Edinburgh Tram Project

Contingency Funding Options

24/02/2010

This document examines alternative funding solutions for the Edinburgh Tram Project in the event that the Prudential Framework is abandoned or scaled back by a change in Central Government.

	Revenue Impact £m	**Capital £m**	**Notes**	**Risks**	**Opportunities**
1. Sale and Lease Back of Tram Vehicles	2.7 in year one.	54	Currently CEC will take ownership of 27 tram vehicles @ £2m per tram. CEC had envisaged that these assets would be leased to TEL at arms length rates.	i) Transport Scotland could request repayment of 91.74% of funding should CEC sell the assets. There is a specific clause in the grant agreement that examines this. ii) Lack of	a) An alternative to the current thinking could be that CEC sells the acquired assets to a private finance firm who would then put in place a leasing arrangement with TEL to use the trams. b) Another alternative could be that CEC sell the trams in there entirety to another Transport company such as Transport for London with an option to lease back a proportion of the 27 trams should Phase 1a be curtailed, resulting in less tram vehicles being required to service the route. tie have indicated that the deal/price negotiated with CAF for the vehicles was a very good one,

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				suitable private sector funders or other infrastructure partners willing to enter such an arrangement and the lead time associated with such a transaction. iii) Taxation Implications for CEC and TEL.	which other players in the market cannot currently achieve. Therefore given the quality of the CAF product there may be a market for this solution. c) A sale and 20 yr lease back arrangement to the private sector for all the vehicles could result in an annual payment deducted from TEL profits of £2.7m in year one, £7.8m in year 20 based on annual inflation of 2.5%. The private sector would also require a profit element. At the time of the last redraft of the TEL Business Plan, a typical Weighted Average Cost of Capital in the sector was 8%.
2. Sale and Lease Back of All Rolling Stock	5.4 in year one.	109	The £163m is derived from the constructions works price for Civils and Systems work and Provisional Sums included in the Infraco contract. This does not include Vehicles, Design or consortium overheads and should include only physical	i) As with option 1a. ii) Adverse impact of lease payments on TEL profits and affordability of	a) Similar to option 1a this option extends the sale and lease back option to all the physical rolling stock and systems assets acquired under the tram project. As with 1a the revenue implications are based on a 20 year lease and annual inflation of 2.5% and range from £5.4m in year 1 - £15.9m in year 20.

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			infrastructure.	dividend.	
3. European Investment Bank Funding	10 per annum (interest + capital repayment)	150	As a rule, the Bank lends up to 50% of the investment costs of a project.	i) Affordability of interest payments to CEC/TEL. ii) Political interference on the proposed funding solution. iii) The lead time for securing funding.	a) The EIB provides individual loans to viable and sound projects and programmes costing more than €25m which are in line with EIB lending objectives. Individual loans are available to promoters in both the public and private sectors, including banks. The conditions of financing are adapted to the investment type. Adequate security is needed, such as that provided by a bank or banking syndicate, a financial institution, or a large diversified parent company with a good credit rating. The Bank can offer: fixed rates revisable fixed rates convertible rates (allowing for the change of interest rate formula during the life of the loan at predetermined dates or periods.)

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					The project must fit a certain criteria. One of the criteria is for projects that are large infrastructure networks of transport, energy and telecommunications underpinning the developmental and integration goals of the European Union. Repayment is normally on a semi-annual or annual basis. Grace periods for capital repayment may be granted for the construction phase of the project. Rates over a 30 year period could roughly equate to that of the PWLB Rates (5%).
4. Sale of Council Assets	6	120	Sale of Waverley Court	i) Political Opposition to the transaction. ii) Sale of the Councils most valuable asset.	a) In the current market sale of CEC's HQ could generate £120m. The leasing arrangement would form part of the transaction with a 15 year lease costing around £6m per annum.
5. JESSICA Funding	n/a	n/a	JESSICA offers the possibility for greater access to loan capital for the purpose of	i) Relatively new development	

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			promoting urban development. Where an authority wishes to participate under the JESSICA framework, the EIB, other international financial institutions such as the Council of Europe Development Bank, or private banks and investors would contribute additional loan or equity capital. No State guarantee for these loans is involved; hence they would not aggravate public finance and debt.	and further research into how this works would be required.	
6. Sale of Lothian Buses		40		i) Political reaction would mean this option would be highly unlikely to happen meaning the viability of this	a) Sale of Lothian Buses could realise around £44m based on the net assets of the company. This is net of pension liabilities. Once minority interests received their share of the sale CEC would be left with £40m. b) There may also be the opportunity to sell the tram business once up and running. There would be an opportunity for the private sector

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				option would be questionable. ii) Adverse public/media reaction. iii) Leads to the Business Case for tram becoming loss making as the benefits of integration are one of the key drivers in the TEL Business Plan and therefore has a real impact on the viability of the tram operation as a stand alone	to operate the tram as part of an integrated transport solution also.

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				business.	
7. Curtail Project @ Haymarket		(100)	Curtailing the tram project at Haymarket based on current forecasts would result in an final capex of circa £500m-£521m.	i) The impact on the business case would essentially make tram a loss making business and would impact on TEL profits. ii) Reputational damage to Edinburgh and CEC in particular. ii) Risk of CEC having to make good half built tram assets throughout the rest of the city centre.	a) Curtailing at Haymarket would mean that CEC's share of project costs would be £43m on a final capital cost of £521m. It would have to be assumed TS would only pay grant in proportion to the final capital cost. This option could save CEC having to pay an additional £100m+ for the full scope of the project.

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8. Additional Government Funding				i) Unlikely to produce any additional funding given the reduction in public sector spending.	

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