Request: "correspondence between Foreign Office officials, ministers and the KPMG feasibility study team regarding the potential cost of Chagossian resettlement."

Number 1 Email Exchange of 19 November 2014 between KPMG and BIOT Section

From KPMG: The headline numbers shown in table 7.2 are the most appropriate ones to use (£413.9m for option 1, £106.9m for option 2 and £62.9m for option 3). These figures include both the costs of capital itself, and also the phased development of infrastructure over time: the management, supervision and monitoring costs that would accompany the design and construction process in each case. The figures we have used are based on constant 2014 prices, so the effects of inflation have been removed. And to be absolutely clear: the airport and breakwater/harbour costs would apply only in the case of option 1, given the larger population size.

From FCO: To follow up our discussion, [redacted s40] and I have agreed to use the following headline figures (table 7.2) based on infrastructure capital costs including an airport and breakwater/harbour plus environmental monitoring costs:

Option 1 (1500): £370.8m up to £413.9m capital costs / £21.5m recurring annual costs

Option 2 (500): 94.2m up to 106.9m capital costs / £6.3m recurring annual costs

Option 3 (150): 54.6m up to 62.9m capital cost / £4.7m recurring annual costs

please shout asap if there's any error in this.

Number 2: Email of 23 January 2015 from BIOT Section to KPMG

1. I've been trying to clarify in my own mind how the estimated capex figures have been compiled as I will need to be able to present this accurately. I've looked at the Annexes – page 191 on Cost Estimates but would appreciate some additional guidance please.
2. Are your estimates for the four main categories: (i) transport and sea defences; (ii) energy; (iii) housing and public buildings; and (iv) utilities and services, based on an assumption that the UK will be able to access existing US services or do your figures include costs to the UK of having to build separate facilities such as a water plant, power generation plant, hospital. Apologies, if I've misunderstood – a layman's explanation of how exactly the capex figures have been compiled would be most helpful.
3. At the same time, I would like to include some technical questions into my existing press lines as I'm sure we'll be probed on these. I've listed some which come to my mind. If you can think of others please let me know. I'd appreciate your help to answer these as clearly as possible please:
    - Haven't KPMG seriously underestimated the true costs of resettlement because they've assumed the US will be able to provide full support?
    - Aren't KPMG's estimated costs too high when Chagossians have said they would be happy with a basic standard of living?

- As KPMG's analysis shows that resettlement will not be self-sufficient in the short, medium or long term, will the govt decide against it? – One for FCO to answer but I want to check analysis in question is accurately portrayed.
- Why have KPMG just focused on 3 islands?

Number 3: Email of 26 January 2015 from BIOT Section to KPMG

[redacted s40] will capture the US's concerns about infrastructure access and you're moving existing data from Chapter 7 to Chapter 8, to provide a broader base for comparison.

I also explained to [redacted s40]our discussion about the proposed press line to clarify how costs have been calculated. We think it would be useful to be clearer on this point in Chapter 7, probably para 7.3.1 perhaps using the line we've just agreed so that everyone understands the basis and that variations have been factored in? This is particularly relevant in light of US views on what can/cannot be provided.

Number 4: Email Exchange of 26 January 2015 between KPMG and BIOT Section

From FCO: Q: Are KPMG's costs too high/low?

A: The infrastructure costs which comprise four main categories: (i) transport and sea defences; (ii) energy; (iii) housing and public buildings; and (iv) utilities and services, are subject to significant uncertainties such as the specific requirements and numbers of resettlers. Costs have been calculated on the basis that initially services could be procured from existing contractors to the military facility or would need to be procured directly by the UK govt. Presumptions have also been made that in the longer term, services could be taken over by additional contractors including regional providers. This is particularly relevant to the large scale Option 1. Annex 7.4, Table 2.1 indicates the potential +/- or + (%) variations to KPMG's estimated capital costs.

From KPMG: On costs and whether they rely on US facilities, it is something of a mixed picture. has commented 'The costs/budgets proposed have always made it possible for the UK to provide all key items....which is why some base costs for 50-500 people remain high and do not reduce proportionately. The Option 3- has containerised/standby diesel generators, not a "power station" option, within the budget. We have added text on the risks and uncertainties surrounding the infrastructure cost estimates. This will be in Annex 7.4 section 2.
Let us know if you need more on that.
Best regards

Infrastructure cost sensitivity and uncertainty levels are assessed in Table 2.1.

Table 2.1: Infrastructure Cost Variability & Commentary
Option 1
DG &~2 Islands
N=1500
Levels of Complexity & Uncertainty
Option 3
DG
N=150-50
Levels of Complexity & Uncertainty

ITEM(S)
Access & Supply Chains
Inter-national
Standards & Codes
Cost range variation risk (%)
+/-
ITEM(S)
Access & Supply Chains
Inter-national Standards & Codes
Cost range variation risk (%)

+/-
Transport & sea def.
H
H
+50
Transport & sea def.
M
H
+25
Energy
H
H
+/- 50
Energy
M
H
+/- 25
Accomm.
H
H
+/- 30
Accomm.
M
H
+/- 20
Services
H
H
+/- 50
Services
L
H
+/- 20

Calculations for each specific item are complex, and are based upon as yet unconfirmed UK-USA government agreement presumptions that initially substantial assistance will be permitted to be procured via existing US NSF contractors, using existing standby machinery. Factored into the longer-term and/or broader remit for Option 1 are presumptions that additional competent contractor(s), including appropriate regional providers will start to take over construction, and also, that local/regional supply chains and private sector investors will become involved. Hence costs are

subject to significant underlying uncertainties. The +/- or + (%) allocations/assessments are a broad-based summary of those complexities.

Cost benchmarking is derived from published and unpublished and open-source unrestricted and confidential data sets and resources.

■ Data from DFID/FCO OT sources give higher levels of certainty (approx. +/- 15%) but their applicability to the Chagos archipelago is variable;

■ Data from US NSF are accurate, but often sub-element costs are opaque and are incorporated into multi-year and multi-task assignments, so direct NSF costs would tend to be 200 – 300% higher than other regional provider expectations. In general, these costs have been abated to assume a variable degree of alternative international/regional supplier participation in the provision of solutions.

■ Data for Maldives and Mauritius, USA, UK, Australia tend to give +/- 100-300% overall sets of ranges, increasing the level of challenge in identifying suitable benchmarks. That is because the possible standards and requirements vary immensely (i.e. from, say, self-build, un-air-conditioned housing units, to extreme luxury resort-type developments).

These ranges have been taken into consideration for each element to derive a practicable and balanced "reasonable scenario" set of costs. Additional complexity exists on DG since there are on-going energy, drinking water, waste disposal and housing projects, all costed on the basis of existing systems, and extending the provision being planned for was not a factor in their original costings – and would, in any event, be subject to future UK-USA government agreements. The H, M, L risk/challenge summary assessments take into account off-DG additional and initial basic landing and infrastructure/machinery requirements – hence the variability in assessments between Option1 and 3.
H: High potential challenge &/or risk; M: Medium; L: Lower (although NOT LOW).

Number 5: Email of 3 February 2015 from KPMG to BIOT Section

As I understand it the estimates are "best guess" with upside and downside risks.
Looking at Table 7.4.1 (in Annex 7.4 section 2) all of the cost variations are +/- implying no optimum bias other than sea defences where it was estimated that costs could be increased by 50% (or 25% for Option 3) but there was no expectation of reducing them.
We have however not given a probability, just a range. So if the other costs are in the range +/- X%, but a cost increase has greater probability than a cost reduction, then indeed the numbers in table 7.4.1 could be consistent with an optimum bias for all of the items even when the range is symmetrical.
In truth, however, the cost analysis was not done with this level precision. We are in the realm of uncertainty (probabilities unknown) rather than risk (probabilities known or at least estimated).
I am aware of the frequency that infrastructure project costs estimates escalate substantially during the process from feasibility to implementation (e.g St Helena Airport), even when detailed designs have been produced.
As far as I am aware, however, there was no deliberate decision to have either a positive or a negative bias on the cost estimates.
Readers should be aware that there is substantial uncertainty about the estimates. In this case there are no detailed designs and the estimates are, (with due respect to), approximate and illustrative.
[redacted s40] may like to comment.

From FCO: Could you ask KPMG if they included any optimism bias in their figures and how they arrived at whatever the chosen bias was?
Grateful for advice please.

Number 6: Email of 3 February from KPMG to BIOT Section

There is v little optimism bias in my "best estimates". Rather, quite a lot of pessimism - anticipating extra logistical, administrative and technical difficulties that have yet to emerge fully. And yet I have tried to find "balance" - assuming that if the UK proceeds, then some innovation will be forthcoming in the contracting approach. I suggest that outline statements of requirement are bid against - with vfm and innovation as key bid assessment determinants.

Number 7: Email Exchange of 5 February 2015 between BIOT Section and KPMG

From FCO: Thanks for clarifying again. No changes are being requested – just wanted to ensure as our detailed analysis starts to take shape, that we're presenting your evaluation of estimated costs properly to Ministers.

From KPMG: That is my understanding ie they are best estimate.

Putting a range and probability distribution would not be possible as this report is not based on any detailed design estimates, just very rough indicative figures. It would also complicate the presentation.

From FCO: Thanks again for this. May I check one further point with you please? Colleagues looking at the infrastructure analysis have mentioned that it isn't entirely clear from the report if the "baseline" estimates are the most likely indicative figures? They wondered if presenting them as a single figure rather than a range implies a greater level of confidence that perhaps could be the case?

Any further views on this reflection?