
From: Marwan AL-Azzawi [Marwan.AL-Azzawi@scottwilson.com]
Sent: 17 August 2006 18:20
To: Mark Bourke
Cc: HaileJP@halcrow.com; paul.whitehill@turntown.co.uk; Russell Bissland; Gail Jeffrey; Joanna Smith
Subject: Optimism Bias Meeting - Agreed Actions

Mark

Thank you for meeting me yesterday to go over the process and agree actions for the way ahead on the Optimism Bias (OB) and business case analysis for EARL and Edinburgh Trams

As promised, I set out below our agreed actions and framework for how you have instructed us to take this work forward:

EDINBURGH AIRPORT RAIL LINK

- * you have agreed to the process I set out in my previous e-mail of 10 August and so this will be the aim of the work and the steps to take;
- * Turner & Townsend (T&T) will develop the EARL Risk Register (RR), cleaning out the risks that are no longer applicable following the STAG Appraisal Report, and including the EARL OB calculation process as previously sent to T&T. This will include the calculation of the Best-Case, Worst-Case and Likely-Case Scenarios for Capital Costs which should be bedded into the revised RR;
- * Jim Haile (SWH JV Risk Manager) and I will then audit the revised RR + OB 'calculator' to check it reproduces the same process followed for the STAG work. We will do this using the same data as carried into the Design Development STAG Report (December 2005) as used for the Parliamentary Process. Our function, however, is that of due diligence and I would suggest that any corrective actions would best be carried out by T&T. This might be an iterative procedure until satisfactory results are obtained;
- * we will then re-run the TEE Appraisal Models to check the business case is producing reasonably similar results as per the agreed STAG Appraisal;
- * we will meet with you to discuss our experience and findings from the RR + OB 'calculator' audit(s);
- * upon completion of a satisfactory RR + OB 'calculator' we can then test the newly revised risks to gauge any sensitivity/variance. We will set up a Workshop with T&T and JH to go over the newly developed/streamlined risks in the revised RR. We will meet with you to discuss the outcomes and any issues identified from the above;
- * T&T will then be able to take ownership of the RR + OB calculations process for each analysis period (for your Transport Scotland briefings) and Quarterly Reviews. We will act as Peer Reviewers of the estimates before they are passed to you. Initially our reviews will cover 4 periods (effectively up to January) and once the system is suitably automatic we can take a step back. You are to supply us with a reporting timetable so I can identify suitable target dates for T&T to supply us with their draft estimates;
- * for each RR + OB estimate we will carry out TEE Appraisals to estimate the effects on the EARL business case. These will be reported to you prior to the Transport Scotland briefings for you to check the NPV & BCR is satisfactory;
- * after a reasonable number of TEE runs we will be able to identify a simplistic OB vs TEE Results 'rule-of-thumb' to gauge future impacts on the business case;

* as and when required or issues arise we can meet with you to discuss progress and amend procedure; and

* the above work is to be carried out through the EARL TSDS commission, and charged through the TSDS "Risk Management Pot". If we need to set up a new Work Stage we will do so, to allow you to differentiate our invoices from the other risk management workstreams. We will use the agreed rates in the TSDS contract

EDINBURGH TRAMS

* you requested I review the OB process used for the Edinburgh Trams network and implications for its business case;

* we will set up a meeting with Nina Cuckow of T&T with a view to discussing the two respective processes used and ascertaining a possible way ahead for Tram, if tie ltd prefer to follow the EARL method;

* following this initial review we can then discuss a suitable way ahead, to ensure consistency with the two projects. As you know I am on the audit team for the JRC Tram Models (both Upper and Lower Level Models) so we can take cognisance of the findings from these audits and the resulting business case modelling;

* this work is to be carried out through the Edinburgh Trams TSS commission, and we may need to set up a new Work Stage accordingly. If it is found that a similar RR + OB 'calculator' process would be required, then we will prepare a suitable proposal for you and your Tram colleagues to review and agree before we carry out any major works; and

* I have already discussed the above with my colleagues in the TSS commission who are happy to begin initial discussions

I trust the above is an accurate summary of our discussion and would be grateful for your confirmation, upon which I will instigate the necessary work

Regards

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