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Willie Gallagher
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26 June 2006

Dear Willie

Proposal for revised Partnerships UK engagement with tie (tram project)

Further to our discussions, I attach in outline the basis of a revised proposal for PUK engagement with **tie** in regard to the Edinburgh Tram project.

The proposal reflects our discussions with yourself and Michael Howell. We see the most effective deployment of PUK resources as having three elements: (i) membership of the Project Board; (ii) selected engagement at a working level; and (iii) providing a quality assurance framework – the last two necessarily being focussed in areas of expertise for which Scottish Ministers and HM Treasury have established PUK.

In respect of the first of these, we are proposing that our Chief Executive, James Stewart, joins the new Project Board. The detailed arrangements for any complementary ongoing role at a working level, or for any targeted quality assurance-type reviews will clearly need further discussion to reflect and fit within **tie**'s project structure and planned timetable going forward. However – by way of outline - the areas in which we can add most value at a working level are: business case evaluation; commercial risk assessment and contractual formation; procurement and bidding strategy and bid evaluation frameworks. The extent to which we are participants in these will also enhance James' effectiveness as a member of the Project Board. We would like to propose that James Papps provides this working level support to **tie**.

Quality assurance is, in our experience, best provided through a process of periodic review and challenge. If properly structured, it should not distract, slow-down or dis-empower the work of the project team and its legal, technical and financial advisers. Rather, at key milestones, the introduction of targeted review and challenge organised by PUK (involving a combination of external and PUK internal resources) offers the most time-efficient and cost-effective way of introducing filters/gates for the outputs from the project team (e.g. key documents and decisions) which can constructively assess their quality, robustness, deliverability and value for money. We propose that James Papps would be the manager of this QA programme, but not be a member of the review teams.

Following on from the recommendations of the Readiness Review, there is clearly much which needs to be done. We see our participation in the three ways identified as important means by which we can support you and the **tie** board in delivering a successful tram scheme. We would welcome a full discussion on the steps you are now taking to re-organise

and prioritise the work of the project team. Out of this may come some further identified areas for which own experience and expertise is relevant.

The foundation stone of all good project governance is an appropriately constituted and delegated board (in this case the new Project Board), which can both direct and hold the project director to account but, equally importantly, appropriately empower the project director and his team. The right membership and terms of reference of the Project Board are themselves key enablers of success, and we would be happy to share our experience with you on this.

The stakeholder environment of the tram scheme is complex and we welcome the news that a dedicated senior post will be created within CEC to champion the interests of the project. This is a very positive step, given the crucial importance of consistent and coordinated CEC support for the project over the next few months.

We also understand that **tie** is currently in the process of reviewing the procurement and contractual strategy. We would suggest that an immediate priority for the new Project Board should be a review and confirmation of project scope and affordability, which will need to take account of any potential amendments to the procurement strategy and in particular any alterations to the planned balance of risk transfer.

If **tie** do wish to proceed with an engagement along the lines outlined, we would propose that we make use of PUK's Framework Agreement with the Scottish Executive to either vary or replace the current Development Partnership Agreement. The Framework Agreement is available for the use of a public body such as **tie** with the permission of the Executive (in this case Transport Scotland).

In conclusion, I would like to propose that James Stewart and I visit you, not only so that you and James may meet, but also to discuss the proposals made in this letter and so ensure that they meet your needs.

Yours sincerely,

Michael Gerrard
Deputy Chief Executive

Outline Proposal for PUK engagement on Edinburgh Tram

1. Project Board:

Proposed role: PUK to nominate senior representative to be member of new Project Board (propose: James Stewart, Chief Executive):

- non-executive challenge;
- based on extensive experience through similar roles on variety of complex and major infrastructure projects.

Assumes formation of new Project Board in line with recommendations of Readiness Review:

- delegated decision-taking forum;
- terms of reference in line with best practice, with Project Board the single forum for key decisions (always subject to final ratification by the body granting delegated powers);
- both Transport Scotland and CEC (as funders) content with composition and terms of reference of the Project Board.

Assumes that Project Board will be meeting monthly i.e. James Stewart visiting tie in Edinburgh at least once a month.

Final say on key decisions remain for the Project Board (particularly representatives of public sector funders), but if PUK views are consistently out of line with views of Project Board, PUK reserve right to retire from the project.

Estimated costs: on the assumption of monthly meetings in Edinburgh, we would anticipate that the cost of James Stewart's time (preparation for meeting, review of board papers, attendance at board, and attendance at informal PUK/tie monthly meeting) would be in the region of £2,500-£3,000 per month based on Scottish Executive Framework Agreement rates¹. We would not charge for travel time. Assuming a fixed monthly schedule of meetings, it may be possible to agree a fixed monthly fee, based on Scottish Framework rates.

2. Project Team:

To maximise value of PUK input at Project Board, we would suggest that PUK will also need some complementary role at a project working level. Any role needs to be defined including in relation to liaison with colleagues in Transport Scotland. Areas where we would anticipate adding most value include: business case evaluation; commercial risk assessment and contractual formation; procurement and bidding strategy and bid evaluation frameworks.

This role could be facilitated by and include PUK membership of single 'commercial issues' working group (or similar regular meeting). The suggested Design, Procurement and Delivery sub-committee of the Project Board might be this type of forum, depending on the frequency of planned meetings and detailed terms of reference for the group.

James Papps would be the PUK member providing this working level support.

Estimated costs: on the assumption, as an example, of agreed work amounting to around 1 day per week (4 days per month) we would anticipate the cost of James Papps' time to be in the region of £8,000 per month based on Scottish Executive Framework Agreement rates².

¹ Scottish Executive Framework Agreement with PUK, 2006-07 fee rates: senior support (James Stewart) [REDACTED] per day.

² Scottish Executive Framework Agreement with PUK, 2006-07 fee rates: assistant director (James Papps) [REDACTED] per day.

Again, assuming fixed monthly schedule of meetings/programme of work, it may be possible to agree a fixed monthly fee, based on Scottish Framework rates.

3. QA Programme:

As a follow up to the Readiness Review and as a means of providing periodic filters/gates for the benefit of the **tie** project management team and Project Board (including key stakeholders CEC and Transport Scotland), PUK could deliver specifically targeted reviews/challenge, which would necessarily need to be designed and timed so as to be complementary to and consistent with the pattern of planned formal OGC Gateway or any Scottish Executive/Transport Scotland led reviews.

Reviews would need to be focussed on key milestone points in the timetable - e.g. decision points or document releases - with specific terms of reference for each review to be agreed by the Project Board. The suggested format is of small teams (comprising a combination of external and PUK resources) performing a short and intensive challenge, test and comparison against best practice, appropriate benchmarks and any other relevant external information or experience. This could also draw on elements of the 'checklist' approach that PUK already uses to carry out Key Stage Reviews on behalf of the Scottish Executive on projects in the health and education sectors. A possible structure would be e.g. a 2-3 person team, 1 day to review relevant documents, 1 day to discuss with key members of project team/advisors, 0.5 days to produce short written summary report to agreed format; with an option of providing a direct briefing for the Project Board.

To ensure that these reviews are time-efficient and cost-effective for **tie**, they should not involve the review team repeating the work of the project team and its advisers. The reviews are designed as an "intelligent and informed high-level" filter which, nonetheless, has the expertise to dive down into detail if that is where potential problems lie.

James Papps would manage the delivery of this QA programme, but would not be a member of the review teams.

Estimated costs: PUK's role and that of external members of QA review teams, would need to be budgeted once a programme and scope of reviews has been defined.

4. PUK/TIE meetings:

Lastly, we suggest that a regular pattern of short monthly meetings is held between PUK and **tie** chairman (plus other invitees, as required) to generally take stock, exchange views and information and discuss current issues – off-line. To be most time and diary-efficient, it is suggested that these take place on the same day as the monthly Project Boards – perhaps taking place directly before each board meeting (with costs assumed within estimated figures under 1. and 2. above).

Ends