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Public Finance Scrutiny Unit

Review of Coleraine to Derry/Londonderry Rail Upgrade

To facilitate on-going work of the Committee for Regional Development (CRD) in this area, this Briefing Paper identifies key considerations arising from an examination of the documentation provided by the Department of Regional Development (DRD) about the budgeting and procurement processes employed by DRD and Translink, in the development of the Coleraine to Derry/Londonderry rail track Phase 2 project.

This information is provided to MLAs in support of their Assembly duties and is not intended to address the specific circumstances of any particular individual. It should not be relied upon as professional legal advice or as a substitute for it.

Introduction

The Committee for Regional Development (CRD) is undertaking a review of the budgeting and procurement processes for the Coleraine to Derry/Londonderry rail track phase 2 project. To assist CRD in this scrutiny, the Public Finance Scrutiny Unit (PFSU) within the Research and Information Service (RaISe) has identified key considerations arising from its examination of the documentation supplied by Department of Regional Development (DRD) to CRD concerning these processes.

The Briefing Paper is structured in the following way:

- Section 1 considers the background to the project;
- Section 2 reviews issues around the project business case and costing;
- Section 3 presents potential issues around the procurement of the project; and,
- Section 4 provides key concluding remarks.

1 Background

The Coleraine to Derry/Londonderry railway line has been the subject of a high degree of political scrutiny and debate over the last number of years, due at least in part to the age and condition of the infrastructure.¹ The rail line is predominantly a single track line with a passing loop at Castlerock station, and is around 33.5 miles long with track that dates to approximately 1978.²

This section provides details of the background to the project and its evolution to the present time.

1.1 The Original Project

The Coleraine to Derry/Londonderry rail project aims were defined by Translink in the original Strategic Outline Case as:

- *To provide the necessary infrastructure to facilitate the 2012/2013 timetable identified under the NTT (New Trains 2) and the Coleraine to Derry Track Renewals Project Initiation Document; and*
- *To meet the aspirations of the Minister for Regional Development for the rail service to Northern Ireland's second city, with an arrival from Belfast before 9am.*³

As highlighted below, the business case was submitted to the Department of Finance and Personnel (DFP) by the DRD in June 2010, and given formal approval on 9 November 2010.⁴

¹ DRD (2014) Terms of Reference of the Project Assessment Review (PAR) – Phase 2 Londonderry to Coleraine rail relay.

² KPMG (2010) Economic Appraisal of the Coleraine to Derry Track renewals Project

³ Information from DRD sent to Committee for Regional Development received by RaISe 11 December 2015

The approved option was a single track relay with a passing loop and appropriate bridge works, at an estimated cost of £75 million.⁵

In his statement to the Assembly in October 2011, the Minister for Regional Development stated that:

Had funding been available from year 1 of Budget 2010, the project would have begun immediately and been completed during 2013.⁶

However, the funding was not available at that time and investment was deferred, as noted by the previous DRD Minister in his response on 21 February 2011 to an Assembly question:

The budget proposals make provision for the commencement of the Coleraine to Derry[Londonderry] Track relay in 2014. This reflects estimated capital availability over the new four year budget period.⁷

The delayed start to the project meant that a number of speed restrictions had not been addressed due to the condition of the infrastructure,⁸ and the current Minister announced in October 2011 that there were:

... major issues with the condition of the existing track that need to be addressed if safety risks are to be managed properly.

The Minister went on to state that:

... Translink officials [have] developed plans for immediate safety work on the worst part of the line at a cost of £7 million.⁹

To address the concerns raised at a meeting organised by Derry City Council on 24 August 2011, he announced that he:

tasked officials to work with Translink to identify other options. As a result, I am pleased to inform the House that it will be possible to re-phase the project.¹⁰

This resulted in the project being divided into three phases:

⁴ DFP (2010) DRD – Coleraine to Derry Track Renewals Project Ref: DF1/10/440813

⁵ NI Assembly Official Report (10 October 2011), [Minister of Regional Development](#) Statement on Derry/Londonderry to Coleraine Rail line Upgrade

⁶ NI Assembly Official Report (10 October 2011), [Minister of Regional Development](#) Statement on Derry/Londonderry to Coleraine Rail line Upgrade

⁷ NI Assembly Written Question AQW 4595/11-15 available online at <http://aims.niassembly.gov.uk/questions/printquestionssummary.aspx?docid=88844> (accessed on 19 December 2014)

⁸ KPMG (2010) Translink Economic Appraisal of the Coleraine to Derry Renewals Project

⁹ NI Assembly Official Report (10 October 2011), [Minister of Regional Development](#) Statement on Derry/Londonderry to Coleraine Rail line Upgrade

¹⁰ NI Assembly Official Report (10 October 2011), [Minister of Regional Development](#) Statement on Derry/Londonderry to Coleraine Rail line Upgrade

- Phase 1 to relay from Coleraine to Castlerock and from Eglinton to Derry/Londonderry, including bridge works (end sections), but not signalling;
- Phase 2 to fully re-signal the whole line and construct a passing loop; and,
- Phase 3 to fully relay track between Eglinton and Castlerock.

The first phase of the project was completed on time and within budget; and the line re-opened in March 2013.

This Briefing Paper reviews the procurement and budgeting for the second phase of the project. To contextualise this, the following sub-section provides key additional background on Phase 2 of the project.

1.2 Phase 2

The phasing of the project was proposed in an Addendum to the 2010 Appraisal dated September 2011. The costs related to the phasing of the project were included within the economic appraisal at 2011-12 prices. These were estimated as follows:

Table 1: Capital Costs of Phased Option¹¹

	Phase 1	Phase 2	Phase 3	Total
Permanent Way	11,114,610	1,365,695	15,292,215	27,772,520
Civil Works	4,292,474	1,738,538	3,413,504	9,444,516
Property	0	87,549	32,042	119,591
Preliminaries	3,359,147	1,044,822	3,981,749	8,385,718
Signalling	979,000	8,984,688	550,000	10,513,688
Electrification and Plant and Telecoms	0	2,078,988		2,078,988
Sub Total	19,745,231	15,300,280	23,269,510	58,315,021
Preparation (6%)	1,184,714	918,017	1,396,171	3,498,902
Supervision (2%)	592,357	306,006	698,085	1,596,448
Provision of Temporary Bus Service	694,766	20,000	553,048	1,267,814
Sub Total	2,471,837	1,244,023	2,647,304	6,363,164
Total Capital Costs	22,217,068	16,544,303	25,916,814	64,678,185
Optimism Bias (20.2%)	4,487,848	3,341,949	5,235,196	13,064,993
Total Cost	26,704,916	19,886,252	31,152,010	77,743,178

The above costs did not include the £7 million (m) announced in October 2011, which had been secured to address the rail safety programme. The final cost for this option was therefore included within the Addendum to the original business case at **£85,395,195**.

The figures highlighted in red within **Table 1** do not appear to reflect the row heading, which states that supervision costs were charged at 2% of the sub-total. It appears

¹¹ DRD (2011) Coleraine to Londonderry Track Renewals Project; Addendum to 2010 Appraisal.

from the information currently available to the PFSU that DRD apparently has not challenged Translink on this apparent anomaly.

Scrutiny Point:

CRD may wish to ask:

1. Does DRD confirm that the identified apparent anomaly exists?
2. Whether DRD routinely recalculates major projects' costings for accuracy testing purposes; and if so, how and when it undertakes such testing, for example, in this particular case?

The business case sought approval for the £77.7 m identified in **Table 1**; and was submitted to DFP on 27 September 2011. DFP subsequently granted approval for the expenditure on 10 October 2011, subject to the following conditions:

- That the project was to be commenced within 24 months of the date of the approval;
- That there was to be no substantial changes to the project, as described in the business case; and,
- That costs or assumptions vary by no more than 10% from the value stated.¹²

DRD subsequently sent a letter of offer to Translink for £19,886,252 for the second phase of the project, which Translink accepted and returned to DRD on 24 October 2011. The letter of offer included details of the expected start date of the project – 1 April 2013 - and the expected completion date – 30 June 2015.

2 Business Case

As identified within section one of this Briefing Paper, the phasing of the Coleraine to Derry/Londonderry project came about as a direct result of a lack of readily available capital finance. In light of this, it is reasonable to assume that the costing of the project would have been extremely important to both Translink and DRD. Consequently it is reasonable to further assume that DRD would have exercised a high degree of scrutiny to ensure the accuracy of both the business case in general, and the costings in particular.

As identified in the following sub-sections, it appears on the information made available to the PFSU that problems arose around the original Translink costing, which then appears to have been carried forward into subsequent versions, apparently compounding the error. This seems to have led to the current situation, whereby the cost estimate for Phase 2 of the project appears to have doubled from just under £20 m to £40 m.¹³

¹² DFP (2011) DRD – Coleraine to Londonderry Track Renewals Project Addendum Ref DF1/11/443436

¹³ Official Report (Hansard) Wednesday 12 November 2014 Committee for the Regional Development Page 2

This section aims to set out the above as clearly as possible and to highlight potential scrutiny points where appropriate.

2.1 Original Business Case

As defined by DFP, a business case is:

... about getting a good deal from public expenditure. It is a key tool for achieving value for money and satisfying public accountability requirements.¹⁴

There are a number of steps in the business case process used by all Northern Ireland departments, which are detailed at **Appendix 1** of this Briefing Paper. Using the information made available to CRD, the following sub-sections of this Paper document the process followed by Translink and DRD for the business case relating to the Coleraine to Derry/Londonderry rail relay project.

2.1.1 Strategic Outline Business Case

As identified within **Appendix 1** of this Paper, the first step in the business case process is to carry out a Strategic Outline Business Case (SOC). SOC's are usually only carried out for major procurements over £20 m, in order to take a high level view of the business need.

The original SOC for the Coleraine to Derry/Londonderry project estimated the cost at £73.2 m at 2012 prices. This was based on the Bleach Green to Antrim relay, which was carried out in 2000 and adjusted for inflation. The SOC stated that:

This was deemed to be the most appropriate recent track relay project (single track relay with passing loops constructed during a complete line closure) for cost comparison.¹⁵

DRD submitted the SOC to DFP on 24 February 2010. The costs within the SOC were developed using costing information from the specialist engineering firm Arup.¹⁶ 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.¹⁷ In its response, DFP requested additional information on the following:

- A preliminary assessment of value for money and affordability, e.g. projected increases in passenger numbers and benchmarking; and,

¹⁴ DFP website available online at: http://www.dfpni.gov.uk/index/finance/eag/eag-what-is/eag_what_is_economic_appraisal.htm (accessed on 8 January 2014).

¹⁵ Translink (2010) Preliminary Business Case (Strategic Outline Case – April 2010)

¹⁶ DRD (2014) Committee Inquiry into the Coleraine to Londonderry Rail Track Phase Two Project Ref SUB/915/2014 Pg 3

¹⁷ Translink (2010) Preliminary Business Case (Strategic Outline Case – April 2010)

- A preliminary assessment of project affordability.¹⁸

In its response to DFP, Translink stated that it did not have the specifics at that time. However, it noted that passenger numbers had increased by 118,000 in the period from 2006-07 to 2008-09.¹⁹

In response to the second query, Translink stated that since capital plans had already been set for 2010-11, it was looking at capital plans beyond 2011-12.

Scrutiny Point:

CRD may wish to enquire how DRD and Translink planned to fund the design/procurement and contract approval stages of the project in March 2010, given that the SOC stated these were planned to take place between September 2010 and November 2011 and that Translink had noted above that the funding was not likely to be available until after 2011-12?

DFP gave formal approval of the SOC on the 14 April 2010, allowing DRD to advance to an Outline Business Case (OBC). At the end of the approval letter, DFP included the following comment:

... 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 CSR [Comprehensive Spending Review], 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.²⁰

Scrutiny Points:

CRD may wish to enquire:

1. How DRD took account of DFP's affordability advice when formulating its future capital plans, to ensure that the project did not get delayed?
2. Why DRD did 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?

2.1.2 Strategic Business Case

The next step in the business case process is to carry out an Outline Business Case (OBC), which:

¹⁸ DFP (2010) Memorandum on Coleraine to Derry Track Relay

¹⁹ Thomson (2010) Coleraine to Derry Track Relay – response on issues raised by DFP

²⁰ DFP (2010) DRD – SOC – Coleraine to Derry Track Relay Ref: DF1/10/142759

... includes a full economic appraisal and provides a basis for approval of the project need, objectives and preferred option.²¹

The OBC is normally submitted to DFP for approval before moving to the Strategic Business Case (SBC) stage of the process.

DRD, however, combined the OBC and the SBC into one document, stating that since DFP had been a member of the Steering Group of the New Trains Appraisal and had previously approved that project that:

It is extremely important that the Business Case is assessed in this context unless DFP feel that it is necessary to re-open the strategic debate around the size of the rail network.²²

DFP subsequently accepted DRD's position, stating:

Following consideration of the business case and subsequent correspondence I can confirm that we accept DRD's argument that this business case should be viewed in light of the wider New Trains 2 project.²³

The stated business case was undertaken by KPMG, based on "capital costs provided by Arup and Translink."²⁴ From the information provided CRD, this appears to be similar to the costing information stated within the SOC.

In the SOC, Translink referred to these costs as a "Conceptual Estimate"²⁵; and went on to state:

A detailed assessment of costs will be developed during the project Feasibility stage before Economic Appraisal.²⁶

Scrutiny Points:

CRD may wish to enquire:

1. Why Translink did not carry out a further detailed assessment of costs, in line with its SOC comments?
2. Why DRD did 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?

In November 2014, the DRD Minister commented that:

²¹ DFP website available online at: http://www.dfpni.gov.uk/index/finance/eag/eag-what-is/eag_what_is_economic_appraisal.htm (accessed on 8 January 2014).

²² Burke (2010) Email to DFP Coleraine-Derry Rail Improvements

²³ Fleming (2010) DRD – Coleraine to Derry track Renewals Project Ref: DF1/10/440813

²⁴ KPMG (2010) Translink Economic Appraisal of the Coleraine to Derry Track Renewals Project Pg 42

²⁵ Translink (2010) Strategic Outline Case – April 2010 Pg 3

²⁶ Translink (2010) Strategic Outline Case – April 2010 Pg 4

*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.*²⁷

This appears to indicate that DRD was not aware of the high level nature of the estimate. However, DFP's *Managing Public Money* (to be followed by all Northern Ireland departments) states that it is the Accounting Officer who takes personal responsibility for:

*The selection and appraisal of programmes and projects using the Green Book (supported by additional DFP guidance) to evaluate alternatives.*²⁸

It goes on to state 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.*²⁹

This suggests that it is the Departmental Accounting Officer's responsibility to ensure that he is aware of all aspects of the selection and appraisal of projects within arms-length bodies (ALBs).

Scrutiny Point:

CRD may wish to enquire how the DRD Accounting Officer assessed the accuracy of the costing, in accordance with DFP's *Managing Public Money*?

2.1.3 Submission of SBC to DFP

The SBC was submitted to DFP on 21 June 2010. DFP submitted a number of queries to DRD prior to its consideration of the project. These included:

1. *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.***
2. *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.*

²⁷ Official Report (Hansard) Wednesday 12 November 2014 Committee for the Regional Development Page 1

²⁸ DFP (2008) *Managing Public Money Northern Ireland* http://www.dfpni.gov.uk/index/finance/afmd/afmd-key-guidance/afmd-mpmni/mpmni_chapters.pdf (accessed on 8 January 2015) Pg 17

²⁹ DFP (2008) *Managing Public Money Northern Ireland* http://www.dfpni.gov.uk/index/finance/afmd/afmd-key-guidance/afmd-mpmni/mpmni_chapters.pdf (accessed on 8 January 2015) Pg 18

DRD should provide confirmation that they are content that the cost figures are robust and reliable and that the inflation uplift is adequate.

3. *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.*
4. *DRD should confirm that they are content with the costs analysis included in the business case.*
5. *DRD should confirm they are content with the budget statement.*³⁰

DRD responded as follows:

1. *We believe that all appropriate controls are in place. The project is going through proper project management procedures and is being Gateway reviewed at appropriate points.*
2. ***DRD are content that the costs, including the inflation uplift are accurate.*** *Since Belfast Bangor all major capital projects have come in under Budget.*
3. *We are happy with the optimism bias as calculated for the preferred option and the methodology is consistent with the Bleach Green to Whitehead Relay which was delivered on time and budget. We recognise that it would be preferable to have different optimism bias applied to each of the options but doing this would not change the preferred option in this case.*
4. *This query has previously been addressed in the New Trains 2 (NTT) appraisal.DRD believe that the business case for Derry to Coleraine should be looked at in the NTT context and a track relay appraisal is not the place to revisit this fundamental issue. **DRD are aware that any future liability with regards to cost will have to be borne by DRD within its budget.***³¹ [emphasis added]

DFP granted formal approval of the SBC, stating:

*I can confirm that we accept DRD's argument that the business case should be viewed in light of the wider New Trains 2 project. Given this position we are content that a reasonable case has been made.*³²

³⁰ DFP (2010) DRD – Translink – Coleraine/Derry Track Relay Ref: DF1/10/312312 dated 11 August 2010 Pg 2

³¹ DRD (2010) DRD – Translink – Coleraine/Derry Track Relay Ref: DF1/10/312312 dated 11 August 2010 Pg 2

³² DFP (2010) DRD – Coleraine to Derry Track Renewals Project Ref: DF1/10/440813 dated 09 November 2010

Scrutiny Point:

CRD may wish to enquire how DRD gained 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; figures which then were used as the basis of the costs within the SBC?

2.2 The Addendum to the 2010 Appraisal

The Addendum to the 2010 Appraisal was produced as a consequence of the DRD Minister’s request to identify options to allow the Coleraine to Derry/Londonderry track relay project to progress.

The Addendum does not state the basis of the figures used to cost the three phases. However, the figures appear to be broadly similar to those used within the “Conceptual Estimate” for the SOC. **Table 2** below provides a breakdown of the original costs of the project, when compared to those for the phased approach, together with a calculation of the difference.

Table 2: Difference Between Costs of Original Project and Phased Approach³³

	Original Project	Phased Approach	Difference
Permanent Way	28,981,674	27,772,520	(1,209,154)
Civil Works	9,348,314	9,444,516	96,202
Property	119,591	119,591	0
Preliminaries	7,168,173	8,385,718	1,217,545
Signalling	9,906,047	10,513,688	607,641
Electrification and Plant and Telecoms	2,078,988	2,078,988	0
Sub Total	57,602,787	58,315,021	712,234
Preparation (6%)	3,456,167	3,498,902	42,735
Supervision (2%)	1,152,056	1,596,448	444,392
Provision of Temporary Bus Service	926,355	1,267,814	341,459
Sub Total	5,534,578	6,363,164	828,586
Total Capital Costs	63,137,365	64,678,185	1,540,820
Exclude Sunk Costs	(725,021)		725,021
Optimism Bias (20.2%)	12,607,293	13,064,993	457,700
Total Cost	75,019,637	77,743,178	2,723,541

As **Table 2** shows, the project’s three phase approach increased costs by £2.7 m. The same fixed percentage rate from the original project costing was used in calculating the level of preparation, supervision and optimism bias: this was despite the phased project duration increasing from 78 weeks to 196 weeks.

From information provided by DRD to CRD, the risk register appears not to have been updated since September 2010. Since the risk register is used to determine the level

³³ Compiled by the Public Finance Scrutiny Unit from information contained in Scott Wilson (2010) Re-signalling Coleraine – Derry Telecommunications Project Design Specification and DRD (2011) Coleraine to Londonderry Track Renewals Project Addendum to 2010 Appraisal

of optimism bias, it is not clear how the 20.2% figure, which is used within the costing has been reached. As noted in Section 2.1.2 of this Paper, however, DFP queried the level of optimism bias within the SBC, and DRD confirmed that it was “*happy with the optimism bias as calculated for the preferred option*”.³⁴

Furthermore, the Addendum identified that the optimism bias for the project duration would increase from 32 days to 81 days. However, from the DRD information provided to CRD, this appears not to have impacted the costing calculations for each option.

United Kingdom (UK) Government guidance (to be followed by Northern Ireland departments) 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.*³⁵

Scrutiny Point:

CRD may wish to enquire:

1. Why DRD did not revisit the risk register at the time the project was phased? 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?
2. How DRD calculated the level of optimism bias in the absence of an updated risk register for the project.
3. Did DRD challenge the broad uplift that was used within the costing, in line with the above UK Government guidance?
4. 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?
5. When deciding on whether to approve the project, how did DRD gain the necessary assurance that the costing was accurate?

UK Government guidance on calculating financial cost estimates for use in the appraisal of infrastructure projects further states:

In order to produce a credible Anticipated Final Cost [costing] that is properly representative of the expected out-turn [final cost] a two-step approach should be used:

- 1 *generating the initial estimate*

³⁴ DRD (2010) DRD – Translink – Coleraine/Derry Track Relay Ref: DF1/10/312312 dated 11 August 2010 Pg 2

³⁵ UK Government website available online at: <https://www.gov.uk/government/publications/green-book-supplementary-guidance-valuing-infrastructure-spend/early-financial-cost-estimates-of-infrastructure-programmes-and-projects-and-the-treatment-of-uncertainty-and-risk> (accessed on 8 January 15)

2 *testing the estimate against appropriate project out-turn reference data.*³⁶

As noted in Section 2.1.2 of this Paper, Translink used the specialist engineering firm Arup, an independent engineering firm, to estimate the costs. Arup based the costing on the Bleach Green to Antrim relay, dating from 2000.

The UK Government guidance further 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.*³⁷

This:

*Requires access to credible, empirical data for a sufficient number of projects within the reference class to make statistically meaningful conclusions.*³⁸

Scrutiny Point:

CRD may wish to ask DRD about the robustness of its costing in this area (which was produced by Arup); and whether it considers 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?

In evidence to CRD, the DRD 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.*³⁹

Scrutiny Point:

CRD may wish to ask whether, and if so, how DRD considers 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

³⁶ UK Government website available online at: <https://www.gov.uk/government/publications/green-book-supplementary-guidance-valuing-infrastructure-spend/early-financial-cost-estimates-of-infrastructure-programmes-and-projects-and-the-treatment-of-uncertainty-and-risk> (accessed on 8 January 15)

³⁷ UK Government website available online at: <https://www.gov.uk/government/publications/green-book-supplementary-guidance-valuing-infrastructure-spend/early-financial-cost-estimates-of-infrastructure-programmes-and-projects-and-the-treatment-of-uncertainty-and-risk> (accessed on 8 January 15)

³⁸ UK Government website available online at: <https://www.gov.uk/government/publications/green-book-supplementary-guidance-valuing-infrastructure-spend/early-financial-cost-estimates-of-infrastructure-programmes-and-projects-and-the-treatment-of-uncertainty-and-risk> (accessed on 8 January 15)

³⁹ Official Report (Hansard) Wednesday 12 November 2014 Committee for the Regional Development Page 1

used, learning lessons and then carrying out a new costing based on that experience? Understandably there are costs associated with such action, however, as noted on the DFP website “*Appraisal is not optional; it is an essential part of good financial management and it is vital to decision-making and accountability*”.⁴⁰

3. Procurement

This section reviews the procurement information provided to CRD by DRD; and at the outset notes that such information was limited.

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.

However, there was no further mention of the procurement method throughout the remainder of the business case information provided to CRD by DRD, including information both for the original project and the phased approach. This is despite the fact that DFP guidance on business cases states that the:

Key components of the Full Business Case include:

- *an update on key changes and developments since the OBC*
- ***full details of the procurement process*** [emphasis added]
- *thorough appraisal of bids received from suppliers and a conventional procurement option*
- *final review of strategic fit, options, value for money, affordability and achievability*
- *plan and timetable for final negotiations and award of contract*
- *final plans for monitoring, evaluation and benefits realisation.*⁴¹
[emphasis added]

Scrutiny Point:

CRD may wish to ask whether DRD queried with Translink the lack of a procurement strategy as part of the SBC?

In evidence to CRD, the DRD Minister stated that:

⁴⁰ DFP website available online at http://www.dfpni.gov.uk/index/finance/eag/eag-what-is/eag_what_is_economic_appraisal.htm (accessed on 13 January 2015)

⁴¹ DFP website available online at http://www.dfpni.gov.uk/index/finance/eag/eag-business-cases/eag_full_business_case_.htm (accessed on 8 January 2015)

Translink's initial procurement strategy combined design and build, aiming to award one contract for both to deliver the speediest completion of phase 2. Translink embarked on a formal procurement in early 2013. The pre-qualification 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.⁴²

From the procurement information provided to CRD, however, it is not clear what reasons underpinned the DRD/Translink's decision to reject the bid.

Scrutiny Point:

Given the limitations of the information provided by DRD, CRD may wish to learn more about the procurement exercise, for example:

1. 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?
2. What was the value of the rejected bid?

The Translink Board subsequently decided that a new procurement approach should be adopted; however, DRD was not informed of this.⁴³ From the information provided to CRD, it is unclear as to why this was the case.

DFP's *Managing Public Money* requires that:

The Management Statement and Financial Memorandum agreed between an ALB and its sponsor always envisages the sponsor department exercising meaningful oversight of the ALB's strategy and performance, pay arrangements and/or major financial transactions.....ALBs should refer to their sponsor departments any activities which appear novel, contentious or repercussive.⁴⁴

⁴² DRD (2014) Project assessment Review (PAR) – Phase 2 Londonderry to Coleraine rail relay – Terms of Reference.

⁴³ DRD (2014) Project assessment Review (PAR) – Phase 2 Londonderry to Coleraine rail relay – Terms of Reference.

⁴⁴ DFP (2008) *Managing Public Money Northern Ireland* http://www.dfpni.gov.uk/index/finance/afmd/afmd-key-guidance/afmd-mpmni/mpmni_chapters.pdf (accessed on 8 January 2015) Pg 21

Scrutiny Point:

CRD may wish to enquire from DRD:

1. Whether 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?
2. What action if any has DRD taken to protect against this situation arising again in the future or in similar circumstances?

4. Conclusion

The Coleraine to Derry/Londonderry rail project has been the subject to a high degree of political scrutiny for a number of years, due at least in part to the age and condition of the infrastructure. The project was developed to update the infrastructure and enhance the service to Northern Ireland's second city. However, as identified within this Paper, there have been a number of issues around the budgeting and procurement of the project. These have involved the project, which was originally due to be complete by April 2013, now having a target completion date of 2021 for the final phase.

This Paper focuses particularly on phase 2 of the project, which is concerned with the re-signalling of the line and the construction of a passing loop at Bellarena. In November 2014, in evidence to CRD, the DRD Minister stated that it will be necessary to increase the budget of phase 2 of the project from an original estimate of £19.9 m to around £40 m. From information provided by DRD, it appears that there was limited scrutiny of the project's cost estimates, which led to a situation whereby the DRD Minister was required to admit that the:

*Original cost projection was a high-level estimate not backed up by any detailed planning or design work.*⁴⁵

And that DRD officials did not seem to be aware of this issue, as:

*Translink did not make [this] clear at the time.*⁴⁶

However, DFP's *Managing Public Money*, which is to be followed by all Northern Ireland departments, makes it clear that it is DRD's responsibility - ultimately *via* DRD's Accounting Officer - to ensure that its ALBs conduct themselves in an effective manner, with high standards of probity.⁴⁷ Consequently, DRD is required under the stated guidance to ensure that any business cases it submits to DFP on behalf of its ALBs are

⁴⁵ Official Report (Hansard) Wednesday 12 November 2014 Committee for the Regional Development Page 1

⁴⁶ Official Report (Hansard) Wednesday 12 November 2014 Committee for the Regional Development Page 1

⁴⁷ DFP (2008) *Managing Public Money Northern Ireland* http://www.dfpni.gov.uk/index/finance/afmd/afmd-key-guidance/afmd-mpmni/mpmni_chapters.pdf (accessed on 8 January 2015) Pg 16

of an appropriate standard, and that any costings included are an accurate reflection of the funds required.

Appendix 1 – Basic Steps involved in the Business Case Process

For large procurement projects, the Department of Finance and Personnel (DFP) generally advocates developing the business case using the following three stages:

1. Strategic Outline Case (SOC)
2. Outline Business Case (OBC)
3. Full Business Case (FBC)⁴⁸

The full business case or appraisal should include each of the following steps:

10 Steps of Appraisal

1. Explain the Strategic Context.
2. Establish the Need for Government Intervention.
3. Define the Objectives and Constraints.
4. Identify and Describe the Options.
5. Identify and Quantify the Monetary Costs and Benefits of Options.
6. Assess Risks and Adjust for Optimism Bias.
7. Weigh up Non- Monetary Costs and Benefits, (including equality, sustainability and lifetime opportunities).
8. Calculate Net Present Values and Assess Uncertainties.
9. Assess Affordability and record proposed arrangements for Funding, Management, Marketing, Procurement, Benefits Realisation, Monitoring and Evaluation.
10. Assess the Balance of Advantage between the Options and Present the Appraisal Results and Conclusions.⁴⁹

⁴⁸DFP website available online at http://www.dfpni.gov.uk/index/finance/eag/eag-business-cases/introduction_to_business_cases.htm (accessed on 13 January 2015)

⁴⁹ DFP website available online at <http://www.dfpni.gov.uk/index/finance/eag/eag-step-by-step.htm> (accessed on 13 January 2015).