

tie Project Readiness Review

Date of issue to Transport Scotland Head of Major Projects: 28 Sep 2006

Review dates: 26 Sep – 28 Sep 2006

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") and supported by the Scottish Executive. Capital funding is expected to be provided by CEC and Scottish Executive 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 detailed design ongoing;
- Technical Support Services contractors appointed and design validation in hand;
- Tramco vehicle supply and maintenance tenders issued with tender returns expected in October 2006;
- Infraco bidders pre-qualified with ITN documents planned to be issued in October 2006;
- MUDFA contractor appointed on fixed-price contract with contract signature expected October 2006;
- Revenue modelling and cost estimating close to finalisation with detailed outputs s expected October 2006.

Current position regarding Review Programme:

No previous Scottish Executive Gateway reviews have been undertaken. The review team undertook a readiness review in May 2006. The scope of this review is aligned with the criteria for a Scottish Executive OGC Gateway 2 review.

Purposes and conduct of the Gateway Review

The primary purposes of the review were, in line with the terms of reference set out in Appendix A, to:

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1. Report on the progress made against the recommendations of the Readiness Review Report;
2. Confirm the Outline Business Case now the project is fully defined;
3. Ensure that the procurement strategy is robust and appropriate;
4. Ensure that the project's plan through to completion is appropriately detailed and realistic including the contract management strategy;
5. Ensure that the project controls and organisation are defined, financial controls are in place and the resources are available;
6. Confirm funding availability for the project;
7. Confirm that the development and delivery approach and mechanisms are still appropriate and manageable;
8. Check that the supplier market capability and track record are fully understood;
9. Confirm that the project will facilitate good client/supplier relationships such as achieving excellence in construction;
10. Confirm that there is an appropriate procurement plan in place that will keep procurement timescales to a minimum;
11. Confirm that appropriate project performance measures and tools are being used;
12. Confirm that quality procedures have been applied consistently since the readiness review;
13. Confirm compliance with health and safety and sustainability requirements.

Conduct of the Gateway Review

This Gateway Review was carried out from 26 September to 28 September 2006 at **tie** offices in Edinburgh. The team members are listed on the front cover.

The people interviewed are listed in Appendix B.

A number of documents were made available to the review team but these were not all comprehensively reviewed.

The review team would like to thank the **tie**, TS 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:

- There has been a considerable transformation in the organisation, attitude and effectiveness of the **tie** team since the readiness review with a common understanding of the requirements of the procurement process and the challenges faced. The majority of the recommendations from the readiness review have been fully achieved with a few being partially achieved.,
- Communications and joint working between TEL, **tie** and TS have significantly improved since the Readiness Review and an effective communication plan is now being implemented by **tie**, however there is still

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room for improvement in respect of communications at working levels in some areas between CEC and TS.

- There is a challenging timetable to the submission of the Draft Final Business Case ("DBFC") to CEC for approval on 21 December.
- The period until February 2007 is critical for the project with key deliverables including completion of project estimates, evaluation of Tramco returns, issue of Infraco ITN and completion of DFBC. The team are working to a detailed programme with a key milestone summary including CEC requirements, however this should as a matter of urgency incorporate TS' approval milestones
- A detailed tender evaluation and negotiation process for both Tramco and Infraco tenders is required. Principles have already been agreed and approved by the Tram Project Board but the detail must follow, including appropriate current processes for handling feedback from bidders in the light of the complex procurement strategy and timetable for issue of documents which includes a staged approach to document release.
- On the basis of the risks associated with the timing of Infraco ITN documentation release, we believe that there is no compelling reason not to issue the Phase 1 of the Infraco ITN documentation on the planned date of 3rd October and all stakeholders should commit to undertake their necessary due diligence on the documentation to meet this timetable.

A summary of recommendations can be found in Appendix C.

Status

The review team has assessed the overall status of the Project as Amber 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 but may benefit from the uptake of recommendations.

The recommendations in Appendix C have all been allocated an individual Red/Amber/ Green (RAG) status and should be acted upon accordingly.

Findings and recommendations

1. Report on the progress made against the recommendations of the Readiness Review Report;

- a. Leadership and responsibility for delivery of the procurement strategy review should be placed upon the incoming tram project director.*

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Procurement strategy review was completed and the strategy confirmed and placed under the control of the project director. **Achieved**

- b. *Consider reduction of variants and introduce reference bid within procurement strategy review.* There is a reference bid and the number of mandatory variant bids for the Infraco procurement has been reduced to 7. **Achieved**
- c. *Require tram supply bidders to provide data on asset life and reliability at least down to major replacement assembly level as part of a compliant bid* The tram supplier tender which was issued included this requirement and required tenderers to bid for both the supply and maintenance of the tram vehicles. **Achieved**
- d. *The ITN documentation must enable the implications of variations to the novation approach to be properly evaluated in respect of cost, time, quality, and risk allocation.* The Infraco draft contracts now provide for the different elements of the services to be assigned separately. However the overarching approach is not to be changed. **Partially Achieved**
- e. *The tram project director develops a negotiation strategy for discussion on a confidential basis at chief executive level.* There is still work to be done on this however we understand that this already underway and initial impressions are positive. **Partially Achieved**
- f. *A project board is set up as a matter of urgency and that there is clarity as to the identity of the SRO for the project.* A Tram Project Board has been set up and is meeting regularly. Neil Renilson has been identified and recognised as the SRO for the project. Board members we have seen have commented that the board is now an effective decision making body which is appropriately empowered. **Achieved**
- g. *The project board is the only forum through which key decisions in respect of the scope of the project are determined.* Although the board appears to work effectively there will need to be further work to ensure that the matters considered by the sub-committees are done in a timely manner with only appropriate issues forwarded to the board for decision together with timely reports of sub-committee deliberations. We understand that there is no delegated decision authority to the sub-committees which leads to a heavy load of decisions for the project board. The number of attendees at the Tram Project Board and the sub-committees needs to be reviewed. **Achieved**
- h. *The operation of tie and its board is reviewed to ensure it remains fit for purpose as a high quality delivery organisation.* There has been a radical change in personnel, organisation and process within tie which is now acting effectively as a project delivery and control organisation. **Achieved**
- i. *The project director instigates a review of the skills available as permanent staff and makes timely recommendations to tie.* This has been done and there have already been some key permanent

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appointments made. We believe further work is still required to reinforce permanent staff in individual project teams, particularly with design engineering skills. **Achieved**

- j. The project director reviews the process for acting upon and mitigating the risks to ensure successful delivery of the project. This is now reflected both within the tie procedures and board governance. We have seen copies of recent papers and minutes. **Achieved***
- k. A revised programme is developed and agreed by all stakeholders. We have seen both a detailed and high level programme which is being adhered to by all within tie. However the key milestones do not yet incorporate the approval timetables for TS as the major funder. **Partially Achieved.***
- l. A baseline scope together with a change protocol is confirmed by the board and all stakeholders as a matter of priority. There is now an agreed functional specification for the project that can form the baseline for change control. A proposed high level change control plan was considered and approved by the project board immediately prior to this review. The detailed implementation of this has not yet been effected. It will be important that this is fully implemented by tie and the stakeholder organisations. It should be extended to include appropriate procedures for small changes or emergency(reactive) situations. **Partially achieved***

We **recommend** that those items above which have been indicated as “partially achieved” are implemented in full.

- 2. Confirm the Outline Business Case now the project is fully defined;** The next evolution of the Business Case is being developed at present and the DBFC is planned to be submitted to CEC by the 9th November 2006. the tie tram project team and the TS project manager have agreed the contents and scope of the document and large amounts of drafting are already available. There is a detailed timetable to completion and overall responsibility for the production of the DFBC has been delegated to one person under the direction of the tram project director.

The figures that will underpin the business case are not yet available, including both revenue and cost estimates and the economic analysis. We are concerned that the process for agreeing the assumptions for some of this data may need to be elevated to the project board to resolve.

The programme for completion of the DBFC is in track but there is little margin for delay in its production or its approvals by all relevant stakeholders.

We **recommend** that a process for reaching final agreement on key assumptions is put in place as a matter of urgency.

- 3. Ensure that the procurement strategy is robust and appropriate.** The key risks in the procurement strategy remain the proposed multiple novations of existing SDS design contract and the tram supply and maintenance contracts to the Infracore contractor. We commented above that this strategy has been reviewed and some additional protections have been incorporated into the

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strategy since the previous review. (eg, additional separability of elements of Infraco contract, intention to include a two month "courtship period" between provisional preferred Tramco and Infraco suppliers)

We understand that the Infraco bidders have agreed to tender on the proposed basis but the inherent risk pricing cannot be known until the tender returns are received.

It is vitally important that any concerns from the Infraco bidders are fully considered and acted upon during the [bid period]in order to maximise the probability of success of the procurement strategy. This strategy also makes it essential that the highest quality evaluation and negotiation teams are deployed to maximise the chances of success which uses all of the experience of the people available. We **recommend** that a detailed framework and resource plan to built on the evaluation principles approved by the project board is put in place as soon as possible.

4. **Ensure that the project's plan through to completion is appropriately detailed and realistic including the contract management strategy.** We have seen a detailed plan through to final approval in February which is detailed and realistic. We would expect that a similarly detailed plan should be put in place from February through to Infraco contract award currently expected in September. Without such a detailed plan, it is difficult to comment on whether the comments from bidders and the consequent negotiation requirements will enable a September date to be met. We **recommend** that a detailed plan is put in place as soon as practicable taking into account the requirements for negotiating resource and the novel procurement strategy including novation. Particular attention should be paid to determining roles and responsibilities within **tie** and the stakeholder organisations and ensuring that the necessary commercial, engineering, design and operation skills are in place. It is also very important that the plan takes full account of external constraints and processes including achievement of all planning approvals and interface with traffic management and controls within the CEC Council current responsibilities.

5. **Ensure that the project controls and organisation are defined, financial controls are in place and the resources are available.** There is a clear organisation chart for the **tie** tram project team. The Tram project director has developed a clear project controls plan which we have seen and is being implemented but still requires further development. There needs to be further work on aligning the decision making timetables between the project board and the stakeholder approval processes.

6. **Confirm funding availability for the project:** There is now a documented agreement between TS and City of Edinburgh Council on the funding that each body will make available for the project. However the costs of the project are not yet known so it is not possible to confirm whether the project as a whole will be affordable until all tender returns are received and prices negotiated. There is a process in place whereby revised cost estimates are being prepared by both the SDS and also Cyril Sweett on behalf of TS. For the DBFC being submitted in November, these will be used in conjunction with the fixed price for the MUDFA Contract and the tender returns from the Tram suppliers. The revenue modelling outputs are also planned to be made available in October. The Infraco bids are expected to be received in January

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and the prices in these tenders will be used to inform and update the Business case for final approval in February.

7. **Confirm that the development and delivery approach and mechanisms are still appropriate and manageable.** (See 3 and 4 above)
8. **Check that the supplier market capability and track record are fully understood.** Four vehicle supply and maintenance tenders are expected to be received by the due date for the Tramco bid return in October. There are three pre-qualified Infraco bidders and regular meetings with them have been held including a recent bidders conference. The feedback from these bidders has been positive to date regarding the procurement strategy and their willingness to submit tenders, however it will be important to take note of bidders comments and concerns during the tender clarification process. It is of fundamental importance to the success of the procurement process that the interest and involvement of all the bidders is continued in a properly managed competitive process and that the momentum of both the Tramco and Infraco procurements is maintained. For instance, we understand that all of the Infraco bidders at the recent conference expressed a desire to change the responsibilities for some aspects of the detailed design.
9. **Confirm that the project will facilitate good client/supplier relationships such as achieving excellence in construction.** There is clear evidence that good client /supplier relationships have been achieved so far for all the procurements. For example the MUDFA documentation shows clear evidence of this and similar processes for the remaining contracts are being developed. Relationships between tie and Transdev as Operator and SDS as designer are now far better than was observed during the readiness review.
10. **Confirm that there is an appropriate procurement plan in place that will keep procurement timescales to a minimum.** tie has a detailed plan in place which appears tight but deliverable. However, they have reported that there have been instances when stakeholders have required additional reports on issues at times which are different to those agreed which has caused additional delay. We **recommend** that all stakeholders accept the programme and deliver in accordance with it.
11. **Confirm that appropriate project performance measures and tools are being used.** We have seen copies of the reports that are being used by the project managers as tools to deliver the required performance of their areas of the project. These are based on delegated authority to individual project managers reporting to the tram project director and on to the board. We are encouraged that these recognise the contributions of the individual managers for sections of the project as a whole. For example Microsoft Project is being deployed where appropriate and bespoke technology is being used which we understand is based on proven tools.
12. **Confirm that quality procedures have been applied consistently since the readiness review.** At the time of the readiness review there were no effective quality measures in the project other than those internal processes of service providers (eg SDS, Operator, advisers). Since then, a regular quality and risk programme has been implemented within tie which is working well and we have seen evidence of this.

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13. Confirm compliance with health and safety and sustainability requirements. A chief engineer has recently been appointed to the permanent staff of **tie** The most recent project board endorsed the appointment of a health and safety officer will report to him., We **recommend** that this health and safety officer is appointed as a matter of priority and that this person should be able to respond to the requirements of delivering the safety case for the tram

We have seen a copy of the environmental policy and a document explaining the sustainability measures that have been implemented so far. We note the intention to request the Infraco suppliers to state how they will comply with the sustainability requirements but have not seen the evidence of this in the ITN documentation. We **recommend** that the Infraco ITN documentation makes sustainability requirements as clear as possible.

14. Readiness to issue Infraco ITN documentation. We understand that the project intends to issue the Infraco ITN documentation to then pre-qualified bidders on 3rd October and have been asked to comment on the readiness of this and the risk associated with this timetable.

The project team have advised that the issue of documentation will be phased with principal sections initially and a further issue of design information at the end of October.

The team and advisers are all working towards the 3rd October date and have been focused on this date. The tenders will be returned after 14 weeks and the results will inform the final version of the DFBC for approval in February.

As mentioned above, the competition between bidders is crucial to success of the Infraco procurement and all of the pre-qualified bidders are expecting to receive the majority of documentation on this date. The project's credibility will be strained if there is a delay but, conversely, it could be adversely affected if the quality of the documentation is not of a satisfactory.

We believe that there are risks consequent on both a release which is too early and too late.

Risks if issue is too early

- Bidders undertake nugatory work due to changes in requirements;
- Documentation is not of high enough quality to achieve robust pricing; due to ill-defined requirements;
- Extended negotiation period

Risks if issue is too late

- Withdrawal of bidders due to uncertainty;
- Adverse implications for other procurements due to perceived failure to deliver on promised timetable;
- Additional costs in bids due to bidders perceived uncertainty;
- Loss of momentum for associated activities;
- Project team demobilise;
- Adverse political implications.

On the basis of the work done by the team and their advisers, we believe that the impact of the risks due to delay outweigh those of an early issue. We also

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believe that the risks associated from early issue could be mitigated as follows:

- by appropriate processes including the early adoption of recommendation 3, to listen to the bidders and incorporate their concerns in the later releases of information;
- by reviewing issued Infraco ITN documentation and the planned early bidder responses from Infraco bidders together with early output from the Tramco evaluation to ensure that necessary implications are properly addressed during the bid period; and
- Substantial early progress on development of negotiation strategy and team for Infraco, including incorporation of all lessons learned from MUDFA and Tramco evaluations.

This, combined with the stated commitment to close bidder liaison and commitment to a phased approach would lead us to conclude that the Infraco ITN documentation should not be delayed beyond the planned date.

APPENDIX A

Terms of Reference

SCOTTISH EXECUTIVE GATEWAY TWO ASSESSMENT FOR THE EDINBURGH TRAMS : SPECIFICATION, SEPTEMBER 2006

Introduction

The Chief Executive of TS requires an independent Gateway assessment of the Edinburgh Trams Project. The work will meet the requirements of the Scottish Executive Gateway 2 (as set out on page 3 of the OGC Gateway Review Guidance (Version 1 2004)). The work will be undertaken between 26 September 2006 and 28 September 2006.

Purposes of the Work

This Gateway Two Assessment will

- Comment on the progress made against the recommendations of the readiness review
- Confirm the Outline Business Case now the project is fully defined.
- Ensure that the procurement strategy is robust and appropriate.
- Ensure that the project's plan through to completion is appropriately detailed and realistic, including the contract management strategy.
- Ensure that the project controls and organisation are defined, financial controls are in place and the resources are available.
- Confirm funding availability for the whole project.
- Confirm that the development and delivery approach and mechanisms are still appropriate and manageable.
- Check that the supplier market capability and track record are fully understood.
- Confirm that the project will facilitate good client/supplier relationships in accordance with government initiatives such as Achieving Excellence in Construction.
- Confirm that there is an appropriate procurement plan in place that will keep procurement timescales to a minimum.
- Confirm that appropriate project performance measures and tools are being used.
- Confirm that quality procedures have been applied consistently since the Readiness Review.
- Confirm compliance with health and safety and sustainability requirements.

Report

A report of the Review that sets out the purpose, conduct, conclusions, findings and recommendations of the Review, will be presented to Damian Sharp of TS. The basis of the recommendations will be clearly specified in the report.

In reporting on this work the review will include: an assessment of how far the recommendations from the Readiness Review have been addressed; whether the Project Procurement Strategy will deliver Stakeholders' requirements for risk transfer;

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whether the Infracore contract plan and tender document articulate the Strategy; the robustness of the Project Governance and Project Authority regime; the Project Scope and Functional Specification.

Timetable and Approach to the Work

20 September 2006 Planning. This will comprise

- a telephone conference between the Review Team and TS covering the review initiation and approach, including issues arising from the Review team's background reading and the structure and organisation of the Review;
- a teleconference between the lead reviewer, TS and **tie** Ltd. covering background and purpose of the review, current status of the project, identification of risks and issues; interview scheduling for the Review, requirements for further documentation, and plan for the Review.

26 September – 27 September 2006 The review team will conduct interviews.

28 September 2006 The report will be presented on 28 September 2006 to Damian Sharp, Head of Major Projects, Rail Delivery Directorate, TS.

Review Team

Malcolm Hutchinson
Mike Heath
Willie Gillan
Sian Dunstan

Rail Delivery Directorate
TS
15 September 2006

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APPENDIX B**Interviewees**

NAME	ROLE
Willie Gallagher	Chief Executive, (tie)
Andie Harper	Project Director (tie)
David Mackay	Chairman (TEL)
Jason Chandler	Project Manager, (SDS)
Geoff Gilbert	Commercial Director (tie)
Mark Bourke	Risk manager (tie)
Damian Sharp	Head of Major Projects (TS)
Bill Reeve (by teleconference)	Head of Rail Delivery (TS)
Bob Dawson	Procurement Manager (tie)
Andrew Fitchie	Legal Adviser (DLA Piper)
Alistair Richards	DPOFA Project Manager (tie/TEL)
Sharon Fitzgerald	Legal Adviser (DLA Piper)
Bill Campbell	[Board member]] (TEL)
Neil Renilson	Chief Executive (TEL)
Graeme Bisset	Strategic Director (tie)
Susan Clark	Delivery Director (tie)
Stewart McGarrity	Finance and Performance Director (tie)
Julian Ware	Advisor to TS (KPMG)
Ian Barlex	Advisor to TS (KPMG)
John Ramsay	Project Manager (TS)
Trudie Craggs	Project Development and Approvals Director (tie)
Keith Rimmer	Head of Transport (CEC)
Jim Harries	Transdev
Andrew Holmes	Development (CEC)

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APPENDIX C**Summary of recommendations**

		Status
No.	Recommendation	R/A/G
1.	Implement in full those recommendations from the readiness review that have been indicated as "partially achieved"	Amber
2.	Ensure that key milestone dates for TS approvals decision making are included in the master timetable for the project.	Red
3.	Ensure that detailed framework and resource plans for evaluation of the Tramco and Infraco bids are put in place. The Tramco one should be in place before the tender returns and the Infraco prior to the end of November. These should build on the principles of evaluation approved by the project board and the lessons learned from the MUDFA .	Amber
4.	Ensure that a process for reaching agreement on key assumptions for DBFC is put in place as a matter of urgency.	Red
5.	Ensure that the Change control processes are fully implemented by tie and the stakeholder organisations. These should be extended to include appropriate procedures for small changes or emergency/(reactive) situations.	Green
6.	Ensure that all stakeholders accept the procurement plan and are bound by the procurement timetable.	Amber
7.	Ensure that the health and safety officer is appointed as a matter of priority and that this person should be able to respond to the requirements of delivering the safety case for the tram.	Amber
8.	The Infraco ITN documentation should make the responsibilities of the Infraco supplier in respect of communications with third parties, including residents, clear and this requirement should be incorporated explicitly within the evaluation criteria. CEC must be given the opportunity to confirm that they are content with the requirements and evaluation.	Amber
9.	The Infraco ITN documentation should make agreed sustainability requirements clear.	Amber

NB: Full R/A/G definitions can be found in the status section.