

tie Limited

Paper to : tie Board, Tram Project Board, TEL Board, CEC

Subject : Project Governance

Date : DRAFT - 26 September 2007

**Edinburgh's integrated transport system
Project governance – agreed structure, September 2007**

Background

The delivery of Edinburgh's integrated transport system has the following key players:

- The City of Edinburgh Council (CEC) was the Promoter of the Tram Bills and is the Authorised Undertaker under the resulting Acts, will be the user of the output from the project and is part-funder of the project
- Transport Edinburgh Limited (TEL) was created by CEC to oversee the delivery of and then manage an integrated bus and tram system
- Tie is the delivery agent for the tram system as specified by its client CEC acting through TEL
- Transport Scotland (TS) is the principal funder

This paper develops the governance structure from that agreed one year ago. The new structure addresses two phases of the project, being the period to Financial Close (January 2008) and the period of construction. The paper is intended to be a complete picture of the agreed structure for these periods.

The fulcrum of the existing governance structure is the Tram Project Board (TPB) and this key aspect is sustained. Formally, the TPB reports through its Chairman to the TEL Board and exercises powers delegated to it by the Council through TEL. The Project Senior Responsible Owner (SRO) has delegated authority from the TPB and this authority is mirrored in the authority given to the Tram Project Director (TPD), in turn delegated on day to day matters to the senior members of his tram project team. The TPB exercises its oversight responsibilities either directly or through sub-committees, though the committees have had no decision-making powers. The Committee structure continues to be adapted to meet the evolution of the project.

Reasons for revised structure

The structure has worked in a disciplined manner, supporting an effective project delivery process which has been favourably commented on by external assessors. The reasons for change at this stage are :

1. Change in the funding responsibilities following the Cabinet Secretary's announcement on 27th June 2007, which capped the Government grant at £500m and placed the marginal responsibility for funding on CEC, with two consequences :
 - a. The decision by TS to withdraw from routine involvement and to establish an arms length relationship to the project's governance.
 - b. The need for CEC to ensure its internal governance relating to the project reflected the change in the balance of funding risk and its responsibilities under the grant award letter.

2. Evolution of the project towards selection of preferred bidders, finalisation of contracts, development of the Final Business Case and all related approvals. This requires that the governance model evolves to meet the demands of the project workstreams in the critical period to Financial Close.
3. Desire to streamline certain aspects of the governance structure – particularly the relationship and reporting between the Project Director, the TPB and the TEL and tie Boards.
4. Revised project management structure and people, again adapted to meet the evolving demands of the project, and the desire to align the disciplines within the management structure with the governance model beneath the TPB.
5. The need to define in advance the further evolution of the governance and management model for the construction period when different activities will be underway and different risks will require to be managed.

Although there are important changes and improvements, the core of the model and the people involved remains the same. The actual changes are summarised in the next section, which is supported in the appendices by diagrammatic overviews of the structure.

Changes to current governance structure

The period to Financial Close will see the controlled evolution of these changes so that the model is fit for purpose prior to commencement of construction. The specific changes which have been implemented or are being implemented to take the project through to Financial Close are as follows :

1. TS have withdrawn from the formal governance structure but will exercise their oversight of the project through 4-weekly reporting in prescribed format and a 4-weekly meeting with CEC
2. CEC have established a “Tram sub-Committee” of the existing Transport, Infrastructure and Environment Committee. The sub-Committee will be chaired by the Executive Member for Transport and will meet on a 6-8 weekly cycle. The purpose of the sub-Committee is to review and oversee decisions with respect to the project. The Director of City Development is responsible for the interface between this sub-Committee and TEL and the TPB.
3. CEC are revising the Operating Agreements between the Council and respectively tie Limited and TEL so that these formal arrangements reflect the roles and responsibilities of all parties as the project moves into construction.
4. The TPB recently authorised the creation of two sub-committees covering utility diversion (“the MUDFA Committee”) and legal and approval matters (“the Legal Affairs Committee”). The Design, Procurement and Delivery Committee continues to monitor and interrogate all other aspects of the project delivery. In addition, a Procurement Committee and decision-making panel were established to fulfil the requirements of the procurement process. The extent of common attendees by senior project people ensures that duplication is minimised and cohesion maintained.

The further changes proposed to be implemented in the period to Financial Close to prepare for the construction period are as follows :

Roles of TEL and tie Boards

The TEL Board is focussed on its overall responsibility to deliver an integrated tram and bus network for Edinburgh, on behalf of CEC. It will make formal recommendations to CEC on key aspects of the project and matters which have a political dimension. The Board is responsible for compliance with its Operating Agreement and it will also address any matters outwith the direct arena of Integrated Bus and Tram systems and any statutory TEL considerations.

For the foreseeable future, tie will have only one major project, the tram. It will maintain roles with certain smaller projects and will require to comply with normal statutory responsibilities as a limited company, including formal compliance with its Operating Agreement.

The tie Board presently comprises a group of Elected Members and a group of independent non-executive directors, under the Executive Chairman. The TEL Board presently comprises Elected Members and Council officials under the non-executive Chairman.

It is proposed that the composition of these two Boards is re-visited to ensure the following objectives are achieved be amended to :

- Ensure the TEL Board has the composition necessary to be the active arm of the Council in oversight of project delivery and preparation for integrated operations
- Maintain the necessary strength of the tie Board to ensure that the activities of the tie Executive Chairman and management team are kept under appropriate scrutiny, challenge and quality control ; 2) that tie Limited's contractual responsibilities are subject to proper stewardship ; and 3) Avoid duplication of resource and reporting by limiting the tie Board's responsibilities to those necessary to manage its project responsibilities, ensuring compliance comply with statuteory requirements and with the terms of tie'sits Operating Agreement.

The composition of the TEL Board, looking ahead to the construction period, will be based around the existing composition and consideration will be given to changes and new members in the period to Financial Close.

In overall terms, the composition of the tie Board will be maintained in its present form. The Board will maintain its Audit and Remuneration committees, membership of which are restricted to the NXDs. In addition, a new tie Board sub-Committee will be established to address Health & Safety, chaired by an experienced NXD.

It is also envisaged that certain of ,therefore the Elected Members of the tie Board and its independent NXDs will join (if not already members) the TEL Board or the Tram Project Board (including specific sub-Committees) to ensure consistency of approach and to utilise relevant experience productively. ,restricting the tie Board to its Executive Chairman and a senior Council official. The re-deployment of the Elected Members and the independent NXDs will reflect :

1. the emphasis of the TEL Board on oversight (on behalf of the Council) of matters of significance to the Elected Members in relation to project delivery and preparation for integrated operations ; and
2. the emphasis of the TPB on delivery of the tram system to programme and budget and the preparation for integrated operations.

The tie Board will delegate authority to its Executive Chairman to execute its contractual responsibilities for the tram project, but explicitly subject to the delegated authority structure within the tram governance model.

In the event that tie assumes responsibility for additional major projects in the future, the Board composition may need to be addressed.

It is recognised that there is inevitable duplication between the scrutiny by the tie Board of its Executive activities and the oversight role performed by the TPB. However, in a large, complex project this seems a worthwhile price to pay for robust governance.

In addition to the changes to the tie and TEL Boards and as previously envisaged, the Council's majority shareholding in Lothian Buses plc will be transferred to TEL and parallel changes to the composition of the Lothian Buses Board will be effected in due course. There is an additional level of cross-Board membership and meeting attendance which improves consistency across key aspects of the project to deliver an integrated bus and tram system.

It is suggested that the TEL Board would meet no more frequently than quarterly during the period of construction, probably linked to progress reporting to the Council. This contrasts with an anticipated 4-weekly cycle for the tie Board and for the TPB / sub-Committees and largely eliminates duplication between the TPB and the TEL Board's processes. The frequency of TEL Board meetings is expected to increase as operational commencement approaches. The TEL Board will receive a comprehensive progress report from the TPB, channelled through the Chairman.

The interface between the TPB, the TEL Board and the new Council Tram sub-Committee requires further assessment to ensure good communication consistent with minimal duplication and this will be developed further. The focus of the Council sub-Committee is around matters directly affecting the Council and providing assurance that matters which cross Council departmental boundaries are managed cohesively (for example, responsibilities for roads management and budgets).

The tie Board will meet as necessary, but this is likely to be no more than quarterly. TPB and its sub-Committees

The TPB maintains its role as the pivotal oversight body in the governance structure. The TPB is established as a formal sub-Committee of TEL with full delegated authority through its Operating Agreement to execute the project in line with the proposed remit set out in Appendix 4. In summary, the TPB has full delegated authority to take the actions needed to deliver the project to the agreed standards of cost, programme and quality. The TPB also exercises authority over project design matters which significantly affect prospective service quality, physical presentation or have material impact on other aspects of activity in the city.

The delegation of authority to the TPB will require to be formalised by the TEL Board in due course.

The suggested membership of the TPB is 7 people (Office of Government Commerce constituency definitions "highlighted"):

- Chair (David Mackay)
- Senior CEC Representatives - "Senior User Representatives" (Donald McGougan and Andrew Holmes)
- TEL CEO and Project "Senior Responsible Owner" (Neil Renilson)
- "Senior Supplier" representatives (tie Executive Chairman and TEL Operations Director) (Willie Gallagher and Bill Campbell)

- Executive Member for Transport (Phil Wheeler)

The Chair will continue to be the TEL Non-executive Chairman, rather than the Project SRO. Other parties, principally senior project management and advisers, will be called to attend as required, though it is anticipated that a common group of senior project directors will attend most meetings.

The TPB will meet on the 4-weekly cycle already established. The precise structure of the delegated authorities will be re-assessed in due course and if different from the current authorities will be subject to appropriate approval processes.

The current sub-Committee structure will be dissolved and the new sub-Committee structure will comprise :

Engineering & Delivery Committee (E&D)

- Delivery under contracts - Infracore, Tramco, Utilities / MUDFA, design,
- Health & Safety, Quality & Environment
- Improvement initiatives – VE, Innovation, ICT
- Project interfaces & approvals – Land & Property, Traffic, third parties

Financial, Commercial & Legal Committee (FCL)

- Financial management – reporting, control, audit, risk management, insurance
- Contract management – reporting, compliance, interface with delivery, claims & variations

Benefits Realisation & Operations Committee (BRO)

- Operational & integration planning
- O&M contract planning
- Transdev
- Marketing

Communications Committee

- Comms management – utilities / MUDFA, Construction, Media, stakeholders

Detailed remits and attendees will be prepared in due course. Sub-committees will meet also on a 4-weekly cycle, supporting the TPB meeting.

In order to create close cohesiveness between the TPB / sub-Committee governance model and the project management structure, the sub-Committees will be directly interfaced with the Project workstreams and the individual directors responsible. Appendix 6 sets out the interfaces.

To further reinforce cohesion, the tie Executive Chairman will Chair each of the sub-Committees. The attendance of senior project and client officers, and the clear responsibilities allocated to individual Project Directors, will ensure that appropriate independence and challenge is achieved. As currently, the sub-Committees will have clear remits and will focus on detailed interrogation of key issues, leading to recommendations to the TPB which retains decision-making authority over all key areas.

Appendix 1 sets out the current TPB and sub-Committee structure and Appendix 2 sets out the proposed new structure.

Appendices 3 and 4 set out the proposed remit for TEL (effectively a summary of the TEL Operating Agreement) and tie (a summary of the tie Operating Agreement) and Appendix 5 sets out the proposed remit for the TPB, adapted from the current version.

Appendix 6 summarises the proposed membership of the main governance bodies. The status of individuals is defined either as “Member”, each of whom has formal decision-making authority, or “Participant”.

Appendix 7 illustrates how the governance model interfaces with the project management structure.

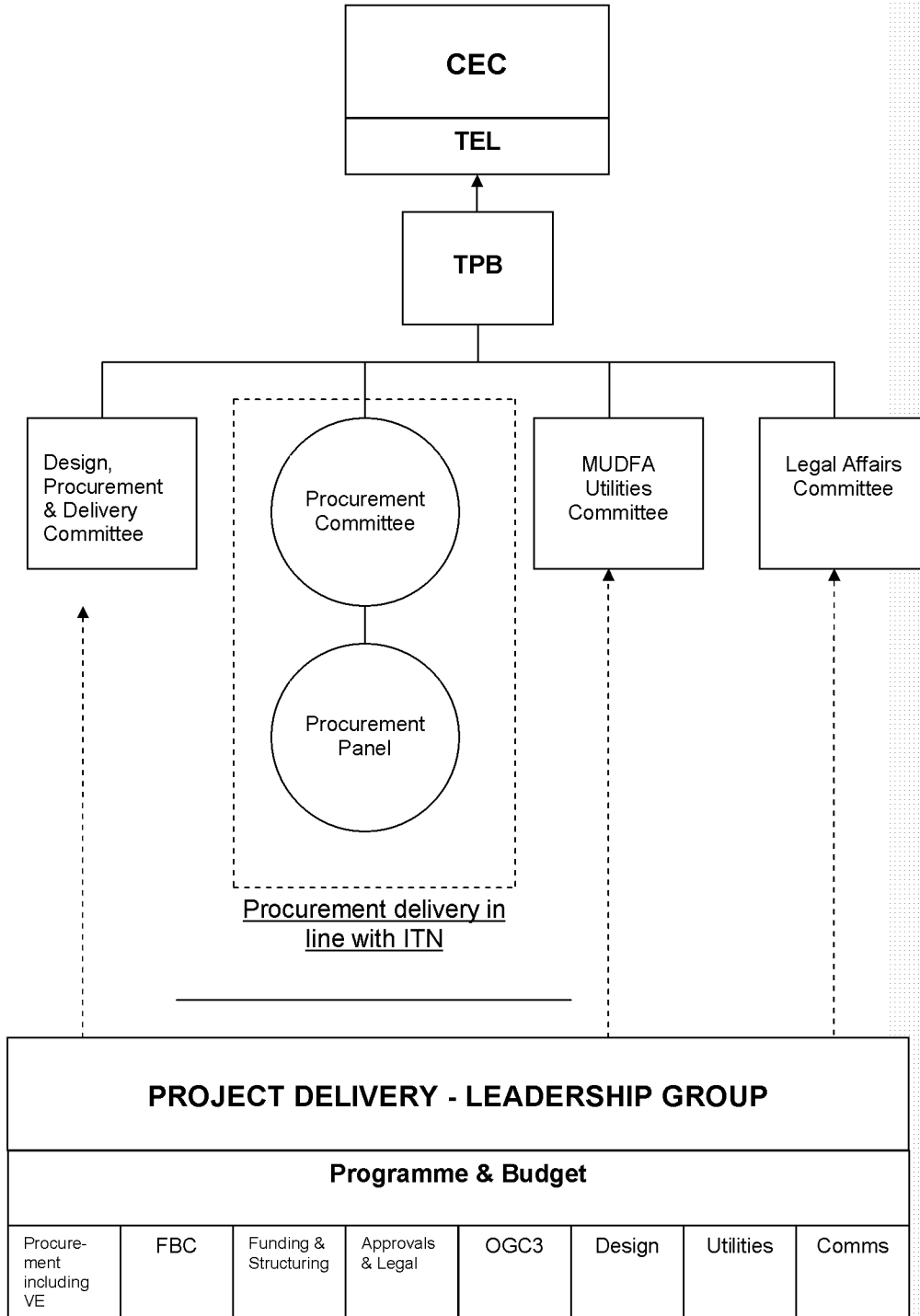
Health & Safety considerations

[Steven B to provide a synopsis]

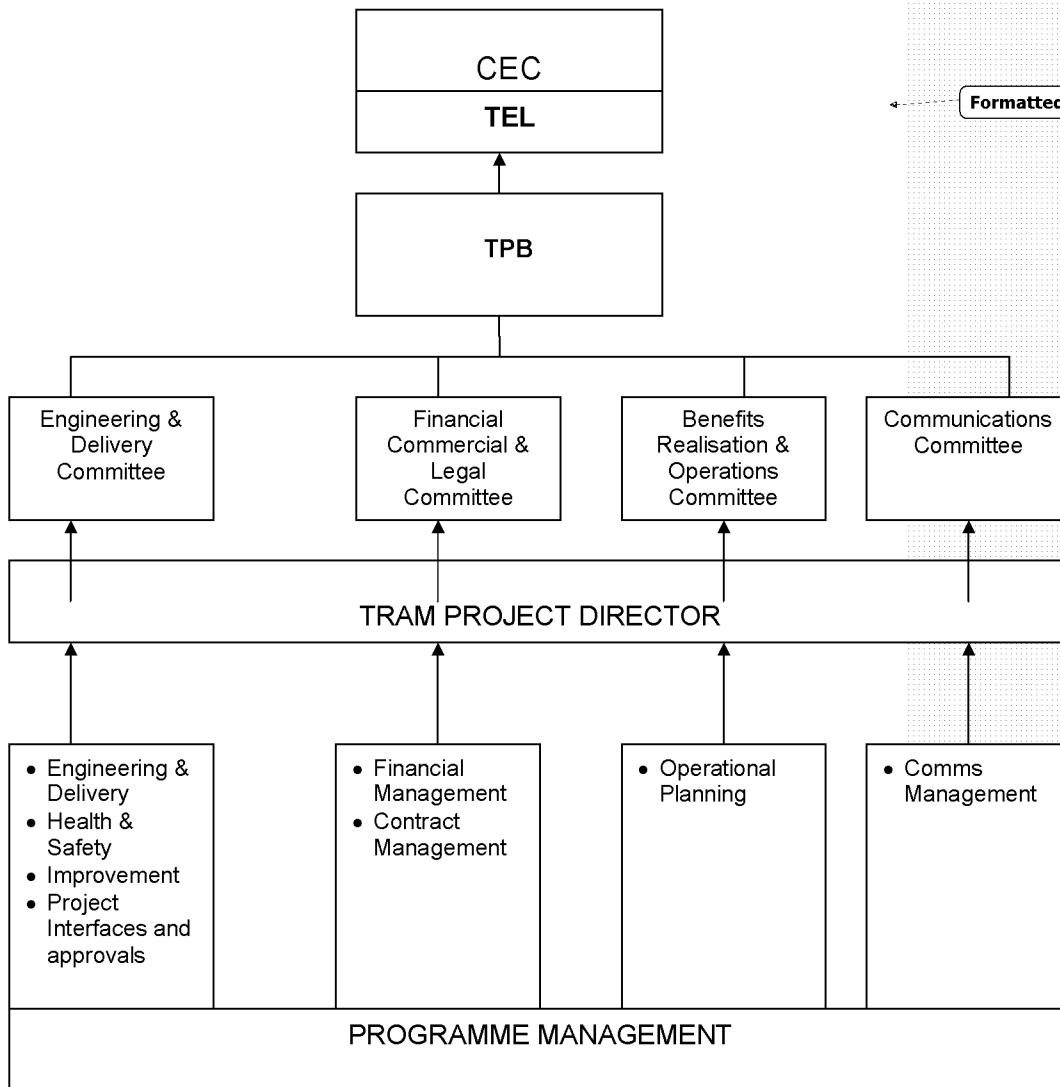
Requested from recipients of this document – tie Board, TPB, TEL Board and CEC

1. Comment on and if thought appropriate, approval of the proposed evolution of the tram project governance structure during the period to Financial Close, with the objective of ensuring that the Financial Close procedures are robust and that the model in place to govern the construction period is similarly robust and is implemented timeously.
2. Confirmation of the proposed members and participants in the governance bodies (Appendix 5)

Appendix 1 – Overview of current governance structure



Appendix 2 Overview of proposed governance structure



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Appendix 3 - TEL Board Remit

The TEL Board has the following responsibilities :

(1) Company stewardship

1. Matters relating to TEL as a statutory entity, including Board membership, statutory reporting, maintenance of books of account and statutory records.
2. Matters arising from CEC / TEL Operating Agreement
3. Matters relating to TEL employees including Health & safety

(2) Integrated Edinburgh Tram and Bus Network

[Summary of TEL Operating Agreement]

Appendix 4 - Tie Board Remit

The tie Board has the following responsibilities :

(1) Company stewardship

1. Matters relating to tie as a statutory entity, including Board membership, statutory reporting, maintenance of books of account and statutory records.
2. Matters arising from CEC / tie Operating Agreement
3. Matters relating to TEL employees including Health & safety

(2) Integrated Edinburgh Tram and Bus Network

1. Assurance that the activities of the tie Executive Chairman and management team are kept under appropriate scrutiny, challenge and quality control

2. Assurance that tie Limited's contractual responsibilities are subject to proper stewardship

[Summary of tie Operating Agreement]

Appendix 5 - Tram Project Board ("TPB") Remit

TPB has full delegated responsibility for the delivery of an integrated Edinburgh Tram and Bus Network on behalf of CEC, in particular :

1. To oversee the execution of all matters relevant to the delivery of an integrated Edinburgh Tram and Bus Network, with the following delegations :
 - a. Changes above the following thresholds
 - i. Delays to key milestones of > 1 month
 - ii. Increases in capital cost of > £1m
 - iii. Adversely affects annual operational surplus by >£100k
 - iv. is (or is likely to) materially affect economic viability, measured by BCR impact of > 0.1
 - b. Changes to project design which significantly and adversely affect prospective service quality, physical presentation or have material impact on other aspects of activity in the city
 - c. Delegate authority for execution of changes to TEL CEO with a cumulative impact as follows:
 - i. Delays to key milestones of up to 1 month
 - ii. Increases in capital cost of up to £1m
 - iii. Adversely affects annual operational surplus by <£100k pa
 - iv. is (or is likely to) materially affect economic viability, measured by BCR impact of <0.1

[Note: these are cumulative impacts since the last position approved by the TPB.]

The TEL CEO will delegate similar authority to the Tram Project Director.

2. To appoint the Senior Responsible Owner (SRO) and Tram Project Director (TPD) for the project and to receive reports from the SRO and TPD on project progress
3. To receive reports from sub-committees established to oversee specific areas, as approved by the TPB
4. To ensure project workstreams are executed according to robust programmes under the leadership of Project Director.
5. To approve the submission of funding requests and to recommend approval of funding terms to the TEL Board. TPB will also confirm to CEC compliance with all relevant aspects of the grant award letter.
6. To ensure proper reporting through the TPB Chairman to the TEL Board or CEC (as appropriate) of decisions made.

Appendix 6 Composition of main governance bodies

	TEL BOARD	TRAM PROJECT BOARD (TPB)	TPB COMMITTEES			Comms
			Engineering & Delivery (E&D)	Financial Commercial & Legal (FCL)	Benefits Realisation & Operations (BRO)	
Meeting frequency	Quarterly	4-weekly	4-weekly	4-weekly	4-weekly	4-weekly
Members						
David Mackay	Chair	Chair				
Willie Gallagher	X	X	Chair	Chair	Chair	Chair
Neil Renilson (TEL CEO, Project SRO)	X	X	X	X	X	X
Bill Campbell (TEL Operations Director)	X	X	X		X	
Norman Strachan (TEL Co Secretary)	X			X		
Donald McGougan (CEC Director of Finance)	X	X				
Andrew Holmes (CEC Director of City Development)	X	X				
Phil Wheeler (CEC Member for Transport)	X	X				
Councillor X (Labour Group Transport Spokesperson)	X					
Councillor Y (Conservative Group Transport Spokesperson)	X					
Councillor Z (SNP Group Transport Spokesperson)	X					
Non-executive director - Cox	X					
Total members	12	7	3	3	3	2
Participants (at Chair's discretion dependent on agenda)						
Non-executive director - Hogg						
Non-executive director - Scales						
Non-executive director - Strachan						
James Stewart (PUK)		X				
Susan Clark (Programme Director)		X	X	X	X	X
Steven Bell (E&D Director)		X	X	X		
Jim McEwan (Improvement Director)			X	X	X	
Alasdair Sim (Project Interface & Approvals Director)			X	X		
Stewart McGarrity (Financial Director)/Miriam Thorne		X	X	X	X	
Andrew Fitchie (Commercial Director)		X	X	X	X	
Alastair Richards (Benefits Realisation & Operations Director)		X	X	X	X	
Colin McLauchlan (HR & Corporate Affairs Director)		X	X	X	X	X
Graeme Bissett (Strategy & Planning Director)		X	X	X	X	
CEC Senior Representatives (CEC to determine) :						
Duncan Fraser			X		X	
Ian Spence			X			
Rebecca Andrew				X		
Gill Lindsay / Colin Mackenzie				X		
Isobel Reid						X
Iain Coupar (TEL)					X	X
James Papps (PUK)			X	X		
Transdev Senior Representative		X	X		X	
Julie Thompson (Secretary, under direction from Programme Director)	tba	X	X	X	X	X

Total participants (Max)

0	10	14	13	11	5
12	17	17	16	14	7

Total attendees

Appendix 7 Interface between governance bodies and project management structure

TPB Governance body	Chair	Management responsibility	Director
Engineering & Delivery Committee	Gallagher	Engineering & Delivery - Infraco Tramco Utilities / MUDFA Engineering design Health & Safety planning & management	Bell
		Improvement - VE Quality & Environment ICT Innovation	McEwan
		Project Interfaces & Approvals - Land & Property Traffic management / regulatory Other CEC, third party	Sim
Financial, Commercial & Legal Committee	Gallagher	Financial management - Financial reporting Financial control, internal audit Risk management Insurance	McGarrity/ Thorne
		Contract management - Contractual reporting & compliance Claims & Variations management	Fitchie
Benefits Realisation & Operations Committee	Gallagher	Operational Planning - Integration & service planning O & M planning Transdev Commissioning Marketing	Richards
Communications Committee	Gallagher	Communications management - Utilities / MUDFA Construction Media Stakeholder	McLauchlan

