

**EXECUTIVE CHAIRMAN'S REPORT**

**1. BOARD AND SENIOR MANAGEMENT**

Our meeting on 30 October should be the first with our full complement of new directors and I take this opportunity to welcome all of you to our Board. There is no question that you are joining tie at an interesting time !

Since my report to the Board meeting on 2 October 2006, there have been a number of important developments in the main tie projects and these are discussed below. The next few months will be crucial to the medium term success of tie's projects and to tie itself. We continue to address the organisation's resource requirements and have recently agreed terms with John Boyle to lead our public communications efforts in number critical arenas. John was previously PR Director for Scotrail and his skills and connections will be a first-class asset.

**2. REVIEW OF PROGRESS AND ACHIEVEMENTS ON MAJOR PROJECTS**

Full reports on the three major projects are included with the Board papers and will be presented by the Project Directors. Of particular note are :

**Tram**

- The need for sustained better performance by our designers, Parsons Brinckerhoff, remains an issue. Andie's report describes how this challenge is being addressed but this is a particularly difficult matter, involving a third party adviser who has frankly failed to deliver the quality we require. There are implications for our procurement strategy and for the programme and I would value colleagues' advice on how best to make progress.
- The utility diversion contract ("MUDFA") was awarded to McAlpine and preliminary work is underway. This is another key milestone and helps with the firmness of our cost estimates, of which more below
- Tender returns for the vehicle contract ("Tramco") were received on 9 October and provide further support to our cost estimates.
- The tender for the infrastructure contract ("Infraco") was issued on 3 October as planned. Since then, there have been a series of discussions with the bidders as they absorb the terms of the ITN and assess the issues for their bids. Unsurprisingly, this process has produced both good and disappointing reaction. Andie and I will provide the Board with a full update at the meeting.
- Prior to issue of the Infraco ITN, an independent Gateway review was performed to assess readiness for issue as further comfort on the quality of the tender documentation. I am pleased to say that the review team, who had performed an earlier review in May 2006, recorded a very positive set of comments on the development of the project since their previous visit and fully supported the issue of the ITN.
- The Business Case develops apace and the outputs to date have been positive in relation to the performance measures which the project must meet. A verbal update on progress will be made at the Board meeting. The work required of our own people and our advisors in this process has been prodigious.

- We are in the process of finalising cost estimates after a rigorous and intensive process. This is a critical part of the business case and is the basis for the affordability assessment. The board will be brought fully up to date at the meeting and a key issue for discussion will be the tie Board's views on affordability and the network scope decisions which follow. This is a complex process and the papers contain a presentation which describes the issues in more detail.

## EARL

- The Bill received Preliminary Stage approval from Parliament on 21 September 2006. This is a major milestone and achievement for the team and for tie. However, the Committee Report contained a number of key concerns which tie and Transport Scotland are addressing urgently.
- A constructive dialogue has been developed with BAA with the objective of reaching agreement on a number of inter-related and critical matters including the removal of their objection to the Bill.
- The EARL project has become a high profile political issue in recent weeks and a number of press reports have focussed on claimed weaknesses in the project's execution. We are in no doubt that the opposite is the truth. EARL is a very robust project, with the potential to bring enormous benefit to Scotland. We are re-doubling our efforts to ensure the press coverage is balanced and also to ensure that politicians of all parties are presented with a clear view of the project's benefits.
- We continue to seek progress on the linked areas of project governance, stakeholder roles and responsibilities, procurement structure and funding structure. This is a further difficult area where I am hoping for guidance on how best to mesh various critical moving parts for the benefit of the overall project. In addition to Barry's main project report, we have included 1) a short paper highlighting the programme risks arising from the lack of an agreed project structure ; and 2) a paper summarising the proposed approach to project governance. These documents set the scene for a key discussion at the Board meeting. Tie cannot drive these aspects of the project on its own and we continue to work with Transport Scotland to create a consensus position from which to make operational progress.
- There is one important change to assess and approve in relation to the tunnel boring methodology and necessary equipment which carries a material change to cost estimates. The details are set out in Barry's report and we believe have the support of Transport Scotland and other stakeholders.

## SAK

- Excellent progress continues to be made on construction. The works are on programme to achieve the completion date of 1 June 2007 and a planned opening date of 14<sup>th</sup> July 2007. Formal agreement with the contractor to the accelerated programme is being progressed.
- There are cost pressures in the forecast outturn, notably a dispute with the contractor over alleged costs of programme acceleration and the means of agreeing gain and pain shares. The project team has a clear focus on cost control/reduction measures to ensure the final outturn costs on the project are contained within the current forecast.

### **3. PORTFOLIO PROJECTS - STATUS**

Susan Clark has taken on the management of the Ingliston Park and Ride and Fastlink (WEBS) projects. Both of these are in close-down mode and we are dealing with contract-end commercial issues, as described in the relevant reports attached. In addition, we are underway with a second phase of development at the Ingliston site, following the success of the first phase.

Management responsibility for FETA, the Cross Forth Ferry and the Stirling project has fallen to Steven Bell and he has provided reports on our progress.

Each project brings its own challenges, but overall matters appear to be in good order.

### **4. FUNCTIONAL REVIEWS**

We have provided reports from our key function leaders which again demonstrate progress in ensuring that tie's central team are delivering fit for purpose services to the company and to the Project Directors, their internal customers. Of particular note is the report on HSQE, Steven Bell's first since joining tie last month. This is of course an area of fundamental concern to all directors and senior management and I am pleased to note the rigour which is being applied to our safety practices.

### **5. CONCLUSION**

By the end of this calendar year (around 40 business days from now) we will have submitted, and hopefully have had approved by the Council, the extensive business case documentation for the tram project, made substantial progress with the Infracore and Tramco procurements and prepared the ground (literally) for utility diversion work in the New Year. We hope to have successfully progressed the EARL Bill, including the removal of major objectors and to have agreement on the procurement strategy and the programme for 2007 and beyond. These are daunting challenges in a short period of time, but the team in tie is ready and we will demonstrate how we intend to succeed when we meet on 30 October.

**WG**  
**24.10.06**