TRAM PROJECT GOVERNANCE – COMPLETING THE PICTURE

Background

The purpose of this paper is to address practical governance issues in order to streamline and improve the decision-making process through to Financial Close. The recommendations are intended to improve our processes at a practical level, rather than to suggest radical change to the framework.

The existing structure has the following features :

- CEC is the Promoter and part-funder
- TEL was created by CEC to deliver an integrated bus and tram system
- Tie is the delivery agent for the tram project as specified by its client CEC acting through TEL
- Transport Scotland (TS) is the principal funder

The fulcrum of the current governance structure is the TEL Board acting as the Project Board. Attendance includes senior parties from the key stakeholders, including CEC and TS. The Tram Project Director (TPD) has delegated authority from the TEL Board to execute and in turn delegates on day to day matters to his tram project team. The tie Board's responsibilities are to apply quality assurance to the execution by the TPD and his team ; to make formal funding requests to TS and be accountable for expenditure ; and to enter into contractual arrangements necessary to execute project delivery.

Practical application and the evolution of the project have identified a number of issues. The first is the most important, and the detail is set out below.

The approvals requested from the TEL Board and the follow up actions are summarised on page 5.

Issues with the current structure

1. There is inadequate demarcation between the TEL Board acting in its statutory stewardship role and the TEL Board as Tram Project Board ; attendance at these distinct sessions is unclear. There is a need to identify the Senior Responsible Officer for the project.

    Two diagrams outlining a proposed solution are attached at Appendix 1.

    These highlight :

- Delineation between Project Approval Level (TEL / CEC / TS) and Project Execution Level (Tram Project Board, to which all execution workstreams report)

- Segregation of the deliberations of the TEL Board in its statutory stewardship role from those of the Tram Project Board.

- The role of the TEL Board becomes focussed on key issues relating to programme, scope and cost of a fundamental nature. It will make recommendations to CEC on key aspects of the project including business plan and business case approval, contractual commitment and matters which have a political dimension. Attendance will be restricted to Directors, with the Chairman and CEO of TEL providing progress reports and support for recommendations. Other attendees only as necessary and it is anticipated that these would not include TS to avoid any conflict of interest. The TEL Board will also address any matters outwith the direct arena of Integrated Bus and Tram systems and any statutory TEL considerations.

- To reinforce the distinction, the Project Board will revert to the title "Tram Project Board" (TPB), chaired by David Mackay. The TPB will be constituted as a formal committee of the TEL Board to enable the TEL Board to delegate authority. Members of the TPB will be the key senior representatives of the primary organisations in the project – TEL, Tie, CEC and TS ; management, Transdev and other advisers will attend as required.

- The TEL CEO has overall responsibility to ensure project execution is working effectively. As such he would be the Senior Responsible Owner (SRO) under OGC guidelines and is the lead operational director on the Tram Project Board. This does not precisely fit OGC guidelines, which would for example call for the SRO to chair the TPB, but is a practical approach appropriate for this project. The structure of delegated authority described in Appendix 2 follows this hierarchy.

- Execution workstreams will be categorised (largely as at present) as either "Business Planning, Integration and Commercials" ("BPIC" – sorry yet more acronyms), or "Design, Procurement and Delivery" ("DPD"). The BPIC programme is under the direction of TEL management led by Bill Campbell. The DPD programme is under the direction of the Tram Project Director Andie Harper. There are critical linkages and dependencies which the two programme directors must manage effectively. Both CEC and Transdev have key involvement in many of the workstreams. This structure should encompass all workstreams and approvals needed to deliver the integrated system

> The two current sub-committees will be reconfigured to cover each of the two programmes of workstreams. The BPIC sub-committee will be chaired by David Mackay and the DPD sub-committee will be chaired by Willie Gallagher. The role of the sub-committees is to filter workstream outputs and provide recommendations to the Tram Project Board. Membership of sub-committees has to be defined but will be partly sub-set of the TPB and partly additional advisers and stakeholder reps. It is also likely that membership will vary according to the subject-matter on the table.

The diagrams in the appendix should make all this clearer. Appendix 2 suggests thresholds for decision-making down the hierarchy of the project.

If the structure is agreed, the next step is to identify membership. This is currently recommended as :
> David Mackay (Chairman)
> Neil Renilson (TEL CEO and Project SRO)
> Willie Gallagher
> Andie Harper
> Bill Campbell
> Senior CEC Representative
> Senior TS Representative
> Other advisers as required

If approved, this paper and appendices provide the remit for the Project Board and its sub-committees. <u>Attendees at the Project Board meetings who are not directors have no formal decision-making authority or responsibility</u>. However, they are expected to participate fully in the process. In the case of CEC and TS representatives, the attendees would be expected to avoid any subsequent questioning of decisions by their respective organisations, or to flag any such risk. If the proposals in this paper are accepted, the legal position of participants will be formally documented.

A future development could be the detachment of the Project Board from TEL into an independent form. This structure would require all members to be accountable for their decisions and approvals which would bind their respective organisations. Further work is required to assess this proposal.

In addition, the idea has been raised of a third programme of work under a separate sub-committee addressing stakeholder issues and public communications. This is presently executed under the BPIC programme but the separation is worth considering further.

2. TS have stepped up their involvement and their approval requirements are not fully integrated into the governance structure

   The project programme is under revision and will make full allowance for key stagegate approval by TS. It is encumbent upon TS to specify their approval requirements, timetable and persons involved.

3. There is no single delivery structure within CEC encompassing transport / roads, planning, finance and legal involvement and their approval requirements are not fully integrated into the governance structure.

   So far as approvals are concerned, as for TS above. In addition, it will be necessary that approval processes by TS and CEC are handled so far as possible simultaneously not sequentially. There is a critical need for the appointment of a competent, senior "Tram Tsar" within CEC who has the time and authority to coordinate the decision-making processes within CEC.

   A further dimension here is the establishment of Protocols with CEC to advance land assembly, traffic management and other areas of mutual interest. These need to be linked to the project's delegated authorities.

4. *The tie Board's responsibilities for funding request and contract approval need to be programmed to avoid duplication ; the tie Board's responsibilities for quality control are accepted in principle but not fully manifested in practice.*

   A separate paper has been prepared for the tie Board to address this area.

5. *There are numerous "influencing groups" involved in the project's day to day operations, whose role needs clarified, codified and programmed*

   See Appendix 3

6. *A safety management plan is under development and the legal responsibilities need to be reflected in the governance arrangements*

   This is under detailed consideration and it is expected that firm proposals will be put forward in July.

7. *CEC / TEL operating agreement – a brief document is under preparation and needs to be monitored by tie / TEL against the legal issues raised by DLA to ensure no difficulty is created for the companies under competition legislation.*

TEL Board approvals requested :

The TEL Board is invited to approve :

1) the refined governance structure described under point 1 above and in the diagrams in Appendix 1, the proposed membership of the Tram Project Board and the levels of delegated authority set out in Appendix 2.
2) the actions proposed below, in particular 4 and 5.

Outstanding actions :

1) Legal responsibilities of participants in governance committees to confirm and re-confirmation that previous legal and tax advice holds good (GB)

2) Chairmen of the two sub-committees to address membership and consider creation of a separate "Stakeholder / Comms" programme (DM / WG)

3) Consider evolution to "Independent" Project Board (GB)

4) TS to approve and to set out their milestone reporting requirements, approval requirements, timetable and persons involved. (TS)

5) CEC to approve and to set out their milestone reporting requirements, and consider the appointment of a "Tram Tsar" within CEC. (CEC)

6) Finalisation and agreement of CEC / TPB protocols and linkage to project delegated authorities. (BC)

7) Tie Board to approve their quality assurance processes (GB – tie Board)

8) Detailed delegated authority rules (DARs) need to be agreed for the DPD and BPIC programmes, including cover for emergency situations ; change control procedures to be adapted and documented, including any relevant influencing groups (SMcG / AH / WWC)

9) Finalisation of Safety Management responsibilities (GB / SC / AH +DLA)

10) CEC / TEL Operating Agreement to finalise (CEC / TEL)

11) Review Memorandum and Articles of Association of all three companies to ensure there are no inconsistencies with the revised governance arrangements which might require amendment (CEC Legal)

12) Other matters : contract relationships (JRC, DPOFA) (GB); funding flows (GB); TEL management roles and availability (DM / WG / NR)

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Appendix 1 – Governance model through to Financial Close

See following slides.

Appendix 2 – Delegated authority rules and change control procedures

1) Delegated authority rules

Transport Scotland – reserved powers

- Approval to release Infraco documentation to market*
- Approval of Draft Final Business Case with defined consequential approvals (including funding, commencement of utility work, land purchasing)
- Other milestones through to Financial Close, to be defined

Note – impact of all changes will be reflected in business case, no need for control over individual changes. Material issues would be addressed at TEL Board.

* This will be preceded by a gateway review, currently timed for mid–July.

CEC – reserved powers

- Approval to release Infraco documentation to market
- Approval of Draft Final Business Case with defined consequential approvals
- Other milestones through to Financial Close, to be defined

Note – impact of all changes will be reflected in business case, no need for control over individual changes. Material issues would be addressed at TEL Board.

TEL Board – reserved powers

- Changes to project scope which 1) causes a delay of > 3 months to key milestones ; or 2) increases capital cost by > £5m ; or 3) adversely affects prospective operational surplus by > £500k pa ; or 4) will (or is likely to) materially affect economic viability, measured by BCR impact of > 0.2

- Changes to project design which significantly and adversely affect prospective service quality, physical presentation or have material impact on other aspects of activity in the city

- Recommendation to CEC and TS :
    - that Infraco documentation be released
    - that Draft Final Business Case be approved with defined consequential approvals
    - in relation to other milestones through to Financial Close, to be defined

Tram Project Board - reserved powers

- ➢ Changes below thresholds reserved for TEL Board
    - o Delays to key milestones of 1-3 months
    - o Increases in capital cost of £1m-£5m
    - o Adversely affects prospective annual operational surplus by £100k-£500k pa
    - o is (or is likely to) materially affect economic viability, measured by BCR impact of 0.1 - 0.2

- ➢ Delegate authority for execution of changes to TEL CEO :
    - o Delays to key milestones of up to 1 month
    - o Increases in capital cost of up to £1m
    - o Adversely affects prospective annual operational surplus by <£100k pa
    - o is (or is likely to) materially affect economic viability, measured by BCR impact of >0.1

TEL CEO

- ➢ As delegated by TPB
- ➢ Delegate authority for execution matters to Tram Project Director for DPD programme workstreams and to leader of BPIC programme. These authorities to mirror those held by TEL CEO. TEL CEO to approve all changes in this category.

Tram Project Director (for DPD programme)

- ➢ As delegated by TEL CEO
- ➢ May delegate to his team

Leader, BPIC programme

- ➢ As delegated by TEL CEO
- ➢ May delegate to his team

TPB sub-committees

- ➢ No delegated authority, but will recommend action to the TPB. Chairmen to consider how important and urgent matters to be handled as necessary.

2) Change control procedures

Changes made with the authority of the Tram Project Director and BPIC Programme Leader require to be approved also by the TEL CEO.

Changes outwith the authority of the TEL CEO require approval of the Tram Project Board.

Changes outwith the authority of the Tram Project Board require approval of the TEL Board.

In each case a standard pro-forma must be used to describe the basis for the proposed change. This will capture the approver's signatures.

It is essential that common sense is used when applying these rules. Those given authority must exercise judgement as to the need for dialogue with other parties in the hierarchy to ensure the full effect of issues or proposed changes is assessed.

Rolled up reporting mechanisms will capture all changes and decisions made under delegated authority.

Appendix 3 - Influencing Groups

There are numerous cross-organisation working groups supporting the programme. This is normal in a complex project with multiple stakeholders, but it is important that all such groups fit within the governance of the project. Specifically, that there is no implied decision-making (or blocking) capability which undermines the governance processes.

The groups I am aware of, and the principal project person responsibility, are as follows :

- TEL Business Plan sub-Committee of the TEL Board plus all individual working groups (Stewart McG) ;
- Procurement sub-Committee of the tie Board

These will migrate into the BPIC and DPD sub-committees described above.

- Tram Design Working Group (Barry Cross)
- Tram Design Approval Panel (newly established by Willie Fraser)
- TROs etc - various under development (Barry)
- Design & Construction related - various (David Ramsay)
- MUDFA - various (David Ramsay)
- Modelling and Revenue Steering Group (Stewart McG)
- Joint advisor group - DLA, PwC (GB)
- Sir Terry Farrell's design steering group (not yet operational ; Barry)
- Principals meeting (senior management of TSS and SDS - Andie Harper)
- Tram / EARL interface group (Andie / Susan Clark)
- Infraco Payment Mechanism working group (Stewart McG)
- Land Assembly - Progress review group with D&W, Stakeholder review group (Geoff Duke)
- Risk management - various (Mark Bourke)
- Communications - Transport Comms Working Group, Transport Comms Steering Group, Tram Comms Meetings (Suzanne W)

These groups must be regarded as advisory only unless the TPD or BPIC Programme Leader has formally delegated authority to the group through its chair. The Tram Design Approval Panel, which is cross-organisation, would be a good example where TPD authority can be successfully delegated.