DRAFT Risk Management Report

The Final Business Case (FBC) presented to CEC in December 2007 illustrated in detail the process by which tie administers its risk management function. The main areas of risk which the FBC focuses on are:

- Types of risk that need to be considered from development to residual value for the tram system,
- Extent of identification, analysis and management of risk undertaken,
- Effect of tie's procurement strategy and risk allocation achieved,
- Overall contingencies and their consideration in the cost estimates for the tram project.

The risk allocation figure of £47million which was included in the FBC has remained constant while the Infraco negotiations continue. There are a number of risk items which may be transferred to Infraco at novation thereby reducing the risk allocation figure and providing further contingencies for the project.

A summary of the areas where risks may be closed with the risk allocation becoming a contingency is below:

Infraco

Risks relating to the procurement of Infraco and the ongoing contract negotiations may release approximately £6.4million pounds at contract award provided the contract is 100% fixed and firm thereby eliminating all the Infraco (and other) procurement-related risks.

These risks include:

- ***Infraco does not have detail to achieve contract close***
- ***Poor definition of design and Employers Requirements in Infraco tender documents***
- ***Delay or price increase due to steel shortage***

Tramco

There are a number of Tramco risks which, if novation is successful, will be transferred to Infraco. Provided this occurs there will be approximately £1million of risk allocation available for contingency for the project.

These risks include:

- ***Depot unavailable to receive trams***
- ***Pricing risk between now and award of contract***
- ***Delay in supply vehicles***
- ***Depot design is not compatible with trams***

Mudfa

Mudfa has a risk allocation of approximately £11million and thus far there has been no drawdown on this allocation. As the Mudfa works have been in progress since April 2007 this risk allocation will be reviewed prior to contract award with a view to achieving two things; transfer of some of the risk allocation to project contingency where appropriate and transfer of some risk allocation relevant to the scope of work being transferred from Mudfa to Infraco.

Traffic Regulation Orders

The Scottish Executive will amend existing legislation in order to negate the need for compulsory public hearings. There is currently approximately £3million allocated to the risk of public hearings and the effect these hearings will have on the project. If CEC decide to not hold any public hearings this money can be moved to contingency for the project. Conversely, if CEC decide to proceed with public hearings then this money will need to stay within the project risk allocation.

Land and Property

There is a risk allocation of £4.2million against land and property risks. These risks will be reviewed prior to contract award to ensure that all existing risks are correctly assessed and are being managed appropriately. If any of the risk allocation is no longer required for these risks it will be moved to contingency for the project.

Treatment Plans for Key Risks

All risks on the project risk register have treatment plans in place and these plans monitored in line with the 4-week reporting cycle and Project Director Review meeting.

An appendix is attached which shows the treatment plans and plan owners for each all keys risks on the project risk register. This appendix includes all black flag and red risks.

Black Flag risks have not been quantified as, by their definition, they are risks which could halt the project completely therefore are unquantifiable. This is the approach which has been taken since the project commenced.

It is notable that on the most recent Quantitative Risk Analysis output which was used to inform the FBC includes fifteen risks which total approximately £36million of the overall risk allocation for the project. These risks and associated treatment plans are included in the attached appendix. This illustrates that as well as ensuring there are appropriate allowances for key risks, tie are managing these risks with the intention that the allowance is not drawn down.