Edinburgh Tram Budget Meeting: 3 February 2009
CE Board Room, Level 2, Waverley Court East Market Street Edinburgh

Invited:

CEC
Donald McGougan,
Dave Anderson,
Alan Coyle,
Marshall Poulton,

Tie
Stewart McGarrity
Steven Bell,
David Mackay,

Transport Scotland
Bill Reeve,
Jerry Morrissey,
John Ramsay,

Background:
From last November's Quarterly Review and subsequent reports, we know there that the problems affecting the Tram project immediately post Financial Close last May resulting in slippage of the main programme with impact on both service opening dates and AFC. CEC have accepted that significant work is required to re-align programme and costs over the coming weeks and following several months of negotiations with their Infraco contractors., BSC, options and the possible impacts to both project programme and budget were presented to the Tram Project Board on 22 January 2009.

The problems facing the project in summary are;

- Constraints imposed by the Princes Street problems last October couple with Xmas and New Year works embargo in Edinburgh City Centre and Leith Walk;
- Incomplete utility diversions
- Slow mobilisation of Infraco;
- Design slippage since novation of design to Infraco together with other changes as a result of the Prior and Technical Approvals process and problems associated between v26 / v31 at the time of Financial Close and resulting from temporary works;
- Consortium design programme and validation

Programme:
The overall impact of the above on the project has meant that Infraco has continued to underperform and construction programme milestones continue to be missed with negative impact on the planned spend. In the current year, only £7.2m of construction milestones have been achieved against a forecast of £44m. .At the last

Quarterly Review, both CEC and Tie advised that they remained committed to achieving a mitigation programme that would enable them to deliver key project milestones within the range from July to late 2011 that had been reported each month up to that point.

The picture now emerging however shows that ahead of any agreement on this mitigation programme, there has been a wide variation in the delivery dates of these key milestones as encapsulated by the table below.

Comparison of Milestone Delivery Dates

Section	Description	Financial Close Contract	Tie's P9 Report	Tie's P10 Report	BSC Forecast	Live Prog.
Section A	**Depot** Completion	25/10/2010	26/04/2010	13/01/2011	17/09/2010	22/10/2010
Section B	**Test Track** Available	23/04/2010	02/12/2010	30/03/2011	24/01/2011	13/01/2011
Section C	**Phase 1a** Complete	17/01/2011	26/09/2011	14/11/2011	11/10/2011	05/10/2011
Section D	**Open for Service**	16/07/2011	03/2012	04/2012	08/04/2012	12/05/2012

Notes: Variation in milestone delivery above is explained by Tie as

a) Tie's view based of impact <u>if programme is restructured now</u>

b) BSC Forecast = Infraco <u>contractor's own view</u>

c) Live Programme = dynamic and <u>completely unmitigated impact on current April 08 programme –</u>

Cost:

At last November's Quarterly Review, we were advised that Tie anticipated an AFC increase from the current £512m to circa £530m based on the projected outcomes of the negotiations with Infraco and other potential add-on costs. The picture now emerging remains very close to Stewart McGarrity's cost projections of last November.

Description	£m
Anticipated Final Cost as per Contract Price	512.0
Phase 1b Costs incurred in the event 1b does not proceed	6.2
Shortfall on Infraco Value Engineering	5.0
Claims Settlement Infraco/MUDFA	11.0
Drawdown on Risk Allowance to cover claims	-11.0
Additional Resources Costs not foreseen at Financial Close	6.0
	529.2

The above table attempts to quantify some of the sensitivities around the existing £512m AFC. However as CEC advise that as these costs have not yet crystallised, the table is merely a guide to the sensitivity of the cost estimates.

Also the potential change in cost does not take into account the balance of any further claims resulting from £17m of variations submitted by BSC. This sensitivity could add further costs to the £529m highlight in this table as might the increase in the required risk allowance due to design changes and road reconstruction which <u>are also excluded</u>.

Summary:

1. It would seem that CEC and Tie are keen to advise TS on both progress and decisions made by the Tram Project Board on 22 January and this should be encouraged. Transport Scotland were denied the opportunity to see any part of this presentation prior to the tram Project Board meeting so it is hoped that the presentation run will be re-iterated for our benefit.
2. We should anticipate that CEC / Tie will advise us that they have started to receive the Infraco contractor's version of the mitigation programme which is being delivered section by section. Tie hope to issue an agreed "Recovery" programme by mid March 2009.
3. However despite the earlier optimism about delivery in a range between July and late 2011, the latest unofficial forecast from Tie is that they now anticipate an "early 2012" open for service date suggesting that the dates shown in the Comparison Table above remain fairly indicative of what the final "Recovery" programme might look like.
4. Also there is a similar view on costs where the unofficial view is that the £529m revised AFC as above is very likely to be a "lower" level outcome of the mitigation negotiations with Infraco and that there will remain potential for further increases.
5. Given the reduced burn rate this year, the remaining cap on next year's funding (£149m) and the resultant extended funding commitment for Transport Scotland, it is evident there will be a need to extend the funding of the balance of the £500m (£103m?) beyond 2010/2011 as previously profiled. AT present the formal financial agreement only refers to a cap on financial support this year and next with the balancing funding being committed to 2010/11. We have so far had no indication that this might cause Transport Scotland any budgetry problems so we should be careful to reserve our position if pressed by CEC.

John Ramsay
2 February 2009