



FOR INFORMATION

IDM (07)

INVESTMENT DECISION MAKING BOARD
Paper Title: EDINBURGH TRAM – Position Statement

Purpose

1. The August IDM Board meeting considered paper (IDM(07)23 and sought a report on progress towards Financial Close prior to ministerial / cabinet ratification of agreement with the promoter on draw-down of the remaining funds from the agreed capped £500m for construction of Phase 1 of the Edinburgh Tram Project

Priority:

2. **Routine:** a decision is required to precede submission to Ministers and or Cabinet (with pre-digest timings) ahead of Financial Close

Background:

3. **IDM (07) 23** reviewed the proposed ‘scaled back’ role of Transport Scotland with respect to the Edinburgh Tram project in the light of the ministers’ requirements on modified funding and risk attribution arrangements. The funding basis identified a capped £500m for Phase 1a.

4. Agreement from IDM on the new governance arrangements leading to Financial Close was given subject to;

- regular re-evaluation of the proportion of funding i.e. to ensure the pledged £45m is inputted at the required rate, taking into account the contribution is not all in cash, and regardless of whether the magnitude of the CEC’s contribution needs to increase.
- Transport Scotland must reach an agreed position with respect to concessionary fares.

5. The formal Ministerial criteria for continued funding of the Trams project from Financial Close required;

- The project should remain affordable,
- continue to demonstrate a BCR of above 1 and
- require no ongoing operating subsidy from the government.

In addition, Transport Scotland applied the following criteria;

- Having received a copy of the final business case as endorsed by the Council

DRAFT

- Having received confirmation that a standard Office of Government Commerce Gateway 3 review has been successfully completed and that all recommendations have been acted upon.
- Any relevant ongoing information received via the Council's 4-weekly report in line with Transport Scotland's standard reporting requirements.

Key information the Board will need to support its consideration

6. The Board is invited to note that progress with the above has to date ;
 - Re-established 4 weekly progress meetings as per above, though senior managers have not yet held their 1st quarterly meeting (expected mid December);
 - Received confirmation (via the Period 7 Report) that the OGC Gateway Review has been successfully completed and an Action Plan is in place – (we currently await formal confirmation
 - Received a copy of the Final Business Case, and;
 - Anticipate imminent completion of the formal S70 Grant Letter which will embody the above
7. Since last IDM, Ministerial clearance has been sought or (? given) on the following key issues;
 - The £500m grant is offered to CEC against the totality of Phase 1 and they may utilise any balance from the £500m for Phase 1a towards Phase 1b, assuming there is transparency and comfort regarding any remaining final costs on 1a and assuming that all risks have been covered;
 - Additionally, acknowledgment has been given that trams will be included in the forthcoming review of the National Concessionary Fares Scheme.
8. Issues that remain outstanding but on which we anticipate completion of negotiation with CEC by mid-late November are;
 - CEC agreement on the terms and conditions of the formal Grant offer; legal and Corporate Finance advice is currently in train.
 - Agreement on the sunk costs to date and therefore the outstanding balance from the £500m, especially given the re-opening of whether the previous total of £17m parliamentary expenditure should be attributed to the overall £500m, despite earlier assurances to the contrary;
 - Although the main programme for this year was affected by political uncertainty earlier this year and as a consequence there is considerable underspend and accrual at present; CEC have also requested additional funding for the remainder of this year. While sums of an additional £80m, have been suggested (and this is currently being robustly challenged) in the current underspend situation it is difficult to justify further exposure. To date CEC have produced insufficient rationale to support their request beyond identifying additional funds before financial year end to cover;
 - Contract Mobilisation (Construction and Vehicle) and Start up,
 - Physical Advanced Works,
 - Detailed Design Progression, and
 - Advanced Purchase of High Inflation Materials (e.g. Steel).

DRAFT

- The impact of SSR07 on the next 3 years profile. Currently Transport Scotland is forecasting £120/£149/£80 million respectively for the next 3 financial years 08/09 – 09/10 and 10/11.

9. Version 1 of the Final Business Case confirms that the Tram Project will meet the 3 ministerial tests outlined above. Additionally, City of Edinburgh Council has now given initial political acceptance to the Tram project on the basis of the current version of the Final Business Case, with full Council ratification on 19 December. Ongoing negotiations with the key contractors, between now, final ratification, and proposed Financial Close in mid January 2008, have potential for change to the key figures in the final version.

10. Given that the final business case has met all of the ministerial tests and assuming that the outstanding issues can be cleared the likely recommendations to Ministers will be;

- CEC has demonstrated that the Edinburgh Tram Final Business Case has met the tests applied and should receive the balance of the £500m capital funding from Financial Close (anticipated on 11 January 2011);
- The balance be paid in 3 annual totals of;
 - £120m in 2008/09
 - £149m in 2009/2010, and
 - £80m in 2010/2011 (note this is susceptible to change given influence from sunk-costs and final spend in 2007/08)
- That Ministers be asked to consider whether this decision need go to full Cabinet for ratification.

Decisions/Actions required of the Board

11. The Board is invited;

- Note current progress towards Financial Close, outstanding issues including agreement on balance of remaining funds and subsequent total annual payments,
- Request a final decision paper in December

John Ramsay

Rail Delivery – Major Projects
1 November 2007