and the full benefits realised. On completion of each building, a House Committee<sup>39</sup> and Senior Responsible Owner took on responsibility for benefits management at each office.

### **The Welsh Government is no longer monitoring the realisation of all benefits**

- 3.11** At the close of the Programme in July 2011, the Welsh Government commissioned a Gateway Review 5<sup>40</sup> to assess the delivery of the anticipated benefits.<sup>41</sup> The review concluded that the Programme had closed prematurely and might not gain recognition for some of the benefits emerging at the time and in the future, or for any additional unforeseen benefits. The review identified the need for the Programme to identify, track and claim unforeseen benefits.
- 3.12** In response to the Gateway Review 5 the Welsh Government reviewed the benefits in April 2012<sup>42</sup>. The Welsh Government told us that the benefits review discharged the recommendation from the Gateway Review 5 that benefits management should be planned for a reasonable period beyond building occupation. However, the benefits review did not report against each of the Programme's benefits and the Welsh Government does not intend to undertake a further central review of the benefits of the Programme. Although the Welsh Government has assigned to the

House Committees responsibility for managing benefits and reporting to stakeholders progress in delivering benefits, there is little evidence that this has happened. Instead, the House Committees and the Senior Responsible Owners have dealt only with day-to-day issues with the new offices.

## **The Location Strategy Programme has provided a range of benefits**

### **The new Welsh Government offices are likely to have had a positive effect on local economies**

- 3.13** One of the main benefits that the Welsh Government anticipated from the Location Strategy was a positive effect on the local economies in areas where the new offices were located. However, other than in relation to planning applications, the Welsh Government has not engaged the relevant local councils of Merthyr Tydfil, Ceredigion and Conwy to determine the potential extent of the economic benefits of the Location Strategy.
- 3.14** The anticipated economic benefits were articulated in four of the benefits included in the Benefits Realisation Plan. They were to increase:
- a** new employment opportunities in the local communities;
  - b** local wealth and disposable income through the introduction of [Welsh Government] relocated posts;
  - c** the number of local job opportunities during construction (**Case Study 1**); and
  - d** the redistribution of wealth from Cardiff into European Union Objective One areas.

<sup>39</sup> House Committee is an executive committee with decision-making powers in relation to the strategic and corporate governance of the office as it affects staff and visitors. A member of the Welsh Government Senior Civil Service team chairs each Committee.

<sup>40</sup> This Review should confirm that the project is achieving its desired benefits, and the business changes are operating smoothly. Good practice suggests repeating Gateway Review 5 at regular intervals during the lifetime of the new service/facility.

<sup>41</sup> OGC Gateway™ Process Review 5: Operations review & benefits realisation, 21 July 2011

<sup>42</sup> Location Strategy Programme – Benefits Realised, Welsh Government, April 2012

### Case Study 1 – Local benefits during the construction of the Llandudno Junction office

Partly because of the good working relationship between the Llandudno Junction project team and the contractor, Pochin Construction, £8.75 million (42 per cent) of spending by the construction contractor was on local labour and supplies. In addition, the Welsh Government used a 'meet the buyer' event to award five contracts valued at £400,000 to local businesses.

Source: Welsh Government

**3.15** In November 2011, the Welsh Government commissioned an independent assessment of the economic impact of the Programme from Bangor University<sup>43</sup>. The aim of the review was to carry out 'a valuation and impact assessment to determine the appropriateness, effectiveness, and estimated net impact of activities, in line with HM Treasury and Cabinet Office good practice guidance.' The review measured the total contribution of the Programme to clearly defined regions. Such an assessment evaluates more than direct spend, as the capital injected acts as a catalyst for further spending throughout the economy. The findings of the review suggest that the new offices have had a positive effect on local economies, against each of the economic benefit categories set out in the *Benefits Realisation Plan* (Figure 15).

**Figure 15 – Economic benefits of the Location Strategy**

Benefit category	Merthyr Tydfil	Aberystwyth	Llandudno Junction	Wales
Increased amount of new employment opportunities in the local communities.	325 jobs in years 0-1, but expected to rise to 549 by 2015.	105 jobs in years 0-1, expected to rise to 149 jobs by 2015.	78 jobs in years 0-1, expected to rise to 108 jobs by 2015.	Estimated 840 new jobs created and 330 supported.
Increased local wealth through introduction of relocated posts – disposable income 'betterment' impact; and increase redistribution of wealth from Cardiff into Objective One areas.	Total economic value to the region estimated to exceed £100.5 million.	Total economic value to the region estimated at £21.5 million.	Total economic value to the region estimated at £25 million.	Up to £250 million by 2015; (including increased local spending of between £60 million and £112 million).
Increased number of job opportunities in local area during construction phases (1).	106 jobs created and five supported.	One job created and six supported.	19 jobs created and eight supported.	N/A

Note:

<sup>1</sup> Jobs are either 'created' as a direct consequence of the Programme or they are 'supported', in so much that they do not exist because of the programme, but are supported by it, such as the retention of existing jobs in restaurants, hotels and building merchants. The jobs created include Welsh Government and non-Welsh Government jobs.

Source: Bangor University

<sup>43</sup> Welsh Government Location Strategy Programme, Economic Appraisal – Summary of Findings, Bangor University, November 2011



**3.16** A large part of the anticipated economic benefit arising from the Location Strategy is due to the additional disposable income generated by an increase in the number of Welsh Government jobs in the areas of the new offices. The Welsh Government had assumed that 830 posts would transfer from Cardiff to other areas of Wales, with most of the disposable income relating to these jobs spent locally. Bangor University estimated that increased local spending would account for between £60 million and £112 million of the £250 million quantifiable benefits.

**3.17** The Welsh Government had assumed in its 2004 Strategic Business Case that the new office in Merthyr Tydfil would stimulate local private sector retail investment, generating a further £12.6 million of disposable income from the jobs created. However, Bangor University concluded that there was no credible evidence that the new office in Merthyr Tydfil had led to other new investment in the town.

**3.18** Nevertheless, Bangor University assessed the overall impact of the Location Strategy Programme across Wales at £250 million for the period from start of construction to 2015<sup>44</sup>. This estimate is far larger than the £73 million economic regeneration benefits that the Welsh Government had included in the Strategic Business Case approved in May 2004. When the cost of constructing the three new offices and associated cost of relocating staff is considered, the Bangor University report suggests that the Programme has a net economic benefit of around £158.5 million. In addition, the Programme delivered other benefits that do not have a monetary value, such as an increase in the visibility of the Welsh Government in the local community and an increase in the Welsh Government's commitment to Sustainable Development.

**3.19** Neither the Welsh Government's financial appraisals nor the Bangor University evaluation considered the Programme's potentially negative impact, on Cardiff or on other areas where offices had closed, of transferring posts to other parts of Wales. Welsh Government officials told us that they did not include such impacts because they considered that Cardiff was a 'full employment area' and that one of the main purposes of the Programme was to redistribute wealth away from Cardiff. Nevertheless, we consider that it is important to recognise that reductions in economic activity in Cardiff and elsewhere in Wales may offset some of the financial benefit indicated by the investment appraisals and the subsequent evaluation.

**The Future Facilities Management project has realised significant efficiency savings by consolidating more than 100 facilities management contracts into seven**

**3.20** Each of the Welsh Government's new buildings required a facilities management contract to manage services such as reception services, cleaning, maintenance, health and safety, porters, post-room and fire safety. In January 2008, as a project within the Location Strategy, the Welsh Government took the opportunity presented by the need for contracts for the new buildings to rationalise the 109 facilities management contracts that then existed across Wales. The Welsh Government's procurement consolidated facilities management for its whole estate into seven contracts and realised significant efficiency savings.

**3.21** The Welsh Government had originally preferred the option of a single national contract, but later recognised that this presented a potential tension between maximising cost efficiency and allowing

<sup>44</sup> This figure is not directly comparable to the figures used in the investment appraisal, which covered a longer period and excluded benefits arising from the construction projects and from opportunities for local suppliers.



Welsh small and medium size enterprises ('SMEs') to compete for the contract. The Welsh Government therefore decided on seven contracts: six regional 'soft facilities management' contracts, and a national 'hard facilities management' contract<sup>45</sup>. Although each of the seven contracts still proved to be too large for many Welsh SMEs to be able to compete for, the specifications required the use of Welsh SMEs as sub-contractors where possible. To date, two thirds of the sub-contracts are with Welsh SMEs.

- 3.22** The Welsh Government estimates that the Future Facilities Management project has saved £1 million over three years,<sup>46</sup> although there has been no external validation of this estimate. The Welsh Government claims that it has achieved these savings through economies of scale and more efficient contract administration. Additional benefits claimed include more uniform service standards and community benefits, such as from the local jobs created with SME sub contractors.

### **To achieve a visible presence the Welsh Government included public access areas in its Aberystwyth and Llandudno Junction offices**

- 3.23** The Aberystwyth and Llandudno Junction offices each has a public access area, known as 'Y Bont'. These areas provide facilities such as internet access, information areas, cafés and space for exhibitions. The Welsh Government uses Y Bont to promote engagement with local communities and provide increased access to Welsh Government officials. The Welsh Government incorporated the Y Bont into its Aberystwyth and Llandudno Junction project after it had completed the Merthyr Tydfil office, and currently has no plans to introduce the concept there.

- 3.24** The Benefits Realisation Plan refers to Y Bont under the benefit category of 'increased engagement and awareness', and specifies the 'number of visits to public access areas' as a measure of the benefit of a more engaged public. The Welsh Government told us that it measures success by the number of people visiting Y Bont.

- 3.25** The Welsh Government did not set any targets for the number of visitors to, or events to be held in, the Aberystwyth or the Llandudno Junction Y Bont facilities. The final benefits review in April 2012 reported that more than 250 events had been held at the two Y Bont facilities. Although the review included no data on the number of visitors, the Benefits Realisation Plan stated that up to May 2011, 115,367 people had visited the Aberystwyth office and 43,728 had visited the Llandudno Junction office. The Welsh Government told us that the majority of visitors to the Aberystwyth office were schoolchildren and members of the farming community with queries about Welsh Government rural payment schemes.

### **The Welsh Government's staff are generally content with the new offices, which provide modern, flexible working environments**

- 3.26** One of the main benefit categories in the Benefits Realisation Plan was a better working environment for staff, which included seven separate benefits (Appendix 5). The Welsh Government used follow-up surveys of staff relocated to the new Aberystwyth and Llandudno Junction offices to measure the extent to which the benefits have been realised.

<sup>45</sup> Soft facilities management contracts relate to cleaning, pest control, security, landscaping, waste management, security, mailroom, and health and safety. Hard facilities management contracts are mainly about physical maintenance of the building and equipment.

<sup>46</sup> *State of the Estate 2011-12*, Welsh Government

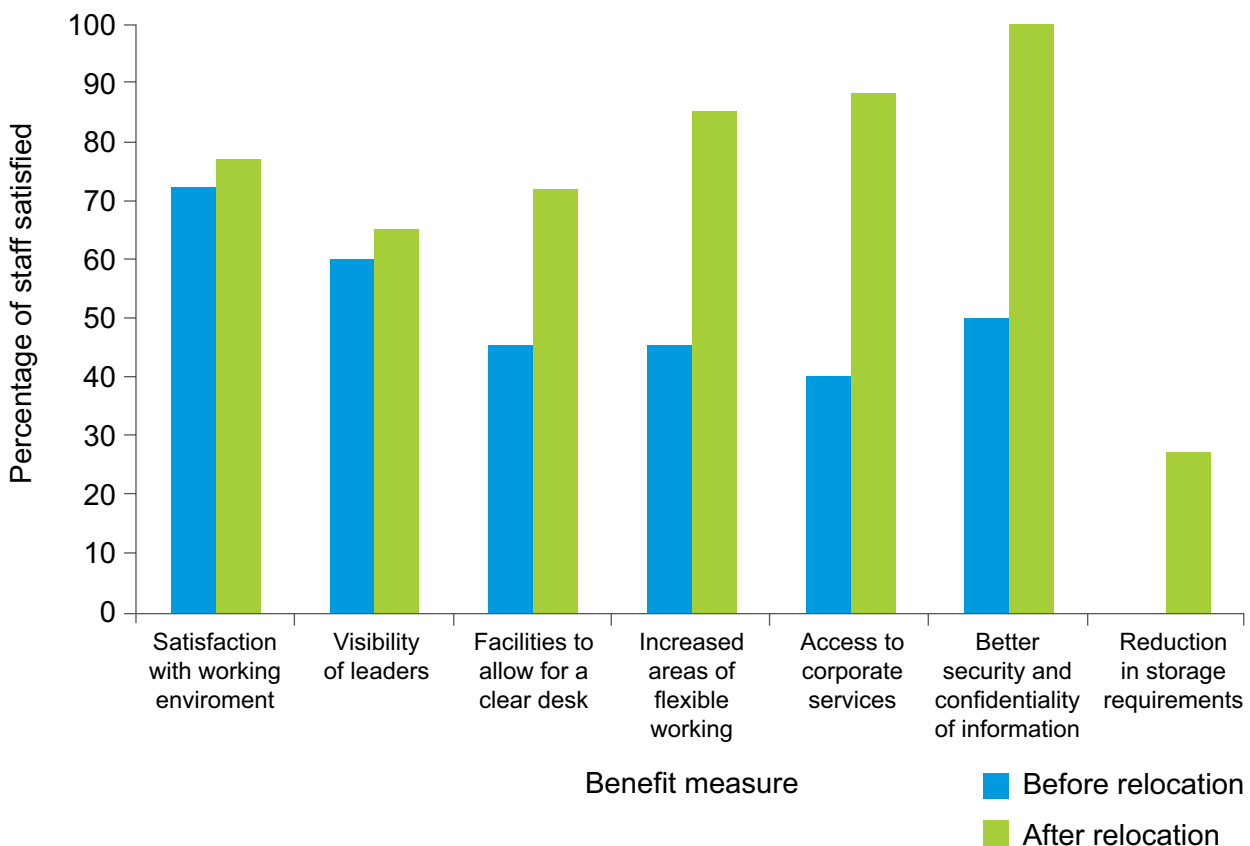




**3.27** The Welsh Government did not undertake comparable surveys of the staff members that moved into the new Merthyr Tydfil office in 2006, and there was no baseline established for staff satisfaction prior to relocating there. However, the Benefits Realisation Plan stated that against the anticipated benefit of ‘improving the working environment for staff’, 89 per cent of staff in the Merthyr Tydfil were satisfied with their working environment, compared to 59 per cent of staff located in Cardiff.

**3.28** The survey of staff relocated into the Aberystwyth and Llandudno Junction offices show that, overall, staff satisfaction with their working environment had improved since transferring to the new offices (Figure 16). However, satisfaction with the working environment at Llandudno Junction decreased by 10 per cent after staff had moved to the new office. Welsh Government officials told us that this was most likely to be because of increased travel to work, general resistance from some staff to moving office location, and that some staff disliked the open plan work environment.

**Figure 16 – Staff satisfaction with the Aberystwyth and Llandudno Junction offices**  
Aberystwyth

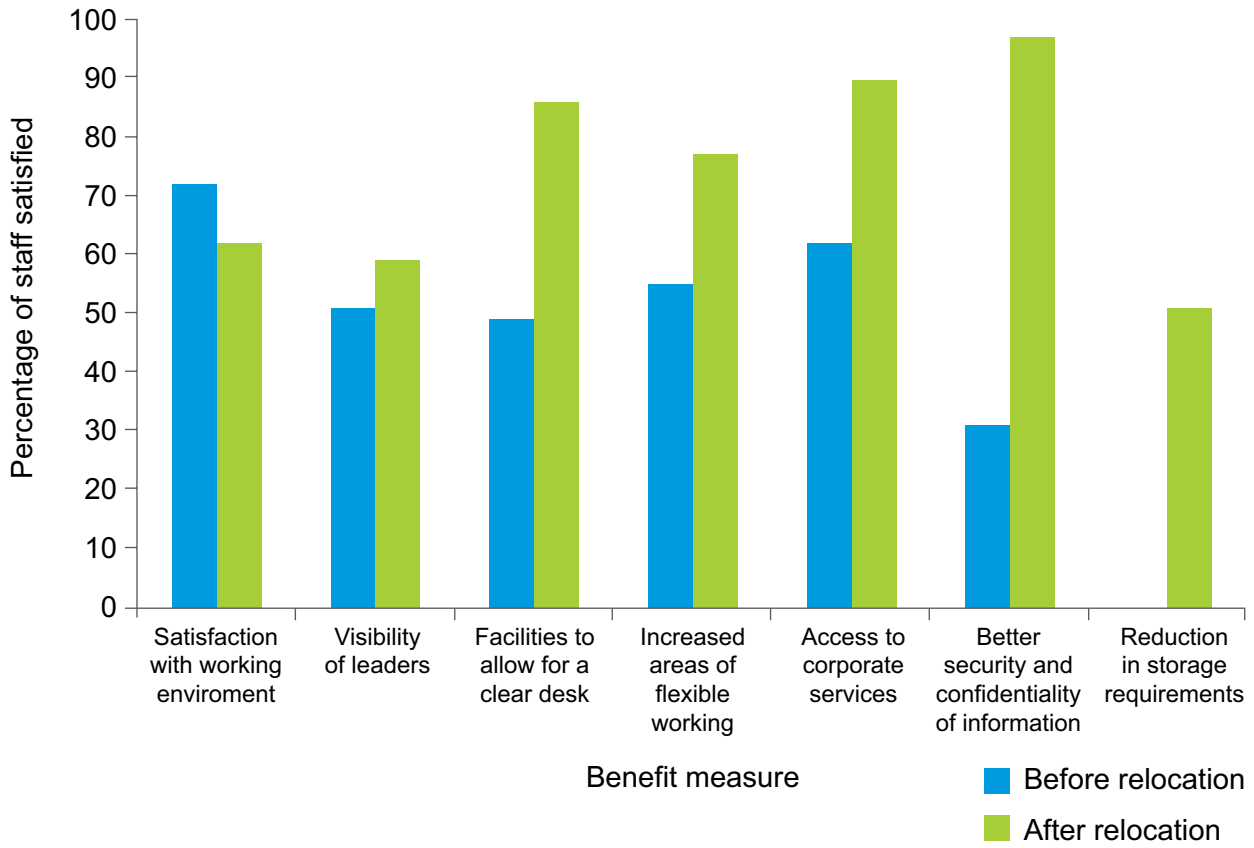


Note:

Storage requirements was not measured before relocation.

Source: Welsh Government survey of staff moved into Aberystwyth and Llandudno Junction offices

## Llandudno Junction



Note:  
Storage requirements was not measured before relocation.

Source: Welsh Government survey of staff moved into Aberystwyth and Llandudno Junction offices



### **The Welsh Government has delivered the Programme's sustainability objectives**

- 3.29** All versions of the Business Case identified sustainability as being a 'Location Strategy Success Factor'. In the context of the Programme, sustainable development referred mainly to rationalisation of the estate, the environmental credentials of the new buildings and 'green travel'.
- 3.30** The Welsh Government has reported on rationalisation of the estate and the environmental performance of the new offices. The Welsh Government has also improved green travel options from Cardiff to Merthyr Tydfil and put in place green travel plans for its Aberystwyth and Llandudno Junction offices, but has not evaluated the impact of these plans.

### **The Welsh Government has reduced the size of its estate, with further rationalisation planned under the Location Strategy 2 project**

- 3.31** In 2002, the Relocation Strategy report recommended that existing offices should remain. However, subsequent events, including a reduction in the size of the Welsh Government as opposed to its expected growth, changed some of the aims of the Programme. Subsequently, all versions of the Business Case stated that the Welsh Government aimed to reduce the size of its estate by one third, from 97 properties at the start of the Programme. Not only would this reduction save money on under-utilised and inefficient property, but it would also reduce the Welsh Government's carbon footprint.

- 3.32** By the time the Programme ended, the Welsh Government had reduced the size of its estate by nearly 60 per cent, to 41 properties. This included the closure of five offices in North Wales as part of the Llandudno Junction Wave 2 project to address the shortfall in posts relocated to the Llandudno Junction office (**Case Study 2**). By vacating offices at the end of leases or at break points in lease agreements, the Welsh Government's rationalisation of the estate was cost-neutral.

#### **Case Study 2 – Wave 2 project**

With the construction of the new Llandudno Junction office completed in 2010 and staff mobilisation underway, and following a period of consultation, the Programme Board decided in August 2010 to close five more offices in North Wales and to relocate the staff and posts to the new Llandudno Junction office. Of the five offices to close, two were in Bangor, two in Mold and one in St Asaph.

This relocation filled some of the vacant space at the Llandudno Junction office, offered a better working environment for staff and provided estimated savings of more than £400,000 per year.

The project ran from August 2010 to April 2011, with 44 staff relocating. The Welsh Government delivered the Wave 2 project to time and under budget, and made use of break-clauses for each of the five properties to ensure that there were no additional costs for vacating them.

**3.33** The Welsh Government is now undertaking further rationalisation of its estate through Location Strategy 2 (Box 4), with the aim of further reducing the size of the estate to 13 core properties by April 2015, with the aim of saving £18 million. Whilst some rationalisation took place during the period of the (first) Location Strategy, it mostly involved offices closing down and the relocation of staff to the three new buildings.

#### Box 4 – Location Strategy 2

Location Strategy 2 (2010-2015) seeks to re-affirm a set of principles that will provide a framework for sustainable management of the Welsh Government's administrative estate, maximising the investment in its new offices. The overarching aims of Location Strategy 2 are to sustain Welsh Government jobs and offices in key locations in support of local economies, to reduce greenhouse gas emissions and deliver a 30 per cent reduction against current occupancy costs.

In July 2010, the Welsh Government Cabinet agreed a set of key principles that provide the framework for progressing the strategy:

- the Welsh Government's administrative estate will be managed on a regional basis (across five geographical areas: Cardiff; South East Wales; South West Wales; Mid Wales and North Wales);
- the termination of leases will be considered on due expiry dates and lease break options exercised as and when deemed appropriate;
- flexible working practices will be adopted across the estate; and
- the utilisation of retained office accommodation will be maximised, including opportunities for co-location with other public sector organisations.

The current position is the result of a substantial decrease in the numbers of Welsh Government staff, following the voluntary exit scheme. This decrease in staff has led to substantial spare capacity and the poor indicators of performance observed in terms of office efficiency.

The Welsh Government estimates that the cost of implementing the Location Strategy 2 project will be more than offset by the savings released from reduced rents and the sale of redundant properties. The Welsh Government estimates that Location Strategy 2 has the potential to generate cumulative annual savings in building running costs in excess of £5.3 million from 2015.

**3.34** In 2010, the Welsh Government established a project to review the accommodation in the Merthyr Tydfil office and improve efficiency through more flexible working practices and better space utilisation. Central to the project was the provision of eight desks for every 10 employees based at the office, because occupancy is rarely near full capacity and the Welsh Government wanted to create additional space for meeting areas, kitchens and storage. The project allowed the more efficient use of space at the Merthyr Tydfil office and generated the capacity to relocate 137 additional posts from offices closed at Nantgarw, Pontypool, Tremorfa and Cwm Cynon. Following the review of the Merthyr Tydfil office, the Welsh Government has started similar reviews of its Aberystwyth and Llandudno Junction offices.

#### The new offices have all achieved a BREEAM 'excellent' rating for their environmental performance

**3.35** The Welsh Government required that the new buildings should 'seek to achieve the Building Research Establishment Environmental Assessment Method (BREEAM) 'excellent' standard (Box 5). All versions of the business case stated that the buildings should be as 'green', efficient and functional as possible, but also be of the highest quality design reflecting the Assembly's role and standing. The buildings should have the potential to be nominated for a national building design award.'



#### Box 5 – BREEAM

The Building Research Establishment (BRE) champions excellence and innovation in the built environment, and operates the Environmental Assessment Method (BREEAM). The BRE rates and certifies buildings ranging from 'pass' to 'excellent' in accordance with their environmental credentials. As landmark buildings that do not fall in to a common building category, the BRE assessed the Welsh Government's offices at Merthyr Tydfil, Aberystwyth and Llandudno Junction as bespoke buildings with the BREEAM assessment criteria specifically tailored to the building type.

- 3.36** All three of the new buildings have achieved the BREEAM 'excellent' rating for their potential environmental performance. At targeted levels of occupancy, the Llandudno Junction office has the capability to exhibit the best environmental performance of all buildings in the Welsh Government's estate. Examples of energy saving initiatives included in the Llandudno Junction office are rainwater recycling, natural ventilation, a biomass boiler and smart energy meters. The project also won the Bespoke Building category at the 2010 Building Research Establishment awards. The awards recognise and reward those involved in the design and construction of the highest scoring buildings certified under BREEAM.



## Appendix 1 – Methodology

### Review of programme documentation

We reviewed a wide range of Location Strategy Programme documents and files. Programme files include various emails, memos, minutes, data, reviews and reports on all aspects of the Programme and individual projects. Documentary evidence for some of the earliest stages of the Programme could not be found. The documents we reviewed included:

- Programme Board minutes
- Welsh Government Cabinet minutes, statements and memos
- Welsh Government Management Board minutes
- Advice to Ministers and Senior Civil Servants
- Project Board minutes
- The Relocation Strategy report
- Vision and Blueprint
- Strategic, Outline and Full Business Case
- Gateway Reviews
- Benefits management documents
- Programme and project lessons learned reports
- Programme and project and end of stage closure reports
- Construction project cost comparison reports
- Location Strategy 2 documents
- End of project reports
- Project Assurance reviews
- Location Strategy Finance Operational Handbook
- Programme strategies – communications; benefits; business continuity management; quality management; planning; risk; stakeholder management; lessons learned; issue management
- Governance arrangements documents
- Documents, including legal advice, in relation to Llandudno Junction pause and review
- Welsh Government Internal Audit reports
- Welsh Government State of the Estate reports (2008-09, 2009-10, 2010-11, 2011-12 and 2010-13)
- Bangor University review of Welsh Government Location Strategy Programme
- Programme change control strategies and documents



## Literature review

We reviewed relevant research and guidance material from a number of other sources, including:

- Experian (The Impact of Relocation); National Audit Office (The office accommodation of the Department for Culture, media and Sport and its sponsored bodies); House of Commons Library (The Lyons and Gershon reviews and variations in civil service conditions; Improving the efficiency of central government office property; Getting the best from public sector office accommodation; Improving Public Services through better construction); The Standards Board for England (Relocation Case Study, Manchester MIDAS); HM Treasury (The Green Book); Lyons Review; Scottish Executive (The Relocation Guide); Office of Government Commerce (Gateway Review and Construction Excellence guidance).

## Interviews with Welsh Government officials

We carried out interviews with the following Welsh Government staff:

- Programme Senior Responsible Owner
- Programme Managers
- Programme Director
- Project Managers
- Deputy Project Managers
- Location Strategy Programme Board Non-Executive Director
- Programme Team leads and members from finance, procurement, programme management, standards and assurance, communication, benefits management
- Trade Union representatives, human resources
- Senior Responsible Owners for the new officers
- Head of Facilities Management
- Facilities Managers
- Head of Estates

## Other interviews

We gathered information from interviews with other key stakeholders including: construction contractors, construction project managing agents, construction project consultants, Conwy County Borough Council, Ceredigion County Council and Merthyr Tydfil County Borough Council.

## Data and statistics

We analysed data and statistics on the following:

- option and financial appraisal;
- relocation of posts to new offices; and
- expenditure and costs for the individual projects and the whole programme.

## Appendix 2 – Timeline

Key	Red – Programme Green – Merthyr Tydfil project Blue – Aberystwyth project Orange – Llandudno Junction project
Date	Event
October 2001	Welsh Government review of office accommodation commissioned
June 2002	Publication of the Relocation Strategy report
October 2002	Rhyd-y-Car in Merthyr Tydfil confirmed as location for South Wales office
March 2003	Operational delivery of the Location Strategy starts
April 2003	Gateway Review 0 finds significant weaknesses in the Location Strategy Programme
April 2003	First estimate of total cost of the Location Strategy was £100m
June 2003	Second estimate of total cost of the Location Strategy was £100m
July 2003	Significant changes made to arrangements for governance and human resources within the Location Strategy
September 2003	Publication of Merthyr Tydfil Project Assurance Review
2004	Publication of the programme's Vision and Blueprint
March 2004	Parc y Llyn in Aberystwyth confirmed as location for the Mid Wales office
March 2004	Ceredigion County Council express an interest in locating next to the Welsh Government office at Parc y Llyn, Aberystwyth
April 2004	Strategic Business Case confirms the aims of the Location Strategy
May 2004	Llandudno Junction confirmed as the location for the North Wales office
May 2004	Strategic Business Case issued with accommodation options
May 2004	Welsh Government agreed a lease-purchase contract with David McLean Developments for the Merthyr Tydfil office
August 2004	Design Commission for Wales reviewed the original design of the Merthyr Tydfil office



Key	Red – Programme Green – Merthyr Tydfil project Blue – Aberystwyth project Orange – Llandudno Junction project
Date	Event
December 2004	Version 0.1 of the Outline Business case issued
December 2004	Third estimate of total cost of the Location Strategy was about £80m
February 2005	Paper to Cabinet on risks, concerns and benefits of move to Aberystwyth and Llandudno Junction
May 2005	Merthyr office construction starts
July 2005	Gateway review finds governance concerns
September 2005	Version 0.2 of the Outline Business case issued
December 2005	Version 0.3 of the Outline Business case issued
December 2005	Welsh Government and Ceredigion County Council tender for their Aberystwyth offices
January 2006	Initial draft of the Full Business Case (version 0.1) - expansion of the Outline Business Case
February 2006	Welsh Government and Ceredigion County Council enter into separate contracts for Aberystwyth offices
April 2006	Four Welsh Government Sponsored Body merge into the Welsh Government
April 2006	Version 0.4 of the Outline Business case issued
July 2006	Gateway review finds more governance concerns
May 2006	Construction contract awarded to HBG for the Llandudno Junction office
January 2007	Merthyr Tydfil office is completed
March 2007	The Relocation Strategy date to complete the relocation of staff from Cardiff
June 2007	Ceredigion County Council stop their contract with Carillion at Aberystwyth but the Welsh Government continue their contract
July 2006	Version 0.5 of the Outline Business case issued
September 2007	Llandudno Junction construction project paused because of rising costs leading to termination of the contract with HGB
November 2007	Aberystwyth office construction starts
December 2007	Version 2 of the Full Business case issued

Date	Event
Key	Red – Programme Green – Merthyr Tydfil project Blue – Aberystwyth project Orange – Llandudno Junction project
December 2007	Start of re-procurement for Llandudno Junction construction contract
March 2008	Version 3 of the Full Business Case issued
April 2008	The Welsh Government four year voluntary exit scheme commences
June 2008	Version 4 of the Full Business Case issued
July 2008	Red status fourth Gateway Review 0 report issued
August 2008	Fourth estimate of the cost of the Location Strategy was £85.6m
October 2008	Major revisions to programme governance and management structure
October 2008	Llandudno Junction construction contract awarded to Pochins
November 2008	Llandudno Junction office construction starts with new contractor, Pochins
February 2009	Review compares the construction costs of the Welsh Government and Ceredigion County Council offices in Aberystwyth
April 2009	Version 5 of the Full Business Case issued
June 2009	Gateway review confirms improved governance and management
July 2009	Aberystwyth building is completed
4/2010-3/2012	Period when most voluntary severances took place
April 2010	Llandudno Junction office completed
August 2010	Llandudno Junction Wave 2 project starts
September 2010	Llandudno Junction office opens
April 2011	Llandudno Junction Wave 2 project completed
June 2011	Review issued of Location Strategy economic benefits by Bangor University
July 2011	Gateway Review of benefits realisation
December 2011	Completion of Location Strategy Programme
April 2012	Enabling government portfolio review of benefits



## Appendix 3 – Relocation Strategy report recommendations

The *Relocation Strategy* report made 23 recommendations with the overall aim to implement a clear and practicable plan to re-locate outside Cardiff by 2007 a minimum of 400 existing Cardiff-based Welsh Government jobs at a range of grades, with scope for further decentralisation in the years following.

The recommendations of the review were:

- 1 To accommodate an expected increase of at least 900 in the number of Assembly Government jobs outside Cardiff by 2007, the Assembly should acquire three new offices in North, Mid and South Wales, each accommodating at least 300 colleagues.
- 2 It is recommended that, in principle, existing offices should remain.
- 3 It is recommended that the implementation of the relocation strategy should be 'accommodation led'.
- 4 Areas of work should be moved to locations that reflect that area of work or contain the main customer base for it.
- 5 It is recommended that each of the new locations include at least one policy division.
- 6 It is recommended that the application of the terms and conditions for staff choosing to relocate or move job within reasonable daily travelling distance are interpreted in a flexible way to encourage colleagues to change locations.
- 7 It is recommended that, should the Assembly Government decide to use new build office accommodation, then that accommodation should aim to achieve the appropriate BREEAM standard (Building Research Establishment Environmental Assessment Method).
- 8 It is recommended that the monitoring of staff numbers from ethnic minorities includes analyses by location.
- 9 It is recommended that the search for premises for the three new offices proposed should be restricted to the Objective 1 area.
- 10 It is recommended that all functions new to the Assembly – unless there are strong operational reasons otherwise – should be based outside Cardiff.
- 11 It is recommended that there should be a steady increase in the number of Senior Civil Service posts based outside Cardiff and including at least one in each of the three new multifunctional offices established between now and 2007.
- 12 Offices should have reception facilities and access to Assembly information for the public on a 'drop-in' basis.



- 13** Offices should have good meetings facilities to allow the Assembly to host more meetings/ conferences at its own offices. These facilities should be sufficient to allow formal committees to meet in them.
- 14** A one-stop shop for central services should be provided at each office – providing a local link to personnel, accommodation and ICT services.
- 15** Enhanced ICT facilities should be provided at all the Assembly’s offices including a progressive upgrading of the video-conference facilities to allow more and larger meetings to be conducted over these links.
- 16** It is recommended that, as work is moved out of Cardiff, there is some rationalisation of office space in Cardiff, concentrating almost all Assembly Government activity within the Cathays Park offices in the longer term (post 2007).
- 17** It is recommended that where new larger offices are being established, these should include some provision of desks and computer links for officers based elsewhere in the Assembly and for homeworkers on a pilot basis.
- 18** It is recommended that the Assembly Government continues to promote more, and more effective homeworking.
- 19** It is recommended that each business area review the time being spent at face-to-face meetings and consider alternative approaches.
- 20** It is recommended that courses on managing staff in remote locations are included in the Assembly’s core training programmes and that such training is provided to all senior level staff.
- 21** It is recommended that, where ‘natural breaks’ occur, that – in consultation with the relevant Assembly Government sponsor division, each ASPB should submit a business case that includes a fully costed and realistic option for location offices elsewhere in Wales.
- 22** It is recommended that an analysis of accommodation requirements and location be included in the terms of reference of future quinquennial [ie, five-yearly] reviews of ASPBs.
- 23** A framework for closer local links between relevant Assembly Government officials in all offices and other public sector bodies in the area should be put in place.



## Appendix 4 – Location Strategy client projects

Client project	Objective
Merthyr Tydfil, Aberystwyth and Llandudno Junction HR projects	To drive the business change elements relating to the new offices. The projects were the communication and engagement tools for new ways of working and mobilisation of staff.
Information and Communications Technology	To deploy greater access to information and communication technology equipment and desktop video conferencing facilities.
Working Bilingually	To deliver products based on a bilingual working environment in the new Location Strategy offices, how this could be established to support the achievement of this statutory responsibility.
Future Facilities Management	Rationalise the number of contracts for facilities management; establish a consistent standard of specification, performance management and establish where possible new and innovative solutions to address sustainability issues.
Merthyr Tydfil Flexible Working	To review the current (November 2011) accommodation in the Welsh Assembly Government office in Merthyr Tydfil with a view to embedding flexible working practices across the whole office and to identify opportunities for further estate rationalisation.
Llandudno Junction Wave 2	To manage the closure of five Welsh Government offices in North Wales in addition to those originally planned. The key drivers were to manage cost by reducing the size of the estate and increase occupancy levels at the Llandudno Junction office.

Source: Welsh Government

## Appendix 5 – Location Strategy benefits

The Benefits Realisation Plan provided details of the benefits identified in the Location Strategy Business Case. The Benefits were categorised into the four themes:

- Sustainable Development
- Economic Regeneration
- Increased Engagement and Awareness
- Better Working Environment

Benefit	Measurement	Target	Timing
<b>Sustainable Development</b>			
Reduced amount of surplus, redundant and non-compliant premises across Welsh Assembly Government Estate	Number of properties across the estate	67 properties by 2012	2008 - 2012
Increased residual asset value of new offices	Asset Value	None (baseline Value of estate £35,255,000 (2005); 2010 £92,240,000)	2008 – 2012
Increased number of Welsh Assembly Government posts relocated outside of Cardiff	Current Welsh Government posts outside of Cardiff	60 per cent	2006 – 2012
Increase the Welsh Assembly Government's commitment to Sustainable Development	<ul style="list-style-type: none"> <li>• Achievement of BREEAM excellent rating</li> <li>• Green Travel schemes</li> </ul>	Achieve BREEAM Excellent rating	2006 - 2011
Reduced savings on rent as a result of properties being released	Amount of rent paid (£)	None	2008 – end of programme



Benefit	Measurement	Target	Timing
<b>Economic Regeneration</b>			
Increased amount of new employment opportunities in the local communities	Welsh Government new opportunities across Wales for each office on opening	Amount of new posts recruited	2006 – 2010
Increased local wealth through introduction of Assembly relocated posts – disposable income ‘betterment’ impact	Established through economic study	None	2006 – unknown
Increased number of job opportunities in local area during construction phases	Amount of job opportunities	None	2005 – 2010
Increase redistribution of wealth from Cardiff into objective one areas	Established through economic study	None	2006 – unknown
<b>Engagement and Awareness</b>			
Increased awareness and engagement with the Welsh Assembly Government	Methods available	None	October 2009 – 2012
More engaged public	Number of visitors to public access area	None	October 2009 – 2012
Better understanding and awareness of the Welsh Assembly Government	Number of events held internally and externally	None	October 2009 – 2012
Better Customer Service	Number of compliments and complaints measured through feedback forms	None	October 2009 – 2012
More public queries resolved	Number of queries resolved	None	October 2009 – 2012

Benefit	Measurement	Target	Timing
<b>Better Working Environment</b>			
Improve the working environment for staff	Survey on current working environment for staff relocating	On going	2006 – unknown
Increased visibility of leaders	Survey on current working environment for staff relocating	100 per cent	2006 - end of programme
More staff can adhere to the clear desk policy	Survey on current working environment for staff relocating	100 per cent	2006 - end of programme
Increased areas of flexible working	Survey on current working environment for staff relocating	100 per cent	2006 - end of programme
Improved access for staff to corporate services	Access to corporate service	100 per cent	2006 - end of programme
Better security and confidentiality of information	<ul style="list-style-type: none"> <li>Percentage of staff requiring building passes to access building</li> <li>Percentage of staff having access to dedicated on site RMU</li> </ul>	100 per cent	2006 - end of programme
Improved accommodation environment as storage requirements are reduced	Survey on current working environment for staff relocating	None	2006 - end of programme