



tie BOARD MEETING – 26TH JUNE 2006

This report is written in the context of the provisions of FOI (Scotland) Act. Its contents are commercially confidential.

Chief Executive's Report

A. General

- Willie Gallagher was confirmed as the new Chairman of **tie** on 1st June.
- In view of my own plans to assume the position of Chairman of City & Guilds of London Institute in September, it has been agreed that I shall step down in July, passing the executive responsibility to Willie until appointment of a new Chief Executive.
- This therefore is to be my last report as Chief Executive, and I would like to use it to offer some reflections on **tie**'s major projects.
- The project directors' reports will cover each project in more detail.

B. TRAM

- The Readiness Review confirmed that the full implications of the procurement approach, especially novation of tram supply and system design, had not been thought through.
- Accordingly, a procurement sub-group including Alastair Richards, Keith McMillan and Martin Donohoe of Scott Wilson, and David Powell of **tie** has been set up. This is meeting weekly, chaired by Willie, and is setting a new programme for the procurement activity.
- We were pleased to secure the services of Andie Harper, formerly of London Underground Limited, on an interim basis via Nichols Group. Andie started with **tie** on 22nd May, in time to participate in the Readiness Review.
- Andie has brought a welcome inclusive style to the job, and has been focussing his time and the energies of his team on progressing the design work.
- At the same time, meetings with the bidders for the project continue in order to provide to them the comfort they seek to invest the necessary sums to bid. We have had one specific request to provide a guarantee of bid costs if the project were not to proceed – an indication of their nervousness.



The challenge for **tie** with the tram is to demonstrate a sufficiently robust outturn cost, built into the business case, that we can secure a political decision to proceed in time for work to begin before the 2007 election period .

Of course, if the process is delayed beyond the election, then new political realities and more months of cost inflation will present their own challenges.

My own view is that, if at all possible, the timetable should be adhered to: a business case before Christmas, even if the level of cost certainty is less than originally hoped for, an expedited and positive political decision in January, followed by utilities works in 1Q 2007.

A further point is that the revised governance proposals for the project – marking renewed distinction between TEL, the company, and the Tram Project Board – are welcome. A major continuing issue is the question of day-to-day high level linkage with the Council. The potential for delay arising from poor co-ordination within the Council (transport, planning, finance) is high.

C. EARL

tie's work has concentrated upon the onset of the parliamentary process, and early committee sessions have gone well. But **tie**'s future in EARL is bound up in some knotty issues relating to the governance of the project. Network Rail, BAA and Transport Scotland all have significant influence on the path of future events.

At a recent 1:1 meeting with John Armit, Chief Executive of NR, he made it clear to me that NR would be very nervous about getting involved in a "subordinate" role. (NR has continued its evaluation of the project and a review on 9th June helped to confirm their initial assessment that **tie**'s work to date is of a high professional standard.) However they do not wish to run the risk of being implicated in a future project situation in which they have little or no control. Therefore they appear to desire a strong and irreversible role, of a quasi-ownership nature, in overall project co-ordination.

BAA has agreed to be acquired by Ferrovial, and this will bring new influences to bear on their present hostile attitude to the project. BAA has lodged an official objection, which is of concern to the parliamentary committee, since completing the project without their active support is hard to contemplate.

Transport Scotland (TS) are responsible for assessing, deciding how to incorporate, and in some elements project managing the parallel implications of the project, including new rolling stock, possible electrification, and platform extensions along the route. These could add significantly to scope and cost, but there needs to be separation of a) investment to accommodate the visible



needs of a successful and growing railway b) investment to facilitate EARL. EARL cannot justify the expenditure on both.

Whether the role of **tie**, as a subsidiary of CEC, can be maintained in these tricky waters after Royal Assent, is something only TS can decide.

D. Stirling – Alloa – Kincardine (SAK)

After some concerns about unforeseen cost escalations earlier in the year, project management is now under control and positive comment has been received from TS, who are our client. Cost escalation is largely due to land acquisition costs over which **tie** has had no control. Some significant clawback of material costs has been achieved by bidding outside the UK.

Things should now proceed to schedule and the chance of beating present forecast cost is good, but again the most significant risk to progress is Network Rail. Ron McAulay has just agreed to participate on the Steering Group. This will help to manage some of the decisions taken in far-off NR committees (e.g. Signal Review Group). These, if they stand, could ensure the project meets neither target cost nor its scheduled operating date in June 2007.

It helps to emphasise that close high-level working relationships with NR are critical, and yet the contractual basis on which such work proceeds is inevitably tortuous, costly and fraught with risk.

E, F, G Finance Risk and Communications / Stakeholders Reports

These are attached.

H. Personal

I have enjoyed my four years at **tie** enormously, and it has been exceptionally rewarding to see the company grow to its present scale, and level of energy and high endeavour.

I would like to thank the City Council, Scottish Executive / Transport Scotland, Lothian Buses / TEL, all board members, and particularly Ewan Brown, for their support and encouragement over this very stimulating period. I also make note of the tireless support and outstanding performance of the members of **tie**'s Executive Board.

I shall look on with huge interest to see **tie**'s projects reaching fruition in the years ahead!

Michael Howell

16th June 2006