

From: Rebecca Andrew
To: Hugh Dunn, David Robertson, Karen Kelly

Tram briefing – March 2007

Introduction

This paper is intended to give you an update on the main issues/workstreams associated with the tram project. Please get in touch if you require more detail.

Funding Agreement with TS

An initial meeting was held with **tie** and Transport Scotland on 19th March 2007.

Transport Scotland agreed in principle that cost overruns and savings should be shared in proportion to each funder's contribution (ie in a ratio 91% Transport Scotland: 9% CEC) However, this would need to be approved by both Scottish Ministers and by the Council. In practice, Council approval could be obtained at the same time as the approval of the Final Business Case for trams in October 07. Approval from Scottish Ministers would have to be gained in early summer, in case they do not want to take the larger share of the project risk. Advice is being sought from senior political advisors prior to the election "purdah" as to whether this model might be accepted by ministers.

An alternative model suggested has been that the risks are put against the partner most able to manage it (eg planning risk with CEC to limit "gold-plating"). The Council has argued that the Tram Project Board (TPB) is empowered to manage change control to limit "gold-plating" and to ensure the project is kept within budget. As both CEC and TS are represented on the TPB, it seems reasonable that risks are shared. The allocation of risks to funders could simply cause arguments and potential project delays as one funder tries to blame the other.

A draft agreement has been put together based on the 91:9 principle. This will be discussed at the next meeting with TS (mid April), before the involvement of lawyers from both sides.

The following issues are still outstanding:

- Transport Scotland is still to confirm the exact amount of indexation on the original award of £375m. The amount could be between £450m and £500m, but the DFBC assumes £500m, so any less than this would increase the funding gap.
- Transport Scotland is unwilling to state in the agreement the conditions required to allow the commencement of Phase 1b (Roseburn to Granton Square). If TS delay requires the contractor to suspend works between 1a and 1b, economies of scale would be lost and additional costs would be incurred, potentially making 1b unaffordable.
- Value of CEC land (part of £45m contribution) needs to be agreed with TS. We are currently assuming that the District Valuers assessment will be accepted.
- A further agreement is required between CEC and **tie** is required and this was not really discussed at the initial meeting.

Council £45m Contribution

A new governance structure has been devised to monitor the Council's ability to provide its £45m Contribution and to maximise developers contributions.

- 1) The remit of the CEC legal and property working group has been extended to include £45m contribution, and I now attend this group. This group will report regularly to the tram project board as well as to the Chief Exec's tram group.
- 2) A second group will specialise in maximising developers contributions for the project. This group is being chaired by Keith Anderson and includes representatives from legal, planning and **tie** as well as external advisors when appropriate. This group will feed into the legal and property working group.

Recent legal advice received allows CEC to collect contributions after the tram is in place, providing that they are used to repay borrowing costs associated with the project. David Cooper (planning), is working up an estimate of the likely contributions along the tram route and when each contribution is likely to be received. This will be used to inform any prudential business case for borrowing on the basis of future contributions.

Grant Awards, etc

Although the Minister has not approved the DFBC, a grant of £60m has been received for further development, procurement and utilities diversions, in advance of the Final Business Case/Financial Close in September. The grant letter for £60m has been received, but is still to be formally accepted by CEC.

Agreement to carry forward £10.6m from 2006/7 for land acquisitions has been reached with Transport Scotland, but the letter is still awaited.

Land Acquisitions

GVDs for £10.6m of land on line 1A have been issued today.

Utilities Diversions

The programme for utilities diversions has had to change dramatically due to the following factors:

- The original programme developed by **tie** assumed works on both 1A and 1B, but Transport Scotland funding is for 1A only (this was not unexpected and **tie** should really have been challenged on this at the TPB)
- The designer is behind schedule with the designs
- There is a requirement for a test site to be started pre-election for political reasons, but the main works are not expected until June. This will require the contractor to mobilise and demobilise

The contractor may be entitled to substantial compensation in relation to these changes. The potential cost of compensation needs to be quantified by **tie** as a matter of urgency, as it could adversely impact on overall project affordability.

CEC back-fill Staffing

Funding is being provided to cover the costs of additional staff (or back-fill). Colleen has worked closely with colleagues in City Development to develop a system whereby expenditure on additional staff is properly coded and reclaimed from **tie**.

Agreement with TIE over advanced funding and banking

In order to reduce **tie**'s overdraft exposure, CEC is making advanced payments, based on projected cashflow's and reconciling at the end of each month, when the proper invoice is received.

In theory, Transport Scotland are also paying CEC **in advance** and reconciling at the end of each quarter, but payment is not always as timely as we would like (the payment for March has not yet been received, although TS assure us it will be made on Thursday)

The problem with this approach is that the money given to **tie** in advance earns interest, and **tie** is taxed on this interest. It is also likely the terms of interest being received by **tie** are less favourable than could be obtained by the Council.

From the 1st April, a new procedure has been agreed, whereby advanced monies are paid into a CEC(TIE) account, operated by CEC. Cash will be transferred to from this account to **tie**, on a daily basis, based on **tie**'s cashflow requirements. This has the advantage of interest remaining with CEC and has been agreed with **tie**, CEC treasury, internal audit and RBS.

tie need to improve their medium to long-term cash flow monitoring (or at least must report it to CEC), as the value of payments is likely to increase, and we need to ensure that there are adequate funds to make payments to **tie**. I have raised this in the past and will continue to raise it.

Tender Analysis – Infraco and Tramco

The Tram Contract (Tramco) is down to two bidders

Analysis of Infraco is ongoing. Anecdotally, cost have increased since initial evaluation, but I have nothing formal on this yet. There are also potential savings from "value engineering".

Other cost issues

The Japanese knotweed issue is still to be resolved. This is designated an invasive species and is found on some of the Council-owned land contributed to the tram project. To meet its legal obligations, the Council only has to prevent its spread (although SfC is not doing this and has no budget), but the tram project requires the plants to be removed (cost estimated to be over £1m). There is debate over whether this cost should be met by CEC, or absorbed in the tram budget – no resolution as yet.

The cost of wide-area traffic measures is still to be determined (modelling and design outstanding). It is likely that the cost of making alterations to allow traffic to be diverted from the tram route and to prevent "rat-running" will be in excess of the £500k provided for in the tram budget. There is also a risk that additional measures will be required once the project is complete (in which case they would fall on CEC and not TS)

Monitoring arrangements

Following our recent meeting, I have agreed with **tie** to hold regular meetings concerning the financial issues of the tram project. I am having an initial meeting on 4th April to agree the timing and format of these meetings as well as additional information requirements.