
From: Pat Diamond
Sent: 14 March 2006 09:40
To: Miriam Thorne
Cc: Mark Bourke
Subject: RE: Draft OBC 0703 > COMMERCIALLY SENSITVE & CONFIDENTIAL STATUS – NOT FOR FURTHER DISTRIBUTION

Mark,

Thanks for the comments on the OBC (this is beginning to feel a bit familiar eh?).

I will hang off on incorporating them and will add them in on the final itteration, along with the comments from the TEL board.

Cheers

Pat

From: Miriam Thorne
Sent: 14 March 2006 09:28
To: Pat Diamond
Cc: Mark Bourke
Subject: FW: Draft OBC 0703 > COMMERCIALLY SENSITVE & CONFIDENTIAL STATUS – NOT FOR FURTHER DISTRIBUTION
Importance: High

Hi Pat

In Stewart's absence, please see Marke's comments below. Do we need to incorporate them / update the risk management section of the OBC at this stage or wait for the next iteration?

Regards

Miriam

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From: Mark Bourke
Sent: 13 March 2006 14:54
To: Stewart McGarrity; Miriam Thorne
Cc: Gerry Henderson; Graham Nicol
Subject: RE: Draft OBC 0703 > COMMERCIALY SENSITVE & CONFIDENTIAL STATUS – NOT FOR FURTHER DISTRIBUTION
Importance: High

COMMERCIALY SENSITVE & CONFIDENTIAL STATUS – NOT FOR FURTHER DISTRIBUTION

S&M

I have taken a look at the Risk Management section of the 'early draft' version of the OBC, as requested. Apologies for not getting comments to you sooner.

I would comment as follows.

Clearly, this section has been culled from the iiOBC of May last year. Whilst this is good in terms of overall scope and content but the balance of issues have not all remained the same. In general, the Section could perhaps be improved in terms of a greater focus (demonstration of management or additional development) in the following areas – but I fully appreciate that there may be covered elsewhere in the document and therefore may already be included. If not, I would suggest their inclusion.

1. Development and calibration of payment mechanisms e.g. Infracore;
2. Development of TEL governance and progress in integration offsetting OFT issues et al;
3. Greater project management controls in place e.g. clarity of scope of Phase 1 and establishment of change control; and
4. Options under review with regard to placement of maintenance and risk.

It is unclear as to how you see this Section evolving following on from receipt of Infrastructure tenders. There may be a need for greater re-write to come for the October dFBC.

At 8.4.3, we clearly are preserving the position from over 9 months ago for specified and OB contingencies – utilising MM/FM estimates – where specified contingency ranged from approximately 9½ -11%, dependent on which part of the network were considered, and a up to 24% OB was recommended on all options. I support the position that keeps OB at 24% in view of the limited scheme design or construction development that has taken place during this period (outwith the parliamentary workstream).

If memory serves me correctly the QRA at May 2005 time, to support the above, indicated that 95% percentile (very high confidence) of 22% - and therefore backed up our position on OB, however, 50% percentile values were slightly elevated from the above to around 13% - it was recognised that further work was needed as very quickly decided and conservative input values were adopted.

The recent 'semi-formal' QRA exercise undertaken by T&T, which sit alongside the following capex estimates, has provided the following outputs...

Option	1	2A	3
Capex – excl. inflation (£m)	302.0	249.0	273.0
P ₅₀ -Specified Contingency (£m)	47.9	43.0	43.9
P ₉₅ – Indicative OB (£m)	71.8	68.6	70.5
Inferred Specified Contingency (%)	16	17	16
Inferred Optimism Bias (%)	24	28	26

It can be concluded from the results (that do not look at any opportunities, value engineering or wins) are indicating that our position on specified contingency is under greater pressure than that of Optimism Bias. The currently reported 10% contingency is nearer a P₁₀ value (very low confidence). However, I would recommend that further discussion is held on the basis of the input values on the recent QRA as I would find intuitively hard to believe that the specified contingencies would go up to this extent. However, the 16% could be nearer the genuine value based upon the assumptions, basis and approach taken in the base costs – in any case further challenge will be necessary. I would recommend the following.

- We hold our current rating of OB at 24% as per drafting; and
- We review our required specified contingencies.

[Gerry – can we discuss how this interacts with apparent movements in base cost, the emerging T&T QRA report and how we will settle on a required contingency?].

On a separate but related matter, I would highlight that there needs to be enforced management of contingency in relation to management and director levels (no doubt being considered in developing DARs). Clearly, we need to avoid the mind-set of 'I must spend the available contingency' or 'I have 10% contingency available on all elements'. Additionally, the profile of contingency spend needs to be compatible the planned spend of elements. I have made some suggestions to David about further work that should be undertaken to help manage this significant budget.

We also need to move to a position where SDS deliver the QRA advice. I note that this was included in their remit in the form of a Quarterly Cost and Programme Contingency Report – sadly their performance in this (and other areas) has been disappointing.

My minor comments on drafting to Section 8 are as follows.

- 8.3.4.1 - Should be "Full" not "Final"
- 8.3.4.4 - Add "Establishment of traffic management and regulation orders"
- 8.3.4.5 & 8.3.5.1 - Amend to "two" or "three" years dependent scheme being argued for elsewhere in dOBC
- 8.3.5.1 - Add "Construction inflation in an overheating UK industry" and "Failure to achieve consents on time"
- 8.3.5.2 & 8.3.5.3 - Remove Parliament-centric issues "Compromised routing..."
- 8.3.5.3 - Add "System reliability and customer confidence"
- 8.3.7.1 - Edit down to concentrate on Plan and Registers as Tramco, Infraco and MUDFA Risk Reports expand this list significantly
- 8.3.8.4 - Amend last sentence to present tense
- 8.6.2 - Add "management of preliminary and detailed design development for the full network" to last sentence

Mark

From: Stewart McGarrity
Sent: 08 March 2006 09:05
To: Graeme Bissett; Ian Kendall; Barry Cross; Mark Bourke; Gerry Henderson; rod.cameron@uk.pwc.com; Fitchie, Andrew
Subject: Draft OBC 0703

Dear All,

Please see draft of OBC for urgent review attached. Only the exec summary and the Governance section are not there (to be delivered today). The index is reproduced below. It is our intention to start the review process with the TEL directors on Friday morning when they will be given hard copies of the document. I therefore need to have incorporated comments into the document by close of business tomorrow. The objective of your review should be to tell me about factual errors or omissions.

- **Ian** – Sections 5 to 8 really need to be read by yourself before this goes out.
- **Mark/Gerry** – Please can you look at section 8 which is a condensed and adapted version of the same section in the IOBC.
- **Andrew** – I know you have already discussed section 6 with Rod. Please could you give sections 5 to 8 a once over.

Thanks in advance for your help.

Stewart

Index is:

- Executive Summary
- 1. Introduction
- 2. Strategic Context
- 3. Project Objectives Benefits and Constraints
- 4. STAG Appraisal

5. Funding Affordability and Phasing
6. Procurement Strategy and Programme
7. VfM Assessment
8. Risk Management
9. Management Arrangements and Governance

Glossary

Appendices:

- I Programme
- II tie Tram team Organisation Chart
- III Tabulation and Description of Funding requirements from April 2006 to June 2007