

Funding

The report to Council on 30th June set out the requirement to identify funding for the project up to a value of £772m, this being base budget allowance of £695m plus £77m risk provision. The approved budget for the project is £545m, comprising Transport Scotland funding of £500m and £45m from the Council.

Scale of Funding Requirement

In the period since the Council meeting on the 30th June, Council Officers have been working to validate and provide further assurance on project costs and required risk allowance.

Faithful and Gould, (explain who they are here), have worked with Council Officers to validate the base budget to York Place and have also undertaken validation of a quantified risk allowance. [F&G report as an appendix].

The validation exercise has involved a detailed review of the relevant financial, legal and commercial information to enable the detailed budget for the project to be produced.

In addition, Faithful and Gould have facilitated work shops to assess the robustness of the project risk allowance. The findings of this work e-work shop have been a key part in the production of the quantified risk allowance for the remainder of the project.

The outcomes puts of from this budget analysis have validated that the base budget allowance for the project to York Place is [£695m]. The quantified risk assessment has suggested an appropriate risk provision for the project of [£77m].

Comment [AAU1]: Figures being validated by F&G

Comment [AAU2]: Figures being validated by F&G

As a result of the assessment the additional funding required for completion of the project to York Place is [£227m] compared to the sum of xxxx, previously identified.

Assessment of options

Following the Council meeting on June 30th, Council Officers undertook to examine possible other funding options to meet the funding gap.

Discussions were held with Scottish Futures Trust to identify funding options and Inverleith Capital was commissioned to assist in an options appraisal of the funding possibilities. This analysis examined the pros and cons of various possibilities such as private sector equity / debt models, franchising, and Council prudential borrowing.

The outcome of the options assessed has indicated that at this time, the optimum source of funding, taking cognisance of various criteria including deliverability and cost is to utilise the prudential framework to fund the remainder of the project. A 30-year repayment period will be assumed for any additional borrowing undertaken and a rate of 5.1% has been assumed. It is estimated that borrowing of £227m will result in an on-going revenue cost of £14.7m. * is this per annum - if so we need to be clear about that here.*

An examination of the Long Term Financial Plan (LTFP) has identified a number of revenue streams that could be used to meet the revenue implications of prudential borrowing; these items are highlighted in the table below.

	Revenue Impact £m	Capital £m	Cumulative Funding £m	Notes
TEL Business Plan	2.0	30.0	30.0	Previously Identified in Council's contingency planning
Infrastructure Provision in Budget	2.0	300	60.0	Previously Identified in Council's contingency planning
Loans Charges Headroom	3.9	58.5	118.5	
Income from Leasing of Tram assets to operator	2.7	40.5	159.0	
Additional CEC Revenue	3.8	57.0	216.0	

Phasing of Funding Requirement

The phasing of the funding requirement is also important to note against the projected future cash flows for the project, it should be noted that not all of the funding will be required immediately and the funding requirement will be managed within the context of the Council's overall treasury management. The phasing of the funding requirement is highlighted in the table below.

Comment [AAU3]: Figures to be validated against new budget and cash flow.

Financial Year	Estimated Cashflow £m	Remaining Grant from TS £m	Funding Required £m	Revenue Impact £m
2011/12*	118,721.20	20,000.00	98,721.20	[2.545x]
2012/13	88,434.81	20,000.00	68,434.81	[8.314x]
2013/14	39,086.85	19,500.00	19,586.85	[11.091x]
2014/15	24,363.64		24,363.64	[13.018x]
*Part year from full construction re-start				14.006

It should needs to be recognised that the earmarking of these revenue streams for the Trams project will reduce the options available to the Council to meet future service pressures in the context of ??and reduced government funding. It should be recognised hHowever, that the consequences of cancelling the project would require a similar amount of money and would impact directly on the revenue budget. *Explain the reasons for this more fully here*.

In recognition of the impact that such earmarking of funds would have on Council services, it is intended to seek an open dialogue with Scottish Government- on the

following issues which have the potential to that may provide additional revenue resource to the Council:

- (a) SNP manifesto included the commitment that no council should receive less government grant than 85% of the Scottish average. It is estimated that an increase in Edinburgh's funding to this level would provide additional resources of £23m per annum;
- (b) Scottish Government and COSLA have been in discussions regarding a Non-Domestic Rates Incentivisation Scheme. Variants of such a scheme, recognising the specific circumstances in Edinburgh in terms of the annual NDR leakage from the Capital city, may provide a new funding stream that could assist in funding the implementation of the Tram projects.

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Prudential Borrowing Options

The increase in the Public Works Loans Board (PWLB) margin over GIlts to 1% announced in (last year's) the 10/11 (?) Comprehensive Spending Review provides an opportunity to consider a Bond issuance as an alternative to PWLB borrowing. Recently the GLA *** expand to full name*** recently issued a bond with an average maturity of just over 20 years at 5.017%, a discount of about 20 bps ** expand** to the relevant PWLB rate at the time. Therefore, it is proposed that the Council puts in place some of the pre-requisites for a bond issuance issuance (?) such as a credit rating as part of managing the risk in funding the borrowing requirement, and further work to enable the potential use of derivatives to manage the interest rate risks in a bond issuance programme.

Future Options

As indicated at ?? above, stated previously, borrowing through the prudential framework is the optimum mechanism for the Council to provide the necessary funds for the project at this time.

However, Council Officers will continue to undertake a work stream to examine all other possibilities for re-financing the borrowing required for the project. This work will examine options both around re-payment of the borrowing costs but also of the possibilities of progressing the next phase of construction.

[Highlighted in Inverleith report as a key mechanism to offload 30 year borrowing to private providers allowing completion of phase 1a. The leverage being the combined bus/tram company. [Politically sensitive – judgement call on whether to include].