
From: Stewart McGarrity
Sent: 05 December 2006 15:39
To: Graeme Bissett; Andie Harper; Willie Gallagher
Cc: Geoff Gilbert
Subject: Cllr Allan Jackson questions

Importance: High

See below my own notes re the questions asked by Allan Jackson which will no doubt be mirrored in other responses sought. I have not been able to consult on these with Andie/Geoff but I am sure they would concur.

1. What assurances are there that the tram can be built on time and on budget?

Budget

- The procurement strategy for the project has been designed to build increasing confidence in the cost estimates.
- A very high proportion of the estimates is based upon awarded contracts or advance design quantities and known market rates.
- The estimates have been benchmarked against other projects and have been reconciled to independently prepared estimates.
- The estimates include a prudent risk allowance which statistically gives us 90% confidence that the project can be delivered within the estimate.
- We are not going to commit until the initial tender returns from Infracore bidders give us confidence our estimates are robust.
- We have robust Governance and change control processes in place to ensure there are no unnecessary changes to costs due to scope creep - a major reason for cost overruns elsewhere.

Programme

- There remain significant risks with the programme - a lot of them round the approval processes including planning consents and TROs. These risks have been retained in the public sector (to the extent they are not covered by SDS liability caps in the event they fail to deliver) are to a large extent within the influence of the stakeholders, including most significantly CEC as the planning and roads authority (NB - The independence of the planning dept and the sanctity of the statutory roads processes weaken this argument for many - not for me though).
- Getting on with utility Diversions with all due haste is a good way to manage risk in the programme.

2. What is to prevent the MUDFA costs escalating beyond the current estimate given the uncertainties about the final tram design and the notorious unreliability of information about PU plant?

As part of the design process we have undertaken an unusually large number of surveys in addition to information received for PUs. This has included extensive ground penetrating radar and trial digs. We therefore have a high degree of confidence on the extent of utilities. However the risk remains and it's a remeasurement contract so we have included a very prudent level of risk allowance (average 21% on utilities compared to 12% overall although we should probably not say this publicly)

3. If the project goes over budget who pays?

Great question, and despite my best efforts TS and CEC have steadfastly refused to agree on this issue over the past 9 months. See paragraph 1.76 of the DFBC Exec Summary which clearly states this is an outstanding issue.

The answer for now is that they (CEC/TS) will make this determination sometime between now and financial close. It seems clear that CEC will have a limited capacity to take on cost overrun risk but it might be able e.g. to take on 10% of the risk hedged against an income stream (the TEL profits?)

The approach to managing in the meantime is to keep a headroom between the cost estimates and available funding (in addition to the 12% risk allowance) which leaves very little residual risk of cost overruns - this is achieved by doing Phase 1a first (at a cost of £500m v £545m funding available) and again by not committing to utilities until we have seen the colour of the bidders' trousers.

4. What due diligence arrangements have been built in to the Business Case (if any)?

Where has the Business Case not been subject to due diligence?

- TS/CEC/TEL/Transdev full involvement throughout the JRC modelling process
- Independent audit of the JRC model and reports by Scott Wilson
- TS economists have crawled all over the economic and revenue analysis
- Robust challenge of assumptions by TEL
- KPMG reporting to TS on the procurement strategy and the affordability analysis
- Reconciliation to independent cost estimates by Cyril Sweett
- Two independent Gateway reviews passed in July and November
- Bus case and procurement programme provides several more check points where cost, risk and funding can be reassessed by CEC and TS - 21st December is not an unconditional approval to go.

Stewart