
From: McLaughlin AC (Ainslie)
Sent: 28 September 2010 16:02
To: Cabinet Secretary for Finance and Sustainable Growth
Cc: PS/Transport Scotland; Reeve W (Bill)
Subject: RE: Immediate- Trams update

Graham

I met Richard Jeffrey on 17 September and spoke to him on the phone last Thursday. I have set out below where things have got to since TIE last met the Cabinet Secretary on 26 August.

Project Carlisle

- Negotiations on Project Carlisle, which would take the tram from the airport to St Andrew's Square, are not going well. The timetable is drifting on and the 2 sides have made little progress in converging on an mutually acceptable deal.
- The initial price submitted by the contractor in mid August would, if accepted, result in a total project cost of £660m. TIE responded towards the end of August with a counter offer that would have completed the tram project to the city centre for around £540m.
- Following this initial exchange both sides entered into detailed face to face negotiations which although initially promising have since stalled. The latest offer on the table from the contractor is to complete the tram only to Haymarket Station for a total project cost of £640m. TIE have rejected this and also consider that the latest terms and conditions offered would **not** result in a guaranteed fixed price.
- Effectively, this is no different from the contractor's opening offer as it would leave TIE to pick up the cost of completing the link from Haymarket to St Andrew's Square. The contractor has since written to TIE expressing their doubts about concluding a deal on Project Carlisle.
- Richard Jeffrey has already tipped off the Council that TIE will not be in a position to report any progress on resolving the present contractual disputes at the next Council meeting on 14 October.

Project Notice

- Project Notice is the code name for terminating the contract on the grounds of breach by the contractor. Failure to reach agreement on Project Carlisle is not, however, grounds for termination. Project Notice is a separate but parallel course of action being taken by TIE in the hope of bringing pressure to bear on the contractor to reach a deal.
- The processes leading towards termination are continuing. TIE has already issued 4 formal notices to the contractor outlining areas where they believe the contractor is in breach. The contractor has 30 working days to respond and TIE have just received the first responses back from the contractor. TIE is proceeding to issue the final batch of 4 notices over the next week or so.
- The effect of this is that TIE could be in a position to terminate the contract from around the end of November. There is no formal timetable stipulating when the termination notice is issued following

receipt of the last response from the contractor, but to be credible TIE would have to act within weeks rather than months.

- Richard Jeffrey confirmed that the attitude of the TIE Board is hardening further in favour of terminating the contract. TIE are aware, however, that before terminating they would have to refer back to the funding parties. Nevertheless, Richard believes that without substantial progress soon on Project Carlisle he and his Board are increasingly likely to recommend termination.

Current contract progress

- There is still no work being done on the on-street sections. Work on the off-street section between the airport and Haymarket remains ongoing but still slow and patchy. The tram tracks along Princes Street are showing signs of breaking up. TIE have asked the contractor to come up with remedial proposals and this may well end as a further reason for termination.
- Richard also expressed concern about retention of key staff. The Finance Director left recently and the morale in the team is understandably low. Richard understands that incentive packages to retain key staff would be difficult to justify in the present climate let alone the current state of the contract.

Ainslie

From: Robertson G (Graham) **On Behalf Of** Cabinet Secretary for Finance and Sustainable Growth
Sent: 28 September 2010 12:24
To: McLaughlin AC (Ainslie)
Cc: Cabinet Secretary for Finance and Sustainable Growth; Ramsay J (John); PS/Transport Scotland
Subject: Immediate- Trams update
Importance: High

Ainslie,

Mr Swinney has asked if he could have a note in his box tonight which gives him a "chapter and verse" update on where we are on the Trams project. With apologies for the short deadline that will mean the note has to be with us by **16:30 this afternoon.**

Thanks

Graham
Graham Robertson
DPS/Cabinet Secretary for Finance and Sustainable Growth
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