



**EDINBURGH TRAM**  
**Highlight Report to the**  
**Chief Executive's**  
**Internal Planning Group**  
**16 April 2008**



## 1 Background

This 'highlight report' is an update to the Chief Executive's Internal Planning Group on the Edinburgh Tram Project to inform on the progress on this project and any decisions required, particularly regarding the tram approvals process.

## 2 Executive Summary

### 2.1 Matters Arising

#### Financial Close – *tie*'s Deliverables for Contract Award

Appendix 1 lists the documentation and status of the information to be provided to the Council to enable *tie ltd* to award the two major tram contracts for the vehicles and infrastructure.

#### Report to full Council on 1 May 2008

Based upon the above, a draft report has been prepared for the Contract Award and is attached as Appendix 2.

Draft governance letters have also been prepared to allow delegated authority to be given and these are attached as Appendix 3.

#### Tram Sub Committee meeting on 12 May 2008

The first meeting of the Tram Sub Committee is due soon and the topics to be covered need to be confirmed to allow the drafting of the report. Suggested topics are provided in Section 5.

#### Infraco Works commencing before Planning Prior Approvals in Place

Three sites have been identified by *tie ltd* where the required Planning Prior Approvals may not be in place and the Council need to determine what action, if any, we want to take. If there is a delay to the works, then the Council will be responsible for meeting those costs.

### 2.2 Key Dates

24 April 2008	Financial Close and Tramco/Infraco contracts.
1 May 2008	Council Report on Financial Close and Notification of Contract Award.
19 May 2008	Construction Commences on Phase 1a (projected date).
31 March 2009	Latest date for a decision to instruct <i>tie</i> /BBS to commence 1b.
27 August 2010	Commencement of test running - phase 1a.
July 2011	Revenue Operations commence - phase 1a.

### 2.3 Matters to Note

- Updates on the Infraco Contract, and the concerns raised by Planning & Transport about the quality of the submissions for the prior and technical approvals.
- The position with SRU and CEC resources.



### 3 Financial Close – tie's Deliverables for Contract Award

- Appendix 1 lists the activities and deliverables that are expected to be achieved by 24 April 2008 to allow *tie* to award the contract. The status column indicates the current status (as of 15 April 2008).

Below is a summary of the anticipated outstanding issues, which will not be resolved prior financial close. Whilst it would be preferred to have these complete – it is not essential and does not significantly impact on project delivery.

Issue	No	Description	Status
SDS	9.3	<i>tie ltd</i> to provide written report on previous claim settlement with SDS identifying details, cause of claim and costs of settlement. Are any further claims expected from SDS? Are any further claims from SDS competent	<i>tie ltd</i> to provide – very unlikely to be provided before financial close.
Third Party Agreements	11.6	SRU side agreement	See item 6.1 below.

### 4 Report to full Council 1 May 2008

Based upon the above, a draft report has been prepared for the Contract Award and is attached as Appendix 2.

*tie ltd* has intimated that the contract award date could not take place before 24 April 2008, which may cause some difficulty in reporting to Council on 1 May 2008 since the completed reports need to be released the press on the 25 April.

**Should we consider having a contingency plan with a further draft report seeking approval from Council on 1 May, instead of using delegated authority, given the short timescales between the potential contract award and the Council meeting? This would also address any potential issues with regard to whether the sign off of the change in cost and delay in delivery falls within the Chief Executive's authority.**

To allow the formal contract award by *tie ltd* two letters have been prepared that need to be exchanged between *tie ltd* and CEC. These letters will become visible to the bidders – so they have deliberately been kept brief and do not refer to any changes in the Final Business Case. Draft letters are attached as Appendix 3.

A communications plan has been prepared for the announcement of tram financial close. This has been agreed by all partners – *tie ltd*, CEC, Transport Scotland and BBS. A media briefing will take place at the *tie* office on Thursday 24 May (date still subject to final confirmation) - this will include a presentation, symbolic signing and photo-call. Key Council personnel have been invited. The plan also includes a plan to brief Councillors, politicians, staff and businesses.



## 5 Tram Sub Committee meeting on 12 May 2008

The first tram sub committee is to take place on 12 May 2008, and a report needs to be prepared. Agreement is required on the topics to be discussed. A suggested list of heading is noted below.

- Tram Infrastructure programme (with the justification for the temporary closure of Princes Street for 6 months, and the need to work in certain locations during the normal Festival embargo periods).
- The claim paid by *tie ltd* to SDS (there is a requirement to report claims in excess of £500K).
- Tram Traffic Regulation Orders (TROs). The law has been changed by the Scottish Government on 8 February 2008 and the process for dealing with formal objections to the Tram TROs needs to be agreed the Council.

## 6 INFRACO

### • Planning Prior Approvals

Of 63 batched submissions:

- 1 Planning Permission Granted
- 18 Prior Approvals Granted
- 4 Prior Approvals currently under consideration
- 2 Submissions cancelled
- 40 Batches remaining to be submitted for formal Prior Approval
- 26 out of the 40 batches under Informal Consultation

There is concern that prior approvals may have to be revisited if there are substantial changes in design coming from inter-disciplinary coordination, technical approvals or value engineering. Planning has written to *tie* on 28 March 2008 raising their concerns.

### • Technical Approvals

The table below lists the proposed programme (version 27) for the roads technical approvals. To date, no roads technical approvals have been obtained, and there has been significant slippage. No information is available on when Section 3 is to be provided.

Additional internal staff have been identified to assist with the compression of the programme.

Similar to the concerns raised by Planning, Transport have also written to *tie* on 3 April 2008 reiterating their concerns about the quality of the submissions being received. A copy of that letter is attached as Appendix 4. **There is potential for the approvals to cause a delay to the construction programme.**





**Trams for Edinburgh**  
..connecting our Capital

Roads Authority Technical Review Programme	V27	
	From	To
Section 1A – Roads & Drainage	28/04/08	23/06/08
Section 1B – Roads & Drainage	20/02/08	16/04/08
Section 1C – Roads	18/04/08	13/06/08
Section 1D – Roads	28/04/08	23/06/08
Section 2A – Roads & Drainage	06/05/08	01/07/08
Section 5A – Roads & Drainage	11/06/08	06/08/08
Section 5B – Roads & Drainage	02/04/08	28/05/08
Section 5C – Roads & Drainage	15/05/08	10/07/08
Section 6A – Roads	13/06/08	08/08/08
Section 6A – Drainage	26/08/08	21/10/08
Section 7A – Roads & Drainage	06/06/08	01/08/08

In an attempt to smooth the resources for CEC, *tie* and CEC are currently reviewing a new programme (Version 29) to agree an appropriate way forward with regard to the roads technical approvals. This programme will become the contractual programme with BBS.

#### Infraco Works commencing before Approvals in Place

The delay in the submissions from *tie ltd* and their designers SDS for the prior and technical approvals may leave the Council in a difficult position. It is likely that the appropriate Planning Prior Approvals will not have been obtained prior to the commencement of construction works for three locations. They include Russell Road bridge, Haymarket Tramstop and the Depot at Gogar. These three locations are on the critical path for the tram delivery and if construction is delayed, the Council is responsible for these compensation events and claims from the construction contractor BBS – these claims could easily be in excess of £2M. The only possible mitigation measure would be for Planning to allow the construction works to commence, but this would leave the Council open to negative PR from people objecting to the Prior Approvals during the consultation stage. There is also the potential for a legal challenge, although that is unlikely.



## 7 Miscellaneous

### 7.1 SRU – single point of contact

*tie ltd* are having difficulty concluding the legal agreement with SRU because of a dispute over future traffic management costs when events are held. Currently the Council (SfC) fund these and SRU require that this continue. It is recommended that the Directors of Services for Communities and City Development agree an acceptable position to the Council to allow the agreement to be concluded. It is also recommend that the Council identify a single point of contact for the co-ordination between SRU and the Council projects for the flood scheme and tram.

### 7.2 CEC Resources

#### • Internal Resources

Existing CEC staff are carrying out the statutory approvals process and the related necessary administration for the tram project. Over fifty individual internal members of staff are directly involved in the tram project at this time. A total of 14085 staff hours has been utilised on the tram for the financial year 2007/2008 totalling £528K. These costs are being borne by CEC and are contained within existing budgets.

Some minor changes occur for this financial year (2008/2009), with only approvals related staff being charged to the tram budget. This requires additional costs of £210K for Property and Legal Staff being charged to CEC for 2008/2009, and this is being charged to the 'Cities Growth Fund'.

#### • Additional Resources

To assist with the approvals process additional staff have been brought in to either carry out the necessary work directly or alternatively free-up existing resources to do that work and use the extra resources to cover that shortfall. A total of 18 FTE have been employed for the financial year 2007/2008 – totalling £580K, which was contained within the tram budget costs.

For 2008/2009 the projected additional staff costs total of £433K is to be contained within the tram budget costs.

#### List of Appendices:

- 1 – Financial Close – *tie's* Deliverables for Contract Award
- 2 – Report to full Council on 1 May 2008
- 3 – Draft Governance letters
- 4 – Letter to *tie* regarding Technical Approval concerns



Critical Contractual Decisions to enable Chief Executive to use delegated powers to approve tie to sign the contract with BBS							CEC Deliverables - Link to Supporting Documentation	
Item	Issue	Description	tie Final Deal Countdown List Item Dated 14 Jan 2008	Notes	Status	Anticipated Completion Date	Docs 1	Docs 2
1	Contract	1.1 a) Novation agreement ready to be signed off - CAF	1.4		Draft Letter from DLA dated 12th March provided - Item 1 provides detail on CAF Novation	11-Feb	<a href="#">1.1.1.2 Novation and CEC Guarantee\DLA Letter 120308.pdf</a>	
		b) Novation agreement ready to be signed off - SDS	1.3		2 issues remain outstanding (PCG's and LD's) in relation to SDS Novation. Letter required from DLA to ensure alignment.	14-Feb	<a href="#">1.1.1.2 Novation and CEC Guarantee\FW SDS Novation.msg</a>	
		1.2 CEC Guarantee agreed with BBS and ready to sign off	2.1		Draft Letter from DLA dated 12th March provided - Items 9.1 and 9.2 Cover CEC Guarantee		<a href="#">1.1.1.2 Novation and CEC Guarantee\DLA Letter 120308.pdf</a>	
		1.3 Due Diligence on approvals for Infraco & Tramco (post notification)	8.4		This will be completed immediately before contract award. Letter required from tie confirming due diligence is complete and they are satisfied with outcome. CEC request letter from German and Spanish Lawyers with to confirm satisfaction with due diligence			
		1.4 a) Operating Agreement - tie	4.1		tie operating agreement agreed. This will be engrossed and held for execution at a later date.	04-Feb	<a href="#">1.4 a tie Operating Agreement\Operating Agreement v28 180208.doc</a>	
		b) Operating Agreement - TEL	4.2		TEL Interim operating agreement agreed. This will be engrossed and held for execution at a later date.	11-Feb	<a href="#">1.4 b TEL Operating Agreement\TEL Operating Agreement v10 270208.doc</a>	
		1.5 DLA supportive letter with risk matrices	5.2	explanation of risk profile	DLA Draft letter has been provided with a subsequent update. Matrices have also been provided.	14-Feb	<a href="#">1.5 DLA Letter and Matrices\18184972_1 UKMATTERS(Infraco Risk Allocation Matrix 10.3.08).DOC</a>	<a href="#">1.1.1.2 Novation and CEC Guarantee\DLA Letter 120308.pdf</a>
		1.6 OCIP exclusions	9.4		Report available for review by CEC. Presentation on OCIP given to CEC Officers on 5th February. CEC Insurance officers have reviewed tie Insurance documents with a meeting set up to cover areas of concern.		<a href="#">1.6 OCIP\CEC OCIP Presentation.ppt</a>	
		1.7 tie to provide a list of what is not included within the BBS contract ( i.e. the items which BBS have specifically excluded ) with a financial value against each item.	5.3	OCIP caps, scope of work	Infraco price basis and exclusions is provided in section 8.3 of the Draft Close Report. Further detail is provided in Appendix 7 of the Close Report.	11-Feb	<a href="#">Close Report - v8 Issued 12.03.08.doc</a>	
		2.1	Confirm dates for 1a and 1b	5.7		Evidenced in paragraph 2.2 of the close report.		<a href="#">Close Report - v8 Issued 12.03.08.doc</a>
2	Programme							

Critical Contractual Decisions to enable Chief Executive to use delegated powers to approve tie to sign the contract with BBS							
CEC Deliverables - Link to Supporting Documentation							
Item	Issue	Description	tie Final Deal Countdown List Item Dated 14 Jan 2008	Notes	Status	Anticipated Completion Date	Docs 1 Docs 2
		2.2 Agreement of On-street Construction Methodology	1.11	closure periods v cost im	Statement provided by tie to give comfort to CEC that the programme is consistent with the constraints. Consequential impact of guided busway to be taken by CEC.		
		2.3 Mudfa - risks related to Infraco	5.5		MUDFA programme v6 is incorporated into BBS programme. Statement on QRA and what the allowance for slippage is in regard to MUDFA. MUDFA related items account for £11.4m in QRA		<a href="#">5.1 5.2c 5.3 5.4 QRA Transparency and Changes/Financial Analysis Spreadsheet 11 Mar 08.xls</a>
3	Employers Requirements	3.1 Summary to CEC of Employers' Requirements, including detailed scope of the Tram Works with endorsement from DLA. The ER is a key part of the overall contract which sets compliance standards of the tram works. BBS have been given version 2.4 to price. BBS have responded to this with variations, this may be a lowering of standards to keep the price level below the net £498m e.g CCTV specification tie to produce a list of variations that they are minded to accept from version 2.4, with a justification for the variation with TELs comments, and also to give assurances that what is proposed to accept as a variation is in all cases "fit for purpose" both in term of price and quality.	1.5/5.6	to assure CEC liabilities a	DLA Letter confirming alignment of employers requirements has been provided. Graeme Bissett's Letter Dated 13/03/08 also sets out ER issues.	13-Feb	<a href="#">3.1 Employers Requirements - DLA Endorsement/OLA DRAFT update letter 14 3 08 Issued DOC</a>
4	Due Diligence	4.1 Statement from the Preferred Bidder that they accept the performance run-time model and "law of physics" results and confirmation of acceptance of the emerging quality of design.	8.2	potential for additional de	Awaiting Confirmation. Response due from BBs on 1st Feb. Confirmation required on whether CAF are providing a warranty covering compliance with the DKE	01-Feb	
5	Risk	5.1 Full transparency of QRA	5.3		QRA updated for meeting with tie on 4th March. Explanation given on changes in QRA - tie have provided a written statement that they are satisfied that the drop from £50m to £30m is enough cover.	14-Feb	<a href="#">5.1 5.2c 5.3 5.4 QRA Transparency and Changes/Financial Analysis Spreadsheet 11 Mar 08.xls</a>
		5.2 (a) Black flag risks. Provide a list of these items and what is the likelihood of any of these risks occurring? What is tie's strategy to avoid said risks materialising? What is the cost of exiting from a Black Flag item?	5.3	be explicit even if outwith	Costs relating to project cancellation pre and post financial close have been provided by Stewart McGarrity		<a href="#">5.2a Black Flags/RE Risk Briefing - PRIVATE CONFIDENTIAL.msg</a>
		(b) Details of the risk management strategy for the key risks through delivery.	5.3	highlighted by OGC repo	Draft report available covering this, Susan Clark to provide		
		(c) Detailed analysis of programme risk. Confirmation of the risk allowance for programme delay. Detail of items on critical path and what is being done to ensure they do not cause (further) delay.	5.3	emphasis on liability to C	Confirmation of programme del	13-Feb	<a href="#">5.1 5.2c 5.3 5.4 QRA Transparency and Changes/Financial Analysis Spreadsheet 11 Mar 08.xls</a>



Critical Contractual Decisions to enable Chief Executive to use delegated powers to approve tie to sign the contract with BBS							
CEC Deliverables - Link to Supporting Documentation							
Item	Issue	Description	tie Final Deal Countdown List Item Dated 14 Jan 2008	Notes	Status	Anticipated Completion Date	Docs 1 Docs 2
		5.3 Tie written statement to CEC on risks as at 25 October 2007 compared to immediately post contract award.	5.3		Spreadsheet provided by Stewart McGarrity highlights changes in QRA from October to Financial Close	14-Feb	<a href="#">5.1.5.2c 5.3.5.4 QRA Transparency and Changes\Financial Analysis Spreadsheet 11 Mar 08.xls</a>
		5.4 Risk Register needs to be updated to include the potential risks and knock-on effects of prior and technical approvals not having being obtained prior to Financial Close. This is linked to 9.2.			Risk allowance of £3.3m in QRA for this issue. Assurance from Stewart McGarrity that this allowance along with the management procedures in place are enough to mitigate		<a href="#">5.1.5.2c 5.3.5.4 QRA Transparency and Changes\Financial Analysis Spreadsheet 11 Mar 08.xls</a>
6	Value Engineering	6.1 VE summary included in the final deal and highlighting other potential savings with a probability value	5.8		Analysis of V/E provided in Financial Analysis spreadsheet by Stewart McGarrity - further wording in section 8.7 of close report	13-Feb	<a href="#">6.1 VE Summary\VE Summary (Extracted from S McGarrity Financial Analysis).xls</a>
7	Pricing & Funding	7.1 The Council requires a detailed analysis of prices, costs and risks allowance tie required to explain how prices for maintenance, etc impact on operating cost assumptions	1.9/5.8	including for both construction and operation e.g. design timescale not accepted	Section 2.1 of Draft Close Report provides price breakdown. tie report on Infraco Contract Suite provides some detail on Maintenance.	13-Feb	
		7.2 Cross refer to item 1.7 above re exclusions from contract by BBS.	1.9/5.8		Draft Close report section 8.3 provides information covering these items. Further Detail Provided in Appedix 7 of Close Report	13-Feb	<a href="#">Close Report - v8 Issued 12.03.08.doc</a>
		7.3 Statement on % of costs fixed and % outstanding as provisional sums with programme for moving these to fixed costs	1.9/5.8		Draft Close report section 8.2 provides information covering these items.	13-Feb	<a href="#">Close Report - v8 Issued 12.03.08.doc</a>
		7.4 What design version was the BBS contract priced against and what changes have subsequently taken place			Report by tie on the Infraco Contract states in section "Design Expectations of the Infraco" that V26 updated from V22 of the SDS design has been used for Price and Programme - Schedule 4 on pricing received from tie.	13-Feb	
		7.5 Cost per week of not signing contract on time to be estimated by tie			Costs relating to project delay provided by Stewart McGarrity email dated 10/03/08	13-Feb	<a href="#">5.2a Black Flags\RE Risk Briefing - PRIVATE_CONFIDENTIAL.msg</a>
		7.6 Does the Infraco contract allow BBS to pre purchase material and equipment prior to design approval? If so how is CEC protected if such materials do not meet CEC approval.			Document Entitled DLA Infraco Report compiled on 11/03/08 provides comfort that any advance purchases made by BBS in relation to items they do not have approval for will be entirely at their risk.		<a href="#">18203499_1 (2) 11.03.08 version of DLA Infraco report 12.03.08 Issued.doc</a>
8	Network Rail	8.1 PPA			Amendment Signed		

Critical Contractual Decisions to enable Chief Executive to use delegated powers to approve tie to sign the contract with BBS							CEC Deliverables - Link to Supporting Documentation	
Item	Issue	Description	tie Final Deal Countdown List Item Dated 14 Jan 2008	Notes	Status	Anticipated Completion Date	Docs 1	Docs 2
		8.2 Framework Agreement			Signed			
		8.3 APA			Signed			
		8.4 Neighbourhood Agreement			In framework as final form			
		8.5 Lease			In framework as final form			
		8.6 Bridge Agreement			In framework - parties to agree acting reasonably			
		8.7 Haymarket Depot Car Park			In framework as final form			
		8.8 Servitudes incl Balgreen and Haymarket			In framework as final form			
		8.10 Lift & Shift						
		8.11 Immunisation			Programme and cost			
		8.12 Station & Depot Change			Awaiting confirmation from NR on taxi rank.			
		8.13 Oil Tanks			Programme and cost			
		8.14 Operating Agreement			Needs to accelerate and become substantially complete			
9	SDS Assurances	9.1 Full written explanation of SDS Novation to be provided by tie including risks of failing to deliver design.	1.4	including risks of failing to deliver in terms of quality and in time to meet BBS programme	Awaiting Draft	01-Feb		
		9.2 Full details are required from tie on status and degree of completion of SDS design work.	1.4		Programme now agreed	01-Feb		
		9.3 tie to provide written report on previous claim settlement with SDS identifying details, cause of claim and costs of settlement. Are any further claims expected from SDS? Are any further claims from SDS competent.	1.4	showing justification and	tie to provide	01-Feb		

Critical Contractual Decisions to enable Chief Executive to use delegated powers to approve tie to sign the contract with BBS								CEC Deliverables - Link to Supporting Documentation	
Item	Issue	Description	tie Final Deal Countdown List Item Dated 14 Jan 2008	Notes	Status	Anticipated Completion Date	Docs 1	Docs 2	
10	Funding Letter	10.1 Funding terms to be agreed with CEC and TS	2.2	letter from CEC required to say the "best endeavours" reference in the tie operating agreement will not expose TS or Scottish Ministers	Complete - CEC Finance to provide copy of signed Grant Letter to Susan Clark and Colin MacKenzie		<a href="#">10.1 Funding Letter\grantawardletterFINALsigned28-01-08.pdf</a>		
11	Third Party Agreements	11.1 Status report on third party agreements	5.9		Closure of West Craigs access and Gyle Licence required	13-Feb			
		11.2 Disclosure list and acceptance of these by BBS	5.9	check for exclusions	In close report				
		11.3 Status of Telewest and SP agreement and when req.	5.9		Telewest agreement signed				
		11.4 Forth Ports agreement and risk of not having this in place	5.9		Cost issues now resolved agreement in process of drafting and should be signed by a fortnights time	30-Apr			
		11.5 BAA			Now signed by CEC, BAA and tie.				
		11.6 SRU			Working well towards signature.				
12	Licence between CEC and tie	12.1 To be concluded before financial close	3.3		Signed	28-Jan			
13	Land Acquisition	13.1 Statement of land acquisitions	5.10		In close report				
		13.2 Confirmation that GVD completed	5.10	any outstanding matters	In close report				
		13.3 Confirmation of match between what land has been acquired by CEC matching BBS requirements	5.10	check programme/cost of	Statement required from tie to confirm this issue				

**Other Issues**

Issue re protection re advance purchase of steel to be added to 1.6 in tie list.

7.1 – 7.5 inclusive in tie's list to be moved to Section 3.

Street traders issue to be added to Section 3.

SRU issue in 3.4 in the tie list to be expanded upon and explained further.

## Edinburgh Tram – Financial Close and Notification of Contract Award

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### The City of Edinburgh Council

1 May 2008

#### 1 Purpose of report

- 1.1 To notify the Council of the award of the two major contracts for the Edinburgh Tram Network (ETN) and to provide an update on financial close and the capital costs.

#### 2 Summary

- 2.1 A report updating the Council on the progress of the contractual negotiations for the ETN was submitted to Council on 20 December 2007. 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 remaining issues were resolved to my satisfaction.
- 2.2 **tie ltd** have now concluded the contractual negotiations and recommended to me that the two contracts for the supply of the tram vehicles (Tramco) and the tram infrastructure (Infraco) be awarded to CAF and Bilfinger Berger Siemens respectively. I granted approval to **tie ltd** on (enter date) and the contracts were awarded on (enter date). This included the novation of CAF and the System Design Services (SDS) contracts to the main Infraco contract.
- 2.3 The achievement of this substantial milestone means that the Council's exposure to financial risk has been minimised with significant elements of risk being transferred to the private sector. This has resulted in 95% of the combined Tramco and Infraco costs being fixed with the remainder being provisional sums which **tie ltd** have confirmed as being adequate. The net result of the negotiations is a final estimate for Phase 1a of the ETN of £508m. This figure secures the best deal possible for the Council and Transport Scotland, and is well within the agreed funding envelope of £545m.
- 2.4 Infrastructure construction work will commence in May 2008 and Phase 1a is programmed to be substantially complete by January 2011. Revenue services are planned to commence in July 2011.

### 3 Main report

#### Recent Developments

- 3.1 The statutory notice to award the contracts to CAF (for the Tramco contract) and Bilfinger Berger Siemens (for the Infraco contract) was issued on 19 March 2008, following satisfactory close out by **tie ltd** of the remaining issues required by the Council. Following the mandatory minimum cooling off period, the contracts were signed by **tie ltd** on (enter date), following further approval from me.

#### Financial Close and Capital Cost

- 3.2 The protracted yet progressive nature of the contractual negotiations highlight the work undertaken by **tie ltd** and written confirmation has been received from **tie ltd** stating that the contracts represent the best possible value to the Council.
- 3.3 The Final Business Case (FBC) aggregate estimate for Phase 1a was £498m as reported to Council on 25 October 2007.
- 3.4 Over the period of negotiations with the preferred bidder there have been changes to the overall cost of the project. The make up of the estimated cost of Phase 1a in the FBC was £498m which included base costs of £449m and a Quantified Risk Allowance (QRA) of £49m. The base cost has now increased to £476m with a revised QRA of £32m giving a final estimated cost of £508m. Firm costs represent 95% of this sum with the remainder being provisional sums which **tie ltd** have confirmed as being adequate.
- 3.5 The baseline aggregate costs for infrastructure and tram supply (including the negotiated Infraco and Tramco contracts) has increased from £278m at FBC to £302m – an increase of £24m. This increase is largely due to the firming up of provisional prices to fixed sums, changes to the employers requirements, currency fluctuations and the achievement of the risk transfer to the private sector as described in the FBC. Changes in price were expected and were included in the risk provision reported to Council on 25 October 2007.
- 3.6 These costs are based upon the construction programme with works commencing in May 2008 and Phase 1a being substantially complete by January 2011. Revenue services are planned to commence in July 2011.

#### Quantified Risk Allowance (QRA)

- 3.7 The QRA has reduced from £49m at FBC to £32m. The material change in the QRA relates to procurement risks for Tramco and Infraco closed out at the signing of the contracts. The significant changes from FBC are as follows:
- Reduction of £24m reflecting the removal of major elements of the procurement stage risks in the negotiated base costs.
  - Reduction of £3m reflecting the removal of other risk items into the negotiated base costs.
  - Increase of £10m to provide for risks and uncertainties to be managed by **tie ltd** during construction.
- 3.8 A written statement from **tie ltd** has been provided stating that they are satisfied that £32m is an adequate level of risk allowance.

**4 Financial Implications**

- 4.1 The baseline cost of the project has increased from to £449m to £475m with the QRA reducing from £49m to £32m resulting in the final price of the project increasing from £498m to £508m. The estimate remains well within the agreed funding envelope of £545m.

**5 Conclusions**

- 5.1 The Tramco and Infraco contracts were awarded to CAF and Bilfinger Berger Siemens respectively on (enter date) securing the best deal possible for the Council and Transport Scotland. The awarding of these two contracts represents a significant milestone in the development of the Tram project. A significant level of risk has been assumed by the private sector considerably reducing the Council's financial exposure.

**6 Recommendations**

- 6.1 The Council note the formal award of the two contracts with a final price for the Edinburgh Tram Network of £508m which is within the funding envelope of £545m.

**Tom Aitchison  
Chief Executive**

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<b>Appendices</b>	None	
<b>Contact/tel</b>	Andy Conway	013 [REDACTED]
	Alan Coyle	013 [REDACTED]
<b>Wards affected</b>	All	
<b>Background Papers</b>	None	

Suggested wording for Willie's letter to Tom is as follows :

[DATE]

Dear Tom,

EDINBURGH TRAM PROJECT

You will be aware that intensive negotiations have been undertaken to conclude the principal tram project contracts ("the Infraco Contract Suite" or "the contracts"). On 18<sup>th</sup> March 2008 we issued letters to the unsuccessful bidders notifying them of our intention to award the contracts to the BBS consortium. We have now finalised the remaining legal processes and have concluded a thorough quality control review of the relevant documents.

The operating agreement between tie and the Council, which will be signed as part of the Financial Close procedures, requires that tie deploys best endeavours to deliver the project in line with the FBC. In finalising the terms of the Infraco Contract Suite, certain matters have been concluded which are marginally different from the terms set out in the FBC including a revision to total project cost from £498m to [£5XXm] (Phase 1A) and a revised estimated date for commencement of revenue service of July 2011. The comprehensive Close Report and the accompanying letter to tie and the Council from DLA summarise the final terms of the contracts. I would be grateful for your acknowledgement that tie's obligations in the operating agreement with respect to the FBC are revised to reflect the agreed final contractual position. My recommendation below is based on the FBC but taking account of the final terms contained in the Infraco Contract Suite.

On this basis, we confirm tie's recommendation that the final terms negotiated are materially consistent with the terms set out in the Final Business Case approved in December 2007 and confirm the value for money proposition demonstrated by the Final Business Case and that we should proceed to conclude the contracts.

YF

WG

Parallel letter from TEL Chairman :

[DATE]

Dear Tom,

EDINBURGH TRAM PROJECT

I have seen a draft of the letter of recommendation from the tie Chairman and I am writing in parallel to address the implications for the operating agreement between TEL and the Council.

TEL has similar obligations to those explained in the tie Chairman's letter with respect to the Final Business Case ("FBC"). In addition, TEL's delegated authority in the operating agreement specifies cost and programme baseline information which is marginally different from that in the FBC. I would be grateful for your acknowledgement that TEL's obligations in the operating agreement with respect to the FBC are revised to reflect the agreed final contractual position.

YF

DM

# EDINBURGH

THE CITY OF EDINBURGH COUNCIL

CITY DEVELOPMENT

TRANSPORT

Willie Gallagher  
Chief Executive  
tie Limited  
Citypoint  
65 Haymarket Terrace  
EDINBURGH  
EH12 5HD

Date 03 April 2008  
Our Ref SS/1.1/HAB  
Your Ref  
Corr No

Dear Willie

## EDINBURGH TRAM TECHNICAL APPROVALS AND QUALITY CONTROL ISSUES

Further to the letter of 28 March 2008 to you from David Leslie in CEC Planning raising concerns about the Prior Approval (PA) process I am writing to raise similar concerns about the Technical Approval (TA) process. I won't reiterate everything said in that letter, as the concerns are fundamentally the same, but I would like to highlight some specific issues.

The TA submission for the *part-1C* Section (South St David Street) generated seventeen (17) pages of issues, and CEC's timeous approval was given on the understanding that these be addressed. Many of the issues raised had been noted previously, some as far back as the Preliminary Design approval stage and many more came to light during the reviews which *tie* conducted with SDS, and which were attended by CEC, TEL, Transdev, TSS, etc. So a good many of them are not new issues and my concern is not only that they have not been addressed previously but I conclude that they will not or indeed cannot now be addressed prior to issue of IFC drawings, given the timescales involved. I would welcome your thoughts on that.

CEC are currently drafting a similarly long list prompted by the TA submission for Section 1B (Leith Walk), but that submission has also brought to light more fundamental concerns. In particular there is a conflict between proposed OLE pole and traffic signal installations and this is particularly worrying as the submission purports to be a design which has undergone SDS's interdisciplinary design check (IDC) process, the very process which is meant to address such conflicts. Not only that but the Road Safety Audit (RSA) is an interim audit, so we have yet to receive the Stage 2 Audit. The upshot is that 1B is to be resubmitted with a revised design which addresses these conflicts and that resubmission should be accompanied by an associated RSA.

I also have to say/

DAVE ANDERSON  
DIRECTOR

City Chambers, High Street, Edinburgh EH1 1YJ





I also have to say that in the absence of a detailed specification for such things as traffic signal and lighting installations any approval at this stage can only ever be an approval in principle. My point being that as things stand at the moment it seems that these details will only surface after the construction contract is awarded, and that places CEC in a very difficult position. One way that *might* be resolved is if CEC issue a specification but as I understand it the contractual arrangements with BBS are such that they would not be bound to accept or adhere to that. Please correct me if that's not the case.

This is not to forget that SDS note that the design submissions are "*based on geometric layouts that have been previously tested*" but that the final traffic modelling is "*on-going*". So it has to be understood that the modelling which has yet to be undertaken may identify modifications which are required to be made and it has always been recognised that this could and probably will impact on the Traffic Regulation Order (TRO) design. And of course any changes to those may well require the Stage 2 Audit to be revisited.

Finally I should note that not least of CEC's problems are that there are conflicts between the Prior Approval and the Technical Approval submissions. So while we are all doing what we can to achieve the delivery programme, as my colleague in Planning stated, I would hope that the above examples explain the predicament CEC find themselves in. And as Planning noted we clearly need to resolve this as a matter of some urgency.

Yours sincerely

**Duncan Fraser**  
**CEC Tram Co-ordination Manager**

c.c     Dave Anderson, Director of City Development  
           Marshall Poulton, Head of Transport, City Development  
           David Leslie, Development Management Manager, Planning, City Development