

# EDINBURGH TRAM PROJECT – CORPORATE AND GOVERNANCE MODEL PRESENTATION TO TEL BOARD 10<sup>TH</sup> FEBRUARY 2010

## Background

The purpose of the presentation is to provide the TEL Board in its new form with an overview of the development of 1) the corporate structure of the family of companies ; and 2) the governance model which operates to control and guide the tram project through to operation. The corporate and governance structures define the responsibilities of the TEL Board, and the limits of those responsibilities.

### SLIDE 1

#### EDINBURGH TRAM PROJECT DEVELOPMENT OF CORPORATE & GOVERNANCE MODEL

### SLIDE 2

#### Early challenges

- 2002-04 - tie established to deliver tram system, inadequate linkage with LB
- 2004 – Transdev introduced as consultant / prospective operator
- Mistrust prevails – addressed formally in “TEL Implementation Plan”, signed off by CEC, tie, LB and newly-established TEL on 20<sup>th</sup> December 2004 :
  - Phased approach through to fully integrated services
  - Compliance with competition and transport legislation
  - “The Tram Project will not be viewed in isolation ; neither will buses”
  - single-mode incentivisation removed, targets include integrated service patterns, ticketing and interchange
  - TEL corporate group created, coordinated Board composition (tie / TEL) and senior management collaboration (tie / LB / TEL). TEL Board as head of the group.

### SLIDE 3

#### 2004 - 2007

- 2004-07 – promotion of Tram Bills, infrastructure procurement, early planning for integrated system
- Mid-2006 – formalisation of new governance structure including creation of Tram Project Board and specific issue sub-committees, Council reserved powers (high-level – contractual, funding, statutory matters)
- Council Elected Members and officials and LB represented on key Boards (tie / TEL / TPB)
- LB CEO appointed TEL CEO and Project “Senior Responsible Officer”
- Governance model designed to match OGC guidance.
- Transport Scotland represented and hold reserved powers
- May 2007 Election and clarification of funding

SLIDE 4

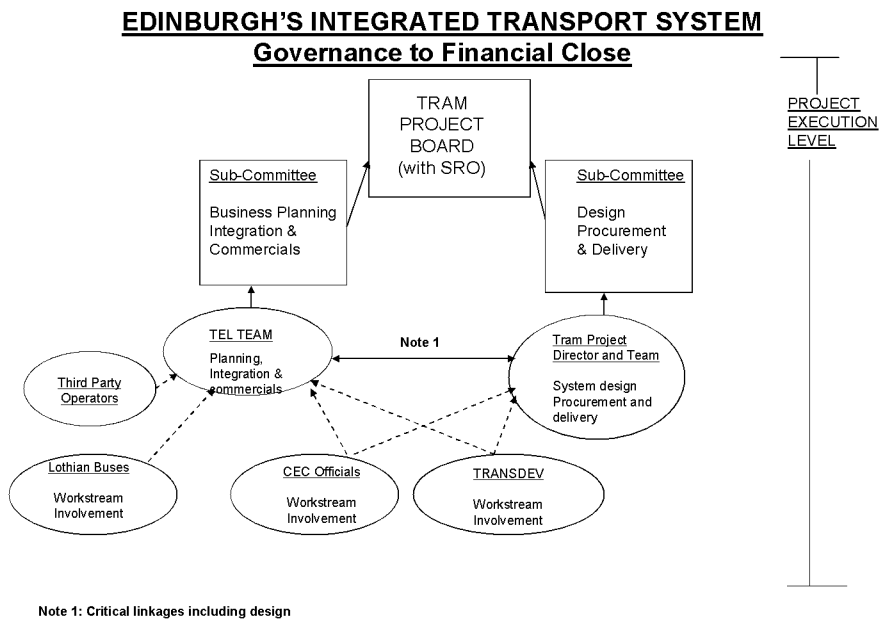
TEL Board remit formalised

- Overall responsibility for delivery of integrated system
- Tram Business Case
- TEL Operational Business Plan
- H&S system development
- Project governance

CEC establish their own internal governance structure through a sub-Committee of the Council's Transport, Infrastructure and Environment Committee, dedicated to the Tram Project

SLIDE 5

Mid 2007 governance model :



Audit Scotland review mid-2007 noted that : “Arrangements in place to manage the project appear sound with a clear corporate governance structure for the project which involves all key stakeholders.”

**Corporate versus Governance model**

- **Important to distinguish between these – the project governance model is designed to bring multi-stakeholder interests into cohesion, facilitate efficient and sound decision-making and provide mechanisms for problem resolution.**
- **The corporate model reflects the legal entities – CEC, TEL, tie, LB – whose Boards (and the Council) are responsible for the stewardship of their assets and interests. In addition, must respond to regulation notably here the effect of the Transport Act 1985.**
- **Maintaining the balance between these sometimes conflicting interests has been a constant challenge.**
- **In mid-2007 the governance model was operating within the corporate structure where tie, TEL and LB are all separate subsidiaries of CEC. Workable but not ideal.**

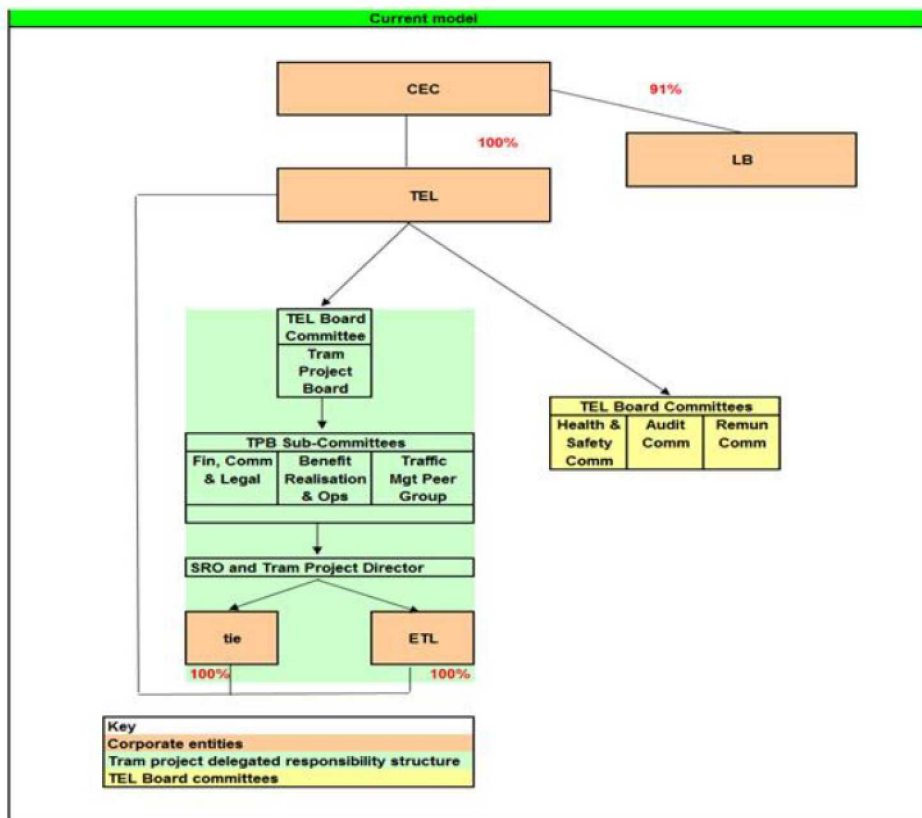
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2007-2009

The model proposed deployed in the construction period (since May 2008) has worked reasonably well Communications and relationships are generally much more open and inclusive across “the family”

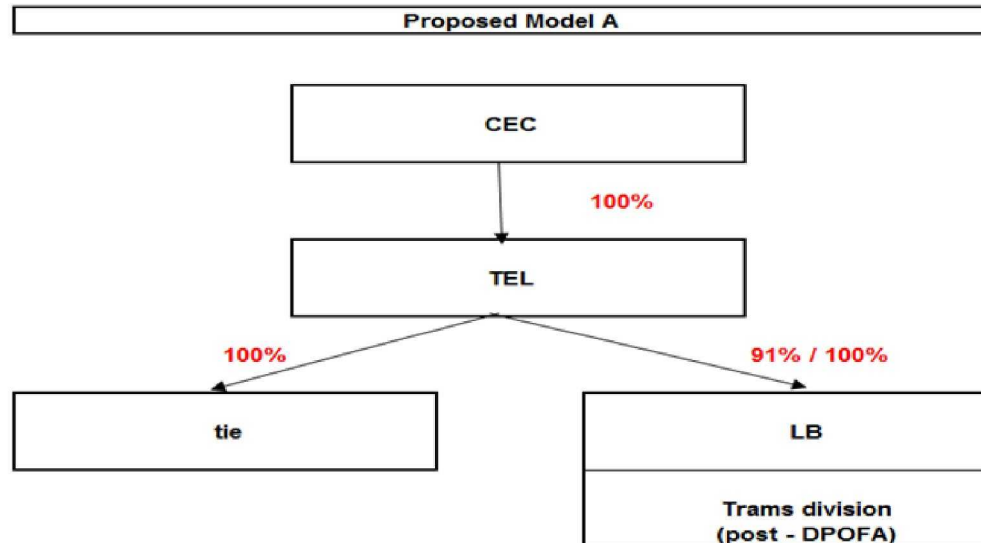
In late 2008, planning commenced to implement the corporate and governance model which will support operations.

Two phases – phase 1 completed December 2009 resulting in the following structure, which is formally documented in Operating Agreements and Memoranda of Understanding between the Council and the family of companies :



SLIDE 8

Phase 2 is underway, with the corporate structure targeted on :



SLIDE 9

**Main objectives of Phase 2 reorganisation**

1. To create a corporate and operational model which provides the TEL family of companies with efficient and effective governance, supports the management and Board in defining and delivering TEL's objectives and supports the planning for and operation of a safe integrated bus and tram system.
2. To ensure the roles and responsibilities of the main stakeholders are clear – TEL, LB, tie, ETL and CEC – and to ensure that individual management responsibilities are also clear
3. To ensure that H&S responsibilities are clear at every stage of the process
4. To ensure full legal and regulatory compliance including competition law, procurement law, State Aid, TA85
5. To accommodate the structure required for efficient tax planning
6. To achieve buy-in from key stakeholder groups including employees, supplier and contracting partners and the travelling public
7. To support the development of a high-performance culture in all aspects of the business

**Advantages of the TEL Group model**

1. Policy development and direction remains with the Council
2. TEL could provide strategic transport development capability beyond the requirements of the existing Phase 1A tram and LB bus operations
3. provides an effective governance interface with the Council, with the Board of TEL accountable to the Council, transparent as to its activities due to its independent statutory structure
4. subject to legal confirmation, enables Councillor and Council Officer involvement in the Board of TEL, not possible at the LB Board level due to the constraints of the Transport Act 1985
5. accommodates governance over a future project delivery company (tie)
6. achieves insulation of operations (LB) from the Council interface and from assessment of wider transport activities in the Edinburgh Region, such as extensions to the tram network
7. provides a single point of focus for all transport related matters in the Edinburgh Region – strategic and operational - for all stakeholders, including the Council, Transport Scotland, Scottish Government and Ministers.
8. provides over-arching Board oversight of performance measurement and remuneration relating to project delivery and to operations
9. achieves a legal structure which meets all requirements including the “single economic entity” model required under competition law
10. creates a tax group which could facilitate efficient application of the capital cost of infrastructure construction
11. facilitates migration of Board appointments

Probably the most critical action in the short term is to define the medium and long term role of TEL relative to the Council as Transport policy-maker and to LB as integrated system operator.