

tie Project Gateway 3 Review

Date of issue to City of Edinburgh Council Chief Executive: 9 Oct 2006

Review dates: 25 Sep 2007, 1–4 Oct 2007

Readiness Review Team Leader: Malcolm Hutchinson

Readiness Review Team Members:

**Mike Heath
Sian Dunstan
Willie Gillan**

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Background

The aims of the project:

The objective of the tram network is to help to create the transport infrastructure necessary to promote and support a growing local economy and create a healthy, safe and sustainable environment.

Substantial road traffic growth across the Edinburgh area combined with forecast population and employment increases will lead to significant growth in road congestion. Sustainable growth can only take place with a step change in public transport. Road space must be created by modal shift away from cars, to enable economic growth to take place without aggravating congestion. A tram system will enable new development and continued growth of existing development in a sustainable way. Without it, growing traffic congestion and lack of access to development sites will curb future growth and threaten the economic prosperity of the city as the capital.

The driving force for the project:

The tram project is being promoted by City of Edinburgh Council ("CEC") with the support of the Scottish Government. Capital funding is expected to be provided by CEC and Scottish Government through Transport Scotland ("TS").

The procurement status:

Our understanding of the position is as follows:

- Operator designate appointed as a consultant to **tie**;
- Designer appointed with preliminary designs completed and 65% of detailed designs completed;
- Tramco vehicle supplier selected with appointment expected in January 2008
- Infraco tender returns submitted and evaluated with preferred bidder expected to be announced in October 2007
- MUDFA contractor appointed on fixed-rate contract with initial works underway
- Final Business Case draft available, expected to be completed and submitted to CEC on 25 October 2007.

Current position regarding Review Programme:

The review team undertook a readiness review in May 2006. A further review, aligned with the criteria for a Scottish Government OGC Gateway 2 Review, was undertaken in September 2006 with a follow up review on the progress against recommendations in November 2006. This Gateway 3 review has been aligned with the criteria for a Scottish Government OGC Gateway 3 review and has been timed to fall just before appointment of the preferred bidder for the Infrastructure Supply contract.

Purposes and conduct of the Gateway Review

The primary purposes of the review were to comment on the likely success of the project in line with the remit set out in Appendix A.

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Conduct of the Gateway Review

This Gateway Review was carried out from 1 October to 4 October 2007 at **tie** offices in Edinburgh with one interview held by videoconference on 25 September. The team members are listed on the front cover.

The people interviewed are listed in Appendix B.

The documents listed in Appendix C were made available to the review team but these were not all comprehensively reviewed.

The review team would like to thank the CEC, **tie**, and TEL teams and advisers for their support and openness which contributed to the review team's understanding of the Project and the outcome of this review.

Conclusion

The Review Team finds that:

- The project is continuing to make good progress. **tie** has conducted a robust competitive procurement in a difficult market within the agreed procurement strategy
- There have been a number of changes in the senior management team including project director and **tie** has successfully managed these changes. We note that further changes will be necessary going forward and have made some recommendations in this regard, consistent with our previous recommendations based on best practice.
- The project faces a challenging period over the next three months with the requirement to appoint a preferred bidder; for due diligence and contract novations to be finalised, and formal funding support to be evidenced. All of these to be achieved alongside MUDFA and mobilisation works and the maintenance of a tight programme of planning and technical approvals. We have recommended that these decisions are taken as soon as possible and there is a coordinated senior management focus on the programme for this phase to enable the probability of achievement of the target contract close date to be maximised, whilst delivering a Best Value outcome.
- A summary of recommendations can be found in Appendix D.

Status

The review team has assessed the overall status of the Project as **Green** as defined below:

Red – To achieve success the project should take action immediately

Amber – The project should go forward with actions on recommendations to be carried out before the next review of the project.

Green – The project is on target to succeed provided that the recommendations are acted upon.

Findings and recommendations

1. *Confirm that the latest version of the full business case shows that the benefits plan is still valid and that it incorporates relevant information from potential suppliers and/or delivery partners.* The latest version of the full business case was supplied to the team. Since the preferred bidder for the Infraco has not yet been determined, it is not final although we understand that the final version will be updated with the costs, etc determined from the preferred bidder's figures. The draft we have seen appears robust with a Benefit Cost ratio ("BCR") of 1.77 even without section 1B of the scheme incorporated. The cancellation of the EARL project has enhanced the robustness of the tram project. However, we understand that **tie** has been instructed to compile the Business case on the basis that the current concessionary bus fares scheme will apply to tram as well. This cannot be confirmed until the outcome of the planned national review of concessionary fares is known. There has been no sensitivity on the BCR for the case where concessionary fares were not available to tram passengers on the same basis as for buses and whilst we have been advised that this would be extremely unlikely, we would be concerned that the BCR might reduce in these circumstances since there would be reduced patronage for the tram and a significant loss of goodwill.

We would **recommend** that the BCR and/or the TEL cash surplus, as appropriate, are tested for sensitivity to changes to current assumptions on concessionary fares so that the implications are known.

We would also comment that the entire costs of the project cannot be finalised until the due diligence process with the preferred bidder, value engineering and alignment of contract terms has been completed. We understand that value engineering could lead to a significant element of reduction but that some of this could be offset by the outcome of the due diligence process. We understand that there is significant contingency in the costings so it may well be that these effects will have a minimal impact on BCR.

2. *Confirm that the objectives and desired outputs of the project are still aligned with CEC's vision for the project* We have met with the CEC directors of Development and Finance who have each confirmed that this is the case.
3. *Assess the evidence provided by **tie** to demonstrate that all the necessary procurement process requirements were followed throughout the procurement and evaluation process.* The review team have interviewed both the **tie** team and representatives from the Tramco preferred bidder and each of the Infraco bidders. The **tie** team have explained the process and we have sampled some of the technical areas and what we have seen appears sound. All of the bidders have stated that they believe that they have been treated fairly although concerns as to the length of time of the process were raised. The Infrastructure bidders both stated that they would prefer an early appointment of preferred bidder in order to optimise the time available for the due diligence and final negotiation processes. We understand that there has already been a delay from the dates that were notified to them at the time of

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submission of BAFOs. All bidders noted the unusual process in respect of novations but all stated that they had become comfortable with it.

4. *Confirm that the recommended decision for the Infrastructure Supplier if properly executed within the planned suite of agreements, including the novation of the tram supply and design contracts and future interface with the operating contract, is likely to deliver the specified outputs/ outcomes on time, within budget and provide value for money.*

a. At the time of writing the report, there is no recommended preferred bidder for the Infrastructure supply so we cannot comment on the decision which is expected imminently.

b. We have not studied the agreements in detail but have been assured that there is a process in place to ensure that there are no mismatches in obligations between the Infraco Contract and the two contracts that will be novated to the Infrastructure Supplier. The partner from DLA who has led the legal advice to **tie** to date will be seconded to **tie** full time to ensure that the suite of contracts is fully aligned.

c. The timeliness of project delivery is of concern. Both bidders have raised the concern that the planned preferred bidder period which will include due diligence on the designs and the novated contracts is tight. There is already a requirement for an overlap between the due diligence process and the mobilisation phase. We have seen a draft of the preferred bidder agreement which sets out the arrangements between preferred infrastructure supplier and **tie**. Appended to this is the list of activities and agreements that need to be finalised during the preferred bidder period and the areas of uncertainty of scope and price that need to be finalised. We believe that this would be very challenging to achieve by the target date at the level of quality that is expected and **we recommend** that the preferred bidder is appointed as soon as possible and that the programme during the preferred bidder period is monitored closely at a senior level. **We recommend** that the **tie** team should actively consider:

- i. the levels of certainty required to meet the CEC approval process and how this will be achieved; and
- ii. the implications of contract signature not being achieved by the target date of 28 January; and
- iii. the necessary consequences of any areas which cannot be finalised by contract signature and novation and how (and when) full certainty will be established.

We understand that there is significant contingency within the current costings and that the team expect that the current budget will be more than adequate for Phase 1a and the majority of 1b. It will not be possible to determine this precisely until the Infrastructure contract price is finalised after the due diligence and value engineering work is complete. The MUDFA contract is not a fixed price contract so there will always be uncertainty on outturn costs until these works are complete. Given the time constraints that exist, **we recommend** that the process of managing funding and contingencies should be agreed between **tie and** CEC and regularly reported.

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5. *Ensure that management controls are in place to manage the project through to completion, including contract management aspects.* We understand that there will be a restructuring of the **tie** team to align the responsibilities more closely to the requirements of the mobilisation and construction phases. We have been provided with an early version of a revised organisation chart (appended) which appears appropriate to us and in line with best practice. A key feature of this is that there is an empowered project director reporting to the Tram Project Board. In order for the benefits of this new structure to be fully realised, we believe that the current sub-committees of the Tram Project Board should be revisited with any retained sub-committee activity reporting to the project director. It should also be made clear that the programme director is effectively the deputy project director.

In addition there is a recognition that, over the construction period, the TEL management team will need to be strengthened. This has been highlighted as a priority for next year's project planning processes.

Continuity of resource is important within the structure to ensure that the "corporate memory" is retained from the negotiating phase into the implementation.

6. *Assess evidence that key stakeholders continue to support the project.* The review team has interviewed representatives from **tie**, TEL, CEC and Transport Scotland and there is clear support for the project. The formalisation of the Scottish Government support in the form of the Grant letter has yet to be finally agreed and delivered to CEC but we understand that this is imminent. **We recommend** that this is agreed as soon as possible to underpin the funding for the project and eliminate existing uncertainties that have been expressed by bidders.
7. *Confirm that the approved delivery strategy has been followed or understand why there have been changes.* The delivery strategy has clearly been followed with separate procurement of the key elements of design, utilities diversions, tram supplier and infrastructure supplier followed by novation of design, designer and tram supplier into the infrastructure contract. There have been a number of key changes within this overall delivery strategy, namely :
- the reduction in the role of TSS as the design checkers and an increase in the responsibilities of **tie** in this area including the introduction of the **tie** Engineering Department
 - the co-location of CEC planning officials and **tie** to expedite the planning approval process; and
 - major change to the governance for the project which has resulted in a more focused strategy whereby CEC has sole responsibility for the procurement and risk of any cost overruns and Transport Scotland being the major funder.

The review team believes that all of the above changes have been extremely positive and will contribute to the likelihood of success of the project.

8. *Comment on the adequacy of plans for delivery and extraction of benefits.* The **tie** business case is fully incorporated into TEL business plan to integration of public transport in Edinburgh. We understand that recent concerns regarding the lack of clarity of funding for 1b should be eliminated in the grant funding letter and the business case indicates that the potential

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development of 1b should contribute to the important regeneration aspirations of the City and deliver a significantly improved benefit cost ratio.

9. *Check that the business has prepared for the development, implementation, transition and operation of new services/ facilities, and that all relevant staff are being (or will be) prepared for the business change involved.* Detailed plans for the next stage of the process are in place with the enhanced involvement of the TEL team who will be responsible for the management of the operations and maintenance going forward. Following from the competitive phase of the project, it will be important for a partnering ethos to be actively developed so that the preferred bidder and implementation phases are constructive and not unnecessarily adversarial. See also our comments on Item 5.
10. *Confirm that there are plans for risk management, issue management and change management (technical and business), and that these plans are shared with suppliers and/or delivery partners.* We have met the risk manager who has explained the tools that are being used to identify, monitor and manage the risks in the project. These are impressive. The registers are kept up to date and there is a process for key risks to be highlighted at the Tram project board and the tie board. If there is any weakness, we would note that discussions of these risks have not always been reflected in specific actions in the tram project board minutes.

We recommend that there is continuing high level focus on the management and mitigation of key risks and that the very good work that is being done by the risk manager is effectively used and acted upon by senior management.

We also note that some risks which arise have not always been immediately incorporated into the risk registers and consequently **recommend** that all risks that are related to the tram project that are borne or shared by tie, TEL and CEC are incorporated into the reports that are given to the Tram Project

11. *Confirm that the technical implications and information assurance have been addressed.* We believe that the technical implications of a tram project are fully understood by the project team but there is still some education needed within the wider stakeholder community. There is a process for achieving the necessary planning approvals and it needs to be kept under review to ensure that the right balance between value engineering and timely achievement of planning approvals is maintained.
12. *Evaluate actions taken to implement recommendations made in any earlier assessment of deliverability.* At the time of the follow up review in November 2006 we found that all of the recommendations of the Stage 2 report had been fully or substantially achieved.

APPENDIX A

**Edinburgh Tram
Gateway 3
Remit for Review**

Client	City of Edinburgh Council ("CEC")
Involved	CEC, TEL, tie (Project Management)
Dates:	Commencing 25 th September 2007 with final report due on 4 th October 2007.
Team:	Malcolm Hutchison, Sian Dunstan, Mike Heath, Willie Gillan
Location:	CityPoint, Haymarket Terrace, Edinburgh
Conduct:	The review team will be provided with documentation and conduct interviews with key individuals from CEC, TEL, tie , advisers and bidders. The review team will address a report to the Chief Executive of CEC setting out findings against the following points:
Purpose:	<p>Confirm that the latest version of the full business case shows that the benefits plan is still valid and that it incorporates relevant information from potential suppliers and/or delivery partners.</p> <p>Confirm that the objectives and desired outputs of the project are still aligned with CEC's vision for the project</p> <p>Assess the evidence provided by tie to demonstrate that all the necessary procurement process requirements were followed throughout the procurement and evaluation process.</p> <p>Confirm that the recommended decision for the Infrastructure Supplier, if properly executed within the planned suite of agreements, including the novation of the tram supply and design contracts and future interface with the operating contract, is likely to deliver the specified outputs/ outcomes on time, within budget and provide value for money.</p> <p>Ensure that management controls are in place to manage the project through to completion, including contract management aspects.</p> <p>Assess evidence that key stakeholders continue to support the project.</p> <p>Confirm that the approved delivery strategy has been followed or understand why there have been changes.</p> <p>.</p> <p>Comment on the adequacy of plans for delivery and extraction of benefits.</p>

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Check that the business has prepared for the development, implementation, transition and operation of new services/ facilities, and that all relevant staff are being (or will be) prepared for the business change involved.

Confirm that there are plans for risk management, issue management and change management (technical and business), and that these plans are shared with suppliers and/or delivery partners.

Confirm that the technical implications and information assurance have been addressed.

Evaluate actions taken to implement recommendations made in any earlier assessment of deliverability.

tie Project Manager: Susan Clark

Approved		
City of Edinburgh Council	Date
Transport Scotland	Date
Tie	Date

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APPENDIX B**Interviewees**

NAME	ROLE
Willie Gallagher	Executive chairman, (tie)
Matthew Crosse	Project Director (tie)
David Mackay (by videoconference)	Chairman (TEL)
Donald McGougan	Finance Director (CEC)
Geoff Gilbert	Commercial Director (tie)
Mark Hamill	Risk manager (tie)
Duncan Fraser	Tram Coordination (CEC)
Miriam Thorne	Head of Tram Project Finance (tie)
Jim McEwan	Business Improvement and Technology Director (tie)
Colin McLaughlin	Director of Corporate Affairs (tie)
Alistair Richards	Operations and Maintenance (TEL)
Sharon Fitzgerald	Legal Adviser (DLA Piper)
Malcolm Reed	Chief Executive (Transport Scotland)
Neil Renilson	Chief Executive (TEL)
Tom Aitchison	Chief Executive (CEC)
Andrew Holmes	Director of City Development (CEC)
Susan Clark	Delivery Director (tie)
Scott McFadzen	BBS (Infraco bidder)
Thomas Gottweiss	BBS (Infraco bidder)
Mike Burgess	Tramlines (Infraco bidder)
Alan Paulton	Tramlines (Infraco bidder)
Colin Neill	Tramlines (Infraco bidder)
Alejandro Urriza	CAF (Tramco preferred bidder)
Olatz Bastida	CAF (Tramco preferred bidder)

APPENDIX C

Documents made available to Review team by tie

1. Briefing Notes for OGC Gateway Review 3
2. Project Management Plan/ Functional Specification (see section 5 of the Final Business Case) / Project governance August 2006 & Sept 2007 / Organisation charts/ C.V's
3. Risk Management Plan and Risk Procedures / Concerns Management Procedure / Primary Risk Registers / Risk Allocation Matrices Infraco and Tramco
4. Communications and Stakeholder Management Plan / Customers Management Update / Frontager and Wider Community Status / tie Communications with Stakeholders during MUDFA works
5. Design Management Plan / Design Tracker / Prior Approvals Plan / Commentary on Status of Critical Design Issues to be Resolved (see TPB Report Period 6)
6. Project Controls Management Plan / Cost Control Procedure / Periodic Reporting Procedure
7. Information Management Plan / Procedures
8. HS&Q Management Plan / Environmental Management Plan
9. Land Assembly Management Plan / Procedures for Accessing Land and Property / Land Assembly Progress Report
10. Traffic Management Plan / TRO Strategy Presentation / Traffic Management Review Panel Minutes 24.09.07 / Schedule of Approved Future Traffic Management Works
11. Change Management Procedure / Delegated Authority Rules / Change Logs
12. Planning and Scheduling Procedure / Commentary on Changes from Gateway Review / Actual Design Progress / Programme
13. Current Final Business Case
14. Budget Breakdown
15. Award letter – draft / Minutes of TS-CEC (tie) meeting 20 Sept 2007)
16. TS Report Period 5
17. TPB Report Period 6
18. TPB Report Period 5
19. Tramco Evaluation Report
20. Infraco Evaluation Criteria / Evaluation Methodology for Infraco Submissions

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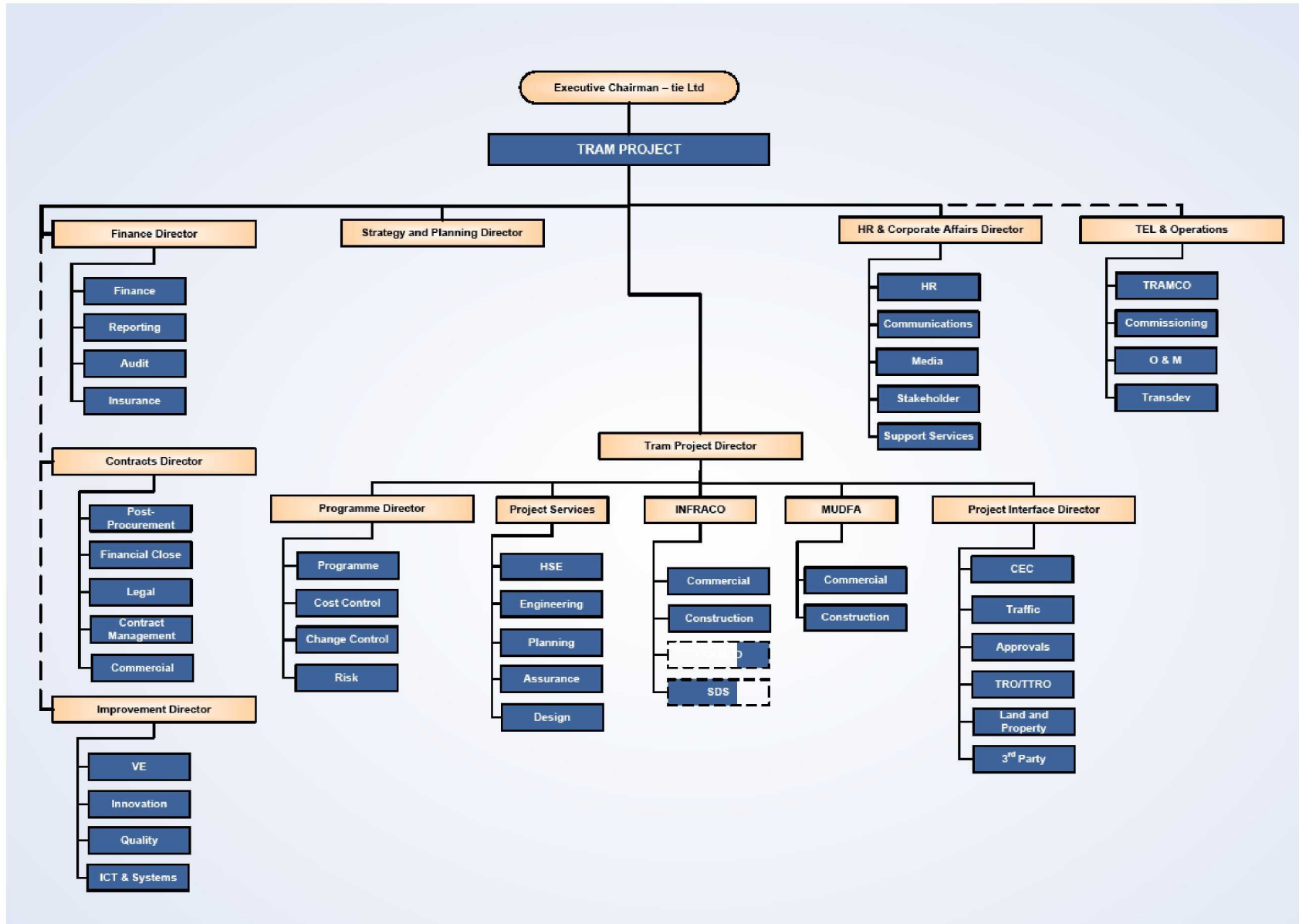
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21. Infraco and Tramco Tender Evaluation and Negotiation Guide (290507)
 22. TPB Papers on Advanced Works
 23. CEC Resource Paper
 24. Key Points of Contact with Transport Scotland and Government
 25. Road Demarcation Agreement
 26. Future Contract Structure
 27. MUDFA programme, progress and commentary / MUDFA Organisation and Reporting Lines / MUDFA Sub-Committee remit notes/ Evidence of Trial site
 28. Concessionary Fare Scheme Reference Letter / Minutes of TS CEC Meeting 20.09.07
 29. **tie** Performance Regime Assessment
 30. System Performance
 31. ER's Vol 1 & 2
 32. Revenue and Risk Report
 33. STAG2 Appraisal
 34. TPB paper ROGS
 35. Safety Verification Plan
 36. Paper to Update on Funding 02.10.07
 37. High Level Risk Allocation Matrix 29.08.07
 38. Audit Scotland Report
 39. Preferred Bidder Agreement (draft)
 40. Draft and Index and Finalisation Issues Mechanism for Adjustment of Prices
 41. TPB minutes 19.04.07
 42. DPD minutes 02.08.07
 43. Email on **tie** Exec and Infraco Mobilisation Support
 44. Paper on Resourcing Challenges for **tie** 2007
 45. Organisational Delivery Plan – October 2007 – Implementation
 46. Organisation Chart
 47. Draft Technical Evaluation Report
 48. Final Insurance Evaluation Report

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Appendix DSummary of recommendations

		Status
No.	Recommendation	
1.	that the preferred bidder is appointed as soon as possible.	As soon as possible
2.	that the programme during the preferred bidder period is monitored closely at a senior level.	Urgent
3.	that the tie team should actively consider: i) the levels of certainty required to meet the CEC approval process and how this will be achieved; and ii) the implications of contract signature not being achieved by the target date of 28 January; and iii) the necessary consequences of any areas which cannot be finalised by contract signature and novation and how (and when) full certainty will be established.	Urgent
4.	that the formalisation of Scottish Government support in the Grant Letter from Transport Scotland is agreed as soon as possible to underpin the funding for the project and eliminate existing uncertainties that have been expressed by bidders.	As soon as possible
5.	that the process of managing funding and contingencies should be agreed between tie and CEC and regularly reported.	Ongoing
6.	that there is continuing high level focus on the management and mitigation of key risks and that the very good work that is done by the risk manager is effectively used and acted upon by senior management.	Ongoing
7.	that all risks that are related to the tram project that are borne or shared by tie , TEL and CEC are incorporated into the reports that are given to the Tram Project Board.	Ongoing
8.	that the BCR and/or the TEL cash surplus, as appropriate, are tested for sensitivity to changes to current assumptions on concessionary fares so that the implications are known.	As soon as possible

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