



Transport Edinburgh
Trams for Edinburgh
Lothian Buses

Tram Project Board

Papers for meeting 19th December 2007

09:00am – 12:00pm

Distribution:

David Mackay (Chair)
Willie Gallagher
Neil Renilson
Bill Campbell
Andrew Holmes
Matthew Crosse
Donald McGougan
Graeme Bissett
Geoff Gilbert
Colin McLaughlin
Phil Wheeler

Stewart McGarrity
Jim McEwan
Jim Harries
Steven Bell
James Stewart
Susan Clark
Andrew Fitchie
Alastair Richards
David Crawley
Miriam Thorne (minutes)

TRAM PROJECT BOARD

FOISA exempt
 Yes
 No

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Tabled paper

BBS deal summary 10

Agenda Tram Project Board
Brunel Suite – Citypoint II, 2nd Floor
19th December 2007 – 9.00am to 12.00pm

Attendees:

David Mackay (Chair)	Stewart McGarrity
Willie Gallagher	Jim McEwan
Neil Renilson	Jim Harries
Bill Campbell	Steven Bell
Andrew Holmes	James Stewart
Matthew Crosse	Susan Clark
Donald McGougan	Andrew Fitchie
Graeme Bissett	Alastair Richards
Geoff Gilbert	David Crawley
Colin McLauchlin	Miriam Thorne (minutes)
Phil Wheeler	

Apologies:

- 1 Review of previous minutes and matters arising
- 2 Infraco negotiations / programme
- 3 Tramco exchange rate risk
- 4 Operating agreements / Governance
- 5 Date of next meeting
- 6 AOB

Edinburgh Tram Network Minutes

Tram Project Board

07 December 2007

tie offices – Citypoint II, Brunel Suite

Principals		Participants:	
David Mackay	DJM (chair)	Matthew Crosse	MC
Willie Gallagher	WG	Stewart McGarrity	SMcG
Donald McGougan	DMcG	Graeme Bissett	GB
Andrew Holmes	AH	Steven Bell	SB
Neil Renilson	NR	Bill Campbell	WWC
		Geoff Gilbert (partial)	GG
		Alastair Richards	AR
		James Papps (for James Stewart)	JP
		Colin McLauchlan	CMcL
		Jim Harries	JH
		Miriam Thorne (minutes)	MT

Apologies: James Stewart

1.0	REVIEW OF PREVIOUS MEETING	Action
1.1	The previous minutes were taken as read.	
2.0	Matters Arising	
2.1	The Board noted with disappointment that the ongoing question of CEC recharges to the Tram Project for staff costs post March 08 was still not resolved. DJM re-iterated the outline details of the understanding reached with Tom Aitchison and NR on 15 th August. It was eventually agreed that an off-line discussion involving AH / DMcG / NR and DJM might help to finalise this saga.	AH / DMcG / DJM / NR
3.0	Presentations	
3.1	WG provided a high-level overview of key elements progressed during the period and the issues to be discussed in detail at this TPB.	
	Design programme and Bidder due diligence	
3.2	SB gave an update on the progress of these matters, highlighting the following aspects: <ul style="list-style-type: none"> • Slow design delivery requires prioritisation within key streams to help BBS programme; • Price certainty is increasing but slow and some areas of provisional pricing may remain at end – December 07; and • Feedback from initial information on technical approvals is encouraging. 	
3.3	AH queried the impact of the late design delivery, particularly its knock-on effects on the MUDFA programme, any change in risk profile accepted by the Infraco and the price impact.	
3.4	SB explained that although the programme was tight, the current MUDFA	

	Rev. 06 programme accommodated the design delivery programme without price impact at the moment.	
3.5	SB also explained that the areas of provisional pricing were roads, tramstops and certain structures. Out of these, the roads pricing were the most uncertain as others had been widely explored. The technical reviews so far showed little likelihood of major reworks with significant price impacts being required.	
3.6	WG advised that from BBS's perspective the price critical areas were Picardy Place and the Forth Ports area plus potential implications arising from the obligations to obtain consents and complying with 3 rd Party Agreements. He expected that greater certainty around these matters would be available following the latest return of price information from BBS, expected early w/c 17 th Dec.	
3.7	The Board noted CEC's concerns about the timing to achieve clarity on the above. However, it was stressed that with the current status of negotiations, information would have to be considered at short notice. To this end, an additional TPB would be held on Wed 19 th Dec.	
3.8	It was agreed that, given the sensitive stage of the process, meetings / telephone conferences would be held between WG / DJM / AH / DMcG several times a week to monitor progress against the Financial Close delivery programme.	WG / DJM / AH / DMcG
	Picardy Place	
3.9	WG suggested that the project proceeded with the gyratory layout at Picardy Place for the purpose of achieving price certainty with BBS. Changing the layout to the proposed T-junction could then be processed under a change control application. As the design for the gyratory layout was sufficiently far progressed to allow fixed pricing, this would avoid the matter being used as a bargaining tool in the current discussions.	
3.10	SB informed the Board that SDS had been aligning themselves to progress design on a T-junction, although the formal change order had not yet been processed.	
3.11	AH expressed CEC's concern about staying with a gyratory layout as there are other considerations than purely transport integration which have to be taken into account. Further, important shareholder buy-in had been achieved for the T-junction proposal and it was not very likely that the gyratory layout would achieve prior approvals consent.	
3.12	The Board acknowledged the differing aspirations of the various stakeholders. It was agreed that a meeting should be scheduled to discuss the matter following further key price information due from BBS early w/c 17 th Dec.	WG / AH
	Infraco	
3.13	GG presented the current status and planned programme for conclusion of the Infraco bid discussions and achieving Financial Close. Key points discussed were as follows: <ul style="list-style-type: none"> • Consents: Infraco will take the responsibility to obtain consents to construct and operate the ETN. However, if the consenting authority was to act unreasonably and cause delays, Infraco would be due compensation for time extension; • SDS Novation: good progress was being made; and 	

	<ul style="list-style-type: none"> Tramco negotiations: contract and technical alignments were being achieved. Current position allowed firming up on the potential exchange rate risks arising from contract pricing in Euros, steps were being taken to close out this risk. 	
3.14	The Board noted that there had not been any indication of a potential challenge from either of the reserve bidders.	
	Programme update	
3.15	The Board was informed that the current draft construction programme showed completion date of March 2011, delays having occurred due to the issues in the Forth Ports area (particularly Victoria Bridge and Leith Docks) and Picardy Place. SB explained that a relaxation of the embargo period relating to Picardy Place in Summer 2010 would allow the programme to be pulled back to Feb 2011. He also advised that all programme consideration was made with price impacts in mind as well as ensuring sufficient amounts of float for the programme.	
3.16	AR advised the Board that full alignment of the DPOFA was expected by 17 th Dec. Feedback to be provided to the next TPB	AR
	Capital Costs	
3.17	SMcG provided an update on the current project estimate. The Board noted that despite certain price pressures on the project base costs, the current ongoing review of the price information indicated no change from the previous project estimate of £489m.	
3.18	The Board noted the fact that certain VE opportunities have not yet crystallised, which is a function of the status of the due diligence process. Overall, WG affirmed his confidence that the bidders would stand behind their bid figures, especially in light of their wider UK market strategy.	
	Firming up on provisional pricing	
3.19	GG explained the process and timescale for achieving maximum price certainty possible prior to Financial Close. He also stated that BBS internal Board discussions had provided additional confidence that the contract date of 28 th Jan 08 was achievable. Additionally, it was highlighted that there was an option to extend slightly that programme if it was beneficial to the project without negatively affecting the construction programme and costs.	
	Delivery team update	
3.20	SB explained that good progress was being made to shape, roles and size of the future team. He also explained that the current perceived cost pressures were primarily due to the extension of the design and approvals timescales.	
	Grant Award letter	
3.21	SMcG gave an update on the status of the Grant Award letter. Further drafts were expected from TS and expectations were to have all issues resolved prior to the Council meeting on 20 th Dec.	
	Governance	
3.22	GB presented an update of the Government arrangements, focussing on the current status of the operating agreements between CEC and tie / TEL respectively. He stressed the importance of ensuring that implications from the perspective of the Competition Act were considered in the drafting of these agreements.	

3.23	The Board noted that neither the tie , nor the TEL Operating Agreements had been sufficiently progressed to be approved. It was stressed that it is essential to have the tie agreement approved at the Full Council meeting on 20th Dec. DMcG / AH are to take forward the discussion with CEC legal to finalise the tie Operating Agreement based on a draft provided by AH / GB. Feedback to be provided by 11 Dec to allow the tie Board to approve the Agreement from tie 's side.	AH / DMcG
3.24	The Board stressed also that the TEL operating agreement must be finalised by 28th Jan 08. To this end, the key principle to be enshrined would be included in the CEC report to the Full Council on 20th Dec.	AH / DMcG
	Council Report	
3.25	The Board noted the draft report provided by CEC. WG stressed the need to codify the delegation of authority to the tie Chairman to sign the Infraco / Tramco contracts within the parameters of the Project Estimate, FBC and available funding.	
3.26	It was agreed that the CEC Report to the Full Council would not be formally issued prior to 14th Dec.	
4.0	Project Director progress report	
4.1	The Board noted the progress report including the following papers: <ul style="list-style-type: none"> • Primary Risk Register; • SDS progress paper; • Change Control paper; and • CEC contribution report. 	
5.0	Phase 1b	
5.1	The Board agreed that a working group should be established to consider options for funding etc of Phase 1b, to be lead by SMcG	SMcG
6.0	Peer Review Group	
6.1	SB presented the paper outlining the proposal to establish a regular Peer Review of the progress of the Tram project. It was suggested that the reviews should be linked to specific milestone in the delivery programme. SB to provide greater detail of membership and timescales.	SB
7.0	Advance mobilisation paper	
7.1	The Board noted the paper and approved the award of the advance mobilisation works.	
8.0	Network Rail	
8.1	SB provided an update on the current status of discussions with Network Rail. Good progress had been made in all areas, although the technical and programme risks remained until modelling outputs and likely solutions were agreed with Network Rail.	
9.0	Tax structuring	
9.1	GB presented the outputs from recent work done by PwC in relation to tax implications for the project. Key points included:	

	<ul style="list-style-type: none"> • No change to previous advice that VAT should be fully recoverable as long as funding was clearly in form of a grant, not income to CEC; • Work had commenced to obtain confirmation of this from HMRC; and • Work had started to consider options to realise Capital Allowances for TEL. 	
10.0	FBCv2	
10.1	SMcG stated that minor updates for wording had been completed and that no significant changes had been necessary to the FBCv1.	
11.0	OGC	
11.1	The Board noted that all recommendations from the OGC 3 review were complete. The Board also extended its gratitude to Susan Clark for the successful completion of the OGC 3 review.	
12.0	AOB	
12.1	n/a	

Prepared by Miriam Thorne, 16 December 2007

BBS INFRACO DEAL COMPARED TO PREFERRED BIDDER (FBC) STAGE

DATE:- 14/12/07

	At Preferred Bidder	Wiesbaden Deal 13/12/07	Comment
INFRACO		%	
Firm Elements of bid	159,120,890	213,910,342	96.50%
Provisional	49,579,452	0	0.00%
VE taken into firm price		(83,000)	-0.04%
VE taken into firm price- with conditions		(11,065,006)	-4.99%
VE additional items from deal meeting - with conditions		(2,670,000)	-1.20%
Premium for firm price for previously provisional items		8,000,000	3.61%
	208,700,342	208,092,336	93.88%
Infraco Normalisation (provisional items)	17,803,222	10,170,090	4.59%
Negotiated Infraco Bid	226,503,564	218,262,426	98.47%
Other Changes (See appended Sheet)		3,397,089	1.53%
Value Engineering	(19,666,047)		-9.51%
Anticipated Infraco contract sum (Final Deal)	206,837,517	221,659,515	100.00%
Non-Infraco items			
Non-Infrastructure works	16,502,332	6,769,684	
Advance works by others			Adjusted non Infraco items
Depot excavation	4,754,041	4,754,041	
Minor contracts	332,000	332,000	
	21,588,373	11,855,725	
Value Engineering	(10,286,100)	(4,560,000)	
Net Non-Infraco Items	11,302,273	7,295,725	
Contingency against conditions on VE not being realised	4,442,000	4,000,000	
Total £ included in Infraco Budget Line	222,581,790	232,955,240	
		10,373,450	Increase on Infraco line in the FBC Budget

RISK ALLOWANCE POST BBS INFRACO DEAL

DATE:- 14/12/07

MOVEMENTS IN BASE COST	£m
Infraco	10.4
Tramco	3.7
MUDFA/Utilities	(3.0)
Other	(1.0)
Increase in Base Costs	10.1

RISK ALLOWANCE

	Infraco Procurement £m	Other £m	Total £m
Per FBC	16.4	32.6	49.0
To cover changes above	(10.4)	0.3	(10.1)
Remaining	6.0	32.9	38.9

Note

Note: £6m is still available to cover procurement risks until Financial Close thereafter becomes contingency