

AUDIT SCOTLAND REVIEW EARL and Tram projects – June 2007

Background

AS will review the following aspects of the EARL and Tram projects :

- 1. To determine how the project is progressing relative to time and cost targets**
- 2. To determine whether appropriate management systems are place to promote successful completion of the project**

This will include :

- 1. Project governance, management and control – evidence of processes and fitness for purpose**
- 2. Processes which led to preparation of the cost estimate and programme**
- 3. Processes used to maintain control over the cost estimate and programme**
- 4. Scrutiny of capital cost composition**
- 5. Assessment of risk factors and risk management processes**
- 6. Overall assessment of confidence in the estimate**

AS must complete their report for Ministers by Wed 20 June. Their fieldwork will take place through to Thursday 15th and they will submit a draft report to the Auditor General on Monday 18th. We have requested sight of the report before finalisation.

A plan for their review is attached. This was discussed today with the team and they will follow this approach. An important exception is that they wish to concentrate the discussions into one main session on each project to be followed by Q&A as they develop their report. This kicks off on Monday 11th and they have background documents to review prior to then.

Tie team and responsibilities

SMcG is in overall command and the two PDs will lead for their projects. I will support across all aspects. Other key people will be involved and there should be scope to have them speak with parties including TEL, PUK and our NXDs.

It is also vital that information provided to AS is consistently presented (including across the projects) and fully quality controlled. Common sense should prevail but as a principle, all documents intended for the AS team will be reviewed and approved by SMcG or myself before they are released.

One of us will also try to be present at each key session and we will benefit from having someone attend all meetings.

Data room

The Telford Room has been booked for the duration and will contain all necessary documents. We will also provide AS with digital copies to aid their report drafting.

Briefing note

AS will make up their own mind about the quality of our processes and the cost estimates and we will provide them with all the information they need to do so. However, their conclusion will be influenced by their perception of the rigour with which tie operates. This review is therefore an opportunity for tie to showcase the quality of its work in support of the projects. We should be open about problems and areas of concern but also demonstrate clearly what we are doing to resolve issues.

A briefing note with a few salient facts about the projects is attached at Appendix 1. This should be absorbed by everyone who meets AS to ensure that we are all starting from the same position of knowledge.

Appendix 1 – Briefing note

Tram

- The baseline cost is contained in the DFBC approved in December 2006 and amounts to £592m for Phase 1, being £500m for Phase 1a and £92m for Phase 1b. This is the “baseline” or “target” against which all subsequent forecasts are to be compared.
- The procurement strategy was developed 3 years ago and has been subsequently validated by internal and external reviews. It has been commented on favourably in external gateway reviews and also absorbs the lessons of Holyrood.
- The principle contracts are under formal procurement and represent around over 50% of the estimated cost. A rigorous competitive tender process has resulted in a short list of two internationally renowned bidders for each of the Tramco and Infraco tenders.
- An initial assessment of the bids was reported to Transport Scotland in January 2007, which demonstrated a range of possible outcomes around the baseline estimates. This was reviewed by Transport Scotland and resulted in confirmation of a £60m funding award to commence utility works and maintain design and procurement works
- The bid documents are complex. Assessment requires to be performed at a detailed level to ensure the bids meet the purposes of the project.
- This is work-in-progress. Selection of preferred bidders is a complex matter because of the need to merge the Infraco, Tramco and SDS contracts in a binding manner.
- The programme is under constant review and there is a trade-off between acceleration of the procurement process and the level of risk to the public sector in the final contract. This is assessed on a real-time basis as the procurement process is executed, and means that the final programmed dates may differ from those in the DFBC.
- Similarly, the costs submitted by the bidders reflect a range of variances against the DFBC estimates. **CONFIDENTIALLY IN RELATION TO THE TENDER PROCESS** : The net effect is that the bid numbers at present are higher than the DFBC. However, there are solid grounds for confidence that the gap will be closed.
- The steps being taken to produce the best possible outcome include :
 - Detailed negotiation of pricing, scope and quantities
 - Negotiations at a higher level to bring competitive pressure to bear

- A rigorous Value Engineering review including both internal assessments and collaboration with the bidders
 - Strict control over proposed changes to the design and scope of the project to avoid cost creep
- At present, the latest forecast cost estimate is pointing to numbers in the range of those in the DFBC, with small additions due to agreed changes and inflation. The current limbo period will also add marginal cost. The overall programme is scheduled to have trams operational in Edinburgh in early 2011 in line with the DFBC.

EARL

- This project is at a radically different stage to that of the Tram. Tie was commissioned to see the approved design (“the Railway Tunnel Option”) through the parliamentary process and this was successfully achieved. The tie team were commended for the professional manner in which the parliamentary process was handled.
- Continuing work at present is limited to design and site investigation work costing £1.0m - £1.5m per month.
- The cost estimate at c£610m and the programme which supported that cost estimate were robust for the purposes of the Parliamentary process which led to Royal Assent in April of this year. The programme from that point contained explicit assumptions about the timing of procurement activity and the need for a new and robust governance process.
- Tie made significant effort to deliver on these short term requirements following the parliamentary conclusion. The procurement models were thoroughly examined and the shape of a governance model was discussed in detail with TS and with Network Rail. However, these discussions did not reach a conclusion. The election effectively placed all of this on hold.
- Consequently, the programme now lacks a definite start-point and costs are highly likely now to be increasing through inflation. This is not a new scenario, it is precisely the one which tie was flagging in the earlier part of this year as we attempted to bring stakeholders together to maintain progress.

This is not a good place for the project but it reflects the short-term reality. Swift decisions to continue with the project and a willingness by stakeholders to engage will enable the project to pick up momentum again although almost certainly to a later commissioning date and at a higher cost. This scenario is the reality and is the one which we will portray to Audit Scotland.

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