

Gateway Health Check Report

Project: CBD and South East Light Rail Project

Sponsor Agency: Transport for NSW

Gateway Review: Gateway Health Check for INSW

Status of Report: Preliminary Draft

Project Sponsor: Fergus Gammie

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EXECUTIVE SUMMARY

The SLR Health Check was commissioned by Infrastructure NSW (INSW) to:

- Provide INSW and the sponsoring Agency (TfNSW) with a “point-in-time” insight into the development and delivery of the Sydney CBD and South-East Light Rail Project,

The Health check revealed that the project is extremely complex, not so much on technical engineering grounds, but more in regard to:

- The number, and diverse nature, of the third party stakeholders and the intense level of interest that many of those stakeholders have in the outcomes of the project.
- Unusually for a PPP, the currently large number of unresolved scope issues

The Health check exposed that many challenges need to be addressed within, at most, the next two to three months (see pages 7 & 8), and therefore that the forthcoming period is likely to be quite decisive as to whether the project will achieve its completion target of March 2019.

It is a fundamental principle of PPP arrangements that the scope is fixed so that the contracted partner can expeditiously execute their obligations with minimal distraction. Each scope change (modification) has the prospect of interfering with the smooth delivery of the Project and ultimately exposing the client to project delays and the attendant financial compensation. Thus it is imperative that actions are taken on the Health Check Team’s (HCT) finding that there are six interrelated categories of issues that require immediate attention and resolution. These are:

- Modifications. It is imperative that the number of ‘open’ modifications is reduced immediately. The matters listed on the current register should either be (a) withdrawn; (b) adopted; or (c) in a minimum number of cases investigated further so they can be dealt with under one of the previous two options. The urgent need to settle scope requires that adoption of a modification will require an “instruction to proceed” be issued to the Contractor even if commercial negotiations have not yet been completed.
- Planning Conditions. The means of fulfilling a small number of the Planning Conditions, with or without a concession from the Department of Planning and Environment, needs to be finalised promptly. This includes flood mitigation treatments in George Street and in the vicinity of Centennial Park, the timing of noise mitigation treatments and management of electro-magnetic interference. These matters need absolute priority as detailed design cannot be commenced until the planning conditions are finalised, thus further delaying the lockdown of scope.
- Devonshire St. Finalisation and approval of design details for the Devonshire Street section of the alignment will involve significant and unique challenges. The HCT recommends that a ‘champion’ be identified from, or added to, the project team to take complete ownership of all issues related to the Devonshire St alignment.
- Stakeholders. Whilst the many third party stakeholders share strong support for the overall success of the light rail project, each is focussed primarily on the outcomes specifically related to their own agency/constituency and there is little evidence that any have a deep understanding of the impacts of

introducing scope changes into PPP contracts. The HCT recommends that urgent steps are taken to refresh the engagement with all key stakeholders and to dramatically reduce the number of issues that the stakeholders regard as 'open'.

- v. Intersection of Alison Rd, Anzac Parade and Dacey Avenue. The HCT was presented with evidence that major traffic treatments are required at this intersection, beyond those identified when the project was tendered and contracted. The HCT recommends that:
- a. All aspects of this matter are brought forward for urgent consideration by CCG, and reference on to the CIC prior to Easter 2016
 - b. Within that prescribed timeframe, the benefits/implications of a GO decision need to be articulated, and equally the consequences of a NO GO decision are also to be identified.
 - c. Under the NO GO scenario, clear requirements for future-proofing of the core project works should be identified
 - d. Robust and transparent modelling needs to be available to support these considerations, and be socialised across all relevant agencies and stakeholders, including Altrac and Acciona
 - e. A senior level working group needs to be established to explore the options available for procurement
 - f. Funding availability from outside the project needs to be confirmed
 - g. Consideration of procurement options must be undertaken in the full context of the PPP Deed, with the most likely necessity being procurement outside of the PPP structure
- vi. Cloud Arch. The intended installation of the 'Cloud Arch' sculpture by the City of Sydney in George Street is problematic. Whilst it is outside the project, it is very closely related and has the potential to jeopardise light rail construction timeframes. The HCT recommends that the proponent of the Cloud Arch, i.e. the City of Sydney, should be required to urgently prepare the Safety Case that Sydney Trains would have to put to the relevant authority in respect of the proximity of the arch's foundations to the rail tunnels under George Street.

The Health Check Team believe that the Project should currently be rated as Amber, noting that the decisions and activity undertaken over just the next two/three months will determine whether that rating deteriorates into Red or is managed towards Green.

The HCT also notes that senior representatives of each entity in the Contractor consortium, as well as some representatives of key third-party stakeholders, are due to meet with Government and/or senior Project representatives during March. Similar issues to those raised in this report are likely to be raised in those conversations.

BACKGROUND

The aim of this project is to provide a new light rail line that will extend from Circular Quay along George Street to Central Station, through Surry Hills to Moore Park, then to Kensington and Kingsford, via Anzac Parade, and Randwick via Alison Road and High Street, connecting with the University of NSW and the Prince of Wales Hospital.

The driving force for the project is to provide transport customers with improvements in connectivity while:

- Delivering a transport service that has been informed by engagement with communities and stakeholders and demonstrates evidence-based decision making
- Ensuring customer needs are met through the provision of a safe, high quality, integrated and affordable transport service
- Increasing the use of sustainable transport modes in the CBD, inner west Sydney and south east Sydney
- Improving reliability and efficiency of travel to, from and within the CBD, inner west Sydney and south east Sydney
- Satisfying long term travel demand between the CBD and suburbs in inner west Sydney and south east Sydney
- Improving access to major destinations in south east Sydney, including Moore Park, the University of NSW, Royal Randwick Racecourse and the Randwick health precinct
- Facilitating the continued, orderly and efficient growth of urban development and economic activity within the CBD and suburbs in inner west Sydney and south east Sydney, and
- Contributing to the environmental, social and economic sustainability by improving liveability, minimising impact on the environment and the community, and delivering value for money

The proposed benefits of the project include:

- Customer benefits;
 - Faster, comfortable and more reliable public transport journeys
 - A net reduction in congestion and accident costs for private vehicle users
 - A reduction in pedestrian travel time and improved pedestrian activity
- Operating benefit;
 - A net saving in public transport operating costs
- Broader community benefits;
 - Environmental and health benefits in some areas, such as reduced noise and emissions
- Wider economic benefits;
 - Sustainability benefit associated with urban densification
 - Broader value to the community associated with the provision of a new public transport system

The route was selected by NSW Government following extensive feasibility investigations and consultation with key stakeholders. Transport for NSW is now progressing delivery of the CBD and South East Light Rail extensions in consultation with councils, business, industry and the community.

The project received planning approval on 4 June 2014 and early works began in August 2014. The CSELR will be delivered, operated and maintained by a private operating company appointed for the Sydney Light Rail network as part of a Public Private Partnership (PPP). The PPP contract has been awarded to the ALTRAC Light Rail consortium. ALTRAC will finance the CSELR project and will also have responsibility for the existing Inner West Light Rail.

ALTRAC Light Rail is required to obtain Rail Infrastructure Manager and Rolling Stock Operator accreditations from the Office of the National Rail safety Regulator, for the purposes of undertaking the project.

The project is currently in delivery phase, with the first Fee Zone occupations having taken place in the CBD during October 2015 and in the Randwick and Kingsford/Kensington precincts in February 2016.

Conduct of the Gateway Health Check

A Gateway Health Check of the SLR was carried out between Wednesday 24 February and Friday 26 February at Transport for NSW's offices at 12 Castlereagh Street, Sydney.

The Gateway Health Check Team (hereafter referred to as the Health Check Team) consisted of:

- Bernie Carolan (Team Leader)
- Jock Murray (Team Member)
- Phillip Johns (Team Member)
- Chris Herbert (Team Member)

The purpose of the Health Check was to provide point in time insight into areas of the Project which may compromise its timely completion or affect other project outcomes; and to provide recommendations, where appropriate, on improvement opportunities.

The recommendations of the HCT are listed in Appendix A.

The people interviewed by the HCT are listed in Appendix B.

The documents reviewed by the HCT are listed in Appendix C.

FINDINGS OF THE GATEWAY HEALTH CHECK TEAM

The findings include the Gateway Health Check Team's rating for each factor based on the following scale:

- RED** It is the Gateway Health Check Team's opinion that this item is critical and urgent and to achieve success the project should take action on recommendations immediately.
- AMBER** It is the Gateway Health Check Team's opinion that this item is critical and not urgent, the project should go forward with actions on recommendations to be carried out before further key decisions are taken.
- GREEN** It is the Gateway Health Check Team's opinion that the project is on target to succeed but may benefit from the uptake of recommendations.

The Gateway Health Check Team's findings and observations in relation to each of the prescribed review topics are set out in the following sections.

At an overview level, the team notes:

- i. Take up of activity in 2015 seems to have been slower than required and, whilst more momentum is observable now, there is a legacy of unresolved issues which now need urgent attention. Some of these issues are relatively undefined.
- ii. In particular, there are approximately 25 matters that can be described as un-finalised modifications, or potential modifications; these must be resolved.
- iii. There are several planning conditions which may not be met precisely as required. The most important identified are: hydrology treatments relating to George St and Alison Rd, Electro-Magnetic Interference, and noise treatments for Devonshire St and near the Randwick stabling facility.
- iv. In the case of the flood mitigation treatment for George St, the horizontal and vertical rail alignment cannot be defined until the hydrology solutions are approved and therefore detailed designs cannot yet be finalised.
- v. In the case of flood mitigation treatment near Alison Rd, fulfilment of the planning condition needs to precede final designs for the track in that vicinity and construction of the stabling facility, which needs to be advanced enough to be available for delivery of first LRV in April 2017. Commencement of construction of this facility also involves resolution of the planning condition relating to noise mitigation for nearby properties.
- vi. The project has many key stakeholders and the history of the project's development means that there are a significant number of design issues that stakeholders regard as open for further negotiation. In at least some cases, there is a hardening of stakeholder attitudes due to frustrations with information flow and the project's record of issues resolution; this could result in further delays to design approval processes unless addressed as a priority.
- vii. During the remainder of 2016, the contractor progressively commences construction works from the current 5 Fee Zones to the peak of 18 by November 2016. For this to occur, detailed design submissions/approval activity will be extremely intense over the next few months. This is especially challenging for the Fee Zones through Devonshire St.

- viii. Recent traffic modelling has indicated that unacceptable traffic outcomes will result at Alison Rd/Dacey Ave/Anzac Pde intersection. At least in peak hours, these traffic outcomes would be highly likely to compromise LR headways. The proposed solution involves grade separation and is a major sub-project.
- ix. The intended construction of the "Cloud Arch" in George St by the City of Sydney is also a major sub-project, with implications for timely and smooth delivery of the LR project.

Taken alone and definitely in combination, these factors mean that activity in the next three months will be fundamental as to whether the project completion date of March 2019 can be achieved.

In particular, the single issue of the proposed road works at Alison Rd is critical to the project outcome and is at least partly beyond the direct control of the Project Team. This requires an immediate decision to proceed or otherwise. If the works do proceed, it will most likely require unconventional and innovative means of procurement and delivery.

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1. SERVICE DELIVERY

The Health Check indicated that there is an ongoing need for the project and that the project is aligned to the approved project scope, outcomes and identified benefits.

The Health Check Team rates this as **Amber***

Service Delivery Indicator Themes	Advanced	Managed	Emergent	Limited
Alignment of defined level of service with Government priorities	Green			
Definition & validity of service need	Green			
Adequacy of level of service based on the identified need	Green			
Clarity and unambiguity of project requirements		Yellow		
Clarity of scope and extent to which the project operates within that scope		Yellow		
Adherence to quality standards			Green	
Deliverability of the required level of service	Green			
Deliverability within the required timeline		Yellow		
Achievability of benefits	Green			
Appropriate procurement methods for optimal achievement of project objectives are being followed - Infrastructure		Yellow		
Appropriate procurement methods for optimal achievement of project objectives are being followed - Services	Green			

**See notes below; the current Amber rating has the potential to change, in either direction, within just the next few months.*

Finalisation and approval of design details for the Devonshire Street section of the alignment will involve significant and unique challenges. The HCT **recommends** that a 'champion' be identified from, or added to, the project team to take complete ownership of all issues related to the Devonshire St alignment.

Taken alone and definitely in combination, a series of current factors mean that activity in the next three months will be fundamental as to whether the project completion date of March 2019 can be achieved. The HCT **recommends** that all resources available to the Project Team are focussed on the identified series of factors that require full resolution within the next three months.

In particular, the single issue of the proposed road works at Alison Rd is critical to the project outcome and is at least partly beyond the direct control of the Project Team. The HCT **recommends** an immediate decision to proceed or otherwise. If the works do proceed, it will most likely require unconventional and innovative means of procurement and delivery. If the full works do not proceed future proofing of the core project works may be appropriate, still requiring a modification to be determined.

The HCT **notes** that the Fee Zone regime for the project's construction is an appropriate and innovative framework. During the remainder of 2016, the contractor progressively commences construction works from the current 5 Fee Zones to the peak of 18 by November 2016. For this to occur, detailed design submissions/approval activity will be extremely intense over the next few months. This is especially challenging for the Fee Zones through Devonshire St. The HCT **recommends** that there is an increased focus on the design approval processes, including by removal of as many other open issues as possible.

The HCT **notes** that Transdev and RMS are yet to engage deeply on the modelling of traffic and signalised intersections for the operational phase of the Project. The HCT **recommends** that this work is commenced as soon as possible.

The HCT **notes** that the Inner West Light Rail service has been experiencing substantial and rapid patronage growth. In the light of this experience, the HCT **recommends** that a full range of patronage scenarios for the CBD & South East are re-modelled to assess the capacity constraints of the service, especially as to fleet size and to surge capacity at stops.

The HCT **notes** that the issue of Electro-Magnetic Interference has to be resolved with Stakeholders and to fulfil a Planning Condition (see elsewhere in report). Notwithstanding the settlement of this matter in a scope and design sense, it is feasible that the actual operational impact may not be identical to that modelled. The HCT **recommends** that steps be taken to measure EMI levels early during the commissioning and testing period, and that commitments be given to share this information with the custodians of sensitive equipment such as UNSW, the Lowy Institute and the Hospitals.

2. AFFORDABILITY AND VALUE FOR MONEY

The Health Check indicated that the project is on track to offer value for money and does have appropriate arrangements in place to manage costs.

The Health Check Team rates this as **Green***

Affordability & Value for Money Indicator Themes	Advanced	Managed	Emergent	Limited
Availability of funding (both capital and recurrent)	Green			
Adherence to approved budgets	Green			
Clarity of funding sources for cost increases		Yellow		
Analysis of Financing Options	Green			
Management of contingencies		Yellow		
Robustness of cost estimates for whole of life costs	Green			
Confirmation of ongoing value for money	Green			

**The HCT acknowledges that this Green rating is achieved in the context of a great deal of 'noise' about the project and that steps may need to be taken to eliminate this 'noise' as outlined elsewhere in this report*

The HCT **notes** that the project has more 'open issues' than would normally be expected in the context of a PPP, and that Treasury may not have full visibility on assessments of how the risk and contingency elements of the project budget may be applied to these issues. The HCT **recommends** that Treasury are given a very comprehensive status update on all elements of the project budget.

The HCT **notes** that the corporate structure of the Contractor effectively means that there is a split-scope arrangement between the various parties, in particular the parties involved in the Design & Construct Joint Venture, being Alstom and Acciona. Almost certainly these characteristics mean that Acciona is bearing virtually all of the construction period risk, and in turn this may affect certain behaviours. The HCT **recommends** that:

- All necessary steps be taken forthwith to close out scope issues, so as to reduce claims impacts and further modifications; and
- All stakeholders be apprised of the contractor's precise obligations under the PPP Deed and that it would be unusual to expect the contractor to exceed those obligations.

The HCT **notes** that an amount of \$220m of the project funding is derived from a contribution from the City of Sydney. Whilst it is not envisaged that circumstances will arise such that the Council would withdraw this funding, it is feasible that the threat of withdrawing the funding could be used as leverage to achieve certain outcomes that the Council regards as essential. If not managed astutely this process has the potential to involve project delays.

The HCT **recommends** that:

- The City of Sydney be apprised as soon as possible as to the extent, reasonableness and practicality of workable hydrology options for George Street;
- The City of Sydney be required to work immediately with Sydney Trains and the Rail Safety Regulator to determine if the required safety case for construction of Cloud Arch can be made, given that it necessarily involves large support foundation pads very close to the underground rail tunnels
- Outstanding matters, especially streetscape treatments, be resolved with the City of Sydney as soon as possible

3. SUSTAINABILITY

The Health Check indicated that the social, economic and environmental impacts associated with the project are being effectively monitored and managed.

The Health Check Team rates this as **Green***.

Sustainability Indicator Themes	Advanced	Managed	Emergent	Limited
Approach to recommendations from environmental impact studies				
Approach to incorporation of Regulator requirements				
Identification, confirmation and monitoring of social, economic and environmental benefits				
Approach to monitoring and managing benefits not being met, or greater than anticipated adverse impacts				
Compliance with waste recycling, procurement, building and fleet policies and energy and water reduction plans				

**The HCT acknowledges that it did not examine this topic as deeply as some of the other topics.*

The HCT **notes** that the Planning Approval for the project involves approximately 130 separate conditions, and that many of these conditions relate directly to the interests of third party stakeholders. Fulfilment of these conditions is observed to be front-of-mind for the project team and the Contractor, although the HCT also **notes** that the Contractor may exhibit behaviours that allow third party observers to deduce that they will only ‘do the minimum to comply’.

The HCT **recommends** that opportunities are explored by the project team and the Contractor, especially their respective Communications teams, to find some ways to deliver overt and positive public messages about the project’s benefits. For example, in regard to the works depot in Moore Park (hoardings etc) and in regard to delivering a more comprehensive picture on the replacement of trees.

The means of fulfilling a small number of the Planning Conditions, with or without a concession from the Department of Planning and Environment, needs to be finalised promptly. This includes flood mitigation treatments in George Street and in the vicinity of Centennial Park, the timing of noise mitigation treatments and management of electro-magnetic interference. The HCT **recommends** that these matters be given absolute priority as detailed design cannot be commenced until the planning conditions are finalised, thus further delaying the lockdown of scope.

Notwithstanding the noise mitigation conditions included in the Planning Conditions, the HCT **notes** that real-world operations may prove to have a different impact to that modelled. The HCT **recommends** that steps be taken to measure the noise impact of light rail operations during the commissioning period, and to use these measurements to confirm that adequate mitigation treatments have been applied.

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4. GOVERNANCE

The Health Check indicated that the decision making structure in place for the project is effective with clear lines of accountability. The required capacity and capability to deliver the project successfully is available to the project.

The Health Check Team rates this as **Green**

Governance Indicator Themes	Advanced	Managed	Emergent	Limited
Completeness, availability and structure of Agency and Project Team resources		Yellow		
Capability of the Agency, Project Team and/or Service Provider	Green			
Achievability of timeframes			Yellow	
Robustness of management processes to deal with all project elements; e.g. Planning and Approvals, procurement of transport assets and services and corridor development including value capture	Green			
Currency and completeness of Project Management Plan	Green			
Deliverability against service requirements				Green
Development of the future operating environment for project outputs e.g. Asset Operation and Maintenance Regimes				Yellow
Approach to lifecycle costs and contingencies		Yellow		

The HCT **notes**, in regard to governance of the project to achieve its timelines, that the amber rating included in the table above for the "achievability of timeframes" cell is likely to become red within two months if decisive progress is not achieved on (a) George St hydrology treatments; (b) the Alison Road/Anzac Parade/Dacey Avenue road configuration and treatments; and (c) several other planning conditions and third party requirements.

The HCT **notes** that the overall Governance arrangements seem to be appropriate for a project of this complexity. In addition to the reporting line within TfNSW there are regular formal and informal meetings with the Advisory Board; and the Advisory Board has broad and high quality membership. The CCG is stated to be working effectively, with appropriately senior membership from within TfNSW and other State agencies.

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The HCT also **notes** that the Planning Conditions for the project require that a number of Reference Groups, eg the Urban Domain Reference Group, be established and supported.

Meeting all the requirements of the Governance arrangements is likely to be proving quite onerous, especially for the Project Director and the Director, Project Operations (also called Chief of Staff); the efforts required will only intensify over the next few months. The HCT **recommends** that this is closely monitored and that consideration be given to targeted short-term supplementary resources, especially in regard to the activity the Project Director is also undertaking with stakeholders.

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5. RISK MANAGEMENT

The Health Check indicated that the major risks of the project are properly identified, that mitigation mechanisms are being applied effectively and an effective framework for identifying, managing and monitoring risks is in place.

The Health check Team rates this as **Green***

Risk Management Indicator Themes	Advanced	Managed	Emergent	Limited
Currency and completeness of Risk Management Plans and Risk Management Framework	Green			
Utilisation of Risk to assist decision making	Green			
Understanding of and responsibility for risks between all relevant stakeholders	Green			
Identification and treatment of stage specific risks		Yellow		

**N.B. The HCT acknowledges that the project currently has many risks. These have been identified under the other topic categories. In this topic the HCT has focussed on the Risk management disciplines and processes that are being applied.*

The HCT **notes** that a current Risk Register exists and is kept under regular review by the project team, with this process occurring in the context of an appropriate Risk Management Framework.

The HCT **notes** that risks seem to have been appropriately allocated between the Contractor and TfNSW, although it is accepted by the project team that certain risks (eg reputational matters) will actually fall to TfNSW even if contractually allocated to the Contractor. However the HCT **notes** that third party stakeholders may not appreciate the criticality of the risk allocation profile that applies under a PPP and **recommends** that there is an intensive effort to dramatically reduce scope uncertainty with stakeholders.

6. STAKEHOLDER MANAGEMENT

The Health Check indicated that a stakeholder engagement framework is in place and that the stakeholders for the project are being effectively engaged and managed.

The Health Check Teams rates this as **Amber**

Stakeholder Management Indicator Themes	Advanced	Managed	Emergent	Limited
Completeness, application and implementation of Stakeholder Communication Plans		Amber		
Identification and treatment of Stakeholder concerns and views			Amber	
Confirmation of Stakeholder support		Green		
Appropriateness of the level of consultation proportionate to the stage in procurement process			Red	

Whilst the many third party stakeholders share strong support for the overall success of the light rail project, each is focussed primarily on the outcomes specifically related to their own agency/constituency and there is little evidence that any have a deep understanding of the impacts of introducing scope changes into PPP contracts. The HCT **recommends** that urgent steps are taken to refresh the engagement with all key stakeholders and to dramatically reduce the number of issues that the stakeholders regard as 'open'.

Further, the HCT **notes** that the current point of escalation for unresolved stakeholder matters is the Project Director; given his many other responsibilities, the HCT **recommends** that a short-term supplementary resource be made available to undertake the shake-down of open stakeholder issues.

The HCT was presented with evidence that major traffic treatments are required at the intersection of Alison Rd/Dacey Ave/Anzac Pde, beyond those identified when the project was tendered and contracted. Recent traffic modelling has indicated that unacceptable traffic outcomes will result at the intersection. At least in peak hours, these traffic outcomes are highly likely to compromise LR headways. The proposed solution involves grade separation and is a major sub-project. The HCT **recommends** that:

- a. All aspects of this matter are brought forward for urgent consideration by CCG, and reference on to the CIC prior to Easter 2016
- b. Within that prescribed timeframe, the benefits/implications of a GO decision need to be articulated, and equally the consequences of a NO GO decision are also to be identified.
- c. Under the NO GO scenario, clear requirements for future-proofing of the core project works should be identified
- d. Robust and transparent modelling needs to be available to support these considerations, and be socialised across all relevant agencies and stakeholders, including Altrac and Acciona
- e. A senior level working group needs to be established to explore the options available for procurement
- f. Funding availability from outside the project needs to be confirmed
- g. Consideration of procurement options must be undertaken in the full context of the PPP Deed, with the most likely necessity being procurement outside of the PPP structure

The intended installation of the 'Cloud Arch' sculpture by the City of Sydney in George Street is problematic. Whilst it is outside the project, it is very closely related and has the potential to jeopardise light rail construction timeframes. The HCT **recommends** that the proponent of the Cloud Arch, i.e. the City of Sydney, should be required to urgently prepare the Safety Case that Sydney Trains would have to put to the relevant authority in respect of the proximity of the arch's foundations to the rail tunnels under George Street.

The HCT **notes** the range of outstanding issues in regard to Stakeholders towards Randwick and Kingsford, especially the EMI issue for the Hospital and Health Research precinct and UNSW, but also including finalisation of design for the Kingsford Terminus/Interchange; access arrangements at some gates into Randwick Racecourse; design of sub-stations; flood mitigation; additional tree removal; various CPMPT matters and even discussions about introducing catenary free operation into certain sections of High St and Anzac Parade. The HCT further **notes** that the attitudes of at least some of these stakeholders is 'hardening' at the very time that scope finalisation decisions need to be made quickly. The HCT **recommends** that renewed special efforts are made to resolve the EMI issue as a priority and to also solve all other scope issues in these areas.

Whilst not as urgent as some other matters, the HCT **recommends** that facilitated discussions occur, including with legal counsel, to address Ausgrid's concern to understand the precise details around "ownership" of the light rail track-bed once it is constructed.

7. CHANGE MANAGEMENT

The Health Check indicated that an appropriate change management framework is in operation and that change is being effectively managed.

The Health Check Team rates this as **Red**

Change Management Indicator Themes	Advanced	Managed	Emergent	Limited
Completeness and applicability of Change Management Plans	Green			
Adherence to Change Management Plans and methods		Green		
Acceptance and responsibility of change and implications by Lead Agency and Executives		Red		
Acceptance and responsibility of change and implications by other Organisations outside the agency		Yellow		
Identification of potential impacts which may cause changes or impact on the change program	Green			
Application and effectiveness of consultation with stakeholders			Red	
Acceptance of change and support of stakeholders			Red	
Capacity to manage the change process			Yellow	

It is imperative that the number of 'open' modifications is reduced immediately. The matters listed on the current register should either be (a) withdrawn; (b) adopted; or (c) in a minimum number of cases investigated further so they can be dealt with under one of the previous two options. The HCT **recommends** that, due to the very urgent need to settle scope, an "instruction to proceed" be issued to the Contractor when adoption of a modification is required, even if commercial negotiations have not yet been completed.

In this regard the HCT **notes** that the Project Team is on the verge of adopting this approach to modifications, and that the recent appointment of a new Commercial Manager appears as if it will significantly assist with the handling of modifications with the Contractor.

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The HCT **notes** that the Contractor has lodged a significant number of claims. There are robust processes in place to process these claims, including by rejecting many of them and also by making suitable allowances, where necessary, against the project budget. Whilst the status of claims is being shared within the Project Team, the HCT **recommends** that steps are taken to brief Treasury on the overall claims situation.

The HCT **notes** that the contract includes a concept of “Net Financial Impact” for assessing the impact of modifications. Whilst both the Project Team and the Contractor seem to each have an understanding of this concept, those understandings and expectations may not match. The HCT **recommends** that the outworking of the NFI concept on real modifications be tested as soon as possible, using a live example as a model case.

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OTHER MATTERS

During the Health Check process, the HCT has become aware of the rapid growth in patronage on the Inner West Light Rail service. This growth may continue and may, in due course, trigger consideration of the purchase of additional Light Rail Vehicles for that service.

The HCT **recommends** that the implications of the potential fleet increase for design of the maintenance site at Rozelle be considered as soon as practicable.

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CONCLUSIONS AND RECOMMENDATIONS

Based on documentation reviewed and interviews conducted, the HCT concludes that many challenges need to be addressed within, at most, the next two to three months, and therefore that the forthcoming period is likely to be quite decisive as to whether the project will achieve its completion target of March 2019.

The HCT has identified many recommendations, as highlighted in the relevant sections of this report and as shown in the table in Appendix A.

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APPENDIX A: RECOMMENDATIONS TABLE

No	Recommendation	Rating	Agency Response	Accountability	Target completion	Status
Service Delivery						
1	That a 'champion' be identified from, or added to, the project team to take complete ownership of all issues related to the Devonshire St alignment.	Yellow				
2	Taken alone and definitely in combination, a series of current factors mean that activity in the next three months will be fundamental as to whether the project completion date of March 2019 can be achieved. The HCT recommends that all resources available to the Project Team are focussed on the identified series of factors that require full resolution within the next three months.	Yellow				
3	That an immediate decision be taken to proceed or otherwise with the roadworks at Alison Road. If the works do proceed, it will most likely require unconventional and innovative means of procurement and delivery. If the full works do not proceed future proofing of the core project works may be appropriate, still requiring a modification to be determined. (See also recommendation 18)	Red				

No	Recommendation	Rating	Agency Response	Accountability	Target completion	Status
4	<p>The HCT notes that the Fee Zone regime for the project's construction is an appropriate and innovative framework. During the remainder of 2016, the contractor progressively commences construction works from the current 5 Fee Zones to the peak of 18 by November 2016. For this to occur, detailed design submissions/approval activity will be extremely intense over the next few months. This is especially challenging for the Fee Zones through Devonshire St. The HCT recommends that there is an increased focus on the design approval processes, including by removal of as many other open issues as possible.</p>					
5	<p>That the modelling of traffic and signalised intersections for the operational phase of the Project be commenced as soon as possible by Transdev and RMS.</p>					
6	<p>In the light of rapid patronage growth on the IWLR, that a full range of patronage scenarios for the CBD & South East are re-modelled to assess the capacity constraints of the service, especially as to fleet size and to surge capacity at stops.</p>					
7	<p>That steps be taken to measure EMI levels early during the commissioning and testing period, and that commitments be given to share this</p>					

Cabinet in Confidence

CBD and South East Light Rail Health Check

No	Recommendation	Rating	Agency Response	Accountability	Target completion	Status
	information with the custodians of sensitive equipment such as UNSW, the Lowy Institute and the Hospitals.(See also recommendation 20)					
Affordability and Value for Money						
8	Given the unusually high number of "open Issues", that Treasury are given a very comprehensive status update on all elements of the project budget					
9	Noting the 'split-scope' nature of the D&C contractor within the PPP, that (i) all necessary steps be taken forthwith to close out scope issues, so as to reduce claims impacts and further modifications; and that (ii) all stakeholders be appraised of the contractor's precise obligations under the PPP Deed and that it would be unusual to expect the contractor to exceed those obligations					
10	Noting that the City of Sydney is contributing \$220m to the Project, that (i) the City of Sydney be appraised as soon as possible as to the extent, reasonableness and practicality of workable hydrology options for George St; that (ii) the City of Sydney and Sydney Trains work immediately with the Rail Safety Regulator to determine if the required safety case for construction of the Cloud					

No	Recommendation	Rating	Agency Response	Accountability	Target completion	Status
	Arch can be made (see also recommendation 19); and that (iii) other outstanding matters, especially streetscape treatments, be resolved with the City of Sydney as soon as possible.					
Sustainability						
11	That opportunities are explored by the project team and the Contractor, especially their respective Communications teams, to find some ways to deliver overt and positive public messages about the project's benefits. For example, in regard to the works depot in Moore Park and in regard to the full picture on the replacement of trees.					
12	The means of fulfilling a small number of the Planning Conditions, with or without a concession from the Department of Planning and Environment, needs to be finalised promptly. This includes flood mitigation treatments in George Street and in the vicinity of Centennial Park, the timing of noise mitigation treatments and management of electro-magnetic interference. The HCT recommends that these matters be given absolute priority as detailed design cannot be commenced until the planning conditions are finalised, thus further delaying the lockdown of scope.					

No	Recommendation	Rating	Agency Response	Accountability	Target completion	Status
13	The HCT notes that real-world operations may prove to have a different noise impact to that modelled. The HCT recommends that steps be taken to measure the noise impact of light rail operations during the commissioning period, and to use these measurements to confirm that adequate mitigation treatments have been applied.					
Governance						
14	Whilst appropriate for this Project, aspects of the Governance arrangements are onerous; therefore, progress in meeting all the requirements of the Governance arrangements should be closely monitored and consideration be given to targeted short-term supplementary resources, especially in regard to the activity the Project Director is also undertaking with stakeholders.					
Risk Management						
15	Noting that third party stakeholders may not appreciate the criticality of the risk allocation profile that applies under a PPP, that there is an intensive effort to dramatically reduce scope uncertainty with stakeholders. (See also recommendations 16 and 17)					

No	Recommendation	Rating	Agency Response	Accountability	Target completion	Status
Stakeholder Management						
16	That urgent steps are taken to refresh the engagement with all key stakeholders and to dramatically reduce the number of issues that the stakeholders regard as 'open'. (See also recommendations 15 and 17)	Yellow				
17	That a short-term supplementary resource be made available to undertake the shake-down of open stakeholder issues. (See also recommendations 15 and 16)	Yellow				
18	That, with respect to proposed traffic treatments at the intersection of Alison Rd, Dacey Ave and Anzac Pde, all aspects of this matter are brought forward for urgent consideration by CCG, and reference on to the CIC prior to Easter 2016; the benefits/implications of a GO decision need to be articulated, and equally the consequences of a NO GO decision are also to be identified, including future-proofing of the core project works; robust and transparent modelling needs to be available; a senior level working group needs to be established to explore the options available for procurement; funding availability from outside the project needs to be confirmed and consideration of all procurement options must be undertaken. (See also recommendation 3)	Red				

No	Recommendation	Rating	Agency Response	Accountability	Target completion	Status
19	<p>That the proponent of the Cloud Arch, i.e, the City of Sydney, should be required to urgently prepare the Safety Case that Sydney Trains would have to put to the relevant authority in respect of the proximity of the arch's foundations to the rail tunnels under George Street. (See also recommendation 10)</p>					
20	<p>In regard to those Stakeholders in the Parks area and towards Randwick and Kingsford, there are many open issues and the HCT notes that the attitudes of at least some of these stakeholders is 'hardening' at the very time that scope finalisation decisions need to be made quickly. The HCT recommends that renewed special efforts are made to resolve the EMI issue as a priority and to also solve all other scope issues in these areas. (See also recommendation 7)</p>					
21	<p>That facilitated discussions occur, including with legal counsel, to address Ausgrid's concern to understand the precise details around "ownership" of the light rail track-bed once it is constructed.</p>					

No	Recommendation	Rating	Agency Response	Accountability	Target completion	Status
Change Management						
22	That, due to the very urgent need to settle scope, an "instruction to proceed" be issued to the Contractor when adoption of a modification is required, even if commercial negotiations have not yet been completed.					
23	That steps are taken to brief Treasury on the overall claims situation, given the significant number of claims lodged by the Contractor, and notwithstanding the robust processes currently in place to process these claims.					
24	That a model case be run to assess the impact of modifications with respect to the measurement of Net Financial Impact.					
25	<p><i>Note that this recommendation arises from the "Other Matters" section of the Report.</i></p> <p>The recent rapid growth on the IWLR could continue and may, in due course, trigger consideration of the purchase of additional Light Rail Vehicles for that service. The HCT recommends that the implications of the potential fleet increase for design of the maintenance site at Rozelle be considered as soon as practicable.</p>					

APPENDIX C: DOCUMENTS REVIEWED

Document Title	Author	Date of Publication
SLR January 2016 Monthly Report	Project Controls	February 2016
SLR December 2015 Monthly Report	Project Controls	January 2016
SLR Weekly Project Update	Project Controls	8 February 2016
SLR Project Management Plan	Project Controls	22 January 2016
Project Route Map	Project Controls	February 2016
SLR Advisory Board Meeting papers	Advisory Board	January 2016
SLR Organisational Chart	TfNSW	February 2016
Planning Conditions	Minister for Planning	September 2015
Schedule B2 of Contract re Compliance with planning conditions	TfNSW	Early 2015
Extracts from Risk register	TfNSW	Early 2016
Structure diagram for the PPP	TfNSW	2015