



tie Board

11 September 2008

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Overview

Willie Gallagher

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Tram Project Report

1. MUDFA Programme and Audit
2. INFRACO Programme/ Progress
3. Three month lookahead
4. Communications and Stakeholder
5. Gogar Interchange

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MUDFA Performance and Audit

- Management changes agreed and plans being implemented.
- Assurance elements being strengthened
 - Inspection and Test Plans
 - TQ close out
 - Site supervision

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MUDFA Rev 07 Programme

- Technical Agreement achieved subject to final commercial evaluation. Completion April 2009.
- Some programme opportunities and risks
 - Mound (SGN interface)
 - Haymarket
 - St Andrews Square
- Requires some integration with Infracore
- Contractual evaluation expected to be finalised within 4 weeks.
 - Measured issues including disputed items
 - Commercial effect of Rev 07 Programme

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INFRACO Progress

- Current status
- Defined three month look ahead construction programme
 - Leith Walk Roads
 - Depot Earthworks
 - A8 Underpass
 - Gogar Bridge
 - Haymarket Viaduct
 - Russell Road
 - Carrick Knowe and Edinburgh Park
 - Princes St blockade enabling
 - NR Christmas Working

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Infraco Progress

- Evidence for increasing confidence
- Work Pack Plans submitted and agreed
- Appointment and mobilisation of Leith Walk subcontractor and sit set up for Farrans, Barrs and piling subcontractor.
- Detailed blockade plans under preparation.
- Now 70+ staff at Edinburgh Park
- Traffic Management proposals signed off at TMRP
- Track work subcontractor on site preplanning first phase (Nov/Dec)

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Comms and Stakeholder

- Mound - Utilities 22nd September
- Leith Walk – Tram Works 2nd October
- A8 Underpass
- Customer Services Review – support Tram Works October
- Tram project Web Site Update – October
- Business Support Scheme
- Open for Business

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Gogar Interchange

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tie Corporate Risk Register

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Top Ten Corporate Risks – 1 of 3

Rank	Risk Profile	Owner	High Level Risk Statement	Impact	Probability	Budget Sensitivity £m +ve	Budget Sensitivity £m -ve	Risk Rating	Actions to Manage Risk
1	↔	SB	Infraco mobilisation impacting programme	H	H		5	33	<p>High level review meeting held with the Consortium senior executive.</p> <p>Weekly review on and reporting on progress.</p> <p>Acceleration of plans and warrants by tie/CEC to facilitate early access for demolitions.</p> <p>Integrated project management opportunities/solutions to manage subcontractors.</p> <p>Single focus on 12-week lookahead to remove any outstanding barriers and ensure delivery.</p> <p>Plan in place to agree recovery programme.</p> <p>Formal contractual notice of Infraco delay.</p>
2	↔	JMcE	Response to traffic issues impacting upon reputation of tie	H	H		3	37	<p>CEC to be given £100k for procurement of extension to existing contract with Siemens to provide increased level of service for out of hours traffic signal cover.</p>

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Top Ten Corporate Risks – 2 of 3

Date Updated: 18 June 2008

Rank	Risk Profile	Owner	High Level Risk Statement	Impact	Probability	Budget Sensitivity £m +ve	Budget Sensitivity £m -ve	Risk Rating	Actions to Manage Risk	Action Status	Action Owner	Target Date
3	↔	JMcE	Business development- Lack of future projects following completion of Tram project	H	M		3	18	Review and discuss opportunities for further phases and options with appropriate agencies Seek authorisation of a feasibility study on Tram/Train options	●	JMcE	December November
4	↔	DM	Supplier and Contract Management - Deficient control, cost overrun, contractual weakness or blind-spots	H	M		3	18		●	DM	
5	↔	CMcL	Lack of Tie Business Continuity plan	H	L		3	9	Draft plan in place - should be finalised by 11 September 08	●	CMcL	11-Sep-08
6	↔	CMcL	Political Intervention, project cancelled	H	L		3	9	Continued lobbying of local businesses and politicians	●	CMcL	
7	↔	SMcG	Deficiency in Internal Controls Environment, Financial Safety, Regulatory Impact, Risk Management	H	L		3	9	Ongoing Exec Board review of policy and procedures in place for adequacy Publication of tie policies and procedures (on Intranet) and promotion of staff/contractor awareness, understanding and compliance (e.g. Induction of new staff Audit Committee oversight of Internal Audit of control environment, policy and procedures and compliance therewith	●	SMcG	

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Top Ten Corporate Risks – 3 of 3

Date Updated: 18 June 2008

Rank	Risk Profile	Owner	High Level Risk Statement	Impact	Probability	Budget Sensitivity £m +ve -ve	Risk Rating	Actions to Manage Risk	Action Status	Action Owner	Target Date
8		CMCL	TIE reputation: Communication weakness, Adverse Publicity, poor Stakeholder Management	M	H	1	6	Review of current approach underway including Customer Services, Media Management, Public Affairs and Tram Project Website		CMCL	October
9		CMCL	Human Resources Management, recruitment and retention - e.g. if Phase 1b not going ahead	M	H	1	6	Downsizing plan and approach in place (reflects approach taken with EARL)		CMCL	November
10		JMcE	Failure to initiate Phase 1B	H	M	1	6	Pursue and develop Phase 1B authorisation plan. Pursue and progress phases of the plan with checkpoint stage at end Sept		JMcE	August September

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Risk Review

- Corporate Risk Register reviewed in Period 6
- 2 risks closed
 - Design and Consents Programme
 - Delay in Achieving TROs
- Both risk relate to project and included in project risk register – this register should not duplicate project risk register
- Primary Risk Register currently submitted to Transport Scotland each period
- 2 risks added
 - Response to Traffic Issues Impacting Reputation of tie
 - Business Development – Lack of Future Projects

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Finance

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Finance

- Estimate for Phase 1a remains at £512m
- Risk allowance reduced by £1.4m in period 5 to £29.0m as a result of drawdown for A8 sewer (£1.4m).
- Expenditure in 0809 to end period 5 was £43.6m which is £6.5m lower than budget - main impacts are delay of Infracore close and mobilisation and delayed completion of land acquisition and compensation.
- The outturn estimate for year 08/09 reported at end period 5 remained at £150.6m (i.e. assumed current slippage is recovered by March 09).
- We are preparing a revised 08/09 outturn for reporting in period 6 based upon current discussions with Infracore on near term programme revisions.

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Phase 1b Progress

- Refreshed patronage, revenue and operating cost projections now substantially complete both for TEL in aggregate and for Ph1b at the margin – still a very robust financial plan.
- Discussions underway with Infracore with a view to confirming arriving at firm price for Ph1b infrastructure by end October – additional funding required is still likely to be in £60m to £70m range.
- PwC preparing definitive advice on best tax structure to shelter future TEL profits – likely to be a form of leasing by CEC of qualifying assets to TEL on arms length basis.
- Examination of funding options now progressing – a form of risk managed borrowing by CEC to be serviced principally out of future TEL cash surpluses the most likely outcome.
- Mature proposals to be presented to 22 Oct TPB and thereafter to CEC Committee / Full Council in November (to be agreed)

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Line 3 Initial Preparation

Information paper to 24 Sept TPB / 9 Oct **tie** Board

- Why the case for TL3 is compelling
- Approach to Business Case preparation by **tie**/TEL
 - Building upon TL3 preparation up to 2004
 - Expansion of transport modelling and preparation of STAG by JRC contractor – **timescales and cost**
 - Incorporation into integrated TEL Business Plan
 - Capital cost estimates and procurement route based on experience
- Process for pursuing parliamentary approval via the Transport & Works Act route (streamlined since TL1/TL2/EARL) – **timescales and cost**
- Flexible approach to route and integration optioneering

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Refreshed TEL Business Plan - Underlying assumptions

- No EARL
- Yield 75.7p per boarding in 2011 (2005 prices)
- PT Fares reflect 2008 increases then RPI+1.5% per year
- 3% fare evasion on Tram
- 75% factor included in 2011 figures for ramp-up of patronage
- Future year bus journey times increasing from 2021 to 2031
- Interchange penalty 12.5 minutes (deterrent to multi-leg journeys)
- General Inflation - RPI increased from 3% to 4.5%
- Assumed pace and extent of new development updated to reflect new expectancies – significantly slower build out at Granton

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Refreshed TEL Business Plan - Underlying assumptions

- Tram Costs Updated Based on:
 - Renegotiated DPOFA Costs (December 2007)
 - Financial Close Infrastructure and Tram Maintenance Costs (May 2008)
 - Revised business rates (increased from £300k to £600k)
 - Initial service in 2011 6/12 trams per hour (tph) on Phase 1a
 - 2012 8/16 tph in peak 6/12 tph off-peak on Phase 1a + 1b
 - 2013 8/16 tph all day on Phase 1a + 1b
 - Electricity (+2% above RPI)

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Refreshed TEL Business Plan - Underlying assumptions

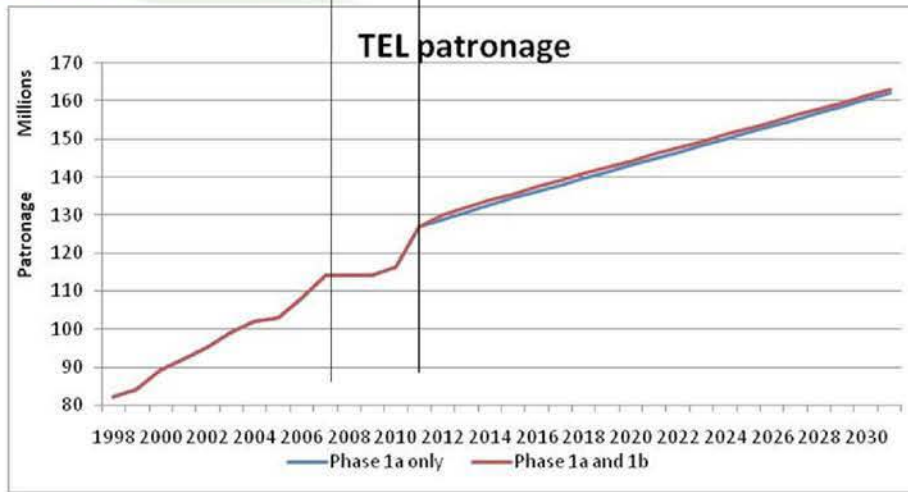
- **Bus Costs**
 - 2008 Wage settlement built in (thereafter 1% above RPI)
 - 2008 Pension costs built in
 - 2008 Fuel costs built in
 - Ongoing Fuel Inflation (+3.5% above RPI)

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Refreshed TEL Business Plan - Tram construction impacts



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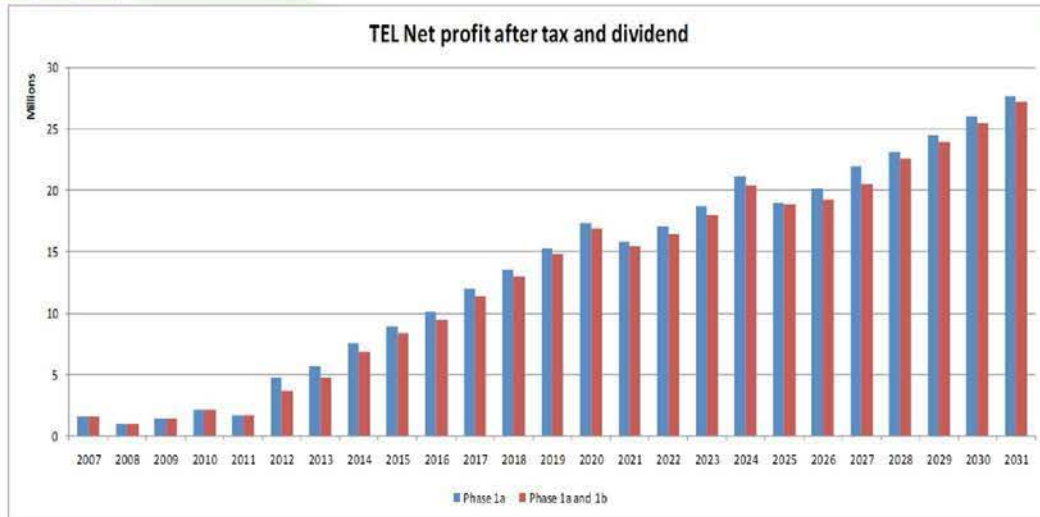
Refreshed TEL Business Plan – 2008 v previous versions

* Patronage (kg) based										FBC Dec 2007										* Patronage (kg) based													
TEL Business Plan 2006										FBC Dec 2007										TEL Business Plan 2008													
Tram in service		Pre-tram		Phase Ia only		Phase Ia + Ib				Tram in service		Pre-tram		Phase Ia only		Phase Ia + Ib				Tram in service		Pre-tram		Phase Ia only		Phase Ia + Ib							
Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Patronage (Pass m)																																	
Bus	100	117	112	110	112	121	128	142			100	117	113	115	120	130	150					100	116.2	115.5	113.3	114.2	119.3	129.5					
Tram	0	0	11	13	16	21	26	32			0	0	11	13	16	21	26					0	0	11.3	16.2	23.3	26.7	33.6					
Total TEL patronage	100	117	123	123	128	144	164	174			100	117	124	128	144	164	176					100.0	116.2	126.8	130.5	137.6	148.0	163.2					
Bus revenues (£m)																																	
Farebox	82	102	101	99	104	112	128	142			82	102										82.0	100.7	114.5	118.0	121.4	131.7	141.7					
Other	6	7	7	7	7	8	8	15			6	7										6.0	7.0	7.0	7.0	8.0	11.0	11.0					
Total Bus revenues	88	109	108	106	111	120	136	157			88	109										88.0	107.7	121.5	125.0	129.4	142.7	152.7					
Tram revenues (£m)																																	
Farebox	0	0	10	12	16	21	26	32			0	0										0.0	0.0	10.0	12.0	16.0	21.0	26.0	32.0				
Other	0	0	1	1	1	1	1	2			0	0										0.0	0.0	0.0	0.0	1.0	1.0	1.0					
Total tram revenues	0	0	11	13	17	22	27	34			0	0										0.0	0.0	10.0	12.0	17.0	22.0	27.0	33.0				
Total TEL revenues	88	109	119	119	128	142	164	191			88	109	119	128	144	164	176					88.0	107.7	131.5	137.0	146.4	163.7	179.7					
Operating costs (£m)																																	
Bus			123	102	107	131	164	207															123.0	112.7	145.5	202.1	261.2						
Tram			17	19	20	26	31	45															17.2	20.5	22.9	40.0	67.0						
TEL head office																							2.1	2.5	2.0	3.8	6.4						
Total TEL operating costs			140	121	127	157	195	252							120	126	166	194	212				128.2	136.7	170.3	246.7	334.6						
Interest / lease payments																							0.0	0.0	0.0	0.0	0.0						
Pre-tax operating profit / (loss)			-4	-2	1	11	21	45							-1	2	11	22	44				62	8.0	16.9	34.3	40.6						
Tram lifecycle costs (£m)																																	
National taxation						1	2	2																1.5	2.2	4.5	6.0	11.4					
Dividend payment						3	6	14																2.0	2.0	2.0	2.0	2.0					
Principal payments						3	3	5																0.0	0.0	0.0	0.0	0.0					
Net TEL cash surplus / (deficit)			-1	-2	1	4	10	24							-1	2	4	11	25				1.8	3.7	9.5	16.9	27.2						

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Refreshed TEL Business Plan – TEP Profit after Tax and Dividend



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Finance

- Estimate for Phase 1a remains at £512m
- Risk allowance reduced (£2m) in period 5 to £28.4m
 - movement: drawdown for A8 sewer completed and Fastlink funding (planned).
- YTD Expenditure of £43.6m is (£6.5m) behind budget 08/09
 - main impact: delay of Infracore close and mobilisation of Infracore and the delayed completion of land acquisitions
- However the outturn estimate for year 08/09 remains at £150.6m and estimate for 09/10 stands at £140.6m
 - current forecast assumes any slippage is recovered by end 08/09
- A revised programme for the main construction works is expected by end Sept-08

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