

# Edinburgh Tram – Financial Close and Notification of Contract Award

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## Policy and Strategy Committee

13 May 2008

### 1 Purpose of report

- 1.1 To notify Policy and Strategy Committee of further developments in procurement negotiations for Edinburgh Tram Network (ETN) and to extend the delegated powers already given, to authorise me to instruct **tie** Ltd to enter the contracts with Infraco bidder and Tramco bidder.

### 2 Summary

- 2.1 A report updating the Council on the imminent completion of the contractual negotiations for the ETN was submitted to Council on 2<sup>nd</sup> May 2008. Delegated authority was given to me to allow **tie Ltd** to enter into contracts to deliver the ETN subject to suitable due diligence and providing any remaining issues were resolved to my satisfaction.
- 2.2 During the final stages of the due diligence process the preferred bidder for the Infraco contract, it became evident that there were additional inflationary pressures in the supply chain relating to fuel and steel costs, which had not been factored into the contract price reported to Council on 2<sup>nd</sup> May 2008. **tie** Ltd has been involved in intensive negotiations with the Infrastructure consortium, Bifinger Berger Siemens (BBS) and an element of the price increase will be absorbed by the BBS. However, the overall estimated cost for the ETN has increased from £508m to £517.2m, which is still well within the available funding envelope for this project of £545m. There has been no change to the planned date for service commencement of July 2011.

### Main report

#### Recent Developments

- 3.1 Following the report to Council on 2<sup>nd</sup> May, the majority of remaining due diligence issues have been resolved to my satisfaction. However, during the final stages of this process, BBS notified **tie** Ltd of additional cost pressures and requested an increase to the contract price. **tie** Ltd have successfully negotiated with BBS in order that these costs be shared between the consortium and the project.

## Capital Cost and Quantified Risk Allowance

- 3.2 The estimated capital cost of Phase 1a reported to Council on the 2<sup>nd</sup> May 2008 was £508m, consisting of base costs of £476m and a Quantified Risk Allowance (QRA) of £32m.
- 3.3 Following the identification of additional cost pressures late in the due diligence process, and subsequent negotiations led by **tie** Ltd, base costs have increased by £Xm to £XXXm. In addition, part of the package negotiated entitles BBS to an additional payment of £3.2m, should the Council decide not to construct phase 1b of the tram network. This amount has been added to the QRA increasing it to £35.2m.
- 3.4 The combined effect of these changes increases the estimated project cost to £XXXm

## 4 Financial Implications

- 4.1 The estimated final cost for the ETN of £XXXm remains well within the agreed funding envelope of £545m.

## 5 Conclusions

- 5.1 ????

## 6 Recommendations

- 6.1 It is recommended that Policy and Strategy Committee:
- notes the imminent award of the two contracts with a final estimated cost for the Edinburgh Tram Network of £XXm which is within the funding envelope of £545m;
  - extends the delegated powers already given, to authorise me to instruct **tie Ltd** to enter the contracts with Infraco bidder and Tramco bidder, in light of recent changes noted in this report;

**Tom Aitchison**  
**Chief Executive**

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**Appendices**      None

**Contact/tel**      Duncan Fraser      0131 [REDACTED]  
                         Rebecca Andrew      0131 [REDACTED]

**Wards affected**      All

**Background  
Papers**      None