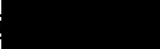


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**From:** Graeme Bissett [graeme.bissett@  
**Sent:** 27 October 2005 14:06  
**To:** Michael Howell  
**Cc:** Susan Clark; Stewart McGarrity; Richard Hudson; Ian Kendall; Pat Diamond; Paul Prescott (external contact)  
**Subject:** Cost of delays

Michael, I've copied below my request for info to the PMs, and their replies in full, which have useful insights, so you can select what you or Ewan want. The summary is :

- Tram – now delayed to mid 2010 from an anticipated mid/late 2009. The delay is primarily due to delayed commencement to the design process while funding and other matters was being assessed ; the annual cost of delay is mainly inflation, but allowing a little for tie people / overhead wheel-spinning, it is running at c£40m pa. So 6 months is roughly £20m of cash. However, there are now some signs that utilities work will be delayed by up to 6 months while the overall scope, funding and revenue parameters are addressed. If a further 6 months' delay is imposed we'd be moving to a full year off the original programme (of which the Executive were aware) at a cost of c£40m. May be best not to go in too hard on the utility issues because there is logic in their absolute position even if it does cause a delay if you assume that there is a 100% go / no-go decision still to be made ; also the comments received are not remotely an agreed position yet and I'm sure Ian & Stewart have good ideas which would mitigate the delay and keep SE comfortable about possible abortive spend. The more fundamental issue is whether there is a political impediment to any on-street activity prior to May 2007, regardless of the commercial risk analysis.
- EARL – on the face of it, no overall delay foreseen in the original planned commencement date of Oct 2010. However, we've lost 11 months in Bill submission and the assumed Royal Assent date of 12/06 will only be met if submission is 2/06 and the souped-up parliamentary process works ; a big if. Further risk is being threatened by a possible decision to delay issue of OJEU until after Royal assent, whereas the programme assumes issue date as mid 2006, ie 6 months earlier. The capital cost and inflation parameters are similar to Tram, so a 6 month delay would be in the region of £20m. A further risk may be that delay pushes EARL down the UK pecking order of major rail projects when construction consortia interest and skilled labour resource is being sought from the market.
- SAK – the delay to focus on is that since tie established a credible cost & programme in spring 05 ; it took until August to get the ball rolling and the cost of management / consultants' downtime is £0.7m, and the inflation effect on the capital cost is c£1m.

As you'll appreciate, deployment of this information needs to be done sensitively to preserve working relationships.

If I've misrepresented the responses, Susan, Stewart or Richard will let us know – meantime thanks to all for responding at short notice.

GB note, then responses :

*Michael is looking for an assessment of the effect on cost and programme of external influences on our two main projects. The primary culprit will be political / Executive process / Parliament process which have affected Bill submission timing, funding availability etc. There may also be other factors.*

*If we go back to the original project plans for the two projects, there has been no significant increase in the underlying cost estimates caused by these factors but there has been a consequential inflationary cost effect from delay. We should also factor in the incremental management cost of extended timetables, plus any other significant one-off elements. The programme benchmarks would be : Tram – original planned construction commencement mid 2006, trams running mid-2009 ; EARL – original Bill submission date March 2005, now a year later. We should also take account of incremental cost of getting Tram through Parliament on extended timescales, although what is time-driven v what is volume of work driven is hazy.*

*Paul, Richard – can we also get a feel for the same issues on SAK ?*

*This all has two purposes – 1. Ewan is meeting the Minister shortly and wants the information to underline the cost of poor process ; 2. the implications for tie's performance in assessing annual corporate achievement and bonus.*

*The numbers don't need to be too scientific but should be in the right ballpark and not overcooked.*

*Guess what : needed for tomorrow if possible, which if nothing else will short cut any detailed analysis requirement.*

*Thanks*

*Regards  
Graeme*

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**Graeme,**

**Did our brief discussion with Ian yesterday cover this adequately?**

**To recap, the cost of a 1 year delay (i.e. shift the whole programme one year out) is between £30m and £40m in nominal terms on the Tram project.**

**The cost of the one year delay so far to Infraco start (Summer 06 to Summer 07) can be logically argued to be larger than that because we need to provide the project management resource (tie staff and overheads, advisors and other assorted hingers-on) for a longer period at say £2m - £3m per annum.**

**More difficult to quantify is the risk adjusted cost of:**

- **Compressing the programme (the Infraco start date has gone out 1 year but opening date has only moved 6 months)**
- **Inherent uncertainties of progressing procurement without the certainty of scope or approval to proceed/funding**

**Of real concern is the latest shifting sand whereby SE are expressing a reluctance to proceed with MUDFA – one of the principle areas where our procurement strategy aims to mitigate risk and reduce costs - until JRC output / tender prices confirm we have a project. Ian informed SE at the programme review session on Tuesday that there was three months float in the utilities programme i.e. prima-facie if MUDFA is not awarded by 30 June 2006 then every day delay after that is a day delay to opening of the tram network.**

**As a post script to the above:**

- **taking the 3 months float out of the utilities programme on the face of increases the risk adjusted cost of the utilities work and the interface with Infraco**
- **Infraco programme is subject to much further work – e.g. on the upside we may be able to utilise fast track (i.e. non UK) construction methods, on the downside the TRO/planning processes may turn into a nightmare.**

- *Everything seems to hanging off the JRC – we must make sure the timing and nature of JRC output is well understood by all stakeholders*
- *The DAR's and budgetary control mechanism approved by the TPB denote the Specified Contingency is for a given programme – to establish a clear audit trail of accountability, the nominal cost of delay to the MUDFA award, risk adjusted, would be processed as a cost imposed on the project by SE.*

*Stewart*

*Graeme*

*The following is very first cut but I hope that it helps inform the debate.*

*We are currently still working to a Royal Assent of Dec 06 which means that at present it does not impact on a delivery of 2010. However, this is a tight timescale with the changes to procedures still not agreed by Parliament to allow this to happen.*

*However, we explained to SE yesterday that failure to agree linkages between Bill process, OBC process and procurement timescale will push out this end date. Indeed, if SE decide that we will not be able to go to OJEU until we have Royal Assent we potentially push the programme out to 2011 which means a year delay on current cashflow projection. EARL have provided a funding/business case strategy paper to SE to outline what we aim to do and within what timescales. The need to confirm the linkages within this so that we can baseline the programme and work out any delay and they have agreed to provide some assumption this week.*

*We have already this year spend additional funding on the draft bill process and have moved contingency down to deal with dealing with 3<sup>rd</sup> parties – this in itself should be offset later on with reducing the number of objections. This is reflected in the recent updated funding paper we were asked to give SE to confirm our funding over the next 2 years.*

*Susan*

*Graeme*

*For SAK, we submitted the revised Project Cost to the Executive in March 2005. Due firstly to the increase in cost, creating a full review of cost and business case, then secondly to the General Election and finally to the change of Transport Minister, the revised cost was only authorised in August 2004. Throughout this period, the project had a full team of consultants and contractors already engaged.*

*Whilst some useful and productive design was carried out during the period of delay, we still have the same 18 month contract period to go, following the announcement of funding. This has resulted in the additional costs of the management team over the period of delay (circa £700k) and has had an inflationary effect of the final outturn cost of the project (circa £1m).*

*Clearly, whilst the delay and the effect are factual, the causes are somewhat sensitive. However, I trust that this is the sort of issue that you are looking for.*

*Give me a shout if you require any further information.*

*Regards*

*Richard*

*Regards*

*Graeme*

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*Graeme Bissett*

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