

CENTRAL MANAGEMENT BRANCH



Room 413c
Clarence Court
10-18 Adelaide Street
Belfast BT2 8GB

Telephone: (028 905) 41140
Facsimile: (028 905) 40064
Email: alan.doherty@drdni.gov.uk

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Paul Carlisle
Clerk to the Committee for Regional Development
Committee Office
Room 254
Parliament Buildings
BELFAST
BT4 3XX

Dear Paul

Thank you for your letter dated 29 January 2015 following the Committee meeting which took place on Wednesday 28 January 2015.

The queries and the responses to them are detailed below:

Translink

- **Can you provide the Committee with the total cost of the consultancy exercises carried out in respect of Phase 2 of this project, broken down against each of the consultancy firms?**

Professional Services as defined in DFP guidance were procured to support delivery of the project. Professional fee costs up to 19/01/2015 were as follows:

| | |
|--|----------|
| Project Management & Cost Management by Arup | £462,480 |
| Signalling & Telecoms Feasibility Study by Scott Wilson | £119,971 |
| Civils & Permanent Way Design by McLaughlin & Harvey | £198,428 |
| Signalling & Telecomms Design (GRIP Stages 1 to 4) by Mott MacDonald | £782,915 |
| Quality Business Management Ltd (OGC Gateway Review) | £5,019 |
| Economic Appraisal by KPMG | £3,000 |
| Environmental Consultancy on Badger Setts by AECOM | £11,522 |

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|---|-------------------|
| Environmental Consultancy on potential Bat Roost sites by Arup | £1,484 |
| CDM Co-Ordinator for Signalling & Telecomms Works by FCM Partnership | £645 |
| CDM Co-Ordinator for Civils & Permanent Way Works by Boyd Partnership | £1,839 |
| TOTAL | <u>£1,587,303</u> |

- **The Committee provided you with the figures contained in the economic appraisal showing the capital costs of the preferred option. Can you explain why the figures for supervision in Phase 1, Phase 3 and overall are incorrect?**

The amount identified for Supervision in Phase 1 and Phase 3 in the 2011 is 3%. The 2% figure within the left-hand column (descriptor) appears to be a carry-over from the original 2010 Business Case, which envisages the whole scheme being delivered as one Project. This is a typographical error which should read 2% / 3%. The figures for Supervision are correct.

- **How do you quality assure these costings?**

Base estimates are produced by the Cost Manager either from a cost using previous tender rates or from estimates produced by discipline specialists. The bases estimates are reviewed by the external Project Manager and accepted by Translink's Project Management Team. Further arithmetic checks would be carried out during the drafting of the Economic Appraisals.

- **The costs within the Strategic Outline Case (SOC) were developed using costing information from the specialist engineering firm Arup. However, the SOC included a disclaimer that a detailed assessment of costs would be developed during the feasibility stage of the project, prior to the production of an economic appraisal. Why was this?**

The Strategic Outline Case (SOC) prepared in February 2010 refers to the Conceptual Estimate within Translink's Project Identification Document of April 2008. The costs within the SOC were not developed from Arup's costing information. Project cost estimates developed at SOC or PID stage are by their nature considered 'conceptual' and are required to be reviewed during the

Feasibility stage to reflect the developing scope and options. This is recognised by relevant DFP guidance.

- **On reviewing the SOC, DFP requested a preliminary assessment of project affordability. In your response, you stated that you that since capital plans had already been set for 2010-11, you were looking at capital plans beyond 2011-12. How, then, did you plan to fund the design/ procurement and contract approval stages of the project in March 2010, given that funding was not likely to be available until after 2011-12?**

The project was originally identified in advance of the 2011/12 – 2014/15 Comprehensive Spending Review (CSR) and included in bids leading up to that CSR. Its development, as with many larger capital projects, straddled CSR periods. Whilst funding for the main scheme was not made available in 2010/11, funding to develop the scope and economic appraisal options had been approved through a Departmental Letter of Prior Approval in July 2008.

- **Why did Translink not include the phasing of the project as an option in either the OBC or the Strategic Business Case (SBC), when the engineering company Scott Wilson appears to have produced a Project Design specification in February 2010, which divided the project into the three separate phases that ultimately became the preferred option some 20 months later?**

The Scott Wilson Study assumed that the Project would take place as a single scheme and did not divide the Project into three separate phases.

- **The strategic business case was undertaken by KPMG, based on “capital costs provided by Arup and Translink.” From the information provided to the Committee, this appears to be similar to the costing information stated within the SOC. Can you confirm this assumption?**

The costs referred to in the SOC were taken from the Conceptual Estimate within Translink’s Project Identification Document for the Coleraine to Londonderry Track Relay of April 2008.

- **In the SOC, Translink referred to these costs as a “Conceptual Estimate” and went on to state, “A detailed assessment of costs will be developed during the project Feasibility stage before Economic Appraisal”. Why did Translink not carry out a further detailed assessment of costs, in line with its SOC comments?**

Following on from the Conceptual Cost Estimate further development of cost estimates were carried out during the Feasibility Stage as the scope was developed and these were used within the Economic Appraisal.

- **In November 2014, the Minister commented that, “The original cost projection was a high-level estimate not backed up by any detailed planning or design work. Translink did not make that clear at the time”. What steps did you take to assure and make the Department aware of the high level nature of the cost estimates?**

The original Economic Appraisal cost estimates were based upon technical studies for the civil engineering works, permanent way works and signalling & telecomms works. These studies were discussed at Project Board Meetings. The design underpinnings for the Signalling aspects of the project (in essence Phase 2) became clearer from May 2014 after the contractor appointed by Translink produced more design outputs.

- **Translink used the specialist engineering firm Arup to estimate the costs. Arup based the costing on the Bleach Green to Antrim relay, dating from 2000. The UK Government guidance states, however, that to test the estimate, “...effectively, reference class estimating should be undertaken, which is...a forecasting tool, used to predict the outcome of a planned action, based on actual outcomes of similar actions in the past and that this, “...requires access to credible, empirical data for a sufficient number of projects within the reference class to make statistically meaningful conclusions”. Tell me about the robustness of your costing in this area and whether you consider the single project on which it was based – the Bleach Green to Antrim relay - as sufficiently robust to reach “statistically meaningful conclusions” for accuracy testing purposes?**

The conceptual estimate included within the Project Identification Document of 2008, was used to obtain initial approval to start the Coleraine to Derry~Londonderry Renewals Project. This was produced by Translink internally and was based upon the best and most recent empirical evidence available at that time (Bleach Green to Antrim Relay of 2000). The SOC also used these figures.

- **The SOC for the original project stated that the procurement strategy would be, “...developed during the Feasibility stage after a project manager is appointed. A number of options will be considered including a traditional (sequential) route and a Design & Build option”. Why not as part of the SOC?**
This misunderstands the nature of a SOC. The SOC is a high level initial document which would not be expected to consider a project’s procurement strategy. DFP guidance refers.
- **The Minister advised this Committee that, “Translink’s initial procurement strategy combined design and build, aiming to award one contract for both to deliver the speediest completion of phase Translink embarked on a formal procurement in early 2013. The prequalification questionnaire and the process for that approach resulted in suitable responses from three separate contracting teams. However, there are a small number of companies in Great Britain that are active in this market, and many have been involved in network rail programmes of work. In early 2013, only one firm submitted a tender”. However, the Terms of Reference of the Project Assessment Review (PAR) notes that the bid submitted, “...was not considered value for money by the independent advisors to the Translink Project Board employed to help manage the project”. What were the technical and professional backgrounds of the independent advisors to the Translink Board for the project; and what was the selection process used in their appointment?**

Arup is Translink’s Project Manager and Cost Manager.

Arup employed Chandler KBS as their sub-consultant for Cost Management with Corderoy as their rail cost consultant during the Feasibility Stage. Arup is an international multi-disciplinary Engineering Consultancy company, with experience

of Project & Cost Management in major Railway Infrastructure Projects in the UK and worldwide. This experience covers the rail disciplines of civil engineering, permanent way engineering and signalling & telecomms engineering.

Chandler KBS is a professional consultancy which provides cost management services for infrastructure projects and building projects within the UK and across Europe.

Corderoy is a professional consultancy which provides cost management services for rail infrastructure projects within the UK and across Europe.

Arup was selected after a tender competition amongst five pre-qualified companies.

The tender was assessed on a Cost and Quality basis of 40% Cost and 60% Quality. Quality was assessed on project experience, proposed project team members, proposed methodology, and environmental proposals.

- **What was the value of the rejected bid?**

It is assumed this refers to the one bid submitted in 2013 for the original Phase 2 procurement rejected by Translink as non value for money. The rejected bid was based upon a Cost Model. A cost model was used because a detailed scheme design and specification had not been produced at the time of tender in 2013. This tender of 2013 would have provided a design & build contractor to design the scheme and produce the detailed specifications and then build the scheme for an agreed target sum. A cost model was used as the method of tender to ensure that the competing tenderers would all supply tenders which could be directly and equally compared with each other. Within the cost model a selection of items and services which formed a core to the project were provided for pricing as well as various fee items.

The single bid received could not be recommended by Arup and its sub-consultant to Translink as Arup did not believe that this bid represented value for money. For example:-

The Fee tendered in 2013 for the Signalling & Telecomms design for the early Design Stages (known as GRIP Stages 2 to 4) was £2,160,203. Under its current strategy Translink has since procured this design service through a competitive tender process for £692,644.

Translink did indicate to the Department in the Summer of 2013 that the overall cost of Phase 2 if this bid was accepted could cost a minimum of £27m but this did not fully take account of all specification requirements which have been made clearer since May 2014.

Departmental

- **The Cabinet Office guidance on Project Assessment Review (PAR) states that “...the project’s SRO is expected to share the PAR report more widely within his or her organisation and, where appropriate, with other stakeholders essential to development and delivery of the project. This reinforces the SRO’s ability to ensure that the findings are well understood and the recommendations are followed up effectively”. Can you tell me why the Committee does not fall into this categorisation?**

We would restate that it is the Minister’s intention to share the PAR report with the Committee after the procurement process is concluded. The Minister asks that the Committee respects this position. We will provide a substantive response to this issue in response to the Committee letter of 18 February 2015 (DALO/29/4/2015).

- **The same guidance deals with the disclosure of the reviews, stating that “All reviewers will dispose of copies of the report and earlier drafts in any format e.g. electronic or paper, together with any notes and supporting documents, no later than seven days after delivery of the final report”. If the Committee agrees to be compliant to the disclosure guidance espoused by the Cabinet Office, will the Department release the report to it?**

See above.

- **How many findings are contained in the PAR report?**

See above.

- **The process includes the formulation of Delivery Confidence Assessments against the findings. How many of the Confidence Assessments are categorised as “Red”?**

See above.

- **How many are categorised as “Amber/Red”?**

See above.

- **How many are “Amber/Green”?**

See above.

- **There are the figures contained in the economic appraisal showing the capital costs of the preferred option, which shows that the figures for supervision in Phase 1, Phase 3 and overall are incorrect. Can you confirm that the identified apparent anomaly exists?**

The Translink answer (which the Department agrees with) refers.

- **How does DRD routinely recalculate major projects’ costings for accuracy testing purposes?**

The Department has committed to looking at processes for capital projects across all of its areas of responsibility and this matter will be considered in the overall review. It is very important to distinguish those projects where the Department is managing the project from those which are taken forward by the responsible organisation. NI Railways is responsible for all railway capital projects.

- **How and when it undertakes such testing, for example, in this particular case?**

See above.

- **On reviewing the SOC, DFP requested a preliminary assessment of project affordability. In your response, you stated that Translink’s response was that since capital plans had already been set for 2010-11, they were looking at capital plans beyond 2011-12. How, then, did the Department plan to fund the design/ procurement and contract approval stages of the project in March 2010, given that funding was not likely to be available until after 2011-12?**

A Comprehensive Spending Review took place in 2011 and the current Minister subsequently aligned projects to the budgets that were available at the relevant time. Translink Corporate planning processes, carried out annually, allowed this to be implemented.

- **In approving the SOC, DFP recommended that, “... given the possibility of difficult financial climate regarding capital expenditure over the next 3 to 5 years and the risk that the capital funding envelope may change during the next, DRD should carefully consider the affordability of this (and all capital) projects and ensure that the preferred option which is determined in the OBC is affordable” How did you take account of DFP’s affordability advice when formulating your future capital plans and to ensure that the project did not get delayed?**

Through the Translink Corporate Planning process and negotiation. Hence Phase 1 was delivered on time and budget.

- **Why did DRD not include the phasing of the project as an option in either the OBC or the Strategic Business Case (SBC), when the engineering company Scott Wilson appears to have produced a Project Design specification in February 2010, which divided the project into the three separate phases, that ultimately became the preferred option some 20 months later?**

It is unclear what paper is being referred to. Scott Wilson produced a report in April 2010 entitled “Resignalling Coleraine to Londonderry Outline Project Specification”. This paper did not identify a phased option.

- **Why did DRD not request that Translink undertook a more detailed assessment of costs on the project prior to DRD's acceptance of the SBC and its onward submission of the SBC to DFP?**

A SOC is a preliminary document that provides enough detail to support an informed decision on whether to proceed to an outline Business Case. Detailed costings are not required at SOC stage as outlined in the NIGEAE http://www.dfpni.gov.uk/index/finance/eag/eag-business-cases/eag_strategic_outline_case.htm

- **In November 2014, the Minister commented that, "The original cost projection was a high-level estimate not backed up by any detailed planning or design work. Translink did not make that clear at the time". Was the Minister indicating that his Department was not aware of the high level nature of the cost estimates?**

There was no reason at that time to believe the cost estimates were too low. The approach to procurement taken would be considered a Translink responsibility as it managed the project.

- **DFP guidance contained in Managing Public Money states, that the Departmental Accounting Officer is personally responsible for ensuring, "That the organisation, and any subsidiary to it or organisation sponsored by it, operates effectively and to a high standard of probity". How did the DRD Accounting Officer assess the accuracy of the costing, in accordance with DFP's Managing Public Money?**

The Department's Accounting Officer appoints the Translink Accounting Officer who is expected to ensure his/her organisation complies with best practice in project management. We would expect estimates to be produced on as comprehensive basis as possible.

- **DFP submitted a number of queries to DRD prior to its consideration of the project. These included the following: "Confirmation is sought from DRD that the criticisms of the Bangor/Belfast project have been fully considered by DRD/Translink and lessons learnt have been fully incorporated into the**

development of the Coleraine/Derry case. In particular DRD should confirm that the cost estimates, project management and governance arrangements are robust and that the risk of a repeat of the failures that occurred in the Bangor project are minimised". With the knowledge of the PAR review and with hindsight, are you content that you achieved this?

Translink has not signed the signalling procurement contract as yet so has not fully committed or spent out on this project before allowing an overall assessment of value for money to be made. The Department is aware that the Translink lessons learned review has specifically looked at this issue.

- **DFP queries continued, "In relation to cost estimates it is noted that these are dated 2009 which have subsequently been uplifted by 3% per annum to 2011 prices. DRD should provide confirmation that they are content that the cost figures are robust and reliable and that the inflation uplift is adequate". In light of the inflated budget, are you content this was achieved?**

In terms of the uplift for inflation, DRD are content that this was adequate. Only a small element of the increased estimate has been attributed to inflationary pressures.

- **"DRD should confirm that the OB (Optimism Bias) uplift is adequate and is representative of projects of this nature. Likewise it is queried why a separate OB assessment was not taken forward for each of the proposed options as these in places are quite different". What are your comments on this now?**

The optimism bias was calculated using the HM Treasury Mott MacDonald guidance in Annex 4 of the HMT *Green Book*. Section 7 of the OBC provided full details of the adjustments made including all calculations and explanations for the reductions undertaken. In addition, separate OB adjustments were calculated for the heavy maintenance option (option 2a) and the construction options (options 3a, b and Options 4a, b). It was considered that, as the construction options would be subject to similar risks, the same levels of optimism bias were appropriate. The Department was, therefore, satisfied that the OB adjustments applied were justifiable at the time taking into account the guidance and also on the basis of past evidence, i.e. the most comparable project, Bleach Green to Whitehead Relay, was

delivered on time and on budget. However, we have accepted the recommendation of the PAR review which does suggest that for Phase 2 a higher OB estimate is justified. We also recognise that Network Rail guidelines have been updated and we should consider this going forward.

- **“DRD should confirm that they are content with the costs analysis included in the business case”. You confirmed that you were content with this and that “DRD are aware that any future liability with regards to cost will have to be borne by DRD within its budget”. Do you still stand by this liability?**

DFP and the Executive ultimately sets the DRD budget. The Minister has made clear his commitment to the project.

- **How did DRD gain the necessary assurance to confirm to DFP that it was content with the accuracy of the costs, given that Translink referred to the costs as a “Conceptual Estimate” in the OBC and these figures then were used as the basis of the costs within the SBC?**

As outlined in DFP guidance, analysis at SOC stage is “broad and indicative” and requires only a “very preliminary assessment of costs”.

In terms of the costs used in the OBC, it would have appeared to officials at the time that a significant cost-planning exercise had taken place and that therefore the cost estimate appeared robust. For example, an extract from the feasibility report (April 2010) produced by Arup suggests that the signalling costs were more than “conceptual”. Paragraph 13.3 of the report states”.

“To provide a robust signalling cost estimate, the figures provided by Scott Wilson as part of their commission to develop initial signalling design were reviewed independently by both the Cost management Team and signalling experts within the Project Manager’s Strategic Advisor team. This was to ensure that the robustness of the signalling costs matched those of the other elements of the project”.

In addition, KPMG carried out a detailed Optimism Bias assessment which would have also provided assurance to DRD that the costs were robust.

- **Government guidance on optimism bias currently states that, “It must be clear which categories of risk are included in the Optimism Bias. Broad brush uplifts should be challenged”. Why did DRD not revisit the risk register at the time the project was phased?**

The optimism bias was calculated using the HM Treasury Mott MacDonald guidance in Annex 4 of the HMT *Green Book*. Section 7 of the OBC provided full details of the adjustments made including all calculations and explanations for the reductions undertaken. A separate adjustment was performed for the heavy maintenance option and the construction options.

- **Did DRD consider whether the extension of the project over a significantly longer time period could have affected the risks already identified, or whether the extension introduced new risks?**

The Department endorsed the Addendum produced by Translink and sent it to DFP for approval.

- **How DRD calculated the level of optimism bias in the absence of an updated risk register for the project?**

The level of optimism bias was originally calculated by Translink and their consultants using the HM Treasury Mott MacDonald guidance in Annex 4 of the HMT *Green Book*. Section 7 of the OBC provided full details of the adjustments made including all calculations and explanations for the reductions undertaken. Although some of the original costs were uplifted to take account of the phasing, the assumption adopted was that the risks remained unchanged and hence the same level of OB was applied. The Department accepts that it could have requested an updated risk register for the project and asked Translink to provide evidence that the level of OB being applied was still appropriate.

- **Did DRD challenge the broad uplift that was used within the costing, in line with the above UK Government guidance?**

See response above.

- **Within the costing for the phased option in the Addendum, why did DRD not include the optimism bias that had been calculated for the project duration?**

Although it was not made clear in the cost section of the addendum, a 20.2% OB uplift was applied to capital costs (see annex 1 to the addendum). The optimism bias calculated for works duration was 5.8% so this was clearly inappropriate.

- **When deciding on whether to approve the project, how did DRD gain the necessary assurance that the costing was accurate?**

DRD relied on the fact that Translink had employed specialists to produce the estimates and its record in terms of Post Project Evaluation had been good in recent years. We accept that going forward there may be an argument for taking second opinions on cost estimates for particularly important or high value projects.

- **In evidence to this Committee, the Minister commented that, “Relying on a single source of cost estimation, even if it is independent and specialist both in the original appraisal and currently, represents a potential vulnerability. That remains an issue. The review recommends that a further review of the latest cost estimate is undertaken and that a figure of £40 million, including an appropriate level of contingency, is more realistic for the overall project”. Does DRD consider its blanket request for more money from the public purse to be the most appropriate method to address the shortcomings arising from its costings, rather than reviewing the methodology that was used, learning lessons and then carrying out a new costing based on that experience?**

DRD has not requested any more money from public funding for this project. It should be noted that this project is a Programme for Government and an Executive commitment.

- **The SOC for the original project stated that the procurement strategy would be, “...developed during the Feasibility stage after a project manager is appointed. A number of options will be considered including a traditional (sequential) route and a Design & Build option”. Did (and when) DRD query with Translink the lack of a procurement strategy as part of the SBC?**

DFP guidance does not suggest that a Strategic Outline Case should define a procurement strategy.

- **Translink did not advise the Department that a new procurement process be adopted and this was not relayed to the Department in a timely manner. Does the Management Statement and the Financial Memorandum agreed between DRD and Translink requires Translink to timely inform its parent department of any activities that appear novel, contentious or repercussive?**

This has already been referred to by the Minister in his statement to the Assembly when he expressed disappointment at Translink's handling of this project during 2013.

- **What action if any has DRD taken to protect against this situation arising again in the future or in similar circumstances?**

The Department has committed to reviewing its capital projects. The Minister commissioned the PAR review and its recommendations will be implemented. Translink's Lessons Learned report will be implemented.

The content of this letter is fully disclosable under FOI.

I trust that this clarifies the position.

Yours sincerely

[SIGNED]

ALAN DOHERTY

Departmental Assembly Liaison Officer