

15 June 2006

Our Ref: 13353

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STRICTLY PRIVATE AND CONFIDENTIAL

Dear Mr Howell

Edinburgh Tram Network

Following our meeting last week when you and Mr Gallacher invited comments on the status of the project, I thought I'd set down my comments on progress so far and Turner and Townsend's view of what we need to do to help ensure the project's success.

1. CURRENT STATUS

a) MUDFA

Firstly, we should acknowledge that we have successfully procured MUDFA tenders on budget, and these are in the course of evaluation. These tenders, however, are based on early stage drawings with SDS not yet having completed all of the utilities surveys / diversion strategy. It is therefore an urgent requirement that Halcrow complete the utilities design to meet the swept path alignment, cost parameters, traffic management and temporary works plan.

By appointing a contractor for the pre-construction stage and value engineering the detailed design, we can move forward with certainty to achieve this critical path milestone of successfully completing utilities diversions.

b) INFRACO

The contract has been advertised with only three potentially realistic organisations likely to progress to a tender list. These are:

- AMEC / SPIE
- "EMPACT" (JV Bombardier, Grant Rail and Laing O'Rourke)
- Bullfinger Berger, Siemens and Morgan Est

This was not the client's expectation of what the OJEU notice would produce with many of the UK's largest civil engineering contractors choosing not to submit. The industry's reaction to this procurement route, which transfers significant risk and liability to the contractor, has not been attractive when compared to the opportunities for contractors to provide schools, health, and roads projects. For

Handed over
to M. Howell
at WSW/MH/
Meeting.

example, the procurement and finalisation of all statutory consent becomes the responsibility of the successful contractor. The same applies to design and system integration. There is also the concern that one of the contractor teams could withdraw leaving an inadequate tender list.

c) TRAMCO

The procurement is currently on hold following the readiness review.

Under the current procurement arrangements and responses received, if the successful TRAMCO was novated to INFRACO, with the SDS designer, the perverse situation where, for example, you could have the situation where Bombardier are the INFRACO contractor with Siemens as the vehicle supplier. This would not be a situation either company, as tram manufacturers, would be content with. It is arguable that it would be highly unlikely that the novation would ever be formalised.

The presently preferred procurement route has the added complication that the entirety of the design will be novated to the successful contractor, leaving the INFRACO contractor with the liability and responsibility for design decisions taken by tie in the early stages.

d) TSS Role (Scott Wilson Railways and Turner & Townsend)

Although the contract envisages a more comprehensive managed service, the TSS is presently engaged using an ad-hoc "bodyshopping" arrangement, under tie supervision. We believe that, presently, this provides poor value to the client and, given the lack of longer term commitment, mitigates against the best talent from TSS organisations always being brought, at the right time, to the project.

In summary, on current status, there are several fundamental elements to the project which need to be improved, however, we are where we are and we must work within the current constraints to create a value-for-money solution. We have compliant, cost-effective tenders for MUDFA and we can now move forward with utilities diversions in the way tie had planned.

2. PROJECT OBJECTIVES/PRIORITIES

The project is faced with fixed funds with no guarantee of SE indexation.

Early time constraints require the endorsement of the FBC by a CEC Council Meeting early February and final approval of the FBC before or after May 2007 elections. Completion must be early enough to minimise inflationary costs. We are aware of recent meetings to review programme options.

Overall project objectives must be fully identified to incorporate these fundamental constraints as well as other scope and functionality project drivers:

- Run time
- Passenger journeys
- Layout/number of stops
- Aspirations of Tram Design Manual
- Scope of Streetscape and Urban Relam improvements

- Pedestrianisation
- Through Ticketing
- Integrated transportation

These scope and functionality requirements need to be defined and prioritised with tie immediately.

3. **PROCUREMENT**

It is of fundamental importance that we resolve the market reaction to the INFRACO/TRAMCO/SDS contract strategy. To succeed, we must make it more palatable to the marketplace.

There are two obvious options:

1. Two separate contracts (INFRACO and TRAMCO) with interface management by tie or a third party
or
2. A combined INFRACO and TRAMCO contract

The former has the advantage of

- Choosing best contractor/supplier for each
- Enabling large UK civils contractors to tender
- Providing risk reduction for the contractor

Its disadvantages include

- Interface risk needs to be managed
- Significant risk still remains with tie

A combined contract has the advantage of

- Passing greater risk to the contractor

but we must consider

- The risk of not procuring the best contractor/supplier for each
- How the market would accept this proposal given the current procurement status

Given the status of the present OJEU responses, it is most important that specific market testing is undertaken in relation to these or other options and that a workshop is organised to amplify the pros and cons of either route.

4. **ORGANISATIONAL ACCOUNTABILITY**

Our assessment of the current project structure is that there is a clear lack of definition of roles and responsibilities generally. There appears to be no single line of accountability for project deliverables. Many parts of the project have tie,

SDS, and TSS personnel involvement with each party tending to lack clear understanding of their input or clarity of their role. tie itself needs to consider whether or not it will perform the traditional role of project sponsor or undertake project management delivery roles. If the latter, can tie procure the necessary resource at the correct quality and at the right time?

The current project structure does not provide a clear project management focus with accountability for deliverables and nor does it provide a framework to deliver the specific packages of work – MUDFA, INFRACO, TRAMCO.

I believe that the project structure needs to be redesigned and refined.

With Keith Wallace (SWR), I met Ian Kendall several times to discuss a structure for the utilities with a view to delivering on time and budget and to the quality required. This proposal, which I have attached for your information, suggests that a sub-project structure is created for the utilities with a series of specific roles with scoped accountabilities. We believed that such a structure would provide tie with greater assurance that successful completion could be delivered and indeed could be substantially financed out of the current scope at service overlaps between tie, SDS and TSS. The proposal also addressed a linkage of utilities diversion work with EARL which not only is a singularly practical approach, but one which also provides opportunities for economies of scale. The proposal has not yet been adopted and remains valid.

The issue of SDS input must also be addressed. SDS is scheduled to provide design clarification/change advice to the MUDFA contract. It is also proposed that they will be novated to the successful INFRACO contractor. These overarching fundamental obligations create an inherent conflict in relation to design liabilities, risk of consent, risk mitigation, programme and in value engineering between both MUDFA and INFRACO. For this reason, we believe that SDS' MUDFA role should be curtailed at completion of detail design with TSS taking over the contract administration role for MUDFA. This would allow SDS to work fully in accordance with the requirements of the INFRACO tender and appointment.

In summary, we consider that there is much work to be done to develop a project structure which will deliver the Tram together with the allocation of specific roles and responsibilities which create accountability to deliver. "Bodyshopping" does not provide that clear organisational accountability.

5. SUMMARY

I've described, above, a number of elements of the project which I believe need to be reviewed/improved.

1. The drivers and objectives of the project need to be reviewed and re-established. Procurement has long been the lead but there are many more issues which need to be defined to ensure project success.
2. Now is the time to review the procurement methodologies for INFRACO and TRAMCO. Given the poor reaction from the civil engineering contractor market, we need to review what they will accept and then develop, with tie, how the current approach can be adapted to create value for money.
3. Following the decision on procurement methodology, a full project structure to deliver the entirety of the project must be devised which recognises its constituent parts or sub-projects. It is imperative that

this structure recognises and defines the various roles and responsibilities of the parties to create a clear and unambiguous vision of the future and create organisational accountability. We believe that a team comprising tie, SDS and TSS can be effectively created to move the project forward in this way.

So far, there has been limited practical commercial input to the INFRACO procurement, methodology and tender documentation – the emphasis being PFI risk transfer / legal perspective without considering the commercial impacts and opportunities. The marketplace would appear to have generally rejected this approach. This is not a position we should find ourselves in; given the World Heritage status of part of the route, the project should be the 'jewel in the crown' of any major contractors' portfolio.

From experience gained in managing the Sheffield, Nottingham and Croydon LRTs together with our significant rail CV and management consultancy for the likes of Heathrow's Terminal 5, we believe we can bring our expertise and lessons we have learned from these projects to help develop Edinburgh Tram. Major projects need such experience and expertise.

The project is a fantastic opportunity for all who are involved and we want to make a real contribution towards its success. The greatest influence we can bring to the project, however, is in its early formative stages.

We have, in the past, suggested improvements to utilities management and to management processes generally which have not so far been adopted. However, a critical stage of the project has been reached and we would very much want to contribute to create a solid and practical commercial base for the project with a structure, roles and accountabilities which place the various risks with the organisations best able to manage them.

Yours sincerely

Bill Woolgar
Managing Director
Turner & Townsend Project Management Limited

CC: Willie Gallacher

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