

Joint Tram Project Board and **tie** Board

8th July 2009

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Building the Tram

- HSQE Report
- Current Situation
- Recap of 3 month strategic options workstreams
- Mediated engagement with BSC – 30/6 to 6/7
- Next steps with BSC consortium
- Other scope and funding options

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HSQE



- There were no reportable accidents during period and the project 13-period rolling AFR is 0.26 (target 0.24, last period 0.28). The frequency of service damages has increased during the period on the project but decreased on an overall 13 month rolling basis
- The score for **tie** health and safety inspections was on average 84%. The new joint inspections carried out by Carillion and **tie** have been effective in highlighting issues with housekeeping, subsequently there has been a concerted effort by **tie** and Carillion to improve tidiness on sites with good results so far. **tie** and BSC are in discussion about joint inspections for tie and BSC Project Managers, it is hoped that this will be finalized during period 4.
- The frequency of Member of Public incidents has decreased yet again after the rapid increase seen in period 13 due to the Princes Street works. A study is underway, modeling the estimated pedestrian flow through the City Centre during the festival. This will be reviewed in conjunction with the projects past knowledge of M.O.P incidents and a target inspection produced.

Current Situation

- Utilities
- Public Perceptions
- Spend and Progress to date
- Progress Across the Route
 - Princes Street
 - Depot
 - Tram manufacture
 - Leith Walk
- Relationship with BSC

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Recap of 3 month strategic options workstreams

- A. Re-baselined Programme agreed commercially
- B. Key commercial and legal disagreements
- C. DRP/Infraco breach
- D. Settlement of existing changes
- E. Review of risk allowance and outturn cost estimates
- F. Review of other cost uncertainties
- G. Contract and risk management regime and governance
- H. Broader scope and funding options

NB – All in the context of assumed constructive engagement and resolution on an equitable basis between the respective project teams.

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Mediated engagement with BSC – 30/6 to 6/7

- Senior directors met 22nd June – message that core commercial disagreements remain and work will not progress in a satisfactory manner until they are
- Commitment by all parties to mediated engagement on core commercial and delivery challenges:
 - Programme recalibration and attribution/valuation of delays to date
 - Design change and development (incl BDDI to IFC and misalignments)
 - Possible further on-street supplemental agreements
 - Operation of contractual change mechanism, valuation using Schedule Part 4 and Value Engineering

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Mediated engagement with BSC – 30/6 to 6/7

Required outputs from a **tie** perspective:

- Better relationship
- Commitment to progress
- Price for issues to date
- Certainty about the future
- Information from BSC to support changes notified

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Mediation Outcomes

1. Clause 4.3 and the role of Schedule Part 4.
2. Future On Street Supplemental Agreements
3. Base Date Design Information – IFC
4. Misalignments
5. Value Engineering
6. Change items to be valued
7. Extension of Time 1
8. Extension of Time 2

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Next steps with BSC consortium

- Back to broader commercial options examined in March:
 - a) **Negotiate settlement of all issues with BSC** – 3 months and mediation has not delivered an outcome which is acceptable in terms of certainty on delivery, engagement, programme and costs
 - b) **Formal contractual approach** – DRP and other remedies
 - c) **Reduce/rephase BSC scope** – instruct or by negotiation and re-procure
 - d) **End BSC contract** – termination or by negotiation and re-procure
- In any event b) is what is required to deliver certainty and force the provision of information to **tie**

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Formal Contractual Approach (Preferred Option)

Elements

- Progress selected issues through formal DRP process to adjudication – prioritised to the high value, risk and delay items and keeping a focus on the detail
- Instruct BSC to implement changes in the meantime – we don't need to instruct on the obligation to progress the works generally
- Drive out information by invoking the Audit and Best Value clauses – especially in relation to programme and design management
- Serve notices of breach of general obligations to mitigate delay , provide information, comply with design review procedure, progress the works, appoint subcontracts and other instances of failure to manage the project for the client.
- Detailed strategy, documentation and programme under preparation – most of the material already exists.

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Formal Contractual Approach (Preferred Option)

Pros

- Certainty based upon facts and contract rather than negotiated settlement – decision making more robust against future challenge
- Force the hand of the consortium partners – Siemens and CAF – if replacement of BB in consortium is ever contemplated
- BSC in major/persistent breach if they refuse to continue working

Cons

- Could take many months especially if BSC stick to formal DRP process
- BSC stop work (i.e. obligation to continue is itself in dispute)
- If BSC don't like the adjudicated answer they go to court rather than continue
- If the answer still presents an unaffordable project we have spent additional £m's in the meantime

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Reduce BSC scope

Elements

- Re-procure time critical elements of the project such as off street earthworks and structures
- Likely to be deliverable only by negotiation with BSC to avoid claims for breach and/or loss of profits

Pros

- Unseat BSC – break the cycle of commercial bullying
- Take advantage of favourable market conditions

Cons

- Procurement lead time and possible legal challenge
- Additional interface risks to manage
- Costs incurred by BSC on procuring existing sub-contractor arrangements
- Vulnerability to BSC claim for default if scope cut is large

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End BSC contract

Elements

- Only competent with evidence of default/persistent breach – likely to follow adjudication on significant areas of dispute
- Likely to be deliverable only by negotiation with BSC (at significant cost) to avoid claims for breach by tie and/or loss of profits unless termination can be justified by winning on key DRPs
- Step into CAF and SDS contracts available

Pros

- Clean sheet with complete design and utility diversions
- Replaces failed relationship

Cons

- Value of costs incurred by BSC to date is lost – unless default/persistent breach is proved
- Lose hard won contract – including Siemens/CAF/assembled supply chain
- Prohibitive re-procurement timescales – one year plus
- Loss of political support for project – Grant at risk

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Other scope options

Truncation (or more correctly “re phasing”) options examined in March:

- **From the Airport** - not operationally viable - must get at least to depot - and unlikely to meet stakeholder approval
- **Ocean Terminal to Newhaven** - eminently deliverable but theoretical costs re phased are small
- **Foot of Walk/Bernard St to Newhaven** – we believe there is an operation solution through integration with buses but significant stakeholder resistance likely. Theoretical costs re phased are medium
- **York Place/Picardy Place** – Primary bus integration opportunities on Leith Walk as per Business case deferred till future phases. No proven Business Case – but still the backbone of a future Tram network. Better than nothing argument? Theoretical costs re phased are larger.

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Other scope options

Challenges to re-phasing:

- Realistically only available as a negotiated outcome with BSC
- BSC resistance to giving full value for reduction in scope – same as loss of profits argument
- Stakeholder resistance including Scottish Ministers (what they get for the £500m Grant) – York / Picardy Place option likely to require giving money back.
- Impact on contributions from 3rd Parties – specifically the FP developers contributions.

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Other funding options

Principal options

- CEC Prudential Borrowing against profits of combined Bus and Tram business
- Direct TEL Borrowing
- Leasing of Tram vehicles

Challenges

- Maintenance of Dividend to CEC
- Contemplation of borrowing during difficult times for the bus business
- Achieving debt service flexibility in the early years of tram whilst patronage builds

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Preparing for Operations

- **TEL BUSINESS PLAN UPDATE**

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Preparing for Operations TEL Business Plan Base Financial Model

Update Includes:

- Lothian Buses 3 year plan up to and including 2011 entered into the TEL financial model
- Bus costs have been re-calibrated using 2009 LB forecast
- JRC patronage forecasts from the 2008 patronage model run reduced by 10% in initial years
- Tram revenue service commencement moved to 2012
- Conservative approach taken to costs

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Base Model Patronage

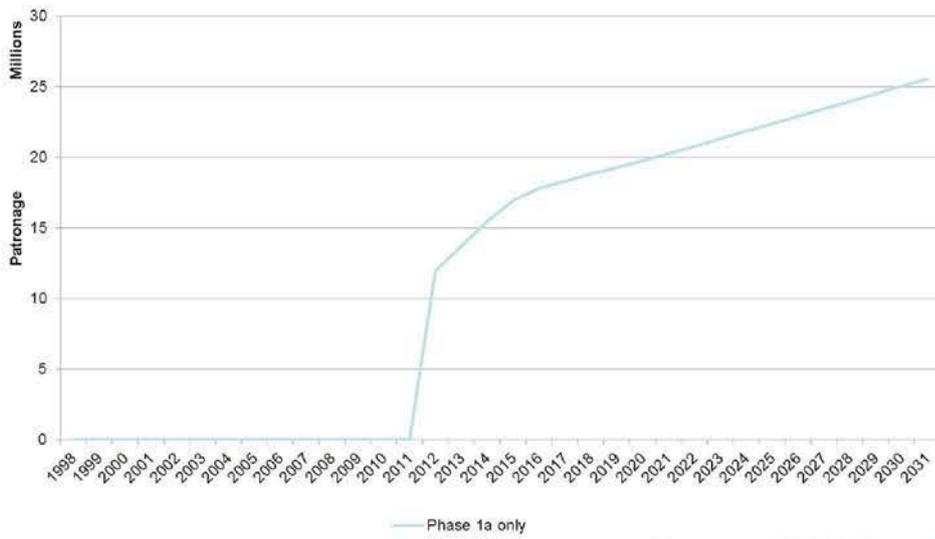
Bus patronage



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Base Model Patronage

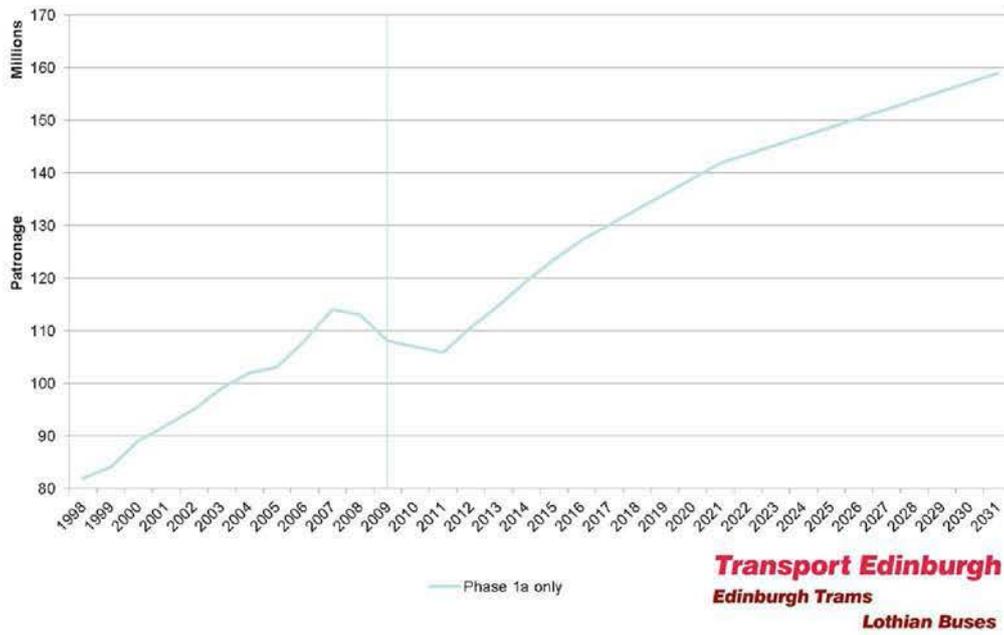
Tram patronage



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Base Model Patronage

TEL patronage



Updated Base Financial Model Results

TEL Business Plan 2006					FBC Dec 2007					TEL Business Plan 2009				
* Patronage: trips based					* Patronage: boardings based					* Patronage: boardings based				
Phase 1a + 1b					Phase 1a only					Phase 1a only				
Tram in service					Tram in service					Tram in service				
Tram service pattern	6/12	8/16	8/16	8/16	Tram service pattern	6/12	8/16	8/16	8/16	Tram service pattern	8/16	8/16	8/16	8/16
Year	2012	2016	2021	2031	Year	2012	2016	2021	2031	Year	2012	2016	2021	2031
Total TEL revenues	128	168	216	357	Total TEL revenues	128	167	216	356	Total TEL revenues	127.0	172.5	237.4	408.3
Total TEL operating costs	127	157	195	312	Total TEL operating costs	126	156	194	312	Total TEL operating costs	122.9	148.8	208.0	372.4
Pre tax operating profit / (loss)	1	11	21	45	Pre tax operating profit / (loss)	2	11	22	44	Pre tax operating profit / (loss)	4.1	23.7	29.4	35.9

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Conclusions

- Overall passenger volume of TEL combined bus and tram business reduced in light of current downturn
- Overall passenger revenues
- TEL business remains profitable
- With management action matching service provision (costs) with demand (revenue)
- Improvement in position vs. 2006 and 2007 due to inherent conservative approach to original figures

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Sensitivity Test Cases

- Reduced/no concessionary fares on tram
 - fare evasion used as a proxy
- Truncated route at Ocean Terminal
 - passenger volumes reduced pro-rata
- Truncated route at Foot of the Walk
 - passenger volumes reduced pro-rata
- Flexing of inflation
 - inflation percentage
- Flexing of yield
 - yield percentage above RPI

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Preliminary Sensitivity Test Results

Test	Assumption	Outcome on early model years
Reduced Concessionary Fares reimbursement for tram	-10% (*) (50% yield)	£1M p.a. off TEL bottom line
No Concessionary Fares reimbursement for tram	-20% (*) (0% yield)	£1.9M p.a. off TEL bottom line
Truncate Route at Ocean Terminal	-3% (*)	£0.4M p.a. off TEL bottom line
Truncate Route at Foot of the Walk.	-27% (*)	£2.7M p.a. off TEL bottom line
Inflation	-0.5% +0.5%	£0.3M p.a. onto TEL bottom line £0.3M p.a. off TEL bottom line
Yield	-0.5% +0.5%	£0.4M p.a. off TEL bottom line £0.4M p.a. onto TEL bottom line

(*) Note these represent slightly conservative outcomes as they do not take into account any transfer back to TEL buses and revenue accruing, however this is balanced by no additional bus costs to carry them

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Next Steps

- Update TEL Business Plan ready for August
- Produce a separate report detailing the sensitivity tests for September
- Comments?

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Building the Brand

Four stage of organisation's perception



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Building the Brand

- Context
 - CEO 5 key themes
 - New Comms and Customer Service Director
 - Deloitte report
- Where are we now?
 - TIE or Trams?
 - Current perceptions
 - Values work informs brand values

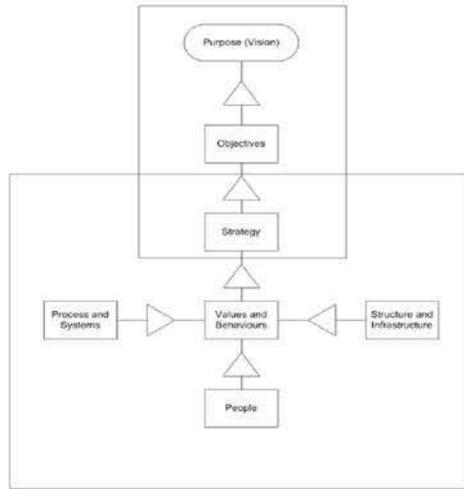
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Building the Brand

- Structured approach
 - Partners and Stakeholders
 - Public affairs
 - Public
 - Internal (and Contractors)
 - Businesses
 - Media
- Twin track approach
 - Public awareness
 - Hotspots

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Building the Team

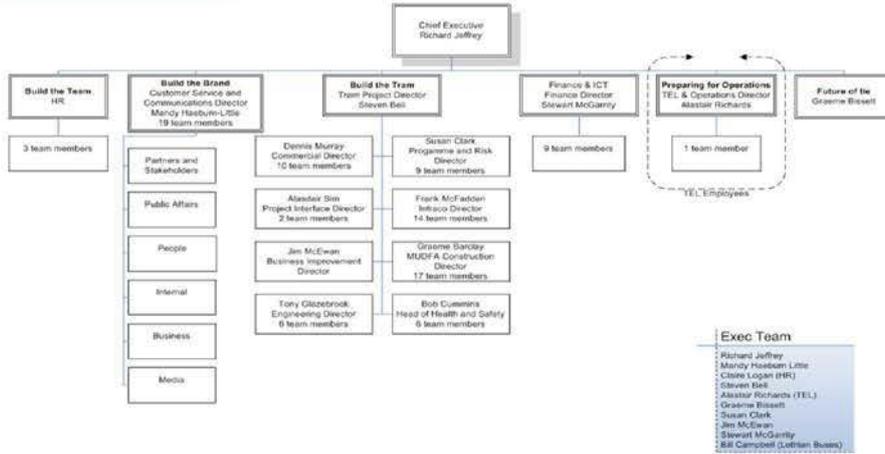


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Building the Team Organisational Structure

Organisation Structure Key Strategic Themes



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