

TRAM PROJECT BOARD

WEDNESDAY 31st October 2007

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Contents

- Progress and Issues – Willie Gallagher
- Governance, Funding & Financial Close Programme – Graeme Bissett
- MUDFA/Network Rail – Steven Bell
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- Procurement & Negotiations – Geoff Gilbert/Matthew Crosse
- Legals and Contracts – Andrew Fitchie
- Value Engineering & Final Business Case – Jim McEwan/Miriam Thorne
- Programme
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Progress & Issues

WILLIE GALLAGHER

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EDINBURGH TRAM NETWORK
FINANCIAL CLOSE DELIVERY PROGRAMME
OVERVIEW

Presentation to TPB 31 October 2007

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CONTENT

- 1) Review of overall progress under Financial Close Delivery Programme
- 2) Review of specific workstreams – others covered in separate presentations
- 3) Managing Transport Scotland interface
- 4) Overview of proposed governance and project management structure to Financial Close and for construction period

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FINANCIAL CLOSE DELIVERY PROGRAMME

- Programme was established in July 2007 to integrate all key workstreams into a "single-view"
- Utility diversion / MUDFA management a continuing process
- The workstreams leading to financial close are :
 - 1) Governance & management processes, adapted in view of revised funding arrangements *
 - 2) Procurement process leading to selection of Infracore / Tramco bidders and novation of SDS contract
 - 3) Control over spend forecasts *
 - 4) Design / conclusion of funding arrangements, including pre-close funding *
 - 5) Corporate and tax structuring *
 - 6) Final Business Case (FBC) preparation
 - 7) Approval processes including OGC Gate 3 *
 - 8) Monitor risk transfer from Council perspective *
 - 9) Communications

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OVERALL PROGRESS

- Programme has three critical milestones :
 - 1) Acceleration of FBC (Version 1) to end-October, to support Preferred bidder selection, approval by Council
 - 2) Final form of FBC (Version 2) to be approved on 20 December, along with all necessary documentation in support of final contracts with preferred bidders, in readiness for
 - 3) Financial Close in January 2008
- First milestone successfully achieved last week

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Specific progress achieved (1)

Governance & Management

- TS withdrawn from routine management, though still tend to appear from behind curtains
- TS/CEC 4-weekly review operational, needs diarised
- CEC internal committee structure set up, now needs codified within terms of new draft Operating Agreements for **tie** and TEL
- TPB / sub-Committee structure revised, new project management structure designed – see later
 - Top-down governance model as previously presented and approved
 - Project Management structure interfaced with governance and individual roles agreed

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Specific progress achieved (2)

Expenditure control

- Expenditure forecast revised to accommodate preferred bidder proposals → £498m / £87m ; being finalised within contract close out, value engineering and related design work

Funding

- Grant quantum – now concluded at £500m
- Scope now concluded as priority to Phase 1a, surplus to 1b
- Protections for CEC – drafted and response from TS awaited
- Note that detailed documentation from TS still outstanding
- Pre-Close funding – potential shortfall of funding being very carefully managed. If Close in January 2008, should be ok
- Note requirement for report to Council on £45m

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Specific progress achieved (3)

Corporate and tax structuring

- Advice taken from PwC confirmed previous planning. Asset ownership will vest in CEC and either sold to TEL or leased to TEL.
- Significant tax shelter to be pursued for TEL from capital cost / interest / lease charges, cash tax saved could c£50m-£100m over 30 years relative to FBC model
- Corporate restructuring can proceed when desired, mainly to move ownership of LB under TEL

OGC Gateway 3 review and other approvals

- Green light conclusion to Gate 3, all other approvals executed

Risk transfer

- Assessment delivered by OGC review team and acceptable to Council

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Overview – managing TS

- Excellent progress on all fronts except delivery of agreed comprehensive grant funding terms
- Input from TS on this matter has been disjointed, sporadic and difficult to manage. Most recent unhelpful diversion is the proposition that the £17m of parliamentary funding will count against £500m grant
- At present we await a response to the detailed award terms on which **tie** / CEC responded fully on 4 September. No guarantee that acceptable reciprocal default arrangements can be agreed, other areas may also create difficulty
- A related and significant danger to future progress is TS's ability to deliver against the deadlines through to Close, including the achievement of Ministerial / Cabinet approval
- Effect of this on bidders has been sheltered so far, but much better engagement needed from TS.

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Project governance and management structure looking forward

Project governance and approvals processes through to Close

- From the top down, the over-arching governing bodies are the TPB and the **tie** Board, who have separate but related roles in the governance model as documented elsewhere.
- The TPB will meet on 31 October for a progress report on all aspects of the project and again on 7 December. The latter meeting will review the “December Documents” :
 - The Final form of the FBC (FBCv2)
 - The final negotiated terms of the contracts with BBS and CAF and all novation aspects, including the SDS arrangements
 - The funding arrangements in support of the affordability assessment
 - The form of report to the full Council on the above

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Project governance and management structure looking forward

- The TPB Committees will be utilised as follows in the period to financial close :
 - Legal Affairs Committee – will meet weekly (as now) to address a rolling programme of legal and approvals issues
 - Procurement Committee – will meet weekly (as now) to address a rolling programme of matters arising from the finalisation of the procurement process
 - MUDFA Committee – continue to meet 4-weekly to oversee the continuing utilities works
 - DPD Committee – disbanded and all key matters covered by the TPB directly, in addition to the other committees.

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Project governance and management structure looking forward

Relationship to PM structure and governance model in construction period

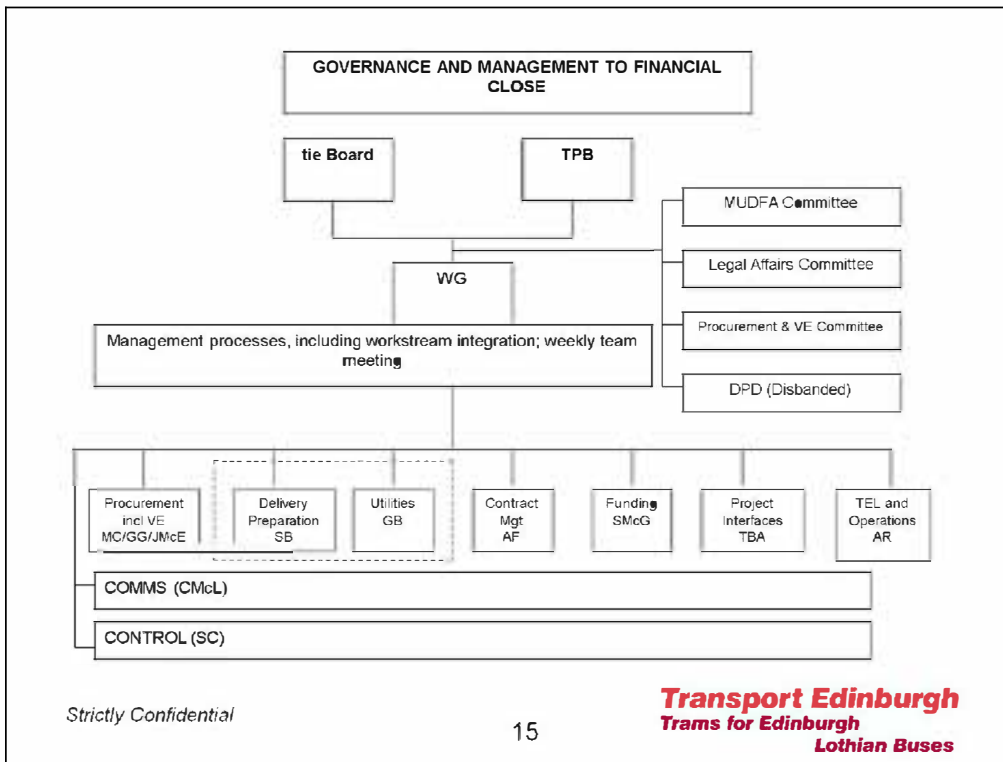
The mapping of the workstreams envisaged for the construction period can be summarised :

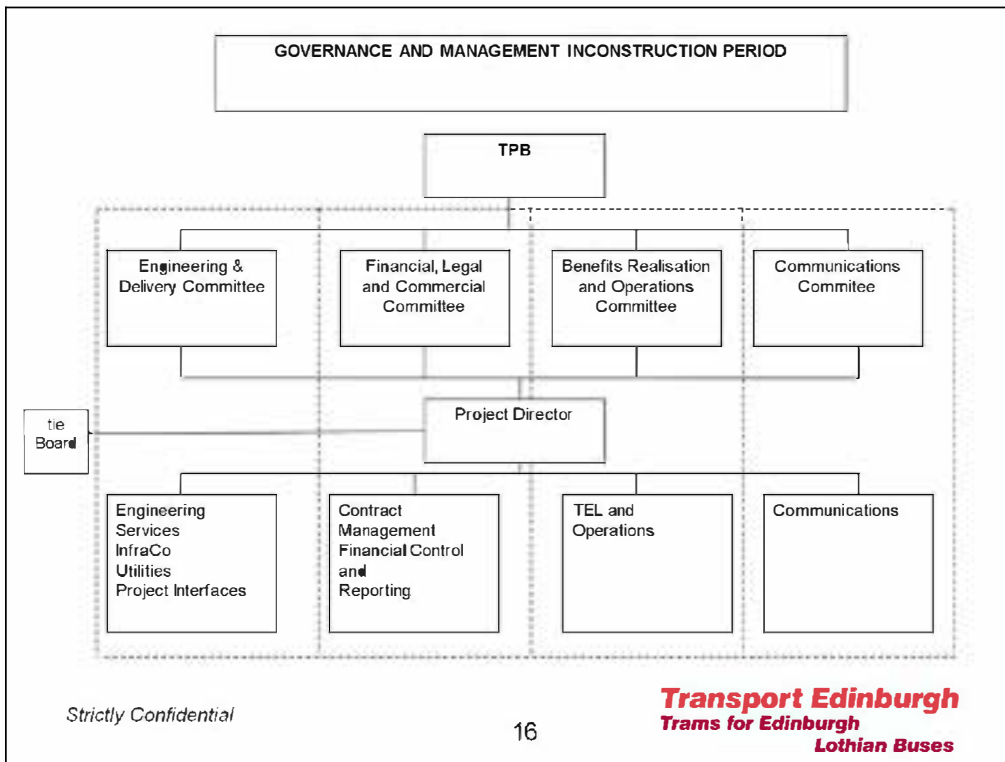
- (1) Procurement Terminates, migrated to Engineering & Delivery
- (2) Delivery preparation Terminates, Engineering Services and Infracore take project forward
- (3) Utilities diversion Continues
- (4) Contract management Continues, emphasis on monitoring
- (5) Funding arrangements Terminates in favour of Financial Control and Reporting
- (6) Project interfaces Continues as necessary
- (7) TEL & Operations Continues
- (8) Communications Continues
- (9) Project Control Continues

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MUDFA/Network Rail

STEVEN BELL

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MUDFA (1)

- Safety being managed very actively: AFR Zero, however
 - 6 incidents occurred during the period. All are under investigation or closed out.
 - Enhanced education, awareness and enforcement initiatives are underway with AMIS
- Overall the progress in the period and to date is in line with programme.
- Section 1A (Ocean Drive) was completed pre embargo by 12 October.
- 5A (Haymarket Depot) MUDFA work was completed within the period.
- Sections 1B (Leith Walk) continues including MacDonald Road closure and revised working utilising central reservation to maintain programme.
- Section 6 ongoing with water diversions.
- Programme Rev 06 final discussions with stakeholders w/c 29/10 followed by formal issue, with enhanced progress and earned value forecasting.
- Work value and anticipated costs in line with forecasts

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MUDFA (2)

- October IFC deliverables were all met, however late IFC issue is a significant risk being managed very closely.
- SUC action underway with SGN, SP, Openreach^{BT} & Scottish Water.
 - SGN escalation meeting on 1/11 to finalise commercial agreement
 - Scottish Power jointing issue now resolved
 - Scottish Water making good progress.
 - Openreach^{BT} resources and ability to meet programme for design and installation is still a key issue being escalated. Section 1C including the work at St Andrews Square is causing a programme risk which has still to be resolved.
- Traffic Management reviews continue to work well with CEC and TEL input.

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MUDFA (3)

- Communications and Stakeholder Management progressing well:
 - Media very quiet on MUDFA with no significant issues raised.
 - Active interventions with businesses and public and very visible Tram helper presence
 - Jane Street Closure caused local difficulty: lessons have been learned
 - Little activity on helpline other than general enquiries.
 - Signage and Programme concerns being addressed with Business Groups
- Resolving commercial issues with AMIS – Good progress and finalisation expected this week.
- Gogar Depot Phase 2 Advance Works completed ahead of Programme and utilities diversions started.

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Network Rail

- Legal agreement issues are progressing with the notable exception of lease conditions. Escalated to NR HQ and meeting being held 31/10/07 with CEC & NR to resolve.
- In parallel, CEC have written to request Network Rail's consent to commence the CPO process (not expected) as an alternative if lease terms cannot be agreed.
- Equipment relocation: activities progressing but an unacceptable programme received from NR which may impact on INFRACO. Under detailed challenge and escalation with alternatives being
- Immunisation: technical review held with NR HQ and process for enabling scope minimisation is underway to programme.
 - Programme risk remains until greater scope clarity and agreement with NR. This is expected to crystallise by December.
 - An INFRACO based solution will also be pursued once the technical scope has been agreed.

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Design

DAVID CRAWLEY

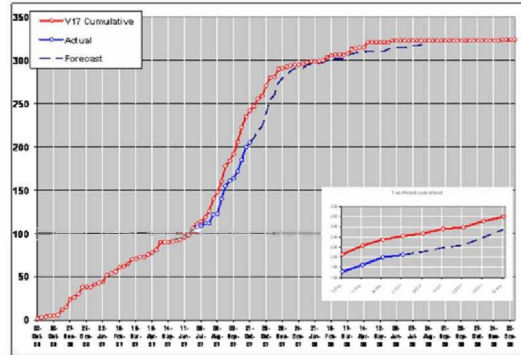
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Engineering, Approvals, Assurance

- Design programme continues to forecast – but with small slow drift. Referral still made to V17 (red line) as the first programme after removal of last critical issue.
- Weekly review of all issues which are potential blockers continues – no showstoppers.
- Design review programme now fully underway involving all stakeholders.
- Most designs 'accepted with comments' – one outright rejection associated with drainage. To be resubmitted.
- Focus is now on the approvals programme.
- Informal Consultation, Prior Approvals and Technical Approvals by CEC are a programme and resource challenge – caused by 4 month slippage in design programme to V14-V17
- Issues now being worked through with CEC



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Procurement

GEOFF GILBERT/MATTHEW CROSSE

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Objective for Preferred Bidder Period

- Deliver everything to enable a contract award by 28th January 2008
- Divides into two phases
 1. Everything that is needed to confirm the FBC to CEC in Dec
 2. Remaining, largely, low risk issues to enable award in January 08
- Deliver contract close within £498m for Phase 1a

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To Date

- Draft Deal signed by BBS
- Held a kick off meeting with BBS setting out objectives and plan to deliver the Contract Award
- Established and briefed the team to deliver the Preferred Bidder Period activities
- Developed a detailed schedule of activities and programme and shared it with BBS
- Set up meetings to close out remaining issues with BBS
- Obtained further commercial resource to assist in firming up and negotiation prices for provisional aspects of BBS bid

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Related Workstreams

- Value engineering – programmes aligned
- Detailed Design Production – have agreed delivery of key elements of design with SDS
 - Performance model based on Detailed Design
 - Designs for Highways, Drainage, structures

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Requirements To Confirm Final Business Case

- Final Risk Allocation
 - Finalisation of the remaining core contract terms
 - Negotiation of aligned contracts with Tramco and SDS
 - Finalise supporting legal schedules to the contract, including Network Rail APA
- Firm up price for provisional items
 - Structures (based on current designs – to provide a better baseline for VE)
 - Highways
 - Drainage
 - Picardy Place
- Get more VE agreed with bidders and in the price, and where we can't agree realisable targets

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Requirements To Confirm Final Business Case

- Agree on Street Construction Methodology with CEC and TEL
- Finalise Infraco/Tramco technical proposals – aligned programme, delivery and technical proposals
- Finalise Infraco/SDS technical proposals – aligned programmes and scope
- Priority 1 Design Due Diligence – performance modelling and confirmation of quality of designs
- Integration of BBS with tie, propose to bring in facilitator to help build the team-working and partnership quickly
- Phase 1b Option negotiated and agreed

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To Finalise A Contract by 28th Jan 08

- Everything else! But in particular
 - Finalised Infraco Proposals for delivering the works – programme, method statements, plans and procedures
 - CEC Payment Indemnity to contractor
 - Close out Q&A's on Infraco proposals
 - Finalise ER's
 - Priority 2 Design Due Diligence – other things on BBS list
 - Appointment of Tram Inspector
 - Identification of MUDFA works to go into Infraco

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Legals and Contracts

ANDREW FITCHIE

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Infraco Contract Suite Programme

Objectives

- Maintain negotiation momentum generated during pre PB stage
- Capture and incorporate product from Facilitated Negotiations
- Protect commercial positions and risk allocation achieved prior to Preferred Bidder's due diligence period
- Control/mitigate third party influence
- Defend overall programme to close in January 2008

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Infraco Contract Suite Programme

Target outcome

- Balanced and sustainable long term Contracts
- Underpinned by clear commercial technical and financial requirements
- Flexibility on system maintenance and network expansion

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Infraco Contract Suite Programme

Process

- 12 Parallel Workstreams
 - Infraco T & Cs, DPOFA, MUDFA variation
 - Tram Supply and Tram Maintenance Agreements dovetail with Infraco
 - Infraco Schedules, SDS novation, SDS Settlement
 - Infraco technical and financial Schedules
 - Third party Agreements, Network Rail and BAA
 - tie/TEL Operating Agreements , CEC Guarantee and Grant Funding
- Each Workstream managed by tie Contracts function
- Target close 15.12.07 for Infraco Contract (terms and conditions and main legal Schedules)
- All supporting and ancillary agreements also either closed or in advance stages by 22.12.07

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Infraco Contract Suite programme

CEC (Legal) Engagement

- Review of Infraco Contract and risk matrices
- Settling of **tie** and TEL Operating Agreements
- CEC Financial Guarantee to underwrite **tie** obligations
- Review of Grant Funding Agreement
- Clearance of Road Demarcation Agreement
- Report for December Full Council Meeting

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Infraco Contract Suite Programme

Reporting and programme adherence

- **tie** Preferred bidder activity - weekly
- Legal Affairs Committee - weekly
- CEC Legal on key issues emerging - weekly
- **tie** senior management - ad hoc and monthly

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Value Engineering

JIM MCEWAN

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Value Engineering Update (2)

Key Areas

- Structures: £1m already banked . Meetings held with BBS to discuss pricing based on outline design, our VE targets have been reinforced with them and it is planned to review each structure at a series of half day meetings (1 structure per half day) over the weeks ahead culminating late November. Current confidence level is 65% Target: £9m crystallise position by December.
- Network Rail Discussions with Network Rail, BBS and tie technical are ongoing, current confidence level is 50%. Target £5m: crystallise position by December.
- Power Discussions ongoing with Scottishpower on the required power network reinforcement, if any. This is a critical issue for the programme aside from the Value Engineering opportunity. Current confidence level is 70% Target: £3.9m crystallise position by December.
- Trackform: £2m already banked. Current confidence level is 50% on remainder Target: £4.4mm crystallise position by December.
- Depot: £4m banked. Current confidence level is 80% on remainder Target: £3.4m
- General A number of other areas including the Depot and Supervisory/Comms are being pursued there is an action on Jim McEwan and Geoff Gilbert to bake as much of overall VE position into the Infraco contract as possible.

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Value Engineering Update (3)

<u>SUMMARY</u>	<u>BBS</u>
Infraco	
Banked & Confirmed - Cat 1 (in base bids)	£4,963,442
Banked - Cat 2 (confirmed by stakeholders/TEL)	£4,073,779
Post Preferred Bidder - Cat 3	£5,352,268
Post Preferred Bidder - Cat 4 (Oct - Dec 2007)	£11,095,000
Sub Total	£25,484,489
Non Infraco	
Banked - Cat 5	£2,755,600
Further work - Cat 6	£9,730,500
Sub Total	£12,486,100
Overall Total	£37,970,589

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Value Engineering Update (4)

	BBS Potential	Conf Level	BBS – Current projection
Infraco			
Banked & Confirmed - Cat 1 (in base bids)	£4,963,442	100%	£4,963,442
Banked - Cat 2 (confirmed by stakeholders/TEL)	£4,073,779	80%	£3,250,270
Post Preferred Bidder - Cat 3	£5,352,268	58%	£3,129,940
Post Preferred Bidder - Cat 4 (Oct - Dec 2007)	£11,095,000	65%	£7,164,750
Sub Total	£25,484,489	73%	£18,508,402
Non Infraco			
Banked - Cat 5	£2,755,600	100%	£2,755,600
Further work - Cat 6	£9,730,500	55%	£5,348,350
Sub Total	£12,486,100	65%	£8,103,950
Overall Total	£37,970,589	70%	£26,612,352

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Value Engineering Update (5)

Key Messages

- Confidence levels show currently an £8.3m gap between target embedded in £498m i.e. £34.9m and current weighted by confidence level projection of £26.6m, this is what we must aim to close.
- Budget stretch targets £7.5M if we assume a 60% success in achieving this stretch, this gives an outturn of £4.5m
- Shortfall on basis of current confidence levels between VE savings (£26.6m) + projected Budget Outturn (£4.5m) is £3.8m, which would represent a call of that magnitude to the risk and contingency pot (£49m).
- Confidence levels will be tested and crystallised over the ensuing weeks in a fully programmed series of meetings between assigned VE leaders and BBS.
- Process for obtaining prior approvals is underway and a weekly meeting chaired by the Executive Chairman has been established to monitor progress.

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Budget challenge Phase 1A

Description	Stretch Target - Aug	Stretch Target - Sept	Total impact on AFC
Total tie PM costs	-1,350,000	-1,000,000	-2,350,000
Total DPOF	-700,000		-700,000
Total LEGALS	-200,000		-200,000
Total LAND & PROPERTY	-500,000		-500,000
Total COMMS / MARKETING	-200,000		-200,000
Total TEL	-200,000		-200,000
Total INSURANCE	-300,000		-300,000
Total MUDFA / Utilities	-3,000,000		-3,000,000
TOTAL 1A	-6,450,000	-1,000,000	7,450,000

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Final Business Case v1

MIRIAM THORNE

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Business case - Update

- The Final Business Case (FBCv1) was endorsed at the joint meeting of the tie and Tram project Boards on the 15th October.
- It was recognised by the Boards that updates may be required to the Final Business Case prior to contract award for the following:
 - result of preferred bidder's due diligence,
 - facilitated negotiations,
 - the final negotiations on Phase 1b; and
 - finalisation of details on programme and milestone payments
- The boards agreed that the TEL business plan would not be updated for the December submission of the FBC
- The FBCv1 was formally issued to CEC on 18th October and endorsed by the full Council on 25th October

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Programme

Susan Clark

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Critical Milestones – end January

- 31/10 TPB
- 01/11 Award mobilisation agreements to BBS & CAF
- 12/11 **tie** board
- 28/11 Procurement Sub-Committee : endorse final deal
- 03/12 Legal Affairs committee to endorse contract
- 07/12 TPB : approve final deal
- 10/12 CEC IPG
- 12/12 **tie** board
- 14/12 CEC Paper published
- 20/12 CEC Council Meeting
- tbc TPB/**tie** Board : approve contract signature
- 11/01 Notification of award
- tbc BBS/CAF board approvals for contract signature
- 28/01 Contract awards & novations

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Sign Off Criteria

	PSC	LAC	TPB	tie Board	CEC Full Meeting	Executive Chairman
Contract	Endorse for award	Endorse for award	Endorse for award	Approve that Executive Chairman signs contracts	Approve award	Sign contracts
Funding		Endorse for approval	Endorse for approval	NA	Approve	NA
FBCv2	Endorse for approval	Endorse for approval	Endorse for approval	NA	Approve	NA

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Organisation

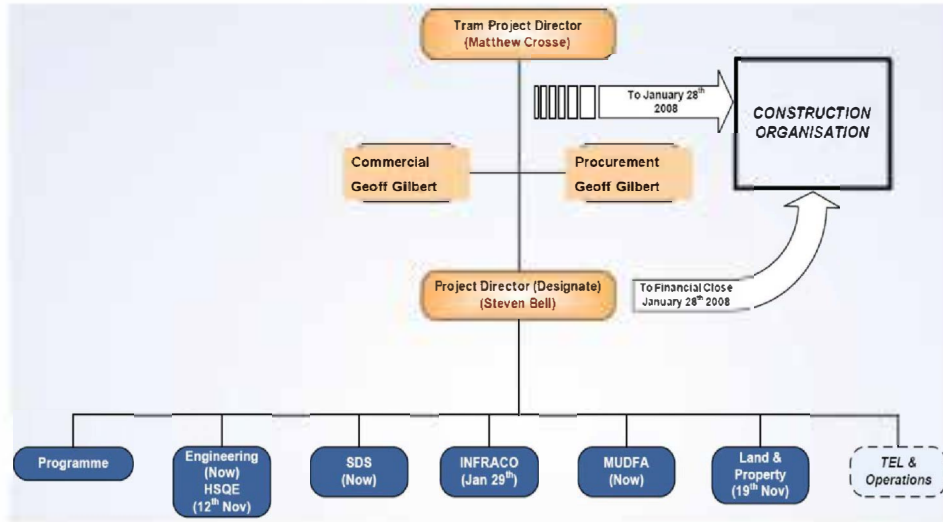
COLIN MCLAUCHLAN

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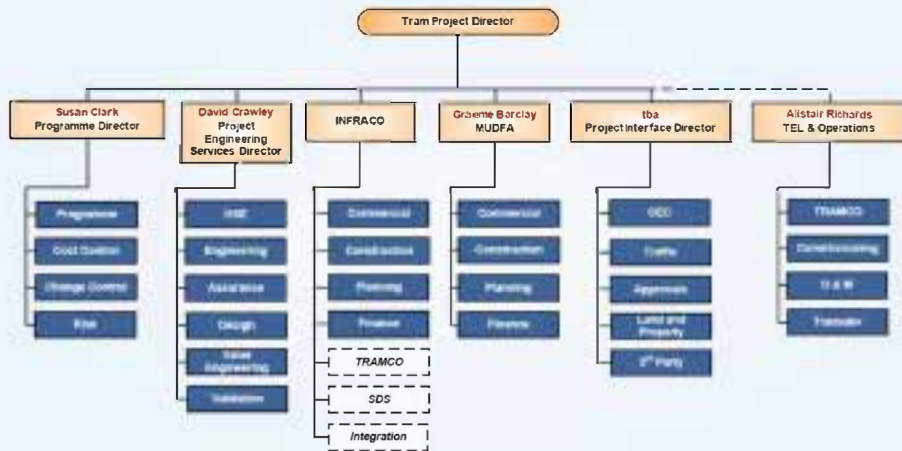
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TRAM PROJECT ORGANISATION TO FINANCIAL CLOSE



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TRAM PROJECT CONSTRUCTION ORGANISATION

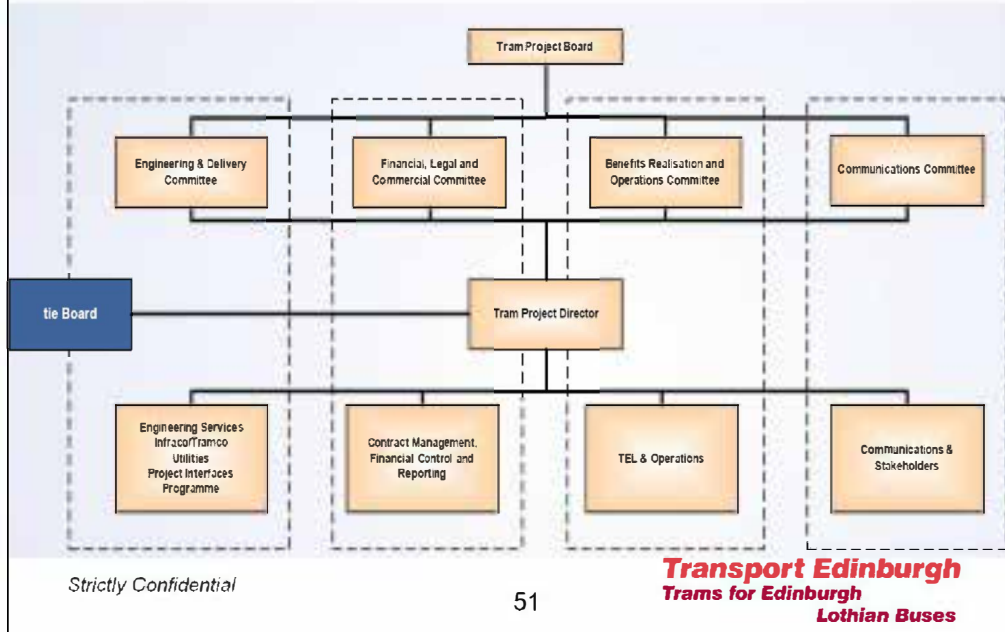


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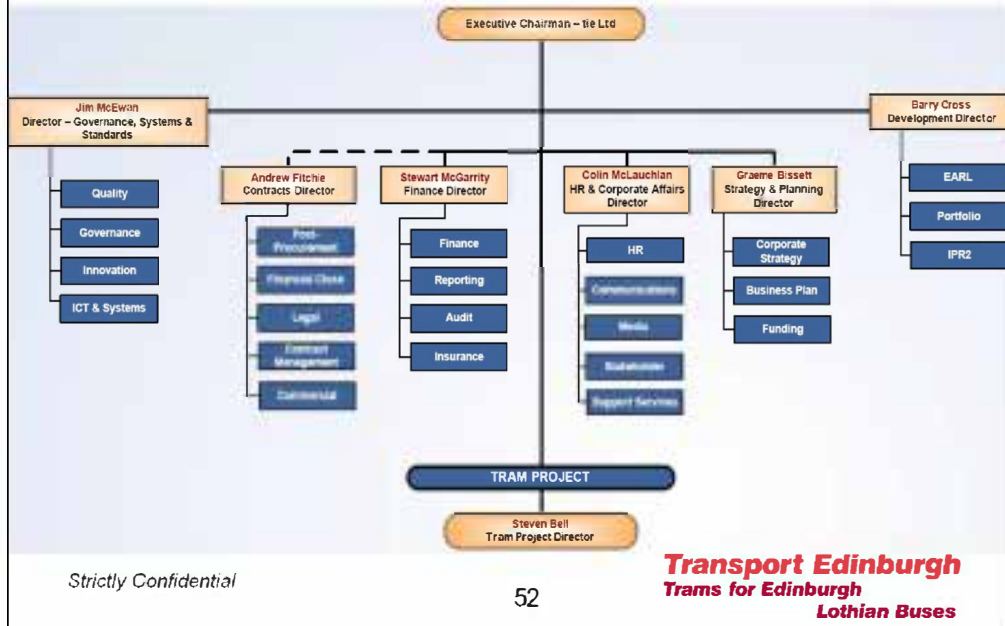
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GOVERNANCE IN CONSTRUCTION



tie LEADERSHIP TEAM



Communications & Media

COLIN MCLAUCHLAN

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Communication and Stakeholder Update Nov 07

Local Business Support

- 20 application packs , 3 applications, 2 payments of £3,000 & £4,000

Open For Business

- Open for Business Marketing Group chaired by Edinburgh Chamber of Commerce active

Partnership tie

- Launched at ECoC

Community

- 7,000 notifications, 350 contacts, 10% complaints

Media and Communication

- Successful coverage of Tramco, Infraco and FBC
- Focus now on BBS/CAF Mobilisation, MUDFA, Financial Close

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INGLISTON PARK & RIDE

SUSAN CLARK

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IPR2

- Contract awarded on 1st October
- Site set up starting on 29th October
- Additional commercial support recruited and in place from 23rd October
- Variation to incorporate EARL impact to be issued by 25th October
- Completion expected end March 2008
- PR event anticipated in November

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