

## **EDINBURGH TRAM PROJECT NOTE FOR MEETING WITH BILL REEVE**

### **Progress**

Generally good, negotiations with BBS and CAF progressing constructively ; due diligence process working well ; no major changes to overall cost or risk allocation emerging although work this and next week will cover important ground ; good progress with key third party agreements (NR, FP, BAA) ; creation of robust project management team and structure for construction period well in hand with excellent recruits ; report requested by Council Conservative Group on £45m contribution due this week and anticipated to be positive ; and Gateway 3 matters substantially resolved (letter from Council to TS due this week).

Areas of concern include continued (though less severe) issues with delivery of design material and consequences for programme and (less significant) for budget ; SDS novation process – some evidence of sparring between BBS and SDS which needs resolved ; and BBS seeking Council guarantees and commitment to project funding (see below).

### **Interface with Transport Scotland**

#### *Governance*

- TS / CEC 4-weekly meeting - seniority of attendees, especially in the period from now through to mid-2008 while contract management beds in. We also strongly recommend senior tie presence
- Submission dates for 4-weekly project reports awaited and needed to fit overall project cycle.

#### *Scotrail*

Working with NR to achieve First Scotrail approval to station and depot changes ; may need support from TS if process slips, eg through commercial negotiation on car park impact, where TS have insight into fair terms

#### *Award letter and profile of spend*

We see this process as containing two separate but related streams – 1) agreement of terms of letter between TS and CEC ; and 2) finalisation of drawdown schedule. Letter from Donald McGougan (copy attached) sets out Council's main concerns – very important that these are addressed urgently at senior level. More detailed points are subject to dialogue between junior officials which needs monitored to ensure swift progress.

The timetable to reach financial close and its proximity to the financial year-end create difficulty in being firm about spend in the period to financial close and in the stub period of two months to 31.3.07. We recognise the constraints around annual public sector allocations, although we'd appreciate understanding why End-of-Year Flexibility does not apply to the tram project. More generally, it will be damaging to

the efficient conduct of the project if we do not have reasonable flexibility within the aggregate grant to accommodate ebbs and flows of activity.

BBS continue to request sight of the formal funding arrangement between the Council and Government in support of their assessment of Council guarantee arrangements. We need to manage their confidence level sensitively to hold the line (or gain advantage) in the negotiations.

In addition, we must have an efficient payment process which does not involve delay or detailed 4-weekly scrutiny. We propose a regular (quarterly ?) review of payment underpinning conducted outwith the time-critical end of month payment process. In this context, the Council is effectively a pass-through mechanism, all of the accounting and control is effected within tie.

In addition to the need for an agreed form of grant letter to support Council approval on 20 December, we want to get HMRC clearance on the terms of the grant letter. To do so, we need early agreement on the draft form, allowing for HMRC turn-round timescales.

TS's confirmation that they can meet the approval requirements in line with the programme to Financial Close is welcome. It would be helpful to have insight into the process to achieve TS and Cabinet Secretary approval, in line with the outline timetable attached to ensure we are aware of all requirements.