

Appendix 1

PricewaterhouseCoopers Report – Executive Summary

1. Executive Summary

- 1.1 PwC has been asked by the Railway Procurement Agency (RPA) to carry out a review of the outline business case (OBC) for Line B1 (Sandyford to Cherrywood) and test that:
- the processes that are in place with regards to the development of business cases are appropriate;
 - the estimating procedures and processes used to calculate the capital costs in the Outline Business Case (OBC) are appropriate and the cost estimates have been calculated and reviewed by appropriately qualified personnel;
 - the scope of the project used for capital costing is consistent with the scope outlined in the OBC;
 - the inflation assumptions used to calculate the nominal costs of the project are reasonable;
 - an appropriate allowance has been made in the project costs for risk and contingency.
 - the project cash flows accurately reflect the capital costs, operational costs and revenues and development levies; and
 - the calculations and assumptions used in the cost/benefit analysis (CBA) are reasonable and are consistent with the transport planning assumptions outlined in the OBC.
- 1.2 However, given the significant lapse of time since the preparation of the OBC (February 2005) and the project team's focus on the Final Business Case (FBC), our review has focused on the FBC. Therefore, the content of this report should be read in conjunction with the FBC.
- 1.3 RPA has detailed processes in place for the preparation of a business case for submission to the Department of Transport and Department of Finance. A brief overview of the preparation process is as follows:
- A high-level feasibility study was performed and presented to the board of RPA for approval;
 - An outline business case (including detailed route planning) was prepared;
 - A Railway Order proposal was prepared (including a concept design displaying track alignments, all the planned stops, properties that have to be acquired, etc.);
 - A Public Display of Railway Order proposal was completed (note that the proposal does not outline detailed costing estimates);
 - A public inquiry was held (now complete) and an independent inspector was appointed by the Minister of Transport to review draft Railway Order proposal;
 - The inspector completed the review of the Railway Order proposal and published a report in April 2006 on his findings and presented it to the Minister ;
 - The project team finalised the cost estimates reflecting the suggestions made by the inspector;
 - The Minister for Transport is in the process of reviewing and will determine whether to grant the Railway Order;
 - The Project Management team will revise / finalise the B1 final business case to reflect the Minister's amendments (if any) and submit to the RPA Board. The Project Management team indicated that they did not expect the Minister to make additional requests, which could change the overall capital cost estimates;
 - The RPA Board will consider the finalised B1 business case for approval and the approved finalised B1 business case will be submitted to the Department of Transport for their review;
 - Following the Ministerial approval of the Railway Order, an 8-week judicial review period must take place.

- 1.4 A number of workshops were held on key issues to discuss “lessons learned” from Lines ABC at the start up phase, the results of which were incorporated into the planning process for Line B1. Every project is handled by a Project Director and supported by the members of the Project Services Department.
- 1.5 We believe that the project team members have the necessary experience and skill set to perform the capital cost estimates.
- 1.6 We note that the experience gained during the Lines ABC process is reflected in the planning phase of Line B1. Accordingly, the risk register was updated significantly incorporating all the issues that arose in the previous project.
- 1.7 The capital costing estimates will be based either on actual costs (already incurred or legally agreed), outturn forecasts of incurred costs, or full estimates based on past experience. Separate risk (using Quantified Cost Risk Assessment) and contingency provisions are also calculated. Full cost estimates are prepared based on either of the following methods:
- Detailed review of estimates provided by external consultants that are amended for any scope adjustments or errors identified;
 - Lines ABC tender document rates adjusted for inflation and any applicable scope creeps (which were calculated in quite detail);
 - Estimating “contemporary” rates using a bottom up approach.
- 1.8 Based on our review, we conclude that the procedures and processes in place with regards to capital cost estimation are appropriate. A more detailed discussion of our review is presented further below.
- 1.9 Our review of the Cash Flow model indicated that the capital costs, operational costs and revenues and development levies were accurately reflected from the detailed capital cost calculations and Cost Benefit Analysis (CBA) model, and the calculations and assumptions used in the CBA model were reasonable and consistent with the transport planning assumptions.
- 1.10 We would like to thank all members of the RPA and Line B1 project team who have helped us in this review.