



tie Board

27 August 2007





Purpose & Contents

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People/Re-organisation/Redundancy

- Consultation 11th July 2007 – 46 2-to-1 consultations
- 26 employees “at risk”
- 14 redundant – 10th August
- 3 retirement
- 1 permanent
- 4 temporary
- 5 redundant through September





Accommodation/Organisational Changes (closing Verity)

- Relocated and migrated all Verity staff by 10th August
- All integrated into Citypoint
- Non-operational – seeking early settlement with owner
- Full ICT transfer – 26th October
- Confirm organisation during September





Severance Costs status and forecast

- Verity closure sundries - £31,000 – budget £50,000
- IT transfer – Budget £160,004
- Verity offer £125,000 plus dilapidations (£80,000 max) – Budget £311,000
- Redundancies - £222,000 spend – Budget £500,000 – 14 out of 23 redundancies completed





EARL Project Suspension

- Barry Cross to update





SAK Handover

- Agreement reached with Transport Scotland and Clackmannan Council regarding principles of handover.
- Detailed handover document prepared (by tie) and distributed to baseline all issues / responsibilities and expected new owners
- Senior Project Manager appointed by Transport Scotland to take over day to day management
- Exchange of letters concluding formal agreements with Clackmannan expected following this Board Meeting
- tie staff on project now redundant and have left the business
- Disengagement will be completed by the end of August





Governance, Funding, FBC

See handout from Graeme Bissett





EDINBURGH TRAM PROJECT

**FINANCIAL CLOSE
DELIVERY PROGRAMME**
For tie Board 27.08.07





Objective of presentation

- + To demonstrate how the key workstreams are being executed in the critical period to Financial Close in January 2008, to support commencement of tram operations in Q1 2011. The comprehensive paper included in the Board papers provided the rationale for the approach summarised in this brief presentation.
- + The key workstreams are :
 - Governance & Management processes within the project to maintain progress and control against a revised funding backdrop
 - Procurement process leading to selection of Infracore / Tramco bidders and novation of SDS contract
 - Control over expenditure forecasts and the design and conclusion of funding arrangements
 - Corporate and tax structuring
 - Final Business Case (FBC) preparation
 - Monitor risk transfer from Council perspective
 - Programme and Stakeholder approval processes.





Governance & management

- Transport Scotland have withdrawn from regular monitoring, placing full responsibility on CEC. Arms-length monitoring in place
- Other than managing new approach by TS, no material changes proposed to existing governance model.
 - Work is underway to on Council / TPB / TEL / tie formal documentation and internal CEC structures
 - Beneath TPB, adaptable sub-committee structure in operation. tie senior management fully involved in project execution
- Gateway Review 3 in late Sept / early October





Procurement process

- To be covered in next presentation
- Bidders are operating to a programme which fits our overall requirements but it is essential that this is managed on a daily basis, including bidders' own governance and approval requirements





Expenditure and funding

- Project scope assumed to be Phase 1a with option to construct Phase 1b at CEC discretion on fixed terms. Alternatives – simultaneous construction, omit Phase 1b – to be evaluated when bid output clearer.
- Project budget under continuous review, presently holding to DFBC forecast but subject to preferred bidder terms
- Issue exists around adequacy of funding to maintain 2007-8 programme and future-proof construction programme. May need additional pre-Close funding, politically difficult.
- Funding arrangements now clarified by TS at £500m for Phase 1, with Phase 1a in full a mandatory condition. Some key risk issues in funding terms under review
- Funding for Phase 1a to be sustained in present assumed form – Government grant + CEC “£45m”. Action underway to develop incremental funding, but is unlikely to bear fruit until 2008 and should therefore be part of the Phase 1b and not introduced as another risk factor to Phase 1a.





Corporate and tax structuring

- Advice taken from PwC and confirms previous planning
- Asset ownership will vest in CEC and either sold to TEL or leased to TEL. Decision is not time critical.
- Benefits will be that some tax shelter will be available to TEL from capital cost / interest / lease charges. Could be significant benefit, but modelling to be maintained on prudent full tax charge basis
- Corporate restructuring can proceed when desired, mainly to move ownership of LB under TEL





Final Business Case

- The main change from the previous programme through to Close involved acceleration of the FBC to coincide with preferred bidder recommendation.
- The November 2006 DFBC is the baseline and will be changed only as necessary – principally in areas of procurement, capital cost, funding, governance and effect of no EARL
- Work on all areas is well-advanced, though acid test is review by internal and CEC people
- Transport Scotland will also have access to FBC, but will focus only fatal flaw issues. Their key measures are CEC approval, Gate 3 sign-off, deliverability of 1a, BCR > 1.0 and no requirement for operating subsidy





Risk transfer

- **Infraco / Tramco / SDS – bidder proposals under evaluation currently, risk matrix being reviewed by DLA. Formal presentation to a TPB Legal Affairs sub-committee on 30/8.**
- **Funding arrangements with TS under negotiation and carry two key risk areas – situations of default in Scottish Ministers' view and lack of protection against default by Scottish Ministers. Critical to bear in mind magnitude of third party contractual interests and potential implications of default and / or termination**





Programme and stakeholder approvals – critical dates

- **Mid – Sept** : Finalisation and informal approval by tie / TEL / CEC of “September Documents” : 1) FBC v1 2) preferred bidder recommendation 3) draft New Award Letter including Tranche A funding
- **Sept 26th** : TPB approval (and recommendation to TEL Board / CEC) of same [preferably alongside draft report to Council].
- **Early Oct** : Gateway 3 review, confirmation to TS on critical issues
- **Oct 25th** : Full council meeting to approve “September Documents”
- **Oct 29th** : Cabinet approval of September Documents
- **Dec *19th** : TPB approval of final documents, recommendation to TEL Board / CEC (*date may need revised)
- **Dec 20th** : Report to full Council, should reflect only marginal changes to form agreed in October ; full Council approval
- **Dec 21st** : Cabinet sign-off conditional on all other aspects of financial close (mechanics of sign-off to be addressed).
- **To 11th Jan 08** : Finalisation of documentation, negotiation etc





Key dependencies

- The key dependencies are :
 - Design progress
 - Procurement programme and continued bidder support in the competition
 - That the Project Team and CEC officials can work effectively together to ensure CEC approvals to all aspects are executed timeously, especially planning and legal
 - Council acceptance of risk transfer within Infraco / Tramco contracts and funding arrangements
 - That the Gateway Review can be organised in this timeframe
 - TS process
 - Network Rail immunisation
 - That no show-stoppers emerge anywhere





THANK YOU





MUDFA

- Safety being managed very actively: AFR Zero but 1 cable strike (Gogar) & 1 cable strike at Russell Road (5A)
- Work commenced in earnest with Section 1A on 9 July and currently within 2 days of plan and expected to recover time.
- Subsequent sections 1B (Leith Walk) and 5A (Haymarket Depot) started as per rev 05 programme dates, despite late issue of IFC drawings and associated information. Some rework of programme expected
- SUC items being addressed with SGN & Scottish Water
- Action being taken with SDS to reduce underperformance with some progress noted
- Traffic Management reviews working well so far with good CEC and TEL input.
- Stakeholder teams ramping up and working well with strong media coverage from 24/7/07 briefing.
- Commercial issues aiming for resolution with AMIS -first week September 07.





Procurement – Activity over past month

- Series of meeting to discuss contract, commercial, technical, VE, programme
- Information given to bidders on areas to sharpen on price and normalisation information also shared
- Tramco BAFOs returned on 3rd Aug – evaluation underway
- Infraco BAFOs returned on 7th Aug – evaluation underway
- Negotiation framework plan agreed and negotiation packs being created for each bidder to use in getting down to preferred bidder status and allow feedback to TPB





Design Review

- Existing Informal Consultation, Prior Approvals and Technical Approvals processes unchanged
- Design Review process brings all stakeholders together, provides pace, energy and focus on compliance with the specification and Employer's Requirements
- Design Review process
 - Collective review of design packages to a programme by stakeholders
 - Designs 'presented' by SDS before review to ensure reviewers have the designers' insights.
 - Of 16,000 drawings only 10% expected to need review. Over 4 months this allows 20 minutes per drawings on average.
 - Intended to be fast paced to identify major points of concern first.
 - Parallel working of issues which arise during review
- Co-operative spirit essential part of success





SDS Claim

- Single financial settlement to cover
 - Disputed changes (17) which fall into two categories (quantum and validity)
 - Claim for prolongation. Based on time delays caused by tie/CEC; Charettes and critical issues prevented progress; degree of aborted design
- Settlement approach
 - Balance a tie counterclaim versus programme impact
 - Ensure negotiation targets are within budget and delivers incentives
 - Negotiation process in consultation with TPB Chairman
 - Confident that both parties' Board accept deal
 - tie seeking high level assurances for future SDS management performance





Value Engineering Update (1)

Target

Last month position

To generate efficiencies of c £30m on expenditures required by Tram through optimising quality to ensure delivery of the Project budget, £4m has been achieved to date.

Progress to date

- Banked to date £10.2m (see over for analysis)
- Bids received from suppliers under review to understand progress on VE savings in key areas : Depot, Highways, Structures, Supervisory and Comms, Track Form.
- Stream leads appointed for each key area.

Comment: Value engineering's primary aim is to help assure delivery of the budget while not compromising the quality or functionality of a fit for purpose tram system. In that endeavour we must be certain that the project is focussed only on what is required for the Tram system and also that a pragmatic approach taken to what may be regarded as the cosmetics of the scheme.





Banked Value Engineering Savings to date

<u>Streams (Current)</u>	<u>savings £K</u>
• Buildings	0
• Depot	4,235
• Highways	0
• Land & Property	1,140
• Network Rail	0
• OLE	312
• Structures	0
• Supervisory and Comms	0
• 3rd Party	2,415
• Track Form	0
• Traction Power	2,118
• Tram Stops	0
• Trams	0
	<u>£ 10,220k</u>





Value Engineering Update (2)

<u>Streams (Current)</u>	<u>*Potential savings £K</u>
• Buildings	100
• Depot	5,455
• Highways	521
• Land & Property	201
• Network Rail	2,500
• OLE	275
• Structures	6,144
• Supervisory and Comms	640
• 3rd Party	2,684
• Track Form	8,108
• Traction Power	4,453
• Tram Stops	500
• Trams	750
	<u>£ 32,331 K</u>

*identified to date





Critical Milestones – end September (1)

- 10/08 Arrange OGC Gateway review for October
- 16/08 Issue proposals for content/structure of FBC and conditional award/approval documents to PSC
- 22/08 PSC to discuss FBC issues
- 24/08 1st issue of draft sections of FBC
- 28/08 Conclusion of final negotiations
- 29/08 PSC - output of negotiations
- 31/08 1st draft of FBCv1 for tie/TEL/CEC review
- 03/09 Presentation of final evaluation to Evaluation Panel
- 07/09 PSB/TPB
- 10/09 Draft letter on principles of CEC/TS funding agreement for sharing with the bidders





Critical Milestones – end September (2)

- 10/09 Commercial close
- 12/09 PSB – presentation of draft recommendation
- 17/09 finalise preferred bidder recommendation
- 18/09 Finalisation & informal approval by tie/TEL/CEC of September documents – Recommendation/draft award letter/FBCv1
- 19/09 Issue recommendation to TPB
- 20/09 Submit further September documents to TPB
- 26/09 TPB to approve September documents and advance work (Mobilisation and A8 piling)
- 26/09 Submission of September documents to CEC Officials and extracts to Government





Finance and Other Papers

- Finance report to period 4 records an under-spend of £11.0m against plan this includes under-spends by projects as listed, EARL Suspension (-£0.6m), Other Projects (£-0.5m), Tram - SDS (-£1.5m), Business Compensation (-£2.0m) and MUDFA (-£6.4m). Full year portfolio out-turn forecast is £133.6m.
- tie statutory accounts were signed off post the Audit Committee, a minute for laying the accounts is included for approval under A.O.B.
- In line with CEC Code of Guidance for Council Companies, I have issued the revised format of the Register of Directors Interests, for completion by individual Directors.

