

Edinburgh Tram Network Draft Final Business Case

Key Comments by Transport Scotland (*Annotated by TEL*) 5th April 2007

iii. Context

..... Included in those conditions is a requirement for the Final Business Case (FBC) to be completed by 1 October 2007.

Issue: The £60M funding covers the planned budget to October 2007, with MUDFA slippage the £60M may be able to stretch further but financial close is now likely to be February 2008.

1. General Comments

Content

.....the final structure and presentation of the document [and] the requirements deliberately contained meaningful levels of flexibility.

Issue: 'meaningful levels of flexibility' implication is that for the Final Business Case TS now know the areas of flexibility where they can tighten up if they so wish.

Phase 1a & 1b

.....since the DFBC was first presented the criteria for any future consideration of phase 1b have been established. Any content with respect to phase 1b will therefore require careful consideration during drafting of the FBC.

Funding Availability

.....Leith to the airport subject to production of a robust business case.

Issue: taken together 'criteria for any future consideration' with 'robust business case' could be used by TS to insist that the BCR be presented on the basis of 1a only (at DFBC just above 1), increased capex costs and modelling of the final roads design means this will almost certainly reduce..

.....using the proposed construction programme and current estimates of future inflation in the construction industry the £375m figure would translate to £490m in outturn prices.

Issue: the flexibility at DFBC of differential indexing of the funding and construction costs is removed by this statement..

... expect the conversion of £375m to be reported consistently in the FBC unless a different arrangement is agreed between City of Edinburgh Council and Scottish Ministers in finalising the funding agreement between the 2 parties.

Issue: Code? Does this mean that TS expect the £45M to be indexed too or some other concession from CEC?

4. Project Justification

The assumptions ...are key to the positive economic appraisal [BCR]. It must be acknowledged that the appraisal is very sensitive to those assumptions.

Construction Impacts

....The scenario of *not* managing construction impacts well with subsequent additional congestion being sufficient to impact the BCR must be avoided.

....therefore expect the Final Business Case to contain specific proposals for mitigating construction impact

Issue: reference to the BCR modelling – risk of TS insisting on different assumptions, i.a. Construction Impact if they consider insufficiently mitigated.

Bus Alternatives

Comparison of the reference case that contains bus priority measures with a formal do-minimum that represents the current situation shows that around two-thirds of the benefits achieved by the tram scheme could, in theory, be achieved by a bus priority scheme at lower cost

Issue: this was the means used by DfT to pull the Leeds scheme.

... We acknowledge that the capacity of key thoroughfares such as Princes Street and Leith Walk could not sustain continuing increases in bus vehicle numbers in order to accommodate the projected demand. The Final Business Case could usefully strengthen the narrative that explains this.

Issue: says that DFBC was not convincing on this point.

Edinburgh Airport Rail Link (EARL)

....For example, since the DFBC was produced the Scottish Parliament has completed its consideration of the EARL Bill.

Issue: EARL was excluded from Do Nothing to Do Something comparison (see bus alternatives), on grounds it was not a committed project. Earl continuing could be used to vary comparison negatively for tram, Earl being shelved neutral or beneficial for tram.

5. Project Scope

.....early clarification of the functional specification is desirable to help ensure the smooth execution of the on-going procurement processes.

Issue: This has a relationship and constraint on a number of the Value Engineering initiatives.

...Now that design is advancing clear information about the proposed interchanges must be included in the Final Business Case.

6. Governance

This section needs to be strengthened significantly....provide project management plans.

...this section needs to reflect the up-to-date governance arrangements for the project

7. Procurement & Implementation

....the FBC need only cover a description of the process used and the risk transfer achieved....more concerned with evaluating the practical implementation

....the associated risks and consequences of failing to achieve the planned convergence and closure within the required timescales.

Many of these risks relate to progress of design and perhaps interfacing utility design to core infrastructure.

.... how infrastructure contract bidders are being able to input to design developmentwhilst maintaining programme and managing the ability to achieve novation.

Clarification is required with respect to the tendering and award of the proposed maintenance contracts.Confirmation is required with respect to the funding and awarding body for these contracts.

Issue: Funding will be TEL, awarding will be tie and assigned to TEL.

The final but important commentrelates to the omission of any reference to the actual contracting strategy in use / proposed. ... important in order to understand the risks associated with actual implementation of the scheme and perhaps how the risks retained by the employer will need to be managed.

Issue: these comments are surprisingly well founded and accurate, suspect PUK or other informed reviewer(s)

8. Operational Plan

Transport Scotland note with interest the well presented contents of this section and do not intend to comment other than on a few specific issues.

...Scottish Ministers intend to bring forward the necessary changes to the secondary legislation governing concessionary fares.

As the FBC is produced we would expect to see further development of the patronage issues surrounding interchange along with interface to other transport operators.

Issue: well done Miriam & Stewart! Required to boost the risk assessment around interchanges although glimmers of hope at Leith now.

9. Financial Analysis

....the calculation of the value of the Transport Scotland contribution in outturn prices need to be reflected in this section also.this and other data made available to Transport Scotland [means] much of the headline figures contained within section 9 will now require revision.

Issue: The split of Capex between Phase 1a and 1b, the changes in differential indexation and the phased construction of Phase 1b will mean that both Phase 1a and Phase 1a & 1b BCR's will reduce (assuming all other things remaining equal).

...include an analysis of the proposed nature and drawdown of the funding being provided by CEC. ...to ensure that the draw on funding will service the spending requirements of the project.

Issue: no cost of borrowing has been included in the Capex figures to date, much of the CEC contribution will come following opening of the tram system.

10. Risk

General Comments

....on a 'rule of thumb basis' a risk allowance equating to approx 12% for a rail-related project just entering detailed design may be viewed as being a little optimistic

Issue: this is a little unfair given the relative levels of design achieved on this project, however in light of the comments below risk assessment is probably optimistic.

Specific Comments

- ...the biggest risk drivers are the cost of delay and a higher than expected inflation figure. It is not clear how these will be addressed.
- It is unclear how the cost of 'unknown' risk will be managed. How will the contingency be managed (as opposed to risk)?

Issue: the downfall of Merseytram, although the project was funded, Liverpool City Council were asked to provide cost overrun guarantees that they were not empowered to.

Key Recommendations

- ...tram planned maintenance and defect rectification should be quantified to allow informed decision making on the transfer of this risk

Issue: there will be a premium for this, but we have limited the period to 3 years if we want to take it back once performance is proven.

- Actions to address the cost of delay and increased inflation should be identified. *Issue: could raise risk/contingency capex allocation*
- Evidence of tie's confidence in meeting the project key milestones should be provided. *Issue: not easy to achieve.....*
- ...riskshaving 95% probability, they should be transferred to the cost estimate where appropriate

Issue: will push-up the Capex, reduce affordability and lower BCR.

- Funding of the quantified 'shared' risks should be identified/agreed
- An indication of tie's confidence that the mitigationwill be effective should be providedwith an indication of what the residual risk is.

Issue: this may add to the risk element of the capex.

- The risk confidence levels should be expressed at the P50 and P80 levels as costs

Issue: expressing as costs allows TS to demand underwriting of a specific element by CEC (echoes of Merseytram).

- Details of how a fund for 'unknown' risk (contingency) will [be] allocated should be provided.

11. Programme

General Comments

- It is clear that the programme is tight.

- ...It appears that the programme provided describes only a "Best Case" scenarioif the key early milestones cannot be achieved the delay will be extended to months.

Issue: this means that the Capex estimate reflects a 'Best Case' too, see delay costs above, ramifications on affordability and BCR.

- "the programme is based on assumptions of 'right first time and on-time delivery'". Edinburgh Tram Network Project is a unique project in Scotland. Therefore the assumptions and preconditions appear optimistic.
- The programme shows that the entire Detailed Design for this project will be completed in October 2007 - is this realistic?
- The award of the INFRACO contract is scheduled for October 2007 and the commencement of the main construction works will be in December 2007, is this realistic? *Issue: See previous comments (likely to be Feb 08)*

Key Recommendations

- Tie should clarify the durations allowed for review, revisions and approval processes that have already been taken into consideration.
- The programme needs to be baselined in the first instance at this DFBC stage. *Issue: Probably best to baseline the 'May 2007' programme....*
- The programme also needs to be cost and risk loaded at an appropriate level.
- A schedule QRA requires to be undertaken and findings shared with Transport Scotland as a matter of urgency.

Issue: very pertinent observations, need to be carefully managed.

12. Communications Strategy

Overall Comments

- Compared to previous submissions this version of the Communications Strategy has improved in style, format and content.
-the strategy does lack detail and evidence of how outputs are going to be achieved and who is accountable
- No specifics are given on roles and responsibilities of individuals for tasks.
- There is evidence of good terminology but no substance is provided to back up stakeholder engagement proposals.
- Reference is made to specific media plans and campaign timelines yet these are neither included nor annexed.