

CENTRAL MANAGEMENT BRANCH



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Our reference: SUB/3/2015

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Dear Paul

COLERAINE TO LONDONDERRY RAIL TRACK

Thank you for your letter dated 13 November 2014 following the Committee meeting which took place on 12 November 2014.

The queries and the responses to them are detailed below:

- ***Is the Minister considering the use of Financial Transaction capital as a means of funding the project?***

Financial Transaction Capital (FTC) is not appropriate for a project relating to one element of the overall railways network. The distinguishing feature of FTC is that the funds can only be deployed by the public sector as a loan to, or equity investment in, a private sector entity. The entity will then use the funding to invest in related infrastructure. As a non-private sector entity Translink would therefore not be eligible for FTC and it is not feasible to consider private ownership of the signalling infrastructure for Coleraine to Londonderry rail line and a passing loop (i.e. Phase 2) in isolation.

- ***The Minister indicated that the economic appraisal requires updating to validate phase 2 remaining value for money. Given that earlier statements, particularly in 2011, show the economic case for the option being made at a***

level of £22m, is the Department confident that the new inflated cost will represent value for money?

It is important to understand that the case for Phase 2 was made as part of an overall 3 phase project and in the strategic context of the New Trains 2 project. The approval in place is for a three phase project (one phase having been completed). A revised business case, focused on Phase 2, has been considered by Departmental economists and has been forwarded to DFP for approval in the context of the strategic context referred to above and in the context of a three phase project for the Coleraine to Londonderry rail line. The appraisal includes an analysis of the reasons provided by Translink to explain the movement from the original estimate to the latest estimate prior to full procurement. It is also important to recognise that final costs will only be firmed up at procurement stage.

- ***What is the Department's contingency should the economic appraisal indicate that the project does not now represent value for money?***

As indicated above the Department believes that the business case does represent the best way forward and that it is in line with existing Executive Programme for Government targets.

- ***The Department's balanced scorecard in your business plan has the following objective recorded, "Support the delivery of the project to Upgrade the Coleraine to Derry/Londonderry railway line by commencing Phase 2 signalling construction and civil works (by 31 March 2015) and has the Deputy Secretary named as the owner What is Deputy Secretary's role with regards to the Phase Two project and can the Department confirm whenever he became aware of the difficulties?***

The Deputy Secretary is the Senior Responsible Owner for the Programme for Government target. As SRO he has overall responsibility for the planning and implementation of the actions to deliver the commitment, as well as ensuring ongoing review of the Delivery Plan. The SRO is responsible for the provision of regular and timely updates on progress as well as ensuring the implementation of agreed actions when the level of progress does not match the Delivery Plan.

It is also recognized that control and responsibility for delivery may not necessarily lie within a single department and, as such, the Delivery Plan should set out the external Partner Organisation, which has a major impact on the delivery of the commitment. In a context where NITHC has statutory responsibility under the Transport Acts for NI Railways it is clear that responsibility for any rail project and related safety aspects must fall to the legally responsible delivery body.

As the Minister reported to the Assembly on 3 November and to the Committee on 12 November 2014, the Department was alerted to the costs escalations at the end of June. This was confirmed in late July and the Minister commissioned the Project Assessment Review (PAR) in early August.

The Deputy Secretary became aware of the issue in early July 2014 and after the Department received confirmation from Translink in late July he made a submission to the Minister in early August and was the Senior Responsible Officer for the Programme Assessment Review.

- ***What grade is the departmental representative that sits on the project board?***

The Department is normally represented by the Grade 7 who is responsible for the sponsorship and funding of Translink. When significant changes arise the Director of the Sponsor Division will also attend. This happened in June and July 2014 when the estimate was raised as an issue.

I should emphasise that it is not the role of my officials to become involved in detailed operational or project management matters. That expertise lies with Translink officials and their consultant advisors. Officials in my Department will monitor the project against the approval levels and conditions in the Letter of Offer.

- ***Did alarm bells not sound in the Department whenever the original single tender came in at 27% above the initial estimate?***

The rejection of the single tender in the Summer of 2013 on value for money grounds was endorsed by the PAR. It was anticipated at that time that eventual costs would be lower than the bid submitted. That is, closer to the original estimate of £20m.

The Senior Reporting Officer for Phase 2 (the Head of Infrastructure) within Translink told Departmental officials in writing on 3 July 2013 and 30 July 2013 that the Phase 2 project cost estimate should be £22.7m with Optimism Bias. The Translink Board endorsed the decision to reject the single tender on 14 August 2013. At the Accountability meeting chaired by the Departmental Permanent Secretary on 11 September 2013 the Translink CEO told the Department the revised procurement strategy would produce a more 'effective competition, which should reflect itself in costs and certainty'. When Translink produced its Corporate Plan later in 2013 it produced a Capital Plan with a cost close to £20m. It is difficult to see how any of these documented records could be seen as suggesting the original estimate was incorrect.

As explained to the Committee it was the appointment of Design consultants and completion of the design work around the signalling aspects of Phase 2 in June 2014 that alerted Translink and the Department to a need to re-estimate costs.

- ***Explain the Department's governance role in respect of major capital investments?***

Translink is responsible for the delivery of major public transport capital projects in compliance with the conditions set out in the Letters of Offer and with the requirements of the Management Statement / Financial Memorandum as agreed between DRD and NITHC. The Department stays in close contact with Translink in the production and approval of business cases and oversight of overall Capital budgets. For specific projects the Department sends an official to attend Project Boards. This is limited to high spend or particularly strategic projects such as the New Trains 2 Project Board, Integrated ticketing and Enterprise overhaul.

- ***The Director of Public Transport Services Division attended the departmental board meeting on 8th August 2014 in respect of Agenda Item 2 entitled “Transport Advisory Service (TAS) Translink Efficiency Review”.***

Was the Phase 2 project referred to during this and, if so, in what context?

Phase 2 was not referred to.

- ***Can the Department and Translink confirm that the “lessons learned” reviews within the respective organisations will be independent and not the respective organisations reviewing themselves?***

As the Minister advised the Committee on 12 November 2014 the lessons learned review in Translink will be completed by the new Translink Chief Executive. The Minister also indicated in his statement of 3 November that he would also commission a review of how the Department assesses and reviews all major capital projects, not just those in Translink, and would review reporting arrangements to him on particularly important projects.

- ***Can the Department/Translink provide details of the costs of the failed Phase 2 procurement exercise to date, including any consultancy costs?***

Translink advises that the costs of the initial, aborted procurement exercise, including an estimate of its own staff’s time, are £70,000.

- ***Can the Committee be provided with a full copy of the 2010 KPMG economic appraisal and any subsequent addendums?***

This has been provided in response to DALO 11/4 /2014.

- ***Can Translink provide the structure of the project board and confirm that the departmental representative(s) are provided with copies of all project board papers in advance of, during or on request after project board meetings?***

The project Board is made up of a Translink Executive (its Head of Infrastructure) and senior officials as well as representatives of Arup Consultants, the project managers. The Department is also represented on the project board. Until

recently project papers were tabled at the meetings. For recent meetings, the papers have been sent in advance.

- ***Can Translink provide details of the attendance at project board meetings of the departmental project board meetings?***

The Department has been represented at all project boards relating to Phase 2.

- ***Can the Department and Translink provide the Committee with their respective understanding as to the role and status of the departmental representative on the project board?***

The role of the departmental representative was outlined in a letter dated 2 October 2013 from the Department to the Translink Chief Executive. A copy of the letter is attached. This was discussed at the Accountability meeting between the Permanent Secretary and Translink Board on the 11 September 2013 and the letter above was issued as a result. This may be one of the areas to be reviewed in taking forward the Project Assessment Review although it is clear from a Departmental perspective that the Departmental official is not part of the Project Management structure.

- ***Can Translink provide the Committee with examples of similar projects undertaken elsewhere in the UK and Ireland and indicate the cost of these against the project estimates?***

Two examples were referred to by Translink. Firstly a project to build a passing loop between Ipswich and Lowestoft (2012) for around £4m. We believe this has happened. A more directly relevant example is to upgrade the Nuneaton to Coventry line including new halts, passing loop and signalling. As reported in March this year tender estimates for the signalling element were three times the original estimates and the project has been scaled back. The small scale of the project given Network Rail's programme was referred to as a reason for the high cost estimate.

- ***Was a strategic outline business case prepared as part of the gateway process?***

As reported in response to DALO 11/4/2014, a Strategic Outline Case was completed for the original one phase project.

- ***With regards to the Gate 1 process, who signed off the estimate for the business justification section?***

DALO 11/4/2014 deals with the Gateway process for the project.

- ***Who signed off the strategic outline business case for the scheme?***

I refer you to the response in DALO 11/4/2014.

- ***Was the business case prepared in line with the NI Guide to Expenditure, Appraisal and Evaluation, in particular the economic appraisal section?***

The three phase business case was approved by DFP.

- ***With regards to the Gate 3 process, was a review of the full business case undertaken?***

I refer you to the response in DALO 11/4/2014.

- ***Did this highlight any supply concerns?***

See response to DALO 11/4/2014. DFP Supply did acknowledge the connection between the business case and the previously approved New Trains 2 business case in March 2008.

- ***What procedures did Translink use in the preparation of the tender documentation?***

As a Centre of Procurement Expertise (COPE), Translink followed DFP's Central Procurement Division's (CPD) guidelines as well as relevant railway industry guidelines.

- ***What quality checks are in place to ensure that tender documents are completed correctly?***

All tender issue and returns are managed through E-sourcing. An initial tender compliance check is carried out by the Project's Procurement Advisor. This includes checks on the completeness of all required documents returned, dates, signatures, etc. Compliant tenders are then forwarded to the project tender evaluation team. Quality and cost sections are scored separately. Quality and cost assessment and scores are reported back to the procurement advisor.

The evaluation panel will review additional compliance criteria such as poor or incomplete quality submissions or incomplete or unacceptable commercial pricing. The Project Manager will present a Tender Report to the Project Board for its approval. The Chair of the evaluation panel will write a Tender Recommendation Report. The Tender Recommendation Report must be endorsed by the Buying Manager, the Head of Projects & Planning and the Project Executive. The Tender Recommendation Report will then be presented to Translink's Monthly Executive Committee meeting for approval. The Tender Recommendation Report will then be presented to Northern Ireland Transport Holding Company's Board Finance and Project Tracking Committee meeting for approval.

These last three rounds of approval are a part of Translink's Matters for Approval process which is both a quality assurance and challenge function. A comprehensive Tender Recommendation Report must be produced and it must be endorsed by all at Divisional level, at Executive level and at Board level.

- ***Can Translink provide the Committee with a copy of the Risk Potential Assessment and the risk register for the project?***

There is no Risk Potential Assessment because a Gateway review has only been completed for Phase 1 at this point and not Phase 2. Similar to the PAR report the risk register is considered to be commercially sensitive until the tender process is complete.

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