

## Edinburgh tram project: Key messages

### **The Edinburgh tram project is expected to make a major contribution to the delivery of the City of Edinburgh Council's Local Transport Strategy**

The Edinburgh tram project is one of a number of measures developed in response to the City of Edinburgh Council's Local Transport Strategy intended to support and promote a growing local economy and create a healthy, safe and sustainable environment.

Phase 1 of the project received Parliamentary approval in March 2006 and consists of a line from Edinburgh Airport to Newhaven passing through Princes Street (Phase 1a) and another line from Granton to Haymarket (Phase 1b). Phases 2 and 3, for which Parliamentary approval has yet to be sought, are intended to complete the northern loop by connecting Granton to Newhaven and by extending the line to Newbridge.

### **Phase 1 of the project is expected to deliver benefits of £1.63 per £1 of cost**

A STAG 2 appraisal of the project in November 2006 indicated benefits of £1.63 per £1 of cost for Phase 1 in its entirety. Phase 1b is expected to derive higher benefits because the tram system is expected to contribute to the regeneration of Granton and to give residents there improved access to more and better jobs. Other outcomes expected from the introduction of Phase 1 include:

- More than 40,000 sq.m of employment development by 2011 increasing to 114,000 sq.m by 2015
- 900 additional homes by 2011 rising to 5,250 by 2015
- 930 additional jobs of which 590 attributed to Phase 1a
- Improved air quality, traffic noise and CO2 emissions resulting from the transfer of car trips to public transport
- Enhanced opportunities to make journeys on the public transport network through bus-tram service integration and ticketing arrangements
- Improved access to key trip attractions and destinations

### **The current anticipated final cost of Phase 1 is £593.8 million which is in line with the cost of other tram schemes in the UK**

The total cost of Phase 1 was estimated at £473.5 million (at Q2 2003 prices) in January 2004 when the two Bills needed to proceed with the project were submitted to the Scottish Parliament. Since then, costs have risen largely as a result of detailed design work and to take account of inflation. The current anticipated final cost of Phase 1a is £501.8 million at projected outturn prices. For Phase 1b, the current anticipated final cost is £92 million at projected outturn prices.

The project estimates have been informed by benchmarking against other UK tram projects and subject to independent review by consultants, and will be subjected to further development and review before ~~the~~ <sup>its</sup> final business case is presented to the Council and Ministers for approval in January 2008. The project estimates also contain a significant allowance for risk and contingencies although, as work has progressed and bids have been received, the risk and contingency allowance has reduced and now sits at 10% of the total project estimate.

### **There is sufficient funding in place to proceed with Phase 1a of the project although the Council is also committed to Phase 1b**

The Scottish Executive indicated its willingness to provide £375 million in support of the project in March 2003. In March 2006, Ministers announced this figure would be updated for inflation and expected a total contribution of between £450 million and £500 million towards the capital cost of the tram line between Edinburgh Airport and Newhaven. The Council has also committed to provide £45 million, meaning there is sufficient funding in place to proceed

*is this too low*

Bill Reeve

with Phase 1a. The Scottish Executive has yet to confirm funding for Phase 1b but the Council is hopeful that a number of measures, including savings from Phase 1a and contributions from private sector developers, will generate sufficient funding to also allow Phase 1b to proceed.

#### **£75 million was spent on the project up to the end of March 2007**

£17 million was spent taking the two Bills through the Parliamentary process. A further £58 million was spent up to the end of March 2007 implementing the project including design work and other project management activities, legal fees and communications. Transport Scotland Executive has also awarded grant of £61 million for 2007/08 for utilities diversions, advance works and continuing development and procurement.

#### **There is a high degree of confidence that the project can be delivered to budget**

Most contracts associated with the project have now either been let or, in the case of contracts for infrastructure construction and vehicle supply, bids have been received which are now subject to negotiation. Following receipt of bids for infrastructure construction in January 2007, 79% of the project estimate is now based on rates and prices from firm bids received or on known quantities. A further 20% is based on market rates applied to quantities derived from preliminary designs.

**tie's** analysis shows that the cost of bids received in respect of infrastructure construction mean that Phase 1a is unaffordable within the funding available from Transport Scotland and the Council. Negotiations over the next three months between **tie** and the two bidders involved are expected to result in reduced bids through lower supply chain margins and value engineering savings. These negotiations have already begun to generate significant value engineering savings and **tie** is confident that, when final and best offers are made in August 2007, Phase 1a can be delivered to budget.

#### **Some slippage in the project has occurred but action is being taken to ensure that Phase 1a can be operational by early 2011**

Estimated times to deliver the project were necessarily vague when the Bills were presented to Parliament in January 2004, although construction was expected to take place from mid 2006 to mid 2009 with a margin of uncertainty of minus six months to plus 12 months. Since then, estimated delivery dates have hardened and **tie's** draft final business plan in November 2006 indicated an operational start date for Phase 1a of December 2010 and for Phase 1b of December 2011.

The estimated dates to sign contracts for infrastructure construction and vehicle delivery have, however, now slipped four months from October 2007 to January 2008 because bidders require to do more work to demonstrate they can deliver the contractual requirements and to allow more time for value engineering negotiations. **tie** are managing this delay by bringing forward advance works, including critical path works such as the construction of the tram depot at Gogar, and now expect Phase 1a to be operational on 21 January 2011. This is a challenging target but is still within the Minister's statement of March 2006 that Phase 1a would be completed by early 2011.

#### **There is a clear corporate governance structure which involves all key stakeholders in the project**

#### **There is good project organisation and management with well qualified staff in place**

There is a clear procurement strategy which includes innovative approaches. The NAO's report in 2004 *Improving public transport in England through light rail highlighted* that risks associated with utilities diversions are difficult for the private sector to manage and price and have been a barrier to progressing with light rail schemes. **tie's** procurement strategy seeks

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confidence  
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Negotiation  
strategy

independent  
review of  
programme

change mgt

reporting of progress

risk mgt

good staff financial control

to reduce these risks through the initial separation of design work and utilities diversion from infrastructure construction and for these activities to be complete before infrastructure construction starts. This is expected to lead to more competitive tenders for infrastructure works as less risk and contingency allowance will need to be made in bids.

**The project is approaching a critical phase but the current uncertainty may cause problems in retaining bidder interest**

negotiation updates → valuation engineering

Bill Reave — formal agreement TS + EEC financial

main risks → Ma industrial, loss of staff risk register

Key factors which justifies relatively low (10%) for risk & contingencies?