

## **Edinburgh Tram Project**

### **Budgetary Issues**

**June 2010**

#### **Current Position**

Under the current budgeting rules, the budget holder for the approved budget of £545m is the Project Director, Steven Bell. This is delegated under the operating agreement between TEL and CEC. The governance arrangements for the project are currently in the process of being revised and moving to the new model that has been worked on during and since mediation. Under the current funding arrangements, tie issue an application to CEC and Transport Scotland every four weeks covering the cash flow for the next two periods. These funds are then transferred in their entirety to tie to make good on their obligations.

#### **Advisor Costs**

CEC are currently incurring external advisor costs in relation to the project in the following areas;

- **Legal advice – Ashurst**  
The advice supplied by Ashurst is legal support in relation to both MOV5 and the tram leasing bid. The costs associated with the leasing bid are included in the transaction costs payable by TfL should CEC be successful in the bid. However, in the event CEC are not successful this will be a sunk cost to CEC.
- **Corporate Finance and Tax advice – Deloitte c£60k**  
The advice supplied by Deloitte is in relation to the tram leasing bid. The costs associated with the leasing bid are included in the transaction costs payable by TfL should CEC be successful in the bid. However, in the event CEC are not successful this will be a sunk cost to CEC.
- **Business Case Review – Atkins c£60k**  
Atkins is currently undertaking the Business Case Review and BCR audit. There will be a variation to this contract in the order of £10k for the work F&G will undertake reviewing the various cost scenarios.

These costs are only the external costs that are currently being expended on the project by CEC and do not take account of many of the internal costs. However, there will be an increasing requirement for CEC to incur expenditure on the project.

The current advisor costs are unbudgeted and other than recharging to tie, which must go through change control under Steven Bell's control (as things currently stand) we have no mechanism currently charge to the tram project.

## **Budgetary Governance and Ownership**

Once the new structure for delivering the project is in place and additional funding approved, it is recommended that the SRO or Project Director within CEC have overall budgetary responsibility for the project. It would be advisable that the tram project is set up as a department with budgets under the control of the Project Director delegated to the individual managers responsible for areas such as Comms, Finance, Legal, Engineering etc and that all changes go through a change control mechanism that must be approved by the Project Director. A zero based budgeting exercise will be required to put in place for the new structure; this work should start as soon as practicable.

In addition, practical arrangements will need to be established regarding CEC taking in-house all the financial and payment work streams associated with the project.

## **Interim Arrangements**

As a result of the changes in project governance and delivery, CEC should take over the budgetary control of project funding as a matter of urgency. While recognising that it currently has commitments to pay, CEC must also find a mechanism to draw down funds. Under the application process to Transport Scotland, there is a CEC costs line; this should be utilised as a mechanism for CEC to apply directly to Transport Scotland for funds we require.

A Coyle  
1<sup>st</sup> June 2011