

Dear Councillor Whyte,

Please see below the analysis of budget and expenditure to Period 6 of the current financial year for the Edinburgh Tram Project.

I have also provided some commentary which may give you further understanding as to how these numbers relate to the report to Council on the 14<sup>th</sup> October 2010.

Since Financial Close, there has obviously a number of items that have come to light that have increased the cost forecast for the project. As a result, the overall project budget has been increased from the Financial Close budget of £512m to the available funding of £545m. This corresponds with the authority level provided by the Council through the operating agreements with tie/TEL. It should also be noted that when the Financial Close budget was agreed, an additional £3.2m was payable to the consortium should Phase 1b, not proceed under the current contract, this is included in the number below. All the risk and contingency included in the Financial Close budget has been allocated across the various budget lines.

	Financial Close Budget	Revised Project Budget	Cost of Work Done
	£m	£m	£m
Infraco	250.5	276.03	139.61
Tramco	58.2	58.49	45.98
Utilities	48.4	57.56	62.11
Project management & Resources	68.3	86.10	69.45
Other resources	32.6	32.66	32.18
Design	26.9	34.17	32.12
Risk, Contingency and Phase 1b postponement costs	30.3		-
<b>Total</b>	<b>515.2</b>	<b>545.00</b>	<b>381.44</b>

## Infraco

### Budget

This line represents the budget for Infrastructure works. The vast majority of this relates to the contract with Bilfinger Berger/Siemens (BB/S). At Financial Close the construction price for the Infraco contract was £239.7m, this figure corresponds to the 46% budget figure quoted on paragraph 2.27 of the Council report.

There have obviously been recognised items of change since Financial Close that has increased this budget line, such as the non delivery of value engineering items, which represented a credit of some £12.6m in the original contract sum. There has also been non BB/S items relating to additional utility diversion costs that have been done as part of the Infrastructure works. In addition there have been ancillary and third party related costs in this area.

### **Cost of Work Done**

In relation to Infrastructure works, the cost to date is £139.61m. Of these costs, £83m relates to BB/S Prelims (overhead costs), which, until recently as required by the contract, have been paid in accordance to the milestone schedule set out in the contract. This means that BB/S have been paid a higher proportion of overhead in relation to the amount of actual progress they have made on the ground by way of physical infrastructure. It should be noted that BB/S were paid a significant advance payment at Financial Close for early mobilisation. The remainder of this cost to date relates primarily to off-street structures, the Depot and Princes St works.

### **Utilities**

The current cost of Utilities of £62m does not yet include settlement of betterment with Scottish Utilities Companies (which will be a credit on the current cost) or settlement of the final account for Carillion under the MUDFA contract. Once these items are closed out the final cost of this element will be in the region of £55m-£60m. The 30% increase in cost is included in the final outturn estimate of 10% of the project budget.

### **Project Management and Other Costs**

These are the costs of managing the project. There has obviously been an increase in the amount of project management and legal resource required due to the contractual dispute with the contractor. This line covers costs relating to tie project management, technical support, legal and advisory, insurance, comms and marketing and other miscellaneous items.

### **Percentage Complete**

This is not an easy comparison to make as the relationship between expenditure and physical progress is not always linear as certain sections of work are more expensive than others. In relation to Infracore for example, of the £139.61m cost to date, £83m relates to overhead. The 24% complete for Infrastructure relates only to physical works, therefore, to look at costs versus progress, overhead should be stripped out. Also, as mentioned previously there was a substantial advanced payment of around £30m that had been made for early mobilisation and supply chain costs that cloud the issue.