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Sent: 16 June 2007 10:32
To: ACullen@audit-scotland.gov.uk
Cc: Willie Gallagher; Graeme Bissett; Matthew Crosse; Barry Cross; Steven Bell; Alastair Richards - TEL; Duncan Fraser; david_mackay@██████████ Rebecca Andrew
Subject: PRIVATE & CONFIDENTIAL
Attachments: Reed 290507 (2).doc; Tram Options v8.doc

PRIVATE & CONFIDENTIAL

Angela,

Thanks for the opportunity to review your draft sent through yesterday afternoon. The comments of **tie**/TEL, incorporating those received from officers of CEC, are laid out below. I have separated the comments into two lists (with paragraph references) - those which we believe are important points of fact or principle and those which are more minor matters.

We hope you find these comments useful for the purposes of validating your report. Please feel free to call myself or any of the principal persons from **tie**, TEL and CEC at any time.

Regards,

Stewart McGarrity
██████████

Points of fact or principle

11. Can the first sentence be amended to make clear that it is the anticipated final cost of £593.8m **tie** is confident of delivering? Otherwise the paragraph may suggest we are confident of delivering Phase 1 within the currently available funding of £545m.
21. We note this paragraph is to be completed and hope we can see it in its final form for review
40. We believe it would be more accurate to say that **tie** recruits Project Directors who have the appropriate skills and experience for each phase of our projects. The current EARL Project Director is not Interim.
41. Second sentence the project board does not report to the **tie** Board in the case of Tram or EARL.
42. There are currently 13 people deployed directly by tie on the EARL project. We wondered if this paragraph tells the full story in that including the people deployed by our contractors there are literally hundreds of people engaged on the Tram and EARL projects. See briefing note and letter from **tie** to Transport Scotland (both attached)
49. To provide clarity that the January 2006 estimate for Phase 1 included inflation, would the third sentence be clearer if it read "In January 2006, **tie** estimated the cost of Phase 1 at £435 million in March 2003 prices and £570 million at projected outturn prices after including the cost of inflation totalling £135 million". It would also be truer to say that the cost rises between January 2006 and November 2006 reflected approved extensions to scope as well as scope clarity.
52. May we suggest the second sentence be reworded to say the £17 million Parliamentary Bill costs are separate from the £593.8 million design and delivery costs to avoid any suggestion the design and construction cost estimate is incomplete. Again to be consistent with our briefing note – the second sentence might be changed to reflect we have spent £62 million on design and delivery up to the end of May 2007.
53. We are slightly uncomfortable with naming the Mersey Tram project here as the information we were provided was in the strictest confidence and one of our bidders for Infraco was also a major element of the preferred bidder for Mersey Tram. In addition, is it possible to remove the statement that Infraco is 40% of total project cost lest it compromises our commercial position in our negotiation?

59. Footnote 8 – The last sentence should reflect that TEL does not own Lothian Buses yet and it is currently intended it will never own the Tram system (rather the Tram system will be owned by CEC and operated for CEC by TEL)

85. We note this paragraph is to be completed.

86. Second bullet point might more accurately be worded “The initial £4m costs of promoting the project through the Parliamentary Bill Process which are separate from the overall project cost target of £550-£650 million.

More minor matters

9. CEC’s role in the EARL project is as planning authority only and therefore you might consider that they are not a key player in the EARL project

10. It might be more accurate to note that the tram will support the national economy as well as the local economy

12. The briefing paper already in the public domain (attached) quote a figure of £79m up to the end of May. Would it be better to be consistent?

18. We think you meant to say the funding for the project has not been settled.

19. There was only one EARL Bill (singular).

26. As at 9. above – is it true to say CEC is a key player in the EARL project?

35. TS makes grant offers to CEC (iro Tram) and to tie directly (iro EARL). The grant offers are not always for periods which align to our annual Business Plan so it would be more correct to say the grant offers are based upon “forecasts submitted by tie”

36. CEC approved the draft final business case in December 2006

37. In fact CEC only administers funding for the Tram project – EARL funding is handled directly between tie and Transport Scotland. Our external auditors (Geoghegan & Co) certify expenditure on the EARL project rather than CEC’s internal auditors.

39. We believe the significant changes in our Board have taken place over the past 12 months.

43. The funding requests only go via CEC in respect of the Tram project.

47. First bullet point - can we more accurately say local and national economy

55. The first sentence should say that the bids are subject to negotiation before we select the preferred bidder in September 2007. The last sentence should say we are confident of delivering Phase 1 in total to budget.

57. The draft final business case was produced in November 2006.

62. We will submit a final business case for the Tram

65. The third sentence might be extended to include the words “.....reflecting progress in procurement and risk management in the interim period”, thereby explaining why the allowance for project risk has reduced.

66. First bullet point – It is TEL rather than Lothian Bus which has the role of planning the integrated service network.

66. Third bullet point – The most important activity under the SDS contract was of course to complete the design early.

66. Fourth bullet point - We think it is also important to state that the advance utilities diversions are also intended to reduce the risk of disruption to the progress of infrastructure works by Infracore.

68. Third bullet point - It would be more accurate to say we will commence preparation of the Traffic Regulation Orders as we will not obtain them for some time yet.

73. **tie** submitted the EARL Bill to parliament, rather than the Executive.
84. We can confirm the cost of the BAA commitment is £3 million rather than £2 million.
89. "Early 2006" in the first sentence is accurate.
99. Would it be more accurate in the second sentence to say that tie's underlying forecast was developed with our professional advisors rather than obtained from to reflect our active role in the process.
104. It may be more accurate to remove this paragraph – the Strategic rail Authority no longer exists.
112. The number of risk in the register is c.400
116. Transport Scotland makes grant offer for EARL based on **tie** forecasts of expenditure and the grants are offered directly to **tie** rather than via the Council.

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