Brief on Proceedings of cost review

Undernoted are brief notes on the meetings held week beginning Monday 4th June to review costs and relevant processes of :-

1 Procurement Programme
2 Value Engineering
3 Resources
4 Risks

1 Procurement Programme

Attendees: Geoff Gilbert, Stephen Bell, Jim McEwan, Stewart McGarrity
Meeting: 4th June 2007

A step through of the plan was carried out and the slippage of the date for confirmation of the preferred bidder from May 2007 to October 2007 was noted. This is a key date in the overall process and explanation/clarification was requested on the reasons for the slippage. The primary reason appears to revolve around delays to the completion of the design from SDS, the plan as it stands shows that the due diligence process will kick in on receipt of the complete plan.

The rationale of de-risking the procurement through ensuring that the design is completed upfront is laudable however the sequential nature of the process carries a cost, and the procurement team were asked to consider a different approach viz.:-

Take 2 months out of the programme through starting due diligence of the critical design items earlier, accepting that in doing this the design process will continue and specifications will therefore be subject to change. Underpinning this approach was a considered view from the Procurement team that the maturity of the design would have reached greater than pareto status by August and therefore that subsequent design changes would be modest and at any rate carry a <£10m aggregate impact (any subsequent refinement on design generating cost would have to be justified by the bidder).Accelerating the programme by 2 months in this fashion carries significant advantage in reducing the aggregate burn on the project.

The process for attaining the various approvals of the contract, once bidder selection was complete, shows over 3 months of elapsed time and has the net effect of taking the completion of the programme out to March 2008. The consensus was that this was too long and that we should aim to conclude by end of this Calendar year. The tie management team would consider how to accelerate the approvals process substantially to achieve this.

Actions agreed

1. CEC to be required to commence review of Infraco proposals for on street works methodology earlier than planned i.e. start now. **Action: Procurement Team**

2. Arrange for David Crawley to meet the review team to explain Critical Issues resolution and how design is now measured. **Action: Geoff Gilbert**

3. Look at the dates for release of completed batches of design information to check whether starting due diligence of critical design items earlier will yield a net reduction in programme to award of contract. Consideration to be given meeting a component of the bid costs for each of the suppliers to incentivise them to meet our requirements in this respect. **Action: Geoff Gilbert**

4. Provide a one page summary programme showing the key milestones through to contract award (financial close) including details of the critical path, progress to date, the sensitivities of each the principal milestones to delay in precursor activities and risks to delivery of each milestone. This to be used on a weekly basis as a 'bellweather' on status of achieving procurement programme.
Action: Procurement team

5. Advise the issues that have led to the delay in the procurement programme, meeting to be arranged with Mathew Crosse. **Action: Geoff Gilbert**

6. Tie Management team to review approvals process

   Action: J.McEwan

Target to complete all actions week commencing 11 June 2007.

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2 Value Engineering

Attendees: Geoff Gilbert, Stephen Bell, Jim McEwan, John Pantoni
Meeting: 6th June 2007

The extensive list of value engineering opportunities was reviewed through on a line by line basis. The opportunities within the list have been classified as Easy, Medium, Difficult to attain., with the value of each opportunity being ascribed a pro-rated anticipated result of Easy (80%), Medium (50%) and Difficult (20%) e.g. where an opportunity is estimated to be worth £1million and attainment determined as Medium, then the anticipated result is 50% x £1million.

The aggregate value of opportunities appraised to date (prior to applying the aforementioned pro-ration) is £72m. 41 further opportunities have been identified, for which the value appraisal has yet to be carried out.

The target at this time for value engineering is £14m, of which £4m has already been banked. Given that the aggregate opportunities stand currently at £72m

It was agreed that while the list was extensive and represented many opportunities, it required to be translated into a formal and co-ordinated plan which would ensure that pursuit of said opportunities was cognisant in its sequencing of the overall project plan i.e. ensuring that opportunities were not lost through being too late in pursuing given the status of works on the overall project.

It was also agreed that a Management synopsis of the plan's progress would be produced for weekly review.

Action Agreed

1 A plan to be constructed for prosecution of the opportunities within the list.discussed showing targeted dates which recognised the overall plan, the targeted value incidenced by date, the owner of each item.

Action: Geoff Gilbert/John Pantoni.

2 An exercise to be carried on the 41 opportunities yet to be appraised to produce a rough order of magnitude on value and determination of classification.

Action: John Pantoni

3 1 page management synopsis report to be produced weekly in time for review at the Tuesday Tie exec board meeting, giving a summary of performance against the plan illustrating the savings achievement to date versus planned achievement on each of the main categories:-

Buildings, Depot, Highways, Land & Property, Network Rail, OLE, Risk, Structures, Supervisory & Comms, System Wide, Third Party, Track Form, Traction Power, Tram Stops, Trams and any new categories emerging.

Action : Geoff Gilbert/John Pantoni.

Target date for Actions 1 & 2 : 8th June
Target date for Action 3: Week beginning 18th June.

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3 Resources

Attendees: Stephen Bell, Jim McEwan, Stewart McGarrity, Susan Clark, Colin McLauchlan

Meeting: 6th June 2007

Current consolidated figures on Resources and associated costs were reviewed on the Tram project and these revealed a £3.6m projected increase over the Draft Final Business case offset by a £1.4m saving.

The figures discussed were as Undernoted.

	£k	
PM Staff Costs	29,114	
Recruitment fees	465	
Travel & Subsistence	365	
IT & S/ware	3,241	
Citypoint Rental	3,495	
Citypoint o/heads	196	
Short Term Contractors	253	
Active Risk Manager	195	
Archaeological supervisor	193	37,517k

Note: These figures do not include £11,046k from the allocation of central overheads.

In keeping with the overall target reduction a figure of £4m was determined as the required contribution from this area.

Discussion took place on the control process for new recruits and it was agreed that This would be reviewed with a view to ensuring that a control point was established in that the HR Director would require to sign off all manpower additions.

Actions Agreed:

1 The target is to reduce current projected costs in this area by £4m. This to be reviewed with Matthew Crosse.

Action: Susan Clark

2 A copy of the recruitment control process to be provided to Jim McEwan.

Action: Susan Clark

3 Tie Management team to carry out review of Central overhead costs with a view to generating savings which would permit a £1m reduction in the allocation to the Tram project.

Action : Tie Management team

4 Risks
Attendees: Stephen Bell, Jim McEwan, Geoff Gilbert, Mark Hamill, Nina Cuckow
Meeting: 6th June 2007

The Risk Management process and associated plan was reviewed together with the ARM tool used to control this process. Background on the process was explained in that it was formerly managed by SDS, the execution by SDS had been unsatisfactory and there was concern on the poacher/gamekeeper status of that arrangement, it had been decided therefore to bring the process under the control of the Tram Project team.

The meeting stepped through a pareto version of the risk register on a line by line basis, a number of inaccuracies were trapped and also the presence of 'placeholder' collective risks which in fact represented a miscellanous small items (which aggregated to a considerable sum). The total risk sim position after adjustment at the meeting was determined as c. £69m (from £72m) versus a DFBC position of £60m. The principle increase was predictably in the Mudfa area with a rise in weighted risk from £5.9m (DFBC) to c.£14m.

The process, risk plan and toolset are felt to be sound, it was noted that adherence was in a patchy state with roughly 50% of project and functional managers complying.

Actions Agreed

1. The Risk schedule reworked to show the placeholder items.

   Action : Mark Hamill

2. The Risk Schedule to be reworked to show where possible the holistic position on areas where multiple risks have been raised eg. the aggregate MUDFA position .

   Action : Mark Hamill

3. A distribution list of key individuals involved in the risk management and control process to be provided.

   Action: Mark Hamill.

4. A sanitised copy of the risk register to be produced having corrected the trapped mistakes/issues identified in our meeting today, together with a clean copy of the Risk process and associated plans to be produced.

   Action: Mark Hamill

5. Target moving aggregate risk position back to DFBC number.

   Action: Geoff Gilbert

6. Review Tie Management process for examining on a period basis the top 10 risks.

Action: Jim McEwan.

Target: Actions 1-5: 8th June
Action 6 : Week beginning 11th June.