



## tie BOARD

Monday 12<sup>th</sup> November 2007

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## Contents

- Progress and Issues – Willie Gallagher
- Governance, Funding, FBC & Financial Close Programme – Graeme Bissett  
MUDFA/Network Rail, Design, Procurement / negotiations, VE, contract  
legals – Steven Bell
- Communications & Media
- IPR – Graeme Bissett

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## Progress & Issues

WILLIE GALLAGHER

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## EDINBURGH TRAM NETWORK

### FINANCIAL CLOSE DELIVERY PROGRAMME OVERVIEW

Presentation to tie Board  
12 November 2007

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## Content

- 1) Review of overall progress under Financial Close Delivery Programme
- 2) Review of specific workstreams – others covered in separate presentations
- 3) Managing Transport Scotland interface
- 4) Overview of proposed governance and project management structure to Financial Close and for construction period

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## Financial Close Delivery Programme

- Programme was established in July 2007 to integrate all key workstreams into a “single-view”
- Utility diversion / MUDFA management a continuing process
- The workstreams leading to financial close are :
  - 1) Governance & management processes, adapted in view of revised funding arrangements \*
  - 2) Procurement process leading to selection of Infraco / Tramco bidders and novation of SDS contract
  - 3) Control over spend forecasts \*
  - 4) Design / conclusion of funding arrangements, including pre-close funding \*
  - 5) Corporate and tax structuring \*
  - 6) Final Business Case (FBC) preparation\*
  - 7) Approval processes including OGC Gate 3 \*
  - 8) Monitor risk transfer from Council perspective \*
  - 9) Communications

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## Overall Progress

- Programme has three critical milestones :
  - 1) Acceleration of FBC (Version 1) to end-October, to support Preferred bidder selection, approval by Council
  - 2) Final form of FBC (Version 2) to be approved on 20 December, along with all necessary documentation in support of final contracts with preferred bidders, in readiness for .....
  - 3) Financial Close in January 2008
- First milestone successfully achieved

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## Specific progress achieved (1)

### Governance & Management

- TS withdrawn from routine management, though still tend to appear from behind curtains
- TS/CEC 4-weekly review operational, needs diarised & attendance clarified
- CEC internal committee structure set up, now needs codified within terms of new draft Operating Agreements for tie and TEL
- TPB / sub-Committee structure revised, new project management structure designed – see later
  - Top-down governance model as previously presented and approved
  - Project Management structure interfaced with governance and individual roles agreed

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## Specific progress achieved (2)

### Expenditure control

- Expenditure forecast revised to accommodate preferred bidder proposals → £498m / £87m ; being finalised within contract close out, value engineering and related design work

### Funding

- Grant quantum – now concluded at £500m
- Scope now concluded as priority to Phase 1a, surplus to 1b
- Protections for CEC – drafted and response from TS awaited
- Note that detailed documentation from TS still outstanding
- Pre-Close funding – potential shortfall of funding being very carefully managed. If Close in January 2008, should be ok
- Note requirement for report to Council on £45m

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## Specific progress achieved (3)

### Corporate and tax structuring

- Advice taken from PwC confirmed previous planning. Asset ownership will vest in CEC and either sold to TEL or leased to TEL.
- Significant tax shelter to be pursued for TEL from capital cost / interest / lease charges, cash tax saved could c£50m-£100m over 30 years relative to FBC model
- Corporate restructuring can proceed when desired, mainly to move ownership of LB under TEL

### OGC Gateway 3 review and other approvals

- Green light conclusion to Gate 3, all other approvals executed

### Risk transfer

- Assessment delivered by OGC review team and acceptable to Council

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## Business case - Update

- The Final Business Case (FBCv1) was endorsed at the joint meeting of the tie and Tram project Boards on the 15<sup>th</sup> October.
- It was recognised by the Boards that updates may be required to the Final Business Case prior to contract award for the following:
  - result of preferred bidder's due diligence,
  - facilitated negotiations,
  - the final negotiations on Phase 1b; and
  - finalisation of details on programme and milestone payments
- The boards agreed that the TEL business plan would not be updated for the December submission of the FBC
- The FBCv1 was formally issued to CEC on 18th October and endorsed by the full Council on 25th October

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## Overview – managing TS

- Excellent progress on all fronts except delivery of agreed comprehensive grant funding terms
- Input from TS on this matter has been disjointed, sporadic and difficult to manage. Most recent unhelpful diversion is the proposition that the £17m of parliamentary funding will count against £500m grant
- At present we await a response to the detailed award terms on which tie / CEC responded fully on 4 September. No guarantee that acceptable reciprocal default arrangements can be agreed, other areas may also create difficulty
- A related and significant danger to future progress is TS's ability to deliver against the deadlines through to Close, including the achievement of Ministerial / Cabinet approval
- Effect of this on bidders has been sheltered so far, but much better engagement needed from TS.

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## Project governance and management structure looking forward

Project governance and approvals processes through to Close

- From the top down, the over-arching governing bodies are the TPB and the tie Board, who have separate but related roles in the governance model as documented elsewhere.
- The TPB met on 31/10 for a progress report on all aspects of the project and meets again on 7/12. Tie Board meets 12/11 and again on 12/12. The latter meetings to review the “December Documents” :
  - The Final form of the FBC (FBCv2)
  - The final negotiated terms of the contracts with BBS and CAF and all novation aspects, including the SDS arrangements
  - The funding arrangements in support of the affordability assessment
  - The form of report to the full Council on the above

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## Project governance and management structure looking forward

- The TPB Committees will be utilised as follows in the period to financial close :
  - Legal Affairs Committee – will meet weekly (as now) to address a rolling programme of legal and approvals issues
  - Procurement Committee – will meet weekly (as now) to address a rolling programme of matters arising from the finalisation of the procurement process
  - MUDFA Committee – continue to meet 4-weekly to oversee the continuing utilities works
  - DPD Committee – disbanded and all key matters covered by the TPB directly, in addition to the other committees.

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## Project governance and management structure looking forward

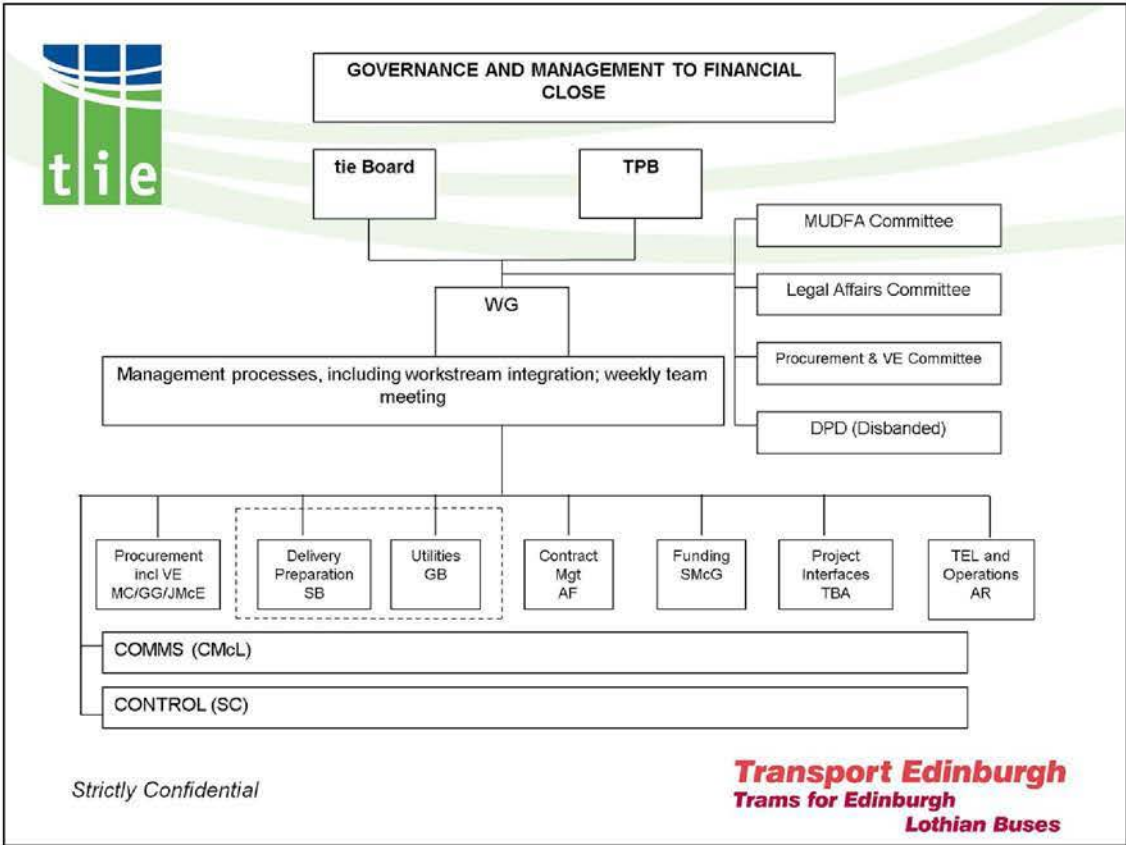
### Relationship to PM structure and governance model in construction period

The mapping of the workstreams envisaged for the construction period can be summarised:

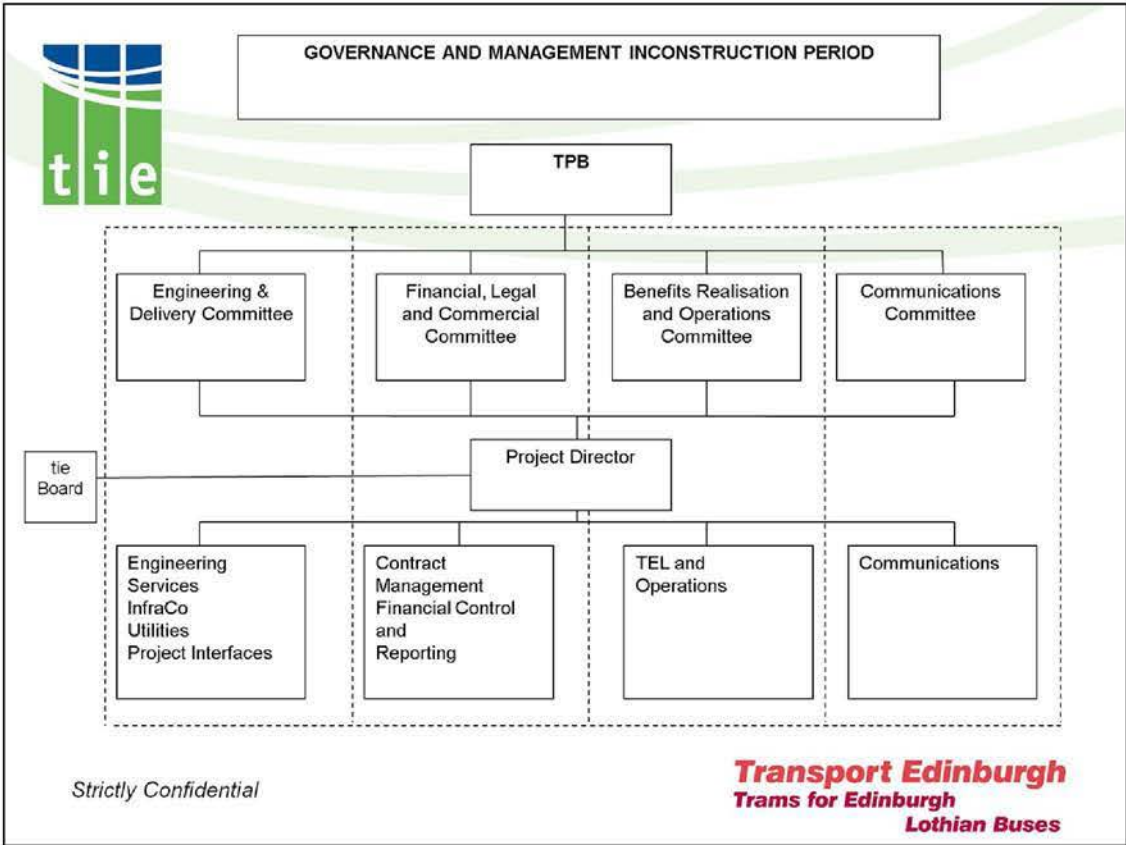
- |                            |                                                                        |
|----------------------------|------------------------------------------------------------------------|
| • (1) Procurement          | Terminates, migrated to Engineering & Delivery                         |
| • (2) Delivery preparation | Terminates, Engineering Services and Infracore<br>Take project forward |
| • (3) Utilities diversion  | Continues                                                              |
| • (4) Contract management  | Continues, emphasis on monitoring                                      |
| • (5) Funding arrangements | Terminates in favour of Financial Control and Reporting                |
| • (6) Project interfaces   | Continues as necessary                                                 |
| • (7) TEL & Operations     | Continues                                                              |
| • (8) Communications       | Continues                                                              |
| • (9) Project Control      | Continues                                                              |

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## MUDFA/Network Rail

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## MUDFA (1)

- Safety being managed very actively: AFR Zero, however
  - 6 incidents occurred during the period. All are under investigation or closed out.
  - Enhanced education, awareness and enforcement initiatives are underway with AMIS
- Overall the progress in the period and to date is in line with programme.
- Section 1A (Ocean Drive) was completed pre embargo by 12 October.
- 5A (Haymarket Depot) MUDFA work was completed within the period.
- Sections 1B (Leith Walk) continues including MacDonald Road closure and revised working utilising central reservation to maintain programme.
- Section 6 ongoing with water diversions.
- Programme Rev 06 final discussions with stakeholders w/c 29/10 followed by formal issue, with enhanced progress and earned value forecasting.
- Work value and anticipated costs in line with forecasts

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## MUDFA (2)

- October IFC deliverables were all met, however late IFC issue is a significant risk being managed very closely.
- SUC action underway with SGN, SP, Openreach<sup>BT</sup> & Scottish Water.
  - SGN escalation meeting on 1/11 finalised commercial agreement principles and formal agreement expected within the month
  - Scottish Power jointing issue now resolved
  - Scottish Water making good progress.
  - Openreach<sup>BT</sup> resources and ability to meet programme for design and installation is still a key issue being escalated. Section 1C including the work at St Andrews Square is causing a programme risk which has still to be fully resolved but progress is being made.
- Traffic Management reviews continue to work well with CEC and TEL input.

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## MUDFA (3)

- Communications and Stakeholder Management progressing well:
  - Media very quiet on MUDFA with no significant issues raised.
  - Active interventions with businesses and public and very visible Tram helper presence
  - Jane Street Closure caused local difficulty: lessons have been learned
  - Little activity on helpline other than general enquiries.
  - Signage and Programme concerns being addressed with Business Groups
- Resolving commercial issues with AMIS –Progress and finalisation expected this week.
- Gogar Depot Phase 2 Advance Works completed ahead of Programme and site suspended.

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## Network Rail

- Legal agreement issues are progressing with the notable exception of lease conditions. Escalated on 6/11/07 and acceptable position reached on 9/11/07. Expected to be finalised w/c 12/11/07.
- In parallel, CEC have written to request Network Rail's consent to commence the CPO process (not expected) as an alternative if lease terms cannot be agreed.
- Equipment relocation: activities progressing but an unacceptable programme was received from NR which may impact on INFRACO. Under detailed challenge and escalation with more acceptable alternatives now being suggested by NR.
- Immunisation: technical review held with NR HQ and process for enabling scope minimisation is underway to programme.
  - Programme risk remains until greater scope clarity and agreement with NR. This is expected to crystallise during December.
  - An INFRACO based solution will also be pursued once the technical scope has been agreed, and NR being conditioned to accept this.

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## Design

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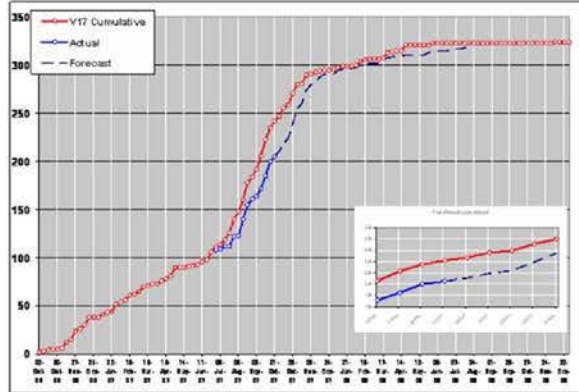
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## Engineering, Approvals, Assurance

- Design programme continues to forecast – but with small slow drift. Referral still made to V17 (red line) as the first programme after removal of last critical issue.
  - Weekly review of all issues which are potential blockers continues – no showstoppers.
  - Design review programme now fully underway involving all stakeholders.
  - Most designs 'accepted with comments' – one outright rejection associated with drainage. To be resubmitted.
- 
- Focus is now on the approvals programme.
  - Informal Consultation, Prior Approvals and Technical Approvals by CEC are a programme and resource challenge – caused by 4 month slippage in design programme to V14-V17
  - Issues now being worked through with CEC



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## Procurement & Negotiations

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## Objective for Preferred Bidder Period

- Deliver everything to enable a contract award by 28<sup>th</sup> January 2008
- Divides into two phases
  - 1. Everything that is needed to confirm the FBC to CEC in Dec
  - 2. Remaining, largely, low risk issues to enable award in January 08
- Deliver contract close within £498m for Phase 1a

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## To Date

Draft Deal signed by BBS

Held a kick off meeting with BBS setting out objectives and plan to deliver the Contract Award

Established and briefed the team to deliver the Preferred Bidder Period activities

Developed a detailed schedule of activities and programme and shared it with BBS

Set up meetings to close out remaining issues with BBS

Obtained further commercial resource to assist in firming up and negotiation prices for provisional aspects of BBS bid

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## Related Workstreams

- **Value engineering – programmes aligned**
- **Detailed Design Production – have agreed delivery of key elements of design with SDS**
  - Performance model based on Detailed Design
  - Designs for Highways, Drainage, structures

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## Requirements To Confirm Final Business Case

- Final Risk Allocation
  - Finalisation of the remaining core contract terms
  - Negotiation of aligned contracts with Tramco and SDS
  - Finalise supporting legal schedules to the contract, including Network Rail APA & licence
- Firm up price for provisional items
  - Structures (based on current designs – to provide a better baseline for VE)
  - Highways
  - Drainage
  - Picardy Place
- Get more VE agreed with bidders and in the price, and where we can't agree realisable targets

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## Requirements To Confirm Final Business Case

- Agree on Street Construction Methodology with CEC and TEL
- Finalise Infraco/Tramco technical proposals – aligned programme, delivery and technical proposals
- Finalise Infraco/SDS technical proposals – aligned programmes and scope
- Priority 1 Design Due Diligence – performance modelling and confirmation of quality of designs
- Integration of BBS with **tie**, propose to bring in facilitator to help build the team-working and partnership quickly
- Phase 1b Option negotiated and agreed

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## To Finalise A Contract by 28<sup>th</sup> Jan 08

- Everything else! But in particular
  - Finalised Infraco Proposals for delivering the works – programme, method statements, plans and procedures
  - CEC Payment Indemnity to contractor
  - Close out Q&A's on Infraco proposals
  - Finalise ER's
  - Priority 2 Design Due Diligence – other things on BBS list
  - Appointment of Tram Inspector
  - Identification and agreement of MUDFA works to go into Infraco

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# Value Engineering

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## Value Engineering Update (2)

### Key Areas

- **Structures:** £1m already banked . Meetings held with BBS to discuss pricing based on outline design, our VE targets have been reinforced with them and it is planned to review each structure at a series of half day meetings (1 structure per half day) over the weeks ahead culminating late November. Current confidence level is 65% Target: £9m crystallise position by December.
- **Network Rail:** Discussions with Network Rail, BBS and tie technical are ongoing, current confidence level is 50%. Target £5m: crystallise position by December.
- **Power** Discussions ongoing with Scottishpower on the required power network reinforcement, if any. This is a critical issue for the programme aside from the Value Engineering opportunity. Current confidence level is 70% Target: £3.9m crystallise position by December.
- **Trackform:** £2m already banked. Current confidence level is 50% on remainder Target: £4.4mm crystallise position by December.
- **Depot:** £4m banked. Current confidence level is 80% on remainder Target: £3.4m
- **General** A number of other areas including the Depot and Supervisory/Comms are being pursued there is an action on Jim McEwan and Geoff Gilbert to bake as much of overall VE position into the Infraco contract as possible.

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## Value Engineering Update (3)

### Key Messages

- Confidence levels show currently an £8.3m gap between target embedded in £498m i.e. £34.9m and current weighted by confidence level projection of £26.6m, this is what we must aim to close.
- Budget stretch targets £7.5M if we assume a 60% success in achieving this stretch, this gives an outturn of £4.5m
- Shortfall on basis of current confidence levels between VE savings (£26.6m) + projected Budget Outturn (£4.5m) is £3.8m, which would represent a call of that magnitude to the risk and contingency pot (£49m).
- Confidence levels will be tested and crystallised over the ensuing weeks in a fully programmed series of meetings between assigned VE leaders and BBS.
- Process for obtaining prior approvals is underway and a weekly meeting chaired by the Executive Chairman has been established to monitor progress.

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## Budget challenge Phase 1A



Description	Stretch Target - Aug	Stretch Target - Sept	Total impact on AFC
Total tie PM costs	-1,350,000	-1,000,000	-2,350,000
Total DPOF	-700,000		-700,000
Total LEGALS	-200,000		-200,000
Total LAND & PROPERTY	-500,000		-500,000
Total COMMS / MARKETING	-200,000		-200,000
Total TEL	-200,000		-200,000
Total INSURANCE	-300,000		-300,000
Total MUDFA / Utilities	-3,000,000		-3,000,000
<b>TOTAL 1A</b>	<b>-6,450,000</b>	<b>-1,000,000</b>	<b>7,450,000</b>

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## Legals, Contracts & Programme

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## Infraco Contract Suite Programme

- Objectives
  - Maintain negotiation momentum generated during pre PB stage
  - Capture and incorporate product from Facilitated Negotiations
  - Protect commercial positions and risk allocation achieved prior to Preferred Bidder's due diligence period
  - Control/mitigate third party influence
  - Defend overall programme to close in January 2008

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## Infraco Contract Suite Programme

### Target outcome

- Balanced and sustainable long term Contracts
- Underpinned by clear commercial technical and financial requirements
- Flexibility on system maintenance and network expansion

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## Infraco Contract Suite Programme

### Process

- 12 Parallel Workstreams
  - Infraco T & Cs, DPOFA, MUDFA variation
  - Tram Supply and Tram Maintenance Agreements dovetail with Infraco
  - Infraco Schedules, SDS novation, SDS Settlement
  - Infraco technical and financial Schedules
  - Third party Agreements, Network Rail and BAA
  - tie/TEL Operating Agreements , CEC Guarantee and Grant Funding
- Each Workstream managed by tie Contracts function
- Target close 15.12.07 for Infraco Contract (terms and conditions and main legal Schedules)
- All supporting and ancillary agreements also either closed or in advance stages by 22.12.07

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## Infraco Contract Suite programme

### CEC (Legal) Engagement

- Review of Infraco Contract and risk matrices
- Settling of tie and TEL Operating Agreements
- CEC Financial Guarantee to underwrite tie obligations
- Review of Grant Funding Agreement
- Clearance of Road Demarcation Agreement
- Report for December Full Council Meeting

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## Infraco Contract Suite Programme

### Reporting and programme adherence

- **tie** Preferred bidder activity - weekly
- Legal Affairs Committee - weekly
- CEC Legal on key issues emerging - weekly
- **tie** senior management - ad hoc and monthly

### Current Progress

- Positive legal engagement with BBS (Pinsett Mason)
- Lots of questions re due diligence

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## Infraco Contract Suite Programme

### Current Issues

- Consents present a key issue, BBS very cautious; SDS obligation not fully believed; due diligence underway
- 3<sup>rd</sup> Party Agreements: visibility and disclosure of details being aligned
- Negotiations / discussions are progressing reasonably well
- SDS discomfort over novation is evident, unpredictable but not obstructive
- 3<sup>rd</sup> December currently seen as difficult but achievable by Contract team

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## Critical Milestones – end January

- 31/10 TPB
- 01/11 Award mobilisation agreements to BBS & CAF
- 12/11 **tie** board
- 28/11 Procurement Sub-Committee : endorse final deal
- 03/12 Legal Affairs committee to endorse contract
- 07/12 TPB : approve final deal
- 10/12 CEC IPG
- 12/12 **tie** board
- 14/12 CEC Paper published
- 20/12 CEC Council Meeting
- tbc TPB/**tie** Board : approve contract signature
- 11/01 Notification of award
- tbc BBS/CAF board approvals for contract signature
- 28/01/08 Contract awards & novations

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## Communications & Media

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## Communication and Stakeholder Update Nov 07

### **Local Business Support**

- 20 application packs , 3 applications, 2 payments of £3,000 & £4,000

### **Open For Business**

- Open for Business Marketing Group chaired by Edinburgh Chamber of Commerce active

### **Partnership tie**

- Launched at ECoC

### **Community**

- 7,000 notifications, 350 contacts, 10% complaints

### **Media and Communication**

- Successful coverage of Tramco, Infraco and FBC
- Focus now on BBS/CAF Mobilisation, MUDFA, Financial Close

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## Communications and Stakeholder Update

- **Role and Objectives**
- **Key Achievements**
- **Plans**

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# Communications Update

- Communications Strategy
- Proactive Media

## Trams chiefs promise £200m contracts boost for Capital

40 per cent of TIE project tenders to go to Scottish firms

BY ANDREW PICKEN  
Transport Reporter

TRAM chiefs have promised to bring a £200 million boost to the Capital's economy.

They have vowed that at least 40 per cent of the contracts for the project will go to Scottish firms, most of them from Edinburgh and the surrounding areas.

TIE - the council-backed firm in charge of the trams - said the move will see a range of city businesses, from caterers to engineering firms, given priority access to the main contractors building and maintaining the line from Newhaven to the airport.

The initiative is based on experience with other tram schemes such as Nottingham's, where 70 per cent of all tender invitations went to East Midlands-based companies, resulting in a 40 per cent success rate.



**BENEFITS:** Willie Gallagher

The move, which will run under the banner of "partnering trams in enterprise", was today welcomed by business groups. TIE has already been in contact with local colleges such as Telford about setting up training courses to give people the skills needed for the jobs involved in the £200m project to build line 1A.

There are also plans to hold meet the contractors seminars where local firms can bid for business from the main firms hired to build the tram line.

Willie Gallagher, chairman of

TIE, said: "We want to take the opportunity to get local people and businesses to benefit from the big investment that we are making in Edinburgh."

"This is why we want at least £200m of the £300m invested to go into the local and Scottish economy."

"We have spent time looking at how it has worked in other cities such as Nottingham and they have shown what can be achieved with the local skills base."

"If you look at the tram project, the bulk of the cost is for labour and services and that presents great opportunities, not just in the near 1000 permanent jobs created but also for businesses to get involved in the building of trams."

"I will be disappointed if we don't achieve more than the £200m target."

Mr Gallagher made his pledge at a meeting of some of Edinburgh's top businesses at The Hub on Castlehill last night.

It also emerged that a design of how the tram will fit in with the city along its route is now 70 per

cent complete with work expected to finish by January.

However, tram chiefs refused to be drawn on what will happen on two of the key pinch points - Sandwick Place and Conington Street - where they are considering banning cars.

Graham Birse, deputy chief executive of the Edinburgh Chamber of Commerce, said: "We are absolutely delighted, we have been pressing TIE for some time on this and I think they have really delivered."

"I think it is also good for businesses to hear this is not just about trunks full of mud and traffic chaos, they will have access to some decent contracts."

"And it is not just those directly involved in the trams, you will see a ripple effect because all of these workers have got to eat somewhere and stay somewhere."

"There is no hiding from the fact there will be difficult times ahead but if we get the message across that the city is open for business and local firms are involved then it will be a very encouraging picture."

apicken@edinburghnews.com

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## Proactive Media





## Communications Update

- Communications Strategy
- Proactive Media
- Reactive Media
- Engagement with Media –
  - **Evening News**
  - **Scotsman,**
  - **BBC Scotland (TV, Radio, On Line),**
  - **STV**
  - **Trade Press**
- Strong Partnership with media and communications teams in CEC and Lothian Buses
- Close project working relationships with – tie stakeholder team, MUDFA, CEC, SDS
- Marketing Collateral
- Tram Branding
- Internal Communications

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## Communications plans – going forward

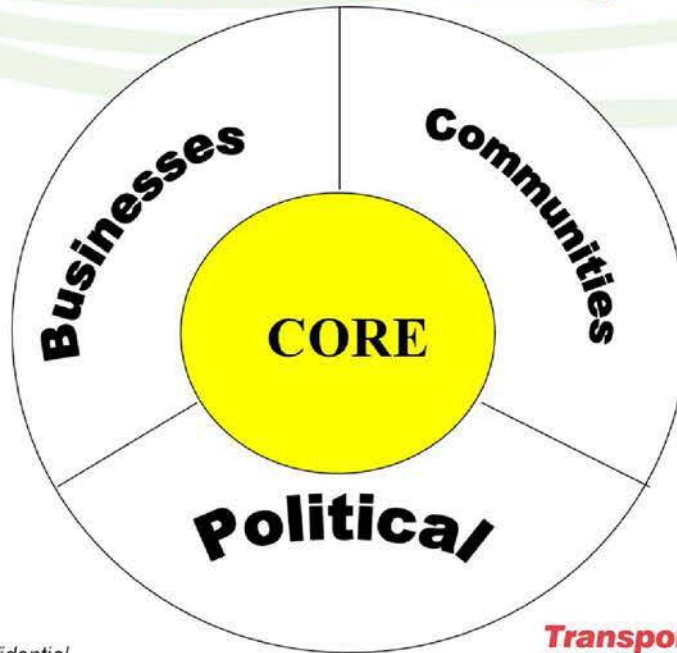
- MUDFA
- Tramco
- Infraco
- Programme
- Open For Business
- tie ltd

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## Tie Stakeholder Strategy



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## Stakeholder Key Achievements

Design Consultation Process- **Initial and Preliminary Process Complete**

**35 meetings held**

**55,000 coverage (incl 5000 frontagers)**

**300 feedback items**

Open for Business Strategy

**Scheme Successfully launched**

**First applications processed**

**Marketing scheme launched**

Political Engagement Strategy **Monthly meetings**

**Special events**

**Proactive and reactive strategies**

Establishment of Third Party Database

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## Stakeholder Plans

### Partnership in Enterprise

- City wide analysis of Infraco impact
- development of protocol
- management and measurement processes

### Conclusion of Design Process

- finalise design
- conclude consultation process

### Leadership and delivery of TRO Process

### Partnership working with tie Comms, CEC and operational partners

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## Customer Management

- Dedicated Resources in tie stakeholder, AMIS and CEC teams
- Partnership Working
- Customer Communications Process
  - » **Driven by Customer Interaction Process**
  - » **Simplified Approach**
  - » **Single Numbering Strategy for MUDFA**

Customer Notifications	8000
Stakeholder Visits	1100
Tram Helper Visits	1000
Inbound Enquiries	400

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## Customer Management Plans

Complete Support for MUDFA

Evaluate Options for Infraco – Integrated Approach

Develop and Deliver Customer Management Processes

Establish Customer Satisfaction Monitoring

Continue Cooperative Partnership working with tie comms,  
operational teams, CEC and TEL

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## INGLISTON PARK & RIDE

Graeme Bissett

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## IPR2

- Contract awarded on 1<sup>st</sup> October
- Site set up starting on 29<sup>th</sup> October
- Additional commercial support recruited and in place from 23<sup>rd</sup> October
- Variation to incorporate EARL impact to be issued by 25<sup>th</sup> October
- Completion expected end March 2008
- PR event anticipated in November

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