

# Edinburgh trams interim report

## Project Brief, November 2010

*Audit Scotland is undertaking this study on behalf of the Accounts Commission (based on the provisions in section 97A of the Local Government (Scotland) Act 1973, 'The Commission shall undertake or promote comparative or other studies designed to enable it to make recommendations for improving economy efficiency or effectiveness in the provision of services by local authorities or by other bodies...') and the Auditor General for Scotland (under the Public Finance and Accountability (Scotland) Act 2000 Section 23, Economy, efficiency and effectiveness examination).*

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## Introduction

1. In June 2007, the new SNP administration asked the Auditor General to carry out a high-level review of the arrangements in place for estimating the costs and managing two transport projects for Edinburgh which were then being developed. The Auditor General's report examined:
  - Whether the Edinburgh trams and Edinburgh Airport Rail Link (EARL) projects were progressing to time and cost targets
  - Whether appropriate management systems are in place to promote successful completion of the projects
2. The review was a short exercise and examined the process for estimating project costs and project management arrangements on the two projects. It did not provide assurances on the accuracy of the estimated project costs, nor did it examine the operating costs or projected revenues, and it did not review the options appraisals for the project and the benefits they were expected to generate.
3. The Auditor General's report concluded that the arrangements in place to manage the trams project appeared sound although the project was approaching a critical phase, leading up to early 2008 when Ministers and the City of Edinburgh Council (CEC) were expected to be asked to approve the final business case. It said that a range of key tasks, such as the commencement of utilities diversion works and negotiations with bidders over the infrastructure construction contract, needed to be completed before the business case could be signed off. It added that unless work progressed to plan, cost and time targets may not be met.
4. Scottish Ministers subsequently agreed that the Edinburgh trams project should be allowed to continue although the Scottish Government's contribution, paid via Transport Scotland, was capped at £500 million. The EARL project was cancelled.
5. Since then there has been significant media attention given to the project with concerns raised about cost over-runs and delivery delays. **tie**, a subsidiary of CEC with responsibility for managing the project, has recently confirmed that the trams network, as envisaged at the time of the final business case in 2008, will not be delivered within its £545 million cost envelope. There is also some doubt that trams will be operational before 2013, some two years later than first scheduled. The Auditor General, and the Accounts Commission, have now decided that an interim report be produced which will provide an independent view on progress with the project and the governance arrangements in place, and an overall statement of the position of the project. The report is to be based on work completed for the final reports by the appointed auditors for Transport Scotland and CEC.

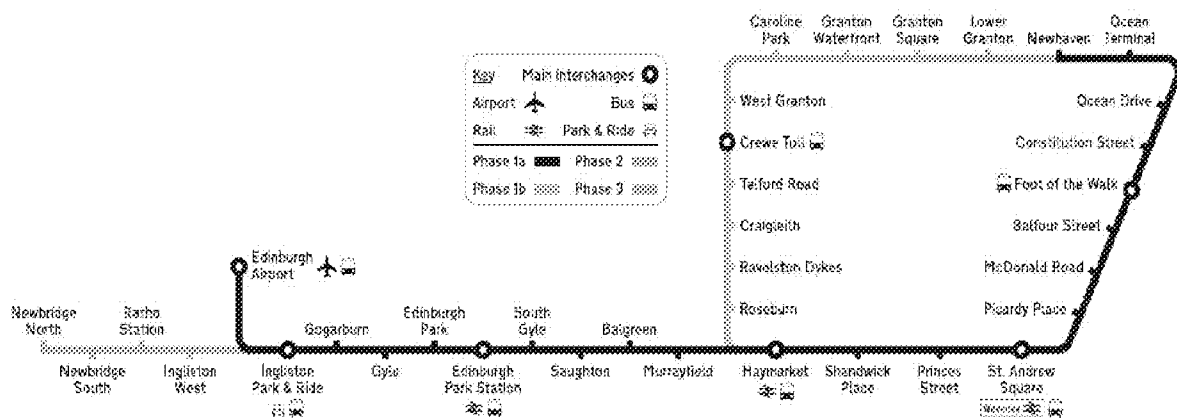
## Background

### The project involves a significant amount of public sector investment

6. The trams project was one of a number of projects developed in response to the City of Edinburgh Council's local transport strategy. The project was conceived as a long-term solution to growing congestion and as a way to provide a high quality transport system for Edinburgh.<sup>1</sup>
7. CEC approved tie's final business case for the project in December 2007 and work commenced in January 2008. The project was planned in two 'Phases'. Phase 1a was to provide a link from Newhaven to Edinburgh Airport and Phase 1b was to link Roseburn to Granton Square (Exhibit 1).

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### Exhibit 1: Proposed route of the Edinburgh trams project



Source: Trams for Edinburgh website

8. The estimated cost of Phase 1 in December 2007 was £580 million with Phase 1a estimated to cost £498 million and Phase 1b estimated to cost £82 million<sup>2</sup>. In January 2008, the Scottish Government offered to provide 91.7% of the eligible capital costs of Phase 1a, subject to a maximum of £500 million. CEC was expected to contribute up to £45 million, primarily from developer contributions, who were expected to take advantage of the benefits of Phase 1b in helping to regenerate Granton, and capital receipts. Trams were expected to be operational by summer 2011.

<sup>1</sup> Edinburgh Trams website: [http://www.edinburghtrams.com/index.php/story\\_so\\_far/view\\_details/6/](http://www.edinburghtrams.com/index.php/story_so_far/view_details/6/)

<sup>2</sup> Edinburgh Tram Network Final Business Case Version 2, December 2007, tie

9. Phase 1a is currently underway with utilities diversion, vehicle construction and track-laying work all having commenced. However, in April 2009 CEC announced that, as a result of the economic downturn, Phase 1b of the project was being postponed. Total costs incurred on Phase 1b were £6 million.

### **Contractual disputes appear to have contributed to delays in the project's delivery and cost over-runs**

10. The contract for track-laying, the installation of power lines and the construction of a trams depot was signed between **tie** and the construction consortium Infraco (Bilfinger Berger Siemens) in May 2008. This contract became subject to a major dispute in February 2009, one week before the track-laying work was due to commence in Princes Street. The dispute appeared to have been resolved in March but arose again in summer 2009. In August 2009, CEC confirmed that **tie** had initiated formal contractual dispute resolution with the consortium, in an attempt to resolve the dispute.
11. According to a paper considered at CEC's June 2010 full-council meeting, the contractual difficulties with the consortium are associated with:
- Design issues, including delays in design completion
  - The impact of delays caused mainly by utilities work
  - Apparent failures to achieve progress on the works<sup>3</sup>
12. A key issue is the nature of the infrastructure construction contract between **tie** and the consortium. To ensure greater cost certainty, **tie** decided to award a fixed-cost contract which also allowed for extra payments to be made for additional works outside the scope of the contract. According to **tie**, the issue which is having the biggest impact on the progress of the project and the programme budget, is the consortium not progressing works where there is a change, or an alleged change, to the contractual scope of the works until the financial entitlements from that change are definitively resolved.<sup>4</sup>
13. In March 2010, there was further media interest following claims from Bilfinger Berger that it was facing at least £100 million in additional costs and that the tram system would not be completed until November 2013. As at October 2010, CEC confirmed that £381 million had been spent on the project to date.

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<sup>3</sup> The City of Edinburgh Council, Edinburgh Tram Project – Update Report, 24 June 2010

<sup>4</sup> The City of Edinburgh Council, Edinburgh Tram Update Report, 14 October 2010

14. A full-council meeting on 24 June 2010 noted a report from CEC officials that Phase 1a cannot be delivered for £545 million. The total project cost remains uncertain while the contractual dispute persists but contingency planning work has identified funding options which could address project costs of up to £600 million. **tie** was given three months to draw up a refreshed business case, detailing the capital and revenue implications of an incremental delivery of Phase 1a. The options for incremental delivery include building the route from Edinburgh Airport to either Haymarket, York Place, the foot of Leith Walk or Ocean Terminal.
15. An update paper on the trams project was presented at the full-council meeting of 14 October. This outlined progress with the project and the work done to refresh the business case but did not provide cost and revenue information. According to the paper, the inputs to the refresh of the Transport Edinburgh Ltd (TEL) Business Plan contained commercially sensitive information on patronage for buses as well as trams and consequently the detailed figures were commercially confidential.<sup>5</sup> The council agreed that a full business case be provided to members for its December meeting, on the understanding that they do not reveal commercially confidential information.

## **Governance of the project is primarily exercised by the Tram Project Board**

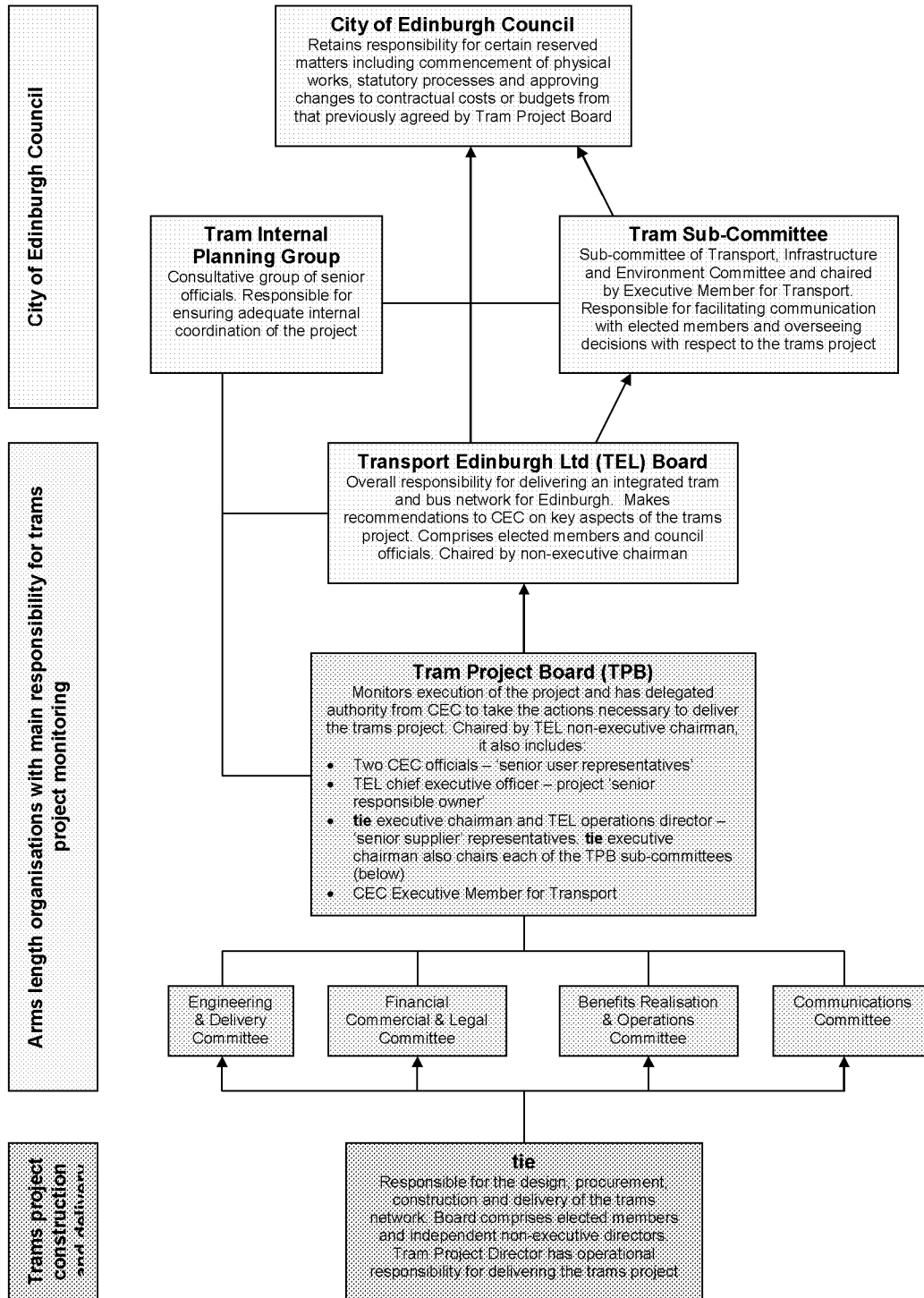
16. The Tram Project Board (TPB) exercises overall governance of the project and includes senior representatives from **tie**, CEC and TEL. It has delegated authority from CEC (through TEL) to take the actions necessary to deliver the project, has a clear written remit and meets every four weeks to consider reports from **tie**'s Tram Project Director. The sub-committee structure of the TPB has evolved as the project has progressed (Exhibit 2 on page 6).
17. As originally constituted, the TPB included representation from Transport Scotland. However, in June 2007, following Ministers' decision to cap the Scottish Government's financial contribution, Transport Scotland withdrew from the TPB, reducing their influence over the project to mainly that of providing the funding agreed by the Scottish Government.
18. As reported in the final report on the 2008/09 audit of CEC, political group leaders within the council are regularly briefed on the project by the Director of City Development and Director of Finance. The level of financial information included within council papers has, however, been limited due to the sensitivity of the project. In addition, councillors who receive full

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<sup>5</sup> TEL is a wholly owned subsidiary of CEC with overall responsibility for delivering an integrated tram and bus network for Edinburgh. It is expected that once trams are operational, TEL will take on responsibility for the operation of both the trams and Lothian Buses (91% owned by CEC).

information due to their position as a **tie** board member or member of the Tram Project Board have been unable to share this information more widely.

**Exhibit 2: Edinburgh trams governance structure – construction period**



Source: City of Edinburgh Council

## Why we are undertaking this review now

19. The project is now at a critical stage and the Auditor General and the Accounts Commission have determined that this would be an appropriate time to produce an independent public report commenting on progress with the project to date, the governance arrangements in place and the issues going forward. This has been influenced by:

- The trams project is a significant strategic infrastructure project for CEC and also has wider implications for the management of major projects in Scotland.
- The project involves significant public expenditure and has attracted intense public, political and media interest. We have received a large amount of correspondence on the subject.
- There are widespread concerns about whether the project can be delivered on time and budget, and whether it can deliver the benefits claimed in the original business case.<sup>6</sup>
- The project involves a number of partners, and involves complex and challenging accountability arrangements.

## Aims and objectives

20. The overall aim of the performance audit is to provide an update on progress with the Edinburgh trams project to date and the issues going forward. This is intended to be an interim report which might lead to further audit work and another report at a later date. The performance audit's three objectives are to review:

- What progress the Edinburgh trams project has made to date
- Whether governance arrangements for managing and monitoring the project are robust
- What key issues need to be considered and managed for the project going forward.

## Project scope and methodology

### Scope

21. The auditors for Transport Scotland and CEC will include commentary on the Edinburgh trams project in their annual audit reports for 2009/10. These are expected to be available by late November and we will supplement this with additional information as necessary. The performance audit will:

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<sup>6</sup> The economic benefits were originally estimated at £2.31 per £1 cost for the whole of Phase 1 with Phase 1a providing £1.77 per £1 cost. Higher benefits were expected from Phase 1b because it was expected to contribute to the regeneration of Granton.

- Provide an update on progress with the trams project to date. It will include details of spend and delivery against plan and the reasons given for any cost over-runs and delivery delays. It will also examine the options now being considered to take the trams project forward.
  - Consider the governance arrangements for the trams project including arrangements for managing and monitoring progress. In particular, it will consider Transport Scotland's arrangements for monitoring the effective use of SG funding.
  - Review the issues to be considered and managed for the project. We will seek to highlight key issues which managers will need to consider as the project goes forward.
22. The performance audit will not include a detailed review of the contract with Infracore for infrastructure construction. Negotiations between **tie** and Bilfinger Berger over the future of infrastructure construction are at a sensitive stage and we do not intend to comment on commercially confidential matters. We will, however, seek to understand how the contractual dispute came about and what **tie** is doing to resolve it.

## Methodology

23. The performance audit will seek to use the findings of the auditors for Transport Scotland and CEC wherever possible. This will be supplemented, if necessary, with interviews, for example, with key staff in Transport Scotland, CEC and **tie**, together with reviews of key monitoring reports and other briefing papers.

## Potential impact

24. It is anticipated that the findings of this performance audit enable the publication of an independent public report which will:
- Provide informed commentary on the progress of the trams project to date
  - Identify issues to be considered and managed for the trams project going forward.

## Project staffing and resources

25. The project will be managed by Graeme Greenhill, Portfolio Manager Transport Enterprise and Tourism. The auditors of Transport Scotland and CEC will contribute as required.

## Project outputs and draft timetable

26. Our plan will allow a report to be published in December 2010. The draft timetable for the project is as follows:



<b>Key project milestone</b>	<b>Target date</b>
Project brief	October 2010
Fieldwork and analysis	October – November 2010
Report drafting and clearance	November – December 2010
Report available for publication	December 2010

## **Stakeholders**

27. The study will have a number of stakeholders:

- Scottish Parliament committees ( primarily the Public Audit Committee and Transport, Infrastructure and Climate Change Committee)
- Scottish Government, including Transport Scotland
- The City of Edinburgh Council
- Media and the general public.

## **Further information**

28. If you have any questions about this project please contact Graeme Greenhill at [ggreenhill@audit-scotland.gov.uk](mailto:ggreenhill@audit-scotland.gov.uk) on 0131 625 1822 or in writing at the address below:

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