



EDINBURGH TRAM
Highlight Report to the
Chief Executive's
Internal Planning Group
11 June 2008





1 Background

This 'highlight report' is an update to the Chief Executive's Internal Planning Group on the Edinburgh Tram Project to inform on the progress on this project and any decisions required, particularly regarding the tram approvals process.

2 Executive Summary

2.1 Matters Arising

Tram Sub Committee 16 June 2008

A report titled 'Edinburgh Tram – Update on Financial Close' will be presented along with three presentations, one from *tie ltd*.

Statutory Council Approvals and Consents

As the detailed design continues, there are several statutory consents that the Council must provide. These include Planning Prior Approvals, Building Warrants, Roads and Structures Technical Approvals.

tie's Deliverables for Contract Award

The Council still awaits the outstanding information from *tie ltd* for the deliverable for contract award.

Financial Update

A financial update is provided for the project which includes a breakdown of the Council's contributions and projected cash flow.

Line 1b – Roseburn Corridor Update

A project team, led by *tie ltd*, has been set up to develop the business case for phase 1b (along the Roseburn corridor) with completion of their report by Christmas 2008.

Tram Line 3

A draft high level briefing paper has been prepared that identifies the key milestones for the delivery of Tram Line 3.

2.2 Matters to Note or for a Decision

- To note the position with the status of *tie's* deliverables and for pressure to be applied to *tie ltd* to ensure that this piece of work is closed out properly.
- To note the position with CEC resources.



3 Tram Sub Committee 16 June 2008

A joint report will be presented providing an update on Financial Close. Three presentations will also be given on the following:

- Tram Update presentation from *tie ltd*
- Infrastructure Programme
- Temporary traffic management at Haymarket

A copy of the report is provided as Appendix 1.

The remit, meeting frequency and any oversight gaps is being reviewed. A verbal update will be provided during the meeting.

4 Statutory Council Approvals and Consents

The table below provide an updated summary position on all the necessary approvals required from the Council for the tram project. A further detailed breakdown is attached as Appendix 2

Bi-weekly 'Task Force' meetings are held between *tie Ltd*, the designers, BBS and the Council to closely monitor progress and minimise potential delays. Current progress is broadly in line with V31 of the programme. Where delays have occurred mitigation plans are in place.

An additional resource is being sought (using the Council's framework contract with Halcrow) to be responsible for tracking all the Council's approvals. The funding for this will be contained within the agreed additional resource costs of £433K for 2008/2009.

CEC Statutory Council Approvals and Consents	Total Number of Submissions	% Complete
Prior Approval	63	41%
Full Planning Permission	9	11%
Listed Building Consent	10	0%
Scheduled Monument Consent	1	0%
Building Warrant	12	8%
Technical Approvals (including Structures, Roads and Drainage)	92	32%
Total	187	33%

5 tie's deliverables for Contract Award

Although good efforts have been made to conclude the major contracts, information is still awaited from *tie ltd* regarding their deliverables for contract award. To ensure good administration and to protect the Council's interest, it is recommended that pressure be put on *tie ltd* to resolve this.



6 Financial Update

The Council's contribution to the project and cashflow is detailed in Appendix 3. In summary, the contribution comprises:

CEC Cash	£2.5m
CEC Land	£6.2m
Developer Contributions Land	£2.2m
Developers Cash Contributions	£25.4m
Capital Receipts	£9.7m

7 Phase 1b (Roseburn Corridor) Update

A project team, led by *tie ltd*, has been set up to develop the business case for Phase 1b (along the Roseburn corridor). Although a final decision on Phase 1b execution is not required until July 2009, it is anticipated that the business case will be completed by Christmas 2008 to align with Transport Scotland's progress requirements.

8 Tram Line 3

It is anticipated that the overall programme to complete Tram Line 3 is seven years, from review to completion, at an estimated capital cost of £320m (at 2008 prices); however this is dependant upon the Government's transport priorities and funding allocation. In this context, we need to be mindful of the Governments funding commitments for the next Forth Crossing as this would likely influence any decision. A draft briefing paper is attached as Appendix 5.

9 MUDFA Progress Update

Overall, cumulative progress is approximately six weeks behind programme and, prior to mitigation shows a two week impact on the Infraco programme. *tie ltd* are currently agreeing Revision 7 of the MUDFA programme which will mitigate any likely impacts. Progress of the works in the period has shown improvements in Leith Walk and Shandwick Place and efforts have been co-ordinated to produce close-out programmes for these key areas as well as Constitution Street and St Andrew Square.

Core reasons for the programme slippage include resource levels lower than required to meet programme outputs and higher congestion of utilities than expected in Leith Walk and St Andrew Square. Action plans to improve these productivity levels include additional HR support within Carillion to ensure timely and adequate supply of resource and in particular supervisory level resourcing. Resource smoothing is an integral part of Revision 7 of the MUDFA programme to avoid peak resource requirements.

It has been agreed with *tie ltd* that they will provide the Council with a combined delivery programme that takes account of all works. This will allow the Council to undertake its statutory Roads Authority functions, particularly the co-ordination of all roadworks in the city.

Final approvals for Haymarket traffic management plans are progressed and will be completed shortly to allow communication to stakeholders and the public.



10 INFRACO Advanced Works Update

Approval has been given to netting along boundary of the Limits of Deviation (LOD) and Gogar drain to discourage new badger sett construction. This will be completed shortly. Invasive species treatment is also ongoing.

The RBS hoarding was erected and archaeological works have commenced. A significant amount of archaeology has been recorded at the advance works sites and full reports and carbon dating are underway. The finds include hut circles, corn drying ovens and pottery. The decision to undertake the works in advance is aimed at minimising the risk of any delay to the main Infraco programme.

11 INFRACO Mobilisation Update

The fencing and the temporary traffic management in relation to the demolition of the Caledonian Alehouse has been erected. The Building Warrant has also been obtained from the Council and following the scaffolding erection, the building will be demolished.

12 INFRACO Main Works Update

An initial Infraco meeting was held on 21 May 2008. This involved *tie ltd*, BBS and SDS and was used to outline a number of important ground rules regarding the way the teams will work together in the future.

A number of instructions have already been issued to Infraco in respect of value engineering.

A series of workshops to agree final alignment between current SDS design and Infraco construction proposals have commenced and Council officials are taking part in those discussions.

Infraco have commenced engagement on the design process and this is evident by their presence at a number of design meetings including the Prior and Technical Approvals taskforce.

13 Miscellaneous

13.1 CEC Resources

- **Internal Resources**

Existing CEC staff are carrying out the statutory approvals process and the related necessary administration for the tram project. Over fifty individual internal members of staff are directly involved in the tram project at this time. A total of 865 staff hours has been utilised on the tram since April 2008 at a cost £29K. These costs are being borne by CEC and are contained within existing budgets.



- **Additional Resources**

To assist with the approvals process additional staff have been brought in to either carry out the necessary work directly or alternatively free-up existing resources to do that work and use the extra resources to cover that shortfall. A total of 18 FTE have been employed since April 2008 at a cost of £98K, which was contained within the tram budget costs.

The budget for the additional staff costs for 2008/2009 totals £433K.

List of Appendices:

- 1 – Report to the Tram Sub Committee on 16 June titled ‘Edinburgh Tram – Update on Financial Close’
- 2 – Statutory Council Approvals – Tables 1 and 2
- 3 – Financial Update
- 4 – Phase 1b Update
- 5 – Tram Line 3 Briefing Paper



Edinburgh Tram – Update on Financial Close

Tram Sub-Committee

16 June 2008

1 Purpose of report

- 1.1 To notify the Tram Sub-Committee about the Financial Close of contracts for the Edinburgh Tram Network (ETN).

2 Main report

- 2.1 A report updating the Council on the imminent completion of the contractual negotiations for the ETN was submitted to Council on 1 May 2008. Delegated authority, awarded to the Council's Chief Executive by the Council on 20 December 2007, was refreshed to allow **tie** Ltd to enter into contracts to deliver the ETN, subject to suitable due diligence and provided that any remaining issues were resolved to the Chief Executive's satisfaction.
- 2.2 A further B Agenda report was provided to the Policy and Strategy Committee on 13 May 2008 to approve the final estimated cost for the ETN, to authorise **tie** Ltd to enter into contracts with the Infraco and Tramco bidders and to refresh the Chief Executive's delegated authority to make any final, minor amendments in respect of the contracts.
- 2.3 The contracts are now concluded and signed. The final terms differ from those anticipated in the Chief Executive's report to the Council on 1 May 2008 in that the estimated capital cost for phase 1a now stands at £512m with a further contingent payment of £3.2m due, if phase 1b is not built. This figure is well within the available funding of £545m.
- 2.4 There is no change to the planned date for commencement of fare paying services in summer 2011.

Recent Developments

- 2.5 It was reported to the Council on 1 May 2008 that, during contract negotiations, underlying costs were subject to the conversion of provisional prices to fixed sums, currency fluctuations, inflationary pressures and the transfer of risk to the private sector. The finalisation of the contracts required further amendments for similar reasons.

- 2.6 Since then, **tie** Ltd has continued to work to ensure the competitiveness of the developing contract terms so that these continue to represent best value and are fully aligned with relevant regulations, culminating in Financial Close on 14 May 2008. Offsetting the increase in cost is a range of negotiated improvements in favour of **tie** Ltd and the Council in order to reduce the risk of programme delays and minimise exposure to additional cost pressures, as well as better contractual positions.

Capital Cost and Quantified Risk Allowance

- 2.7 The estimated capital cost of phase 1a, as reported to the Council on 1 May 2008, was £508m, consisting of base costs of £476m and a Quantified Risk Allowance (QRA) of £32m.
- 2.8 Following the introduction by the contractors of additional cost pressures late in the due diligence process, **tie** Ltd held negotiations with them to substantiate its requests for contract price increases and to seek to limit the increase. To help reduce the risk of programme delays, the price increase agreed will be paid as a series of incentivisation bonuses over the life of the contract, on achievement of specified milestones. This approach should minimise the risk of delays to the agreed programme of works to businesses and residents of Edinburgh. These changes increased costs by £4m to £512m consisting of base costs of £481.8m and a QRA of £30.2m. The cost increase has resulted in transferring further risks to the private sector. In addition, part of the package negotiated entitles the contractors to an additional payment of £3.2m, should the Council decide not to construct phase 1b of the tram network. This would result in a final estimated capital cost of £515.2m should phase 1b not proceed.

Benefits of the final deal

- 2.9 In return for the financial amendments, **tie** Ltd has secured a range of improvements to the contract terms and risk profile.
- 2.10 The improvements to the contract terms and risk profile are:
- Immediate contract close on preferred terms
 - Elimination of risk of claims arising from works underway
 - Capping of road reinstatement cost exposure
 - Capping of roads related prolongation
 - Entry of Construcciones y Auxiliar de Ferrocarriles SA (CAF - the Tram Vehicle Supplier) into the Consortium

In summary, the late price pressure has been contained at £4m as a result of the items noted above. These additional costs have been offset, in part, by a reduced risk exposure. A further agreement has also been established that **tie** Ltd and the Council will underwrite contingent Phase 1b demobilisation costs of £3.2m if Phase 1b does not proceed with the contractors.

Alternatives Considered

- 2.11 The very late increase in contract price was clearly undesirable, although an evaluation of the revised proposal concluded that it continued to represent the best option in terms of price, programme and quality. All other options considered would have resulted in extending the time period for financial close by at least three months and so any potential commercial advantage would be more than offset by inflation, additional procurement costs and **tie** Ltd's own running costs, as well as delaying the commencement of revenue generation from the trams.

3 Financial implications

- 3.1 The estimated final cost for phase 1a of the Edinburgh Tram Network of £512m, with a further contingent payment of £3.2m due, if Phase 1b is not built, remains well within the agreed funding envelope of £545m.
- 3.2 While the process to reach Financial Close has been longer than anticipated, the final terms are within 2.8% of the Final Business Case estimate of £498m and 0.8% of the estimated cost reported to the Council on 1 May 2008 (provided that phase 1b is built). It is, therefore, considered that the contract terms continue to represent the best value delivery option.

4 Recommendations

- 4.1 It is recommended that the Tram Sub-Committee:
- (i) notes Financial Close on 14 May 2008 and the updated position on the suite of contracts for the Edinburgh Tram Network.
 - (ii) congratulates all the staff of **tie** Ltd, TEL and the Council involved in the negotiations which led to Financial Close.

Dave Anderson
Director of City Development

Donald McGougan
Director of Finance

Appendices None

Contact/tel Andy Conway 0131 [REDACTED]
 Alan Coyle 0131 [REDACTED]

Wards affected All

Background Papers None

Statutory Council Approvals

Summary Table

CEC Statutory Council Approvals and Consents	Total Number of Submissions	% Complete
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Building Warrant	12	8%
Technical Approvals (including Structures, Roads and Drainage)	92	32%
Total	187	33%

Table 1 - Planning and Building Warrant Approvals

CURRENT STATUS	Sub Totals	Prior Approval	Full Planning Permission	Listed Building Consent	Scheduled Monument Consent	Building Warrant
Informal Consultation Not Started	8	7	1	0	0	0
Informal Consultation Started	16	10	5	0	1	0
Application Submitted	34	20	2	10	0	2
Approval Granted	28	26	1	0	0	1
GRAND TOTAL and Sub Totals	95	63	9	10	1	12
% Complete	30%	41%	11%	0%	0%	8%

Table 2 - Roads & Structures Technical Approvals

CURRENT STATUS	Sub Totals	CEC Technical Approval	Roads Construction Consent	*Network Rail Form A	*SW Drainage Outfall Consent	*SEPA	*SNH	*BAA Approval
TA delayed due to recent change	16	12	0	0	0	3	0	1
Issued for informal consultation	0	0	0	0	0	0	0	0
Issued for Technical Approval	43	31	0	2	9	1	0	0
Technical Approval Granted	34	29	0	4	0	0	1	0
Not Yet Due	28	20	2	5	0	1	0	0
Delay	3	0	0	0	0	3	0	0
GRAND TOTAL and Sub Totals	124	92	2	11	9	8	1	1
% Complete	27%	32%	0%	36%	0%	0%	100%	0%

* These consents are not CEC's responsibility, but for completeness they have been included as they are required to allow construction to commence.

FINANCIAL UPDATE (to 4 June 2008)

1 Council Contribution

Council's contribution is to be made up from a variety of sources. The latest position is detailed below:

- **CEC Cash - £2.5m (No Change)**
- **CEC Land - £6.2m (No Change)** - £4.3m is for Phase 1a. The £4.3m £2m of the £6.2m is for Phase 1b. If Phase 1b does not go ahead alternative funding sources will be required.
- **Developers Contributions Land - £2.2m (No Change)**
Of the £2.2m land contribution from developers £1m relates to Phase 1b. Again if Phase 1b does not go ahead further funding sources will be required.
- **Developers Cash Contributions - £25.4m**
Contributions from developers have always been identified as a key component of the Council's financial contribution to the project. **£3.04m** has been contributed to date.
- **Capital Receipts - £9.7m** – The Council's figure of £9.7m is net of risk. The assumptions behind the amounts available via Capital Receipts has been independently assessed the findings of which were that this figure is achievable.

2 Cashflow

The cashflow profile for the project has changed substantially in 2007/08 and 2008/09 due to the slippage in signing of the Infraco contract. The first milestone payments to CAF, SDS and BBS of circa £60m have been made. These payments are largely for mobilisation payments and advance steel purchases. Table 1 shows estimated annual cashflows with the corresponding gross contribution required from the Council.

Table 1 – Based on *tie* Period 13 Cashflow

Year	Cashflow £m	Transport Scotland Cap £m	CEC Estimated Contribution (8.3%) £m
06/07	39.6		3.27
07/08	51.2		4.22
08/09	199.6	120.0	16.48
09/10	122.5	149.0	10.11
10/11	88.3	Balance + Slippage	7.29
11/12	10.6		0.87
12/13	0.2		0.01
	512		42.26

Transport Scotland funding is capped at £120m for 2008/09 with *tie*'s current cashflow forecast £199.6m. A concerted effort will have to be made to monitor *tie*'s cashflow forecasts in the next year with this cap in mind. This potentially could result in an increased borrowing requirement by the Council. TS have contributed £167m cash to date with forecast spending for the next period of £50.5m. The following two financial years provide £120m and £149m respectively with the balance of funding up to the maximum of £500m provided in 2010/11.

3 Capital Cost

The Capital Cost is as per the Tram Sub-committee report dated 16 June 2008 (See Appendix 1).

Phase 1b Update

1 Introduction

- 1.1 This paper is intended to update the Chief Executive's IPG on the work streams surrounding the Business Case for Phase 1b.

2 Phase 1b Timescales

- 2.1 The final date for a decision on the execution of Phase 1b with BBS is July 2009.
- 2.2 It is anticipated the work produced by the Phase 1b Project Team will be completed in November 2008. Transport Scotland would require progress on the Phase 1b position by around Christmas of 2008.

3 Phase 1b Business Case Project Team

- 3.1 A project team has been set up led by Stewart McGarrity, Finance Director of *tie*, to look at the business case for Phase 1b.
- 3.2 The project team will look at a series of work streams as part of this exercise and staff from the Council, *tie*, TEL and Lothian Buses and where appropriate external consultants will form the team.
- 3.3 Council representatives on the various work groups are Ewan Kennedy and Lex Harrison representing Transport, Sheona Marshall representing Economic Development and Alan Coyle representing Finance.
- 3.4 The project team has been split into a number of work groups focusing on each of the following activities:
- **Co-ordination of overall exercise** - including reporting to Tram Project Board, TEL and the Council.
 - **Economic Development Assumptions** - Forecast patronage which will include work by Steer Davis Gleave and liaison with Waterfront Edinburgh Limited on development assumptions.
 - **Updated TEL Business Plan** - which will include work on yield, passenger forecasts, potential income sources, operating costs, heavy maintenance and lifecycle costs, CEC dividend options, Inflation, Tax and financing options.
 - **Phase 1b Capital Expenditure** – £87m was given as the indication price for Phase 1b at preferred bidder stage. The costs associated with Phase 1b will require to be revisited to take account of inflation and other factors. A risk allowance will have to be applied, possibly in the region of 11% of base costs.
 - **Phase 1 b Funding/Options Appraisal** – Establishment of required funding based on a £87m cost estimate and Phase 1a estimated costs; a funding gap of £55m exists. Work will be undertaken to investigate and appraise various funding options for Phase 1b, including, Section 75 contributions, Capital Receipts, unused contingency from Phase 1a, Lothian Buses Contribution through fare levy or potential disposal, Leasing Options, Asset Rental to TEL, Prudential Borrowing and further Transport Scotland Investment.

4.0 Nature of Benefits

- Economic Regeneration
- Servicing Telford College, Western General Hospital, Craigmyle Retail Park.
- Social Inclusion
- Large Scale Redevelopment of Granton Area
- Absence of Phase 1b would contribute to more city wide congestion and related environmental impacts.

5.0 Future Reporting

- 5.1 It is envisaged a report on the progress of the work streams associated with Phase 1b be brought to this meeting as a regular agenda item.

Tram Line 3 Briefing Paper

Background

The initial business case was been prepared in 2004 and draft Parliamentary Orders produced in preparation for submission to Parliament. However as a consequence of the Roads User Charging referendum, which was to provide the mechanism to fund this tram line, Transport Scotland instructed the Council not to promote the order.

No work has been carried out on tram line 3 since that date; however the basic argument for this need has not changed with the development of the South East Wedge and particularly the new bio-park facilities and enhancement of the links to the University and the new Royal Infirmary at Little France.

Milestones

There is a fundamental change to the Parliamentary procedures because now there is the option of adopting the Transport and Works Order Process. Instead of reporting to parliament this power is delegated to an independent reporter who considers objections to the tram order. The effect of this is still to fully consider objections; however the benefit is that the timescale for reporting is reduced because the reporter can dedicate their time to completing the process unlike MSPs.

The key milestones are as follows:-

- Review of the original design and business case take account of learning points from tram line 1a
- Commitment to funding
- Consultation with third parties before promoting the order
- Promoting the order and holding the Hearing
- Report to Council on the outcome of the Reporter's finding
- Report back to parliament on any no conformances with the Reporter's findings
- Prepare a draft Business Case including STAG appraisal and approval from Council to proceed with procurement
- Detailed design of the tram
- Procurement of the Tram contracts- Mudfa, Infraco and Tramco
- Agreements with third Parties
- Land and Property using GVD powers
- Implement enabling works including utility works (Mudfa)
- Implement tram work (Infraco)
- Manufacture trams (Tramco)
- Commission the Tram
- Commence commercial operation of the tram.

Time Line

It is expected that to initiate a review of the design and report to Council to seek their approval to proceed and promote the Bill, subject to available funding, that up to promoting the order will take 12 months. The next stage will be promoting the order through the Transport and Works Order 12 months. Post approval of the orders it is anticipated the procedure necessary to obtain funding and complete the procurement process through to construct the tram is anticipated to take 5 years. In total it is anticipated that the overall programme is 7 years, from review to completion.

Conclusion

The merit in favour of tram line 3 is still very strong and the drivers for providing it, including the bio-park remain. The time line for the tram has reduced by 1.5 years because of the new legislation delegating powers from Parliament to the Reporter. The major challenge still remains the funding and support from the Scottish Government will be vital and influence the timeline. Previously, the tramline 3 was the 10th highest scheme on the Government's transport list and it is anticipated that the cost benefit return will still be high, however the availability of capital construction funding in the order of £320m (at 2008 prices), will be dependant upon the Government's transport priorities and funding allocation. In this context it would be appropriate to be mindful of Government funding commitments for the next Forth Crossing as this is likely to influence the earliest start date for tram.