
From: Dave Anderson
Sent: 11 May 2010 18:27
To: Tom Aitchison; Donald McGougan; Alan Coyle; Nick Smith; Marshall Poulton
Cc: Sheena Raeburn
Subject: FW: CEC paper on trams - STRICTLY CONFIDENTIAL

Tom We can cover off some of Richard's concerns through sensitive drafting but I think we would run the risk of failing in our own accounting and reporting responsibilities if we failed to update Council on the key issues here. Suggest we discuss at IPG tomorrow. Dave

From: Richard Jeffrey [mailto:Richard.Jeffrey@tie.ltd.uk]
Sent: 11 May 2010 16:36
To: Tom Aitchison; Dave Anderson; Donald McGougan
Cc: Alan Coyle; Nick Smith; Stewart McGarrity
Subject: CEC paper on trams - STRICTLY CONFIDENTIAL

Dear Tom,

As discussed at a meeting with Dave and Donald and others at lunchtime today I am very concerned about the potential consequences of the proposed paper to the full council on trams. I appreciate the need for funders to be updated, and I believe I have been completely transparent in my briefings to the Tram Project Board, CEC officers, party leaders on the council, Transport Scotland and the Minister, but I do have concerns about potential damage to the project from making too much information public at the present time.

As you are aware we are currently at a delicate stage in the project, with the two options of a mature divorce, or termination both being actively pursued. I suspect that both of these options will come to a conclusion within the next 4-8 weeks, although, as with everything on this project, it is hard to be definitive on a timescale.

Given that there has to be a paper to the council, then it is right that we use the opportunity to strongly present our case, and to warn BSC that we are actively considering termination of the contract, which the current draft of the paper does. Beyond that, I think we should avoid, wherever possible, putting information into the public domain, that is commercially sensitive, could be used by critics of the project to undermine our credibility, or incomplete. My main concerns, in order of importance are

- The reporting of costs on Princes Street. It is fair to say that the costs are much higher than anyone expected. We are still in disagreement with BSC over these costs, and this may lead to formal dispute, and whilst some of the extra costs are fully explainable, some are not yet. In addition, Princes Street is not yet finished, and I want to avoid setting the precedent whereby we report piecemeal on elements of the project especially when they are not complete or in dispute. I have separately e-mailed Donald a form of words which I believe could replace 10 paragraphs in the paper.
- Cost of Utility works. We need to be very careful that we fully define exactly what we are talking about when we report the cost of a single element of the project. In this case, we need to be clear that the final cost of all utility works will be greater than that quoted in the paper as currently drafted, as that refers to just the utility works carried out under MUDFA. Finally, as with the above point, the final account with Carillion is not yet settled.
- Quoting the £545m plus 10%. I agree that we should now be declaring that the full scope within the funding envelope is now highly unlikely (or whatever phrase we choose), but to quote 10%, heavily qualified by the fact that many unresolved risks still exist, may make us a hostage to fortune, particularly with the main contractual disputes still unresolved.

These are my three main concerns, but underlying these specific examples is a general nervousness that in trying to address the very real issue of lack of certainty, that we do not paint ourselves into a corner either commercially, or

with future reports to the council. I am frustrated as anyone that we cannot yet be definitive on the cost or programme for this project, but I feel at this stage, given the uncertainty, the less said the better.

I fully accept that this is a report by your officers to the council, not a tie report, and I have the greatest respect for your team, and the fact that they are much more experienced in these matters than I am, also, I wish to be clear that my concerns are in no way a reflection on the team who have drafted the paper this far, indeed, much of it has been drafted with extensive input from tie people. I also understand that there are arguments in favour of greater disclosure, indeed I would support this, the real debate is about how much to disclose at this stage of the project.

I understand you are considering this paper in the next day or so. I am happy to discuss, but do not need you to respond to this.

Regards

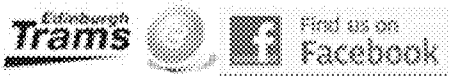
Richard

Richard Jeffrey
Chief Executive

Edinburgh Trams
Citypoint
65 Haymarket Terrace
Edinburgh
EH12 5HD

Tel: [REDACTED]
Email: richard.jeffrey@tie.ltd.uk

Find us online (click below):



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