
From: Hudson Steve [Steve.Hudson@carillionplc.com]
Sent: 25 November 2008 21:44
To: Steven Bell
Subject: Decision Time
Attachments: Works Order withdrawl letterDOC241108.pdf

Importance: High

Steven,

In advance of our meeting on Thursday, I thought it appropriate to spell out the dynamics we now collectively face, which will require resolution on Thursday in order that we can positively progress the Project.

Namely, we continue to experience significant delays to programme as a consequence of;

- Delays in design issue
- TM and Stakeholder restrictions
- Growth and change in work scope
- Delay in TQ resolution
- Inadequate tie leadership and project management

This has led to the significant cost increases and the establishment of adversarial relationships and the lack of resolution of the October 'agreement' is symptomatic of the above issues.

Background;

The fundamental failings of the contract go right back to the lack of design delivery during PCS services. This frustrated the development of the programme, prevented true value engineering and resulted in the majority of PCS objectives not being met.

Against the backdrop of the failure of PCS we agreed a settlement in 2007, incorporating the rev 06 programme and the resolution of disputes up to Sept 07. In good faith we both felt that 'going forward' the design detail and definition would improve and we could progress the contract efficiently and cost effectively. We also held meetings to discuss the 'blockers' to progress and to improve collaboration between our teams and the teams made a joint commitment on the 12th December 2007 to work in this manner. Subsequently the tie Limited project management team fundamentally failed to deliver any of their commitments; indeed their actions and behaviours throughout 2008 have been in direct contravention of these commitments.

The reality therefore was that the designs did not flow as intended, the quality of the designs and subsequent TQ process were inadequate and this has resulted in significant further delays and cost increases. Equally the teams became entrenched in their respective positions and relationships deteriorated.

Back in February of this year we actually wrote highlighting the issues and withdrawing all Works Order Proposals as the efficacy of the Contract had been undermined. (copy attached). Furthermore, in March we provided a substantial submission addressing the issues surrounding the veracity of the rates and prices, as a consequence of the foregoing issues. These letters, as many issued during the currency of the contract, have yet to be responded to.

By the summer we therefore found ourselves in significant delay, without clarity of work scope or programme and with significant claims for additional payment. This clearly presented significant challenges to the overall Tram project with the imminent commencement of Infraco. Indeed, we were further away from the 'collaboration' approach agreed on the 12th December 2007 than at any other period of the contract.

Hence we commenced discussions regarding another 'agreement', incorporating a revised programme and commercial settlement. These were, we believed, eventually concluded in October when Roger Robinson met Willie Gallagher.

For clarity I set out the following principles of that collective discussion and agreement;

- 1) Adoption of Rev 7.09 programme, incorporating extension of Longstop Date.
- 2) Settlement of commercial disputes up to the end of Sept '08 with payment up to £1.2m now and £800k against future milestones.
- 3) Payment of all prelims, both historic and future.
- 4) Indexation to apply as the contract from the 1st July.
- 5) Reimbursement of the shortfall between resource value earned through the rates and the cost incurred in targeting the programme.

I believe that unless we reaffirm our respective commitment to the principles outlined above, the project will suffer further and we will have no option other than to progress in a cost effective manner with appropriate protection of both cost and time being afforded to us under the contract. The choice is yours.

During the past 4 months we have strengthened our team, introduced new management controls and generally responded to your criticisms of our performance, whether justified or not. Quality and safety management have significantly improved, and although a few teething troubles remain we are dealing with these on a daily basis. Remedial works for historical problems are progressing - I know these are frustrating for both our teams, but we are taking our responsibilities seriously and will complete them as soon as we possibly can. In short, we are making every effort to deliver the project to your satisfaction.

I now believe that having made changes to our personnel to improve delivery, that it is time that tie did likewise and removed the 'blockers' from their team. In this respect, I request the removal of John Casserly and his commercial team with immediate effect.

John and his team have a history of;

- failing to meet deadlines set
- failure to certify in accordance with the contract timescales
- failure to pay in accordance with contract timescales
- failing to administer the contract and action correspondence
- a source of mis-information and misleading statements

Equally, John's negative and adversarial 'attitude' was exposed in the partnering workshop we organised to enhance Collaboration and clearly his behaviours are inconsistent with our joint objectives.

I believe that John and his team should be replaced with an 'independent' team who can administer the commercial framework of the contract, without reference to or consideration of client budget and personal agendas. This would give us both confidence that the works were being administered in a timely manner, properly evaluated and budgeted thereby reducing areas for contention.

I make no apologies for the length of this e-mail as I believe its absolutely essential that we conclude the way forward when we meet on Thursday.

We can discuss in advance if you wish to call me.

<<Works Order withdrawl letterDOC241108.pdf>>

Regards

Steve Hudson

Commercial Director
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