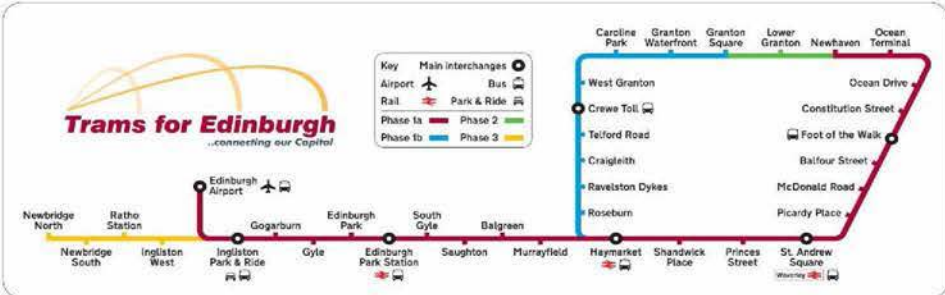




EDINBURGH TRAM Highlight Report to the Chief Executive's Internal Planning Group 4 August 2010



1 Background

This 'highlight report' is an update to the Chief Executive's Internal Planning Group (IPG) on the Edinburgh Tram Project to inform on the progress on this project and any decisions required.

A redacted version of this report is also to be circulated within the Council as a means of communicating progress with the Tram project.

2 Executive Summary

2.1 Matters Arising

Evaluation of Financial Contingency Measures, Strategic Options and Financial update

An update is provided on projects 'Pitchfork' and 'Carlisle', the Council report on 16 September including the refreshed business case, financial contingency planning, Developers Contributions and the Council's £45m contribution.

Tram Monitoring Officer Update

An update on the Dispute Resolution Process (DRP) including a summary of disputes is provided.

Communications Update

A media update is provided plus information on the proposed route branding and Media and Press activity.

Tram IPG Remit

A review of the IPG has been carried out and a revised remit is provided.

Statutory Council Approvals and Consents

As the detailed design continues, there are several statutory consents that the Council must provide. These include Planning Prior Approvals, Building Warrants, Roads and Structures Technical Approvals.

Land Acquisition and Certificate(s) of Appropriate Alternative Development (CAAD)

An updated position for the CAADs is provided.

Planned Future Tram Council Reports

A list of planned future tram related Council reports is provided.

Risk Review

A risk review regarding incremental delivery options was carried out by Council officials and information from that workshop is being compiled. It is planned that this be provided to the next IPG.



2.2 Matters to Note or for a Decision

- To note the update on projects 'Pitchfork' and 'Carlisle', the Council report on 16 September including the refreshed business case, the financial contingency planning, and the Financial update.
- To note the Tram Monitoring Officers (TMO) update on DRP.
- To note the communications update.
- To agree the revised IPG remit.
- To note the progress with the Statutory Approvals and consents.
- To note the position regarding land acquisition and CAAD applications.
- To note the planned tram related Council reports planned.
- To note that a risk review workshop has been undertaken on the incremental delivery options and that this will be reported to the next IPG.

3 Evaluation of Financial Contingency Measures, Strategic Options and Financial Update (Presented by Alan Coyle)

Project "Pitchfork" Update

tie ltd continue to follow through the recommendations of the Pitchfork report. This has evolved into three themes:

Workstream A: Project Notice: Termination

Workstream B: Carlisle: where BSC complete part of the project and **tie ltd** re-procure the remainder on an incremental basis

Workstream C: Tram Business Case update as requested at the Council meeting on 24 June 2010. To be submitted to Council on 16 September 2010.

Workstream A – Project Notice/Termination

tie ltd met with QC Richard Keen to discuss the strength of their case with regard to the 90.1.2 Remedial Termination letter. The consultation went well, with the QC stating that as long as **tie ltd** has the evidence, their case for issuing the Remedial Termination letter is reasonable. The 80.13 argument (ability to instruct) is strong in his view.

The QC also advised **tie ltd** that any remedial breach notices served should be of a targeted nature to individual areas of breach rather than an omnibus breach letter. **tie ltd** will continue to fine tune these breach notices in the next few days. A note of the QC meeting has been prepared by DLA Piper and has been sent to the QC for signature.



Workstream B – Project Carlisle

tie ltd have continued in the period to work towards an agreement with BSC for Project Carlisle. The timetable for delivery of price and programme is the 29 of July. The timetable for the approved design is mid August; this has slipped from mid July.

Richard Jeffrey has said that the price and programme will be based on the design as it stands with any changes at BSC risks as long as the changes are not “client changes”.

It is important that the Council have a full understanding of any deal on Project Carlisle especially the Financial and Legal impacts. It is also important that the issues experienced at under the main Infraco contract are not repeated, especially with regard to design changes and the scope of the works. The Council must have absolute transparency as to the risks that remain with the Public Sector under any revised agreement.

Richard Jeffrey’s recommendation to the Tram Project Board on 28 July 2010 was that negotiations continue for another four weeks to allow the variables on project Carlisle to be closed out. The Board agreed with the additional time period.

Workstream C – Tram Business Case Update

Following the Council motion at the meeting of 24 June 2010, work is progressing well on the refreshed Tram Business Case.

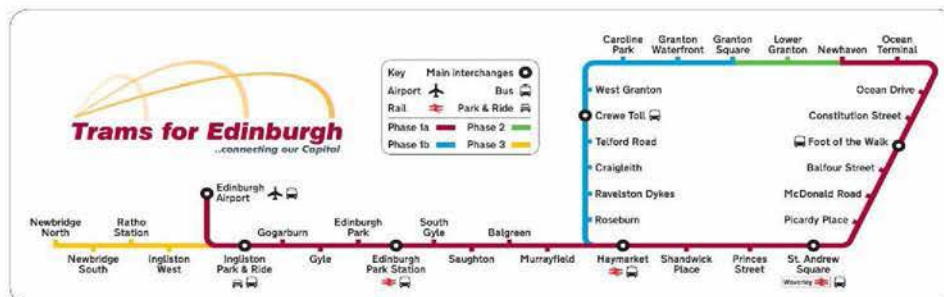
The areas of concern at this point relate to agreement on the GMP and Lothian Buses sign off to the patronage forecasts. David McKay and Richard Jeffrey will not sign off a revised TEL Business Plan in the absence of LB sign off.

It is envisaged that the refresh of the Business Case will be presented to the Tram Project Board for approval on 25 August 2010. It will also be important to weave the main components of the refreshed Business Case into the Council report for the meeting of 16 September 2010.

At the Council meeting on 24 June it was agreed that any report on the outcome of the contractual negotiations should include a refreshed tram business case on the options now being explored by tie ltd. An eight week timeframe is available to undertake this work.

For information, the current draft of the refreshed Business Case is included in Appendix 1, please note this is very much work in progress at this stage. A summary of the structure of this document will be presented to the elected members of the Tram Project Board, for information.

The skeleton for the Council report on 16 September 2010 is being prepared now to ensure all the information is obtained in advance from tie ltd.



The proposed main headings for the Council report are currently as follows, some of which will be part of the refreshed business case;

- Recap on contractual difficulties.
- Project Carlisle/Notice - including commercial impacts, legal impacts, scope delivery and a summary of associated risks.
- The estimated cost of completion of Phase 1a.
- Budget, Affordability and Funding
- Business Case Refresh

Financial Contingency Planning

Work continues with Transport Scotland to demonstrate the robustness of CEC's contingency planning.

Finance Update

Transport Scotland has now contributed £367m to the project to facilitate spending to the end of period 6 of financial year 2010/11. The latest cash application to Transport Scotland is for £8.1m with the Council contributing £727k.

The current forecast call on Transport Scotland funding for 2010/11 has been revised down to £110m reflecting the programme slippage. The Council contribution is forecast at £10m for 2010/11.

Based on current Cashflow forecasts, Transport Scotland funding will be exhausted in period 10 of 2011/12.

The table below itemises expenditure to date.

	Financial Close Budget £m	Current Spend £m
Infrastructure	250.5	132.9
Vehicles	58.2	45.4
Utilities	48.4	62.0
Design	26.9	31.8
Resources	68.3	67.3
Other (Including Land Acquisition Costs)	32.6	32.1
Contingency Risk Reserve + Phase 1b postponement and design costs (included in Current Spend in right hand column)	30.3	
	515.2	371.5



Council Tram Funding

The table below shows the total funding achieved to date:

CEC Contribution Breakdown	Planned Contribution	Current Forecast	Achieved Contribution
Council Cash	£2.5m	£2.5m	£2.5m
Council Land	£6.2m	£6.2m	£6.2m
Developer Contributions – Cash	£25.4m	£21.1m	£5.2m
Developer Contributions – Land	£1.2m	£1.2m	£1.2m
Capital Receipts (Development Gains)	£2.8m	£2.8m	£0.0m
Capital Receipts	£6.9m	£9.2m	£2.0m
Total	£45.0m	£43.0m	£17.1m

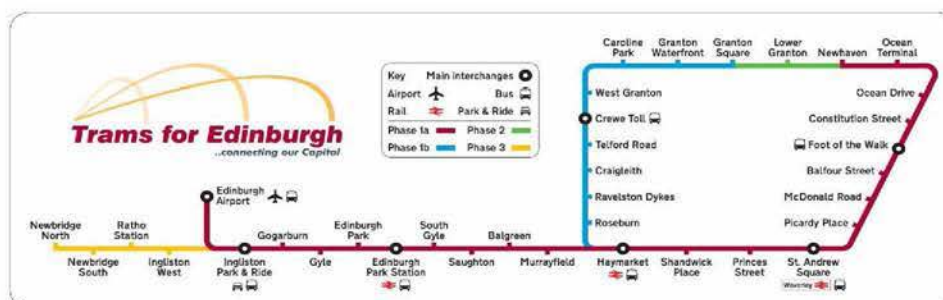
4 Tram Monitoring Officer (TMO) Update (Presented by Marshall Poulton)

The most recent adjudication was a decision on the effect of utility delays and the amount of delay attributable to **tie ltd**. BSC have been awarded 154 calendar days for section A only, the adjudicator reporting that BSC failed to demonstrate their case for entitlement in sections B, C and D.

The TMO has completed his Project Assurance review of the engineering elements of the tram project and that report is currently being reviewed by the Director of City Development. An action plan is being prepared and those actions that require immediate attention will be discussed with **tie ltd** on 3 August 2010.

Legal Services has requested the full report from the adjudicator for review. The next adjudication result is expected on 6 August 2010 in relation to Clause 80.13 and **tie ltd's** right to instruct.

The table below provides an update on the DRP, it should be noted that the majority of these DRP's are by their nature, changes to scope and therefore not included in the original project budget. However, they are included in the revised cost estimates prepared by **tie ltd**.



BSC Dispute Summary (Live and Potential Cases)

DRP No	Subject	Nature	Decision/Status	Approx BSC position	Approx Tie ltd position	Agreed potential saving vs BSC claim or Cost saving
1	Bus lane on Princes Street	Initiate Work	Agreed – supplemental agreement			
2	% uplift in prelims	Costs	Agreed at Mediation			
3	Hilton Car Park	Contract definition	Awarded in tie's favour	£100k	£0	Agreed at nil £100k saving
4	EOT1	Costs	Agreement reached through mediation	£7.09m	£3.52m	Agreed at £3.524m £3.57m saving
5a	Gogarburn	BDDI – IFC	Decision made	£300k	£100k	Agreed at £176k £125k saving
5b	Carrick Knowe Bridge	BDDI – IFC	Decision made	£330k	£100k	Agreed at £138k £200k saving
B / 5c	Russell Road Bridge	BDDI – IFC	Decision made	£4.8m	£1m	Agreed at £1.46m £2.6m(incl contamination) £2.2m saving
5f	Haymarket	BDDI – IFC/ Costs	Agreement reached prior to reaching formal stages – costs significantly reduced	£400k	£96k	Agreed at £195k £200k saving
5i	Baird Drive	BDDI – IFC	Agreement reached before referral to adjudication - costs reduced substantially	Originally £3.9m reducing to £1.9m	£600k	Agreed at £915k £3m saving
5j	Balgreen Road	BDDI – IFC/costs	Agreement reached prior to reaching formal stages – costs reduced substantially	£800k	£300k	Agreed at £298k £500k saving
5o	Depot Access Bridge	BDDI – IFC/costs	BSC Dispute; still to be referred to adjudication	+£2.5m	-£4m	Difference of ~£7m between valuations
A	MUDFA Rev 8	Time	Decision to award delay of 154 days to BSC	-	-	-



DRP No	Subject	Nature	Decision/Status	Approx BSC position	Approx Tie Ltd position	Agreed or potential saving vs BSC claim	or Cost saving
5l	Section 7 track drainage	BDDI – IFC/costs	Decision made on principle (preferring Infraco’s classification and part value. Significant value saving expected.	£1.35m	£25k	Expect resolution ~ £650 - £750k delivering a saving of ~£600k	
5e	Tower Bridge	BDDI- IFC/costs	Decision Made in tie’s favour	£491k	(£369k)	Valued at £(260k) £750k saving	
	Murrayfield Underpass	Clause 34.1/80.13 (ability to instruct works before an estimate is agreed).	CEO meeting held 21/06/10. To be referred by BSC to Legal panel for adjudication.	<£50k	<£50k	Issue is ability to instruct rather than the costs at this location. This would impact responsibility for delay rather than direct costs.	

5 Communications Update (Presented by Lynn McMath/Isabell Reid)

Branding

The Tram Mock-up, which is currently sited at Edinburgh Airport, has now been wrapped in vinyl designs to promote the upcoming Festival period. Signage displaying tram messages will also be installed alongside the Airport Tram Stop and will feature the joint branding of Edinburgh Trams and Inspiring Capital. The same key message signage will be placed on the Broomhouse Road viaduct and will contain short and snappy positive wording about the trams benefits.

The Overhead Line poles will be installed along Princes Street. Two banners have been placed on either side of each pole and display the variety of Festival events on offer throughout August as well as other city promotion such as DEMA’s This is my Edinburgh campaign, City of Literature and Super September.

Planned signage for the Gogar Depot and Haymarket House are currently on hold as sponsorship options are looked at. Further opportunities for branding and signage have also been identified at the Ingliston Park and Ride and along the tram route at Saughton to the west of the city.

We are also looking at opportunities for branding areas of restored traffic management around the west end particularly to enhance the space available.



Media / Press Activity

Press coverage during the last few weeks has been relatively low. The main coverage was a BBC Radio documentary discussing procurement on Scottish public infrastructure projects, but with a focus on the tram project, which aired on Monday 19 July. The documentary included commentary from several industry experts and politicians including Councillor Mackenzie, John Swinney, Shirley Anne-Somerville and Roger Jones from the Greater Manchester tram project Metrolink. Filming with the BBC was arranged as part of radio documentary for a follow up piece on Reporting Scotland.

An interview was conducted with **tie ltd's** Chief Executive, Richard Jeffrey, as part of the documentary in which he commented that political courage was needed to follow through with public projects. These comments generated subsequent press coverage following the radio documentary.

6 Tram IPG Remit (Presented by Dave Anderson)

A review of the remit of the IPG has been carried out and has recommended several minor revisions, and that report is attached as Appendix 2.

Future Remit and Key Objectives

It is proposed that the remit of IPG should in future be focused more explicitly to address the following objectives:-

- To provide Council management scrutiny and oversight of the tram project and identify high level risks against the programme timetable and budget that may need to be discussed at the Tram Project Board or taken up with the senior management within **tie ltd**;
- To identify, manage and mitigate any programme level risks to the Council and the city resulting from a failure by the project to achieve its objectives, including risks arising from commercial and legal disputes and financial pressures arising from programme delays and scope changes.
- To ensure that Council departments co-ordinate their resources and activities in the most effective manner to support the successful implementation of the project; and,
- To ensure that the interests of wider stakeholders in the tram project are fully considered and communications with key stakeholders are properly managed.

It is proposed that future IPG papers will also include a key decisions from the Tram Project Board from that period.



7 Statutory Council Approvals and Consents (Presented by Andy Conway)

There has been little change in the number of approvals completed this period, with the majority of time being spent dealing with resolving the conditioned matters. For completeness, Appendix 3 provides a summary of the current position.

8 Certificate of Appropriate Alternative Development (CAAD) (Presented by Dave Anderson)

There has been no significant change in the tram CAAD position since the last meeting (see Appendix 4 for details). The Director of City Development is currently reviewing the resource requirements for managing the CAAD related risks, and consideration is being given as to how best to manage this within the competing internal resource requirements. It may become necessary to employ additional external resources and this is also being discussed with **tie Ltd**. It is also worth noting that Steve Sladdin is moving internally into the asset management post.

9 Planned Future Tram Council Reports (Presented by Andy Conway)

The table below identifies the planned tram related Council reports and will be a standing item on the IPG for agenda planning purposes.

It should be noted that there are no Tram Sub Committee meetings scheduled.

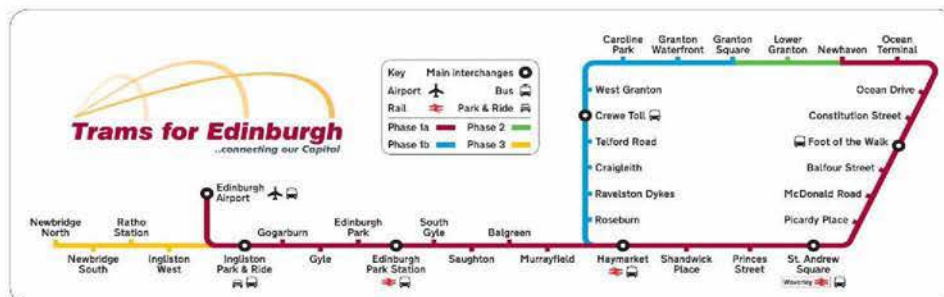
		2010				
		Aug	Sep	Oct	Nov	Dec
1	Lothian Buses integration proposals and approval of Chief Exec and Chief Opp Officer		16/09/10			
2	Remuneration Strategy (for all Council companies) - including TEL and tie Ltd	19/8/10				
3	Tram Traffic Regulation Orders		21/9/10	14/10/10		
4	Update reports to the Tram Sub					
5	Further tram progress update and refreshed outline business case provided		16/09/10			

Key

Full Council
Transport, Infrastructure and Environment Committee
Policy and Strategy
Tram Sub Committee

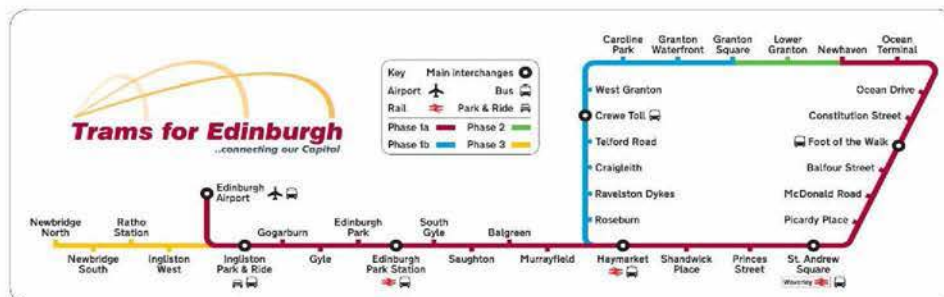
10 Risk Review (Presented by Alan Coyle)

Council officers took part in a risk management workshop on 23 July 2010 to review the risks associated with Incremental Delivery. A summary of these risks will be included in the next IPG report.



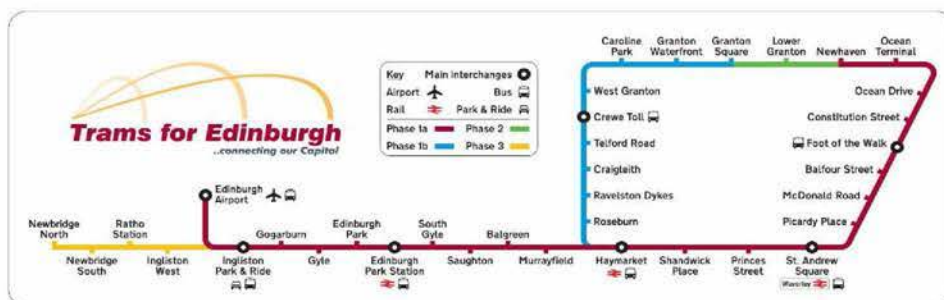
List of Appendices:

- 1 Edinburgh Tram – Business Case Update August 2010
- 2 Tram IPG Remit
- 3 Statutory Council Approvals – Tables 1 and 2
- 4 Certificate of Appropriate Alternative Development (CAAD)



Edinburgh Trams

Edinburgh Tram – Business Case Update August 2010



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Executive Summary

DRAFT



1. Purpose & Scope

1.1 In June 2010 the Council considered a report on the status of the project in the context of the contractual difficulties encountered. The report outlined the funding strategy being employed by the Council and contingency planning, including incremental delivery, which may be deployed to ensure the investment in the project is realised by the delivery of a viable tram service integrated with bus services whilst preserving the entirety of the scope of Phase 1a (Airport to Newhaven) as detailed in the Final Business Case of 2007 (FBC).

1.2 The Council resolved that a refreshed business case be prepared to encompass all options currently being investigated and reflecting a current view of economic growth and development and future growth in demand for public transport in Edinburgh over the life of the tram project.

1.3 This scope of this report is therefore to:

1.3.1 Further detail the proposed incremental delivery approach which may be deployed to manage affordability and financial risk in light of the contractual difficulties and impact they have had on the forecast outturn costs for the delivery of the entirety of Airport to Newhaven in a single phase of construction.

1.3.2 Provide an update on the FBC in the context of the anticipated delivery of the whole of Airport to Newhaven over time but also with an incremental approach to delivery as defined in Section 2. This update is provided against the three tests of viability examined in the FBC:

- **Economic viability** (Section 3) - Economic benefits and costs, both qualitative and quantitative quantified based upon a review of the appraisal by Steer Davies Gleave (SDG) prepared for the FBC [but not a complete rerun of the economic modelling]
- **Financial viability** (Section 4) – The integration of bus and Tram under TEL and the prospective short and longer term profitability of TEL – a previous update on the TEL Business Plan was reported to the Council in August 2009.
- **Affordability** (Section 5) – Management of financial risk via an incremental delivery approach, sources of finance to meet current funding commitments and potential sources of incremental funding to complete the project to Newhaven.

2. Incremental Delivery

2.1 Incremental delivery of Airport to Newhaven addresses the imperative to manage the affordability risks of the project in the context by means of contemplating flexible incremental delivery of the on street sections. The approach will ensure the investment in the project is realised by the delivery of a viable tram service integrated with bus services whilst preserving the entirety of the scope of Phase 1a as detailed in the FBC.

2.2 Incremental delivery provides the ‘escape valve’ to deliver the entirety of the project from the Airport to Newhaven in stages and over a flexible timescale which is under the Council’s control. The Council can



ensure that the infrastructure being delivered at any point in time is clearly deliverable within the funding available from either CECs own sources or from Scottish Ministers.

2.3 Consideration of incremental delivery has focussed on the north-eastern (ie on-street towards Leith) sections of Phase 1a because:

- The tram going west must at least reach the depot at Gogar
- Extending the tram to Edinburgh Airport was an integral part of the Scottish Government’s and Scottish Parliament’s deliberations in 2007 which culminated in the cancellation of the EARL project, capped Grant support for tram and subsequent commitment to construction of a heavy rail/tram interchange at Gogar as the rail based connection to Edinburgh Airport
- Construction of the Gogar depot, structures and other infrastructure in the off street sections has now progressed to the point where it would be uneconomic not complete these sections as part of the opening service on the tram.

2.4 The choice of Airport to Newhaven as the first phase of delivery and the development of the Final Business Case was the result of two years plus examination which remains entirely valid. The tram is an investment in infrastructure whose economic viability has been assessed over 60 years. It is rational to stage delivery in response to changing affordability parameters whilst ensuring that value is realised from the investment already made in the project.

2.5 The stages of incremental delivery evaluated as the first complete operating tram service the most up to date estimate of the capital costs of delivering each are as follows:

Airport to:	Base Excl Risks	Base Incl Risks	Downside Outcome	Optimistic Outcome
Haymarket	[xxx.x]	[xxx.x]	[xxx.x]	[xxx.x]
St Andrew Square	[xxx.x]	[545.0]	[xxx.x]	[xxx.x]
Foot of the Walk	[xxx.x]	[xxx.x]	[xxx.x]	[xxx.x]
Ocean Terminal	[xxx.x]	[xxx.x]	[xxx.x]	[xxx.x]
Newhaven (ie complete Phase 1a)	[xxx.x]	[xxx.x]	[xxx.x]	[xxx.x]

- Decide the extent to which estimated costs will be included in this report rather than a separate report on costs



- Consider extent to which Council will want explanation for increases in this paper
- Consider extent to which further granularity provided if we have not concluded a Carlisle deal at this point in time
- Anticipates that St Andrew Square can be delivered for £545m or thereabouts

2.6 The conclusion is that a first incremental opening of tram services from Airport to St Andrew Square is capable of being delivered within the currently available funding of £545m. As more fully examined in sections 3 and 4 below, a tram operating from the Airport to St Andrew square also secures a high proportion of the economic benefits anticipated in the FBC and, crucially, is capable of being integrated with Lothian buses successfully and being financially viable in the medium term. Significantly it would ensure that the infrastructure already constructed on Princes St would form part of the first stage of delivery. In finalising any incremental delivery plan it would be important to retain the desired relationship with Henderson Global’s redevelopment of St James Square.

2.7 Other desirable characteristics to be secured as part of an incremental delivery approach are:

- **Greater control over impact upon the City** – the Council will be in a better position to mitigate the impacts of temporary traffic diversions, avoid the critical embargoed periods, execute the works in a way which responds better to the concerns of stakeholders and provide greater certainty as to start and completion dates.
- **Control over scope change on-street** – building upon the experience on Princes Street, the Council should be in a better position to exercise due diligence on the extent and specification of road and pavement reconstruction and respond to obstructions and unforeseen utilities with fewer concurrent work areas to manage.

2.8 It is worth important to consider that in the absence of sufficient funding to complete the entire project from Airport to Newhaven at the current time, if agreement to deliver the project in an incremental basis cannot be achieved, the alternative of project cancellation or postponement presents very considerable downsides for the Council, Edinburgh and for Scotland as a whole, including:

- No immediate prospect of securing value (ie the benefits detailed in section 3 below) for the £[370]m spent on delivering the project to date
- An extended period of continued uncertainty pursuing commercial settlement with the existing infrastructure consortium
- The costs associated with any reinstatement or safeguarding of incomplete works in the off-street sections as a result of an extended or indefinite period of postponement
- Additional costs of procurement and mobilisation of a new infrastructure provider if and when the project is restarted
- Uncertainty about market appetite and required risk premia included in the pricing of a procurement
- Damage to the reputation of Edinburgh and Scotland as a place to business with local and national Government



Procurement structure and estimated costs of completing to Newhaven

[to be written]

3. Economic Case for Tram

- 3.1 The economic benefits of introducing tram were assessed and reported for the original Lines 1 and 2 during the Parliamentary process and for the present scope from Airport to Newhaven in the FBC of Dec 2007. The FBC was underpinned by an assessment of economic costs and benefits by Steer Davies Gleave (SDG) in accordance with the Government's Scottish Transport Appraisal Guidance (STAG).
- 3.2 The following narrative updates the examination of the economic benefits of introducing tram both from the STAG perspective and from the broader visions for Edinburgh long term economic future. The analysis provides a more up to date forecast of future economic growth and development and therefore forecast growth in demand for public transport. The analysis focuses on the full scope from Airport to Newhaven, which remains the defined scope of the completed project, but also highlights the benefits delivered for Airport to St Andrew Sq as the first stage of incremental delivery.

Edinburgh's strategic position and the need for tram

- 3.3 Edinburgh's growing population: currently [477,660] expanding by around 1% pa and forecast to reach [514,000] by 2020 and [543,000] by 2030. Just as significantly, the volume of commuters coming into the city to work from the surrounding city region and further afield was estimated at 85,000 per day at the 2001 census and is now perhaps around 100,000 per day and growing.
- 3.4 The growth in population and commuters correlates to the concentration of job growth in the city compared to other parts of Scotland [Stats from Economic Development to be provided]. Edinburgh also continues to grow as a tourism and day visitor destination, 2nd only in the UK to London as a destination for overseas visitors.
- 3.5 The City's growth manifests itself in rapidly increasing demand for road use and increasing demand for Public Transport. Between 2000 and 2006 Lothian buses experienced an increase in demand of [xx] %, an average of [xx] % per annum. By comparison the forecast increases in the total travel market included in the FBC for the period between 2005 and 2031 were a comparatively modest 37% (1.2% pa) for journeys by car and 61% (1.8%pa) for journeys by public transport. The most recent forecasts prepared by SDG, taking account of the economic downturn over the past 2 years and the impact that has had on the pace of new development are increases of [xx] % by cars and [xx] % by public transport. **The message is that despite recent the recent economic downturn and the prospect of austerity measures, the city must continue to contemplate the continued transport and other investment demanded by a prospective return to growth and which are more important than ever to help ensure that growth returns sooner**



rather than later. The investment in tram is appraised for the economic benefits it can deliver over a 60 year period, seeing beyond shorter term economic trends.

- 3.6 The city’s bus services are world class and have continued to deliver the highest quality of service to a rapidly increasing patronage base, at least partly due to CECs historical investment in bus lanes and other measures. However the prospect of further rapidly increasing demand, especially in the high volume corridors already congested at peak times, gives rise to a need to invest in a complimentary high capacity, reliability and attractive mode of transport on those corridors.
- 3.7 Between 1999 and 2006, tram was identified and adopted as the preferred option to meet the increased demand and mitigate against the negative economic consequences of future congestion and Tram lines 1 and 2 were approved by Parliament. Following affordability challenges presented by the rejection of congestion charging in Feb 2006 the tram from Airport to Newhaven (Phase 1a) was identified as the first phase of delivery with the addition of a spur from Roseburn to Granton (Phase 1b) should funding permit. This was the scope assessed in the FBC approved in December 2007.

Economic Regeneration and New Development

- 3.8 The tram from the Airport to Newhaven remains a key stimulant to development and regeneration in the West and North of Edinburgh. The extent of new development forecast to be completed between the base year in 2006 and the commencement of tram operations is lower than was anticipated when the FBC was prepared in 2007 as a result of prevailing economic conditions. With the assistance of CEC officials an update of the likely timing of committed new development has been carried and the results are presented in the following table compared to original FBC profile.

	2012		2020		2031	
	Resid'l Units	Comm'l Sq M	Resid'l Units	Comm'l Sq M	Resid'l Units	Comm'l Sq M
<u>FBC</u>						
West			0	491,650		
City Centre			2,719	248,745		
North			18,000	97,500		
Total			20,719	837,895		
<u>2010 Update</u>						
West						



City Centre						
North						
Total						

- 3.9 The results reflect that whilst the actual development completed at commencement of tram operations is significantly lower than was originally anticipated, especially residential development in the North of the city in Leith, CEC is forecasting a recovery such that by 2020 [xx] % of the original forecast will be completed and by 2031 [xx]% will be completed. These forecasts broadly anticipate a [4-5] year period of very slow development as a result of today’s prevailing economic conditions following which a return to growth will prevail.
- 3.10 In August 2009 the results of an update to TEL Business Plan were reported to the Council which anticipated a significant element of the reduction in patronage in the early years of tram operations as a result of the slowdown in new development. The latest TEL patronage projections for combined tram and bus operations as detailed in Section 4 have been modelled using the 2010 Update profile in the above table.
- 3.11 A first stage of tram services operating from the Airport to St Andrew Sq would stimulate and serve the demand arising from new development in the West and City Centre categories above including [xxx,xxx] sq m of new commercial space to complete Edinburgh Park.
- 3.12 The future completion of the project to Newhaven remains critical to support and catalyse the redevelopment at Leith Docks, the largest brownfield development in Scotland, minimising dependence on private car for access to employment and retail areas, reducing congestion and underpinning the economic viability of North Edinburgh. Notwithstanding the current pause in development, CEC and Forth Ports plc continue to work in partnership towards the realisation of the full master plan which is unlikely to go ahead to the same extent without a commitment to complete the tram system to Newhaven as and when funding sources are identified and economic conditions dictate the re-commencement of the new development.
- 3.13 The new development included in the above table comprises only that which has been committed [or has achieved outline planning consent]. It does not therefore reflect the broader vision for West Edinburgh reflected in the Scottish Government’s West Edinburgh Planning Framework 2008 (WEPF) which categorises the areas to the south and east of the airport as being national importance and envisages more extensive new development including an ‘International Business Gateway’ (IBG) to the north of the A8 at Gogar together with expansion of the airport itself and associated commercial development and relocation and expansion of the National Showground.
- 3.14 As a required action arising from the WEPF, CEC has completed a West Edinburgh Transport Appraisal (WETA) to examine the sustainable transport options infrastructure which may be required to realise the WEPF vision. The WETA appraisal was based upon there being 175,000 sq m of new development at IBG



by 2021 increasing to 225,000 sq m by 2031 (87% offices) which it assumes will be served by a new tram stop between the Gogar depot and Ingliston Park and Ride as has been safeguarded on the route secured by a first phase of tram delivery from the Airport to St Andrew Sq.

- 3.15 Development and passenger growth at Edinburgh Airport itself is cornerstone of the WEPF. The airport currently handles [9.1] m passengers per annum and is forecast to rise to [13] m by 2018. The Aviation White Paper forecasts 26m passengers per annum by 2031 following introduction of a second runway [Need to check against the growth built into the JRC patronage forecasts]. The WETA appraisal identifies a basket of road and bus priority improvements measures which would be required to meet the additional demand for public transport and other road users but the tram remains a key element to realising this vision for a transport perspective in a sustainable way.
- 3.16 There can be little doubt that now more than ever the stimulating impact of investment in the tram on new development, which has been experienced in many other cities in the UK and Europe, is vital to Edinburgh’s future Economic growth and prosperity. It seems reasonable to assume that evidence of the potential for increased commercial property values along and adjacent to the tram route, a consistent feature of the experience from the introduction of other tram projects will follow the introduction of tram services from the Airport to St Andrew Sq.

Environment

- 3.17 Even in the past two years, the imperative of reducing the carbon impact of travel in the city by getting more people on to sustainable public transport has become ever greater and is a key element of both National Transport policy and CECs own Vision 2030 for transport.
- 3.18 The FBC identified the tram as a major contributor to a reduction in on street emissions throughout the route and its contribution in particular through the heart of the city centre issues which CEC is addressing through an Air Quality Action Plan (AQAP) in this area. Trams will contribute to the objectives of the AQAP by providing a large number of journeys through the city centre; improving mobility and accessibility without adding to current levels of nitrogen dioxide.
- 3.19 The tram’s contribution to mode shift (see below) will enable further progress towards objectives set in the Air Quality (Scotland) Amendment Regulations 2002 and to national objectives to reduce emissions of greenhouse gases. CEC have identified air quality issues in the western corridor of the city leading to the airport area, with a particular focus on Corstorphine Road, St Johns Road and the Drumbrae roundabout.
- 3.20 Whilst the commencement of tram services from the Airport to St Andrew Sq would do much to secure the environmental benefits to the west and in the city centre, completing the route to Newhaven will be of immense benefit in replacing buses and reducing general traffic emissions on the already congested Leith Walk corridor.



3.21 Since the FBC, the potential, in future, to power the tram from renewable energy sources (important as fossil fuels deplete) has been brought into focus. The economics of procuring “green” electricity for operations is already under discussion with CEC.

Safety & reliability

3.22 The FBC identified Personal security improvements including CCTV and help points at all stops and vehicles use of inspectors on vehicles as a benefit across entire Airport to Newhaven corridor. Generally greater segregation from general traffic and priority at junctions reducing the variability of dwell time at stops compared to a bus-only services where there is the prospect of significantly increased number of bus vehicles to meet additional demand (It is envisaged that in the absence of tram it would be necessary to increase the number of buses along the Airport to Newhaven route by more than 30% by 2031).

3.23 Until now interventions and improved bus priority measures have maintained timetables and service delivery. It is unlikely that the types of intervention that have worked in the past can indefinitely be sustained into the future. At best, significant future increases in bus provision would be likely to need supportive segregation and priority measures, which would impact adversely on road capacity for other traffic.

3.24 Experience has shown that unreliability of journey time is particularly off-putting ns to current and potential public transport passengers and can therefore be a major obstacle to delivering mode shift away from cars.

Accessibility and Social Inclusion

3.25 An integrated, efficient, accessible and high quality public transport system is vital to promoting economic growth in the local community and to improving its performance and competitiveness. The tram will achieve this by increasing the number of people with access to the public transport network and with access to employment opportunities at the new development areas in the west of the city at Edinburgh Park, the Gyle and the airport.

3.26 Levels of economic prosperity, employment levels and levels of educational attainment show a considerable variance across the city zones around Saughton and Balgreen in the west being identified as areas where socio-economic status is considerably lower than surrounding areas. Employment, income levels and car ownership tend to be comparatively low in these areas. Low car ownership also correlates to the areas of high population density in Haymarket and Gorgie.

3.27 Completion of the tram from St Andrew Sq to Newhaven will greatly enhance these overall benefits by connecting the new residential development in Leith Docks to new job opportunities in the city centre and west edinburgh, and by bringing an enhanced public transport offering to the areas of lower socio-economic status and/or car ownership in Leith and along Leith Walk.



3.28 Throughout the Airport to Newhaven route, the tram vehicles and tram stops will ensure that the trams and tram stops are fully accessible by people with mobility impairments, those travelling with small children and the elderly. For these groups, and notwithstanding continuing improvements in access for people with mobility impairments on LB, there is a relative advantage for trams in terms of design specifications, ride-quality and reliable accessibility for a significant section of Edinburgh’s population. Where the distance between tram stops presents a challenge to accessibility, the service integration patterns with buses have been designed to maximise the continuing accessibility of Lothian Buses for these groups.

Transport Integration

3.29 Integration of public transport modes remains a key objective of transport planning for national and local Government in Scotland. Effective integration providing the public with a seamless multi-mode journey, with minimised connection times, is a key factor in improving satisfaction and building patronage on sustainable public transport. The objective is to create patronage growth not just on the routes covered by the tram but also demand for current and additional feeder services to the overall network.

3.30 The integration of bus and tram in Edinburgh under the umbrella of TEL is a unique opportunity to design the service patterns for Lothian Bus services (which will still account for 85% of TELs total patronage) and trams in a way which best fits demand, makes use of tram on the high capacity corridor through the centre of the city and provides effective interchange between bus and tram at various points. A key advantage for TEL is that integration can be planned before the start of services - much more effective than trying to achieve integration between already established services. On the route from the Airport to St Andrew Sq, interchange between bus and tram will be effective at Edinburgh Airport, Ingliston Park and Ride, Gyle Shopping Centre, Edinburgh Park Station, Haymarket and St Andrew Sq itself where the city’s main bus station is located – providing users with a greater choice of journey and clear information to make these choices.

3.31 Beyond St Andrew Sq, the bus and tram integration plan in the FBC identified the Foot of the Walk as an key interchange point without which it would not be possible to reduce bus services and therefore congestion on Leith Walk itself. This is the cornerstone of the bus and tram integration plan TEL will deploy for Phase 1a and will be secured when the route is completed to Newhaven. Bus and tram integration will also be implemented. When the new residential development is realised the tram will help ensure it does not contribute more significantly to city wide congestion as a direct result of the failure to integrate land use and transport policies or that the new development will be diverted to less sustainable locations with less potential for effective transport integration. **There remains a very convincing need for tram on Leith Walk by virtue of the sheer volume of forecast demand alone.**

3.32 Integration between tram and rail will be effective at Edinburgh Park Station, Haymarket Station and at St Andrew Square for Waverley Station. Since the FBC the Scottish Government has also committed to the delivery of a new railway station interchanging with tram on the fife line adjacent to the A8 at Gogar (now called Edinburgh Gateway).



- 3.33 Following the cancellation of EARL in 2007, Edinburgh Gateway is a cornerstone of the Governments strategic imperative to provide rail based connectivity to Edinburgh Airport and for the realisation of the nationally important future developments in the WEPF/WETA area for travellers from Fife and Central Scotland. The additional patronage on Trams generated by the Edinburgh Gateway has now been modelled by SDG and included in the TEL Patronage forecasts at Section 4 below; amounting to [xx] m additional passengers in 2012 increasing to [xx] m additional passengers in 2031.
- 3.34 Edinburgh Gateway also has great potential to create additional interchange between tram and bus services to the surrounding areas. Without investment in new transport, it is unlikely that this major national opportunity can be realised. The tram will be particularly vital in responding to the expected growth in travel demand arising from the development. Without this development, major greenfield and greenbelt releases would be required. This not only has planning implications, but would result in a settlement pattern that would be more difficult to serve by public transport.
- 3.35 Continued expansion of Park and Ride facilities remains at the heart of CECs plans to manage congestion by providing interchange between cars and public transport at the edge of the city and therefore increased mode share for public transport. Ingliston Park and Ride has specific Interchange with Tram and there is room for more expansion of this facility in the future. Park and Ride to the west of the city is likely to become of ever greater importance to manage congestion and provide the sustainable transport solutions required to realise the visions of WEPF/WETA. [D Anderson refers to a TIE Committee paper with more data on P&R?]
- 3.36 Lastly, integrated ticketing as between modes is a recognised as an effective ingredient in encouraging people to use public transport and to interchange between modes. The ticketing strategy to be deployed by TEL will ensure integration between tram and bus with the same products (eg Ridacard) being used on both bus and tram. In the longer term the Government has plans to greatly improve the integration of ticketing between all modes of transport including heavy rail.

Mode Shift

- 3.37 Like integration, mode shift from cars to public transport remains a key plank of both local and national transport policy. Tram services along the route from the Airport to the City Centre is a significant part of the predicted mode shift in the FBC from cars to public transport and connects to the existing Park & Ride sites at Ingliston and prospective new site at Hermiston Gait.
- 3.38 The evidence from other tram schemes in the UK and elsewhere is that there is greater potential for modal shift from car to tram than to buses (or guided buses) alone, especially if the tram is in operation before new development is constructed and travel patterns have been established. Modal shift is fundamental to achieving the environmental, sustainability, health and traffic aspirations of the tram.



- 3.39 It is also true that Leith docks was one of the key areas of predicted mode shift from cars to tram, not by existing users but by future re residents of the new developments who would be more likely to use their cars in the absence of tram. The impact of trams in Leith docks is forecasts to generate an up to 10% shift from car usage to public transport. Other areas where the SDG modelling exhibiting mode shift of greater than 5% (encompassing significant areas of development and growth which otherwise would be associated with higher levels of car travel) included Roseburn, Sighthill and Edinburgh Airport.
- 3.40 Modal shift is also influenced by policy and aspirations. In the WETA appraisal for instance the model share for public transport is set at 50%. One the major criticisms of efforts to improve model share is that the alternative to car travel – better and more reliable public transport – is not provided in advance. The investment in tram help provide that viable alternative to cars and a backbone upon which the city can raise its expectations for model shift to public transport.

Quantitative Benefits & Costs to Government

- 3.41 STAG appraisal guidance requires that one of the balanced scorecard of measures to be addressed is the Benefit Cost Ratio (BCR) - a quantitative assessment of the ratio of projected economic benefits arising from investing in the scheme over 60 years to the investment (capital) costs of the investment. The BCR for tram from Airport to Newhaven was assessed by SDG and reported in the FBC as 1.77 (NB all values converted back to 2002 prices by eliminating the effect of actual and forecast inflation over 60 years) as detailed in the following table.

£m - 2002 Prices	Present Value Benefits/Costs
Public transport user benefits	415
Other road user benefits	212
Private sector provider effects	(23)
Accident effects	(12)
PV of scheme benefits (incl. accidents)	592
Investment costs	390
Public sector provider effects	(55)
PV of scheme costs	335
Net PV	257
Benefit Cost Ratio to Government	1.77

- 3.42 Focussing on the highlighted principal elements of the calculation, the user benefits for public transport and other road users are the aggregate economic value (as proscribed by STAG) of the net saving in all



journey times for all road users over a period of 60 years as result of introducing the tram compared to what would happen if the tram were not introduced. The investment costs align with the estimated capital costs of the tram at the time of the FBC £498m. In essence any scheme with a BCR of greater than 1.00 is economically viable using this measure in isolation.

3.43 Whilst a complete reassessment of the BCR presented in the FBC does not fall within the scope of this Business Case update, it is possible to provide the following observations to demonstrate numerically the continuing robustness of the projects viability by this measure:

- a) Taking phase 1a of the project as a whole, if investment costs were to increase by 25% (from £498m to £625m in nominal undiscounted terms – an increase to approximately £488m in 2002 prices) then all other things being equal the BCR for the project would be reduced to **1.37**
- b) In addition to the capex increase at a) If we further presume that the changing profile in new development delivery and later patronage growth results in the discounted value of benefits being reduced by 20% (£125m in 2002 prices) by virtue of the time travel benefits being delivered later if not significantly diminished in nominal terms the BCR for the project would be further reduced to **1.10** but still in excess of the parity required to classify the project as viable by this measure alone.

3.44 A [significant] proportion of the monetised travel time benefits in the FBC originate in the Leith Docks area and will only be realised when the tram is completed to Newhaven. The modelling also predicts that the introduction of Tram in the Leith Docks area would result in up to a 10% change in mode share from cars to public transport. A tramway to Ocean Terminal would also deliver a direct tram service to the Scottish Executive building (which will be of value to the Government) as well as serving the destination of Ocean Terminal and its shopping and leisure attractions present and future.

FBC was not a business case dominated by obvious time travel benefits for users – especially from the west of the City – despite an obsession with the BCR measure. However (and this is a sensitive, dark corner to explore) the reference case against which tram were assessed assumes that CEC/LB could keep buses running at current journey times indefinitely – this always seems to me to open to further analysis by the experts to determine what further interventions would be deployed to maintain bus journey times with huge increases in number of buses and exacerbated dwell times at stops.

Wider future vision for Public Transport in the City

- Phase 1a was always envisaged as the start of a network to be created as and when demand and funding became available – ref to Line 3 and CECs study into transport requirements in South East Edinburgh
- Vision 2030
- Improvements to image and streetscape



- The softer reputation and image benefits that will accrue to the city from trams - some people think this is bollocks but its not
- The future opportunity for trams to contribute to an integrated public transport network that might include cross Forth ferry traffic.
- The fact that other major cities with trams have decided to extend their tram networks beyond the initial phase;
- The vital importance of public transport connectivity to the city's key regeneration zones – in due course, the Bio Quarter
- The fact that Europe's top 15 most prosperous cities, as measured by GDP per capita, have either tram, light rail or underground mass transit systems;

4. Impacts on TEL Business Plan

- Ph1a in total and with incremental delivery
- Recap on TEL BP through FBC, Aug 09 Update to CEC and latest refresh
- Table of outcomes for TEL (Bus + Tram) in opening year, 2016 and 2031 (granularity?) for:
 - St Andrew Sq– viable tram (does not make losses) when integrated with bus
 - NER – ie the whole of Ph1a
- Sensitivities on patronage forecasts in early years
- Recap on principles of service integration and ticketing under TEL
- Service integration for Incremental Delivery
- Meeting demand in the context of Incremental Delivery (Leith Walk)
- Refresh on patronage sources / growth drivers (overlap w/3 above)
 - Development profiles – Leith / CC / West
 - Underlying Economic Growth
 - Airport
 - Gogar Station
- Calibrating TEL patronage forecasts to recent history and today's experience
- Application of Concessionary Fares Scheme
- The benefits of completing to Leith (Leith Walk congestion, FOW interchange) – “For a few dollars more”

5. Funding and affordability

Delivery to St Andrews Square

- 5.1 As previously explained in section 2 of this document a number of options have been explored for incremental delivery of Phase 1a. This has been considered against a backdrop of commercial difficulty with the current Infraco contractor and the need to consider affordability within the current funding constraints.
- 5.2 The negotiations over recent months with the Infraco contractor, had been with the aim of achieving cost and programme certainty to provide a guaranteed maximum price for the scope of works to the east



end of Princes Street. This contractual arrangement would facilitate the first section of incremental delivery for Phase 1a and would provide an operational tram system to St Andrew’s Square.

- 5.3 Given the increase in cost for the whole of Phase 1a due to the impact of the contractual disputes and as a result of design changes on the cost of the project, it is considered that the section from Edinburgh Airport to St Andrew’s Square should be the recommendation for the first section of incremental delivery. As set out in section 2 of this document, this section can be delivered within the current funding of £545m.
- 5.4 Whilst commitment remains to deliver the full scope of Phase 1a, it is important to balance the desire to complete Phase1a with the current funding constraints and the availability of further funding becoming available within the current economic climate and the governments cut backs in public sector spending.
- 5.5 [Describe the benefits of tram running to St Andrew’s Sq and serving the city centre of Edinburgh]
- 5.6 One of the benefits of delivering the Airport to St Andrew’s Square section is that no further funding, over that which has already been committed, would be required at this time. This is extremely important in the context of major financial challenges that will impact on the public sector in the coming years.
- 5.7 It is envisaged that completion of the Airport to St Andrew’s Square section of the tram project can be completed by the end of 2012. This would mean that an operational tram system could be operating to the city centre within these timescales with no additional funding being required at this time. This would allow greater cost certainty to be achieved with the current Infraco contractor for delivery of this section and would allow time for important decisions to be made with regard to further funding considerations for the full route of Phase 1a, as more information will be available on the scale of public sector cuts than would be available today.

Completion of Phase 1a

- 5.8 As construction of the Airport to St Andrew’s Square section of Phase 1a nears completion, decisions would then be need on how the full scope of Phase 1a is completed. The timing of starting the construction of the next section would be dependant on the availability of funding and political commitment at that point in time to extending beyond St Andrew’s Square.
- 5.9 It is currently envisaged that the remaining scope of Phase 1a would be completed under a separate standard form of civil engineering contract when suitable funding becomes available, this approach would allow construction to be matched to the availability if funding.



- 5.10 The completion of Phase 1a from St Andrew’s Square to Newhaven under a new form of contract would enable greater control to be taken of construction as tie would manage the civil engineering sub contractors directly for discreet work packages. It is envisaged that the current consortium providers of vehicles (CAF) and systems (Siemens) would remain, as preferred suppliers, for the remaining scope.
- 5.11 An additional benefit of phasing the remaining scope under smaller contracts is that this approach would mean contractors may well perform better under this arrangement in order to secure future sections of construction rather than under one umbrella agreement for the whole project.
- 5.12 As detailed in section 2 of this document, the estimated capital cost of the remaining scope of Phase 1a is [Exxm]

Current Position on CEC Funding of £45m

- 5.13 This section focuses on CEC’s current commitment of £45m to the tram project both in terms of what has been achieved to date but also the forecast for future developers contributions and capital receipts.
- 5.14 The Council’s original commitment of £45m was made up from a variety of sources. The table below shows amounts expected from each of these sources and the current position against the overall planned total;

CEC Breakdown	Contribution	Planned Contribution	Current Position v Plan
Council Cash		£2.5m	£2.5m
Council Land		£6.2m	£6.2m
Developer Contributions – Cash		£25.4m	£4.9m
Developer Contributions – Land		£1.2m	£1.2m
Capital Receipts (Development Gains)		£2.8m	£0.0m
Capital Receipts		£6.9m	£2.0m
Prudential Borrowing (in advance of developers contributions)			
Total		£45.0m	£16.8m



- 5.15 The Council’s actual contribution to the project to date is [£34m]. [£25m] of this has been borrowed under the Prudential Framework in advance of receipt of Developers contributions and Capital Receipts.

Developers Contributions

- 5.16 Recent analysis undertaken by the CEC’s Planning Division shows that there is further development in the future that would enable CEC to realise the required contributions for the tram project. These future developments are for the first and second phases of the Leith Docks development, Princes Street development and also the West Edinburgh Planning Framework. The full potential total contribution from these developments could be upwards of £26m.
- 5.17 Currently there are £16m of contributions in the planning cycle. However, these contributions have been heavily discounted against the total value from these developments, taking a pessimistic view on the pace and size of these potential developments to take account of the effect of the credit crunch.
- 5.18 Based on these assumptions and the potential uplift in Capital Receipts, the Council could still achieve the required developers contributions in the 20 year time frame even if the scope of the project was reduced in the short term.

Capital Receipts

- 5.19 No receipts were received during the last financial year, and the forecast timescale for disposals is that nothing is expected before 2013, based on the current tram programme. It is likely that the level of developer interest in the residual sites will increase when confidence on the completion of the Tram Scheme is assured, as works are completed and test running commences.
- 5.20 The best value for most of the sites is based on residential value. ESPC reported in April 2010 that house prices in Edinburgh are rising at 11.6% pa, with a 37% increase in transaction volume. This is, however, still below pre-credit-crunch levels.
- 5.21 The improvement in house selling prices will cascade into increased development value, and a positive differential between land value increase and borrowing rate interest. The prudent advice remains to consider the sale of these development sites when the unit value increases. This is expected as both the general housing market improves, and the tram works near completion.
- 5.22 The achievement of increased value remains less risky than the alternative of marketing now and seeking a share of value increases through an agreement – commonly known as gold clauses – which are difficult to enforce with reluctant partners.

Incremental Delivery



- 5.23 One of the contingency plans to ensure the affordability of Phase 1a is to construct the route on a phased basis.
- 5.24 From the financial analysis that has been undertaken it is forecast that incremental delivery option to St Andrew’s Square/York Place could be delivered for the current committed funding of £545m.
- 5.25 As mentioned previously, the total amount of developers contributions in the Planning System total £16m.
- 5.26 Should the tram be constructed in an incremental delivery fashion, from west to east, there may be implications for the receipt of developer contributions from developments towards the east. However, under the terms of the Tram Developer Contribution Guideline, the Council has until 2020 to utilise contributions received to date, meaning that as long as the full scope of the scheme from the Airport to Newhaven is constructed by 2020, the Council will not be required to repay contributions to developers at the eastern end of the route.
- 5.27 Of the £16m currently in the planning system, [£4m] relates to developments in the Leith area, although it should be noted that the development guideline means that if the development is within 750 metres of the tram line a contribution is triggered.

Prudential framework v commercial borrowings

- 5.28 As previously stated, The City of Edinburgh Council (CEC) fund their commitment of £45m to the Tram project through the Prudential Borrowing Framework, with funds provided by the Public Works Loan Board. This is managed as part of the overall treasury management of CEC. This borrowing will be repaid by CEC as developers contributions and capital receipts are gathered over a 20 year period.
- 5.29 Should the tram project require additional funding over the committed funding of £545m alternative means of funding will need to be considered.
- 5.30 A report to the Full Council meeting of 24th June 2004 suggested that it would be prudent for CEC to make contingency plans up to a level of 10% above the approved funding.
- 5.31 CEC’s contingency funding come primarily from two areas. CEC has made an allowance of £2m per annum within its Long-Term Financial Plan (LTFP) to cover additional infrastructure development costs. The LTFP has been updated to reflect the Coalition Governments recent budget announcements. This provision would allow CEC to borrow £24m under the Prudential Framework; this commitment would represent an opportunity cost for CEC but would have no impact on projects already identified in CEC’s capital programme. Headroom within the existing budget for loan charges may also allow future



investment in infrastructure beyond this sum if required, but this will form party of CEC’s budget considerations.

- 5.32 Further borrowing, should it be necessary, can be financed from the future profits of Transport Edinburgh Limited (TEL). Based on the full scope of Phase 1a TEL’s forecast cumulative net profit from 2013 – 2031 would allow the CEC to prudently borrow additional money to fund the balance of costs up to a level of circa £600m.
- 5.33 Consideration has been given to alternative methods of additional funding such as leasing of tram vehicles and corporate borrowing from financial institutions.
- 5.34 Initial figures have been obtained from financial institutions for borrowings of £58m. The cost of these funds from an external financial institution is significantly more than the Council can obtain under the Prudential Framework.
- 5.35 The table below demonstrates the difference between prudential borrowing and corporate borrowing;

	Corporate Borrowing	Prudential Framework
Rates for 25 year borrowing (%)	6.15	4.10
Margin + Interest (£m)		37.5
Repayment (£m)		58.0
Total Repayment (£m)	122.0	95.5

- 5.36 The cost of funds for 25 year borrowing provided by the external finance provider is 4.4% with a 1.75% margin, giving a total cost of 6.15%.
- 5.37 The current rate for [25year] borrowing under the prudential framework is [4.1%]. To put this in context the repayment and interest costs of £58m under corporate borrowing would total £122m. Under the prudential framework, over a 25 year period, the total cost of repayment and interest is £95.5m. This clearly demonstrates that the Prudential Borrowing Framework is clearly the cheapest source of funds available, should the project require additional funding.
- 5.38

- Recommend commit to delivering to St Andrew Sq now (for £545m?)
- How do we complete the project?



- Why we get to keep the Govt £500m for incremental delivery – context of Grant letter
- Current position with CECs £45m
- Cash profile for whole of Ph1a and incremental delivery
- Sunk cost – what have we got for £350m (not just 18% of infrastructure)
- Incremental financing – development of thinking in June CEC paper
- Capacity to repay borrowings from TEL profits?
- Prudential framework v commercial borrowings
- Lessor of vehicles we don't need now?

DRAFT



Tram Internal Planning Group Remit

Tram Internal Planning Group

4 August 2010

1 Purpose of report

- 1.1 This report reviews the composition and terms of reference of the Tram Internal Planning Group (IPG) and recommends several minor revisions.

2 Summary

- 2.1 The Tram IPG was set up to provide the Council with clear corporate understanding and oversight of the various strands of work to be undertaken in support of the tram project. Senior representatives of the main Council departments which have an interface with the tram project were invited as members, along with key staff engaged directly with the project and its supervision. The tram programme is now entering a critical phase of implementation during which there are significant commercial issues at stake. It will be especially important that the Council provides close scrutiny of the project's implementation during this phase.

3 Main Report

- 3.1 The formation of the Tram Internal Planning Group was proposed in October 2006 in advance of the presentation to Council in February 2007 of the Tram Final Business Case. The IPG was intended to deliver a clear corporate understanding and oversight of the critical strands of work required to advance the delivery of the tram project, including progress against the key milestones set out in the project plan and to support the Director of Finance and Director of City Development in their roles as members of the Tram Project Board. A copy of the original remit for the group is attached at Appendix 1.

The Tram IPG has met at monthly intervals over the two year period since tram construction activity commenced and has provided the opportunity for senior council officials to receive high level progress reports on the construction programme, the budget and notified changes to the project scope and plan. In addition to reports from the Council's Tram Monitoring Officer (TMO), the IPG has received regular information on financial, legal and commercial issues relating to the project. The IPG has also considered the impact of tram-related

construction activity on the city, including issues such as traffic management arrangements, TRO changes, periods of embargo on construction activity to accommodate the Festivals and the needs of commercial and retail interests in the city.

- 3.2 The core membership of the IPG has included the Council's Chief Executive, plus the Directors of Corporate Services, Finance, City Development and Services for Communities. Additional members include the Council's Head of Transport who fulfils the role of TMO; the Head of Communications and the Head of Legal and Administrative Services plus designated staff assigned to the tram project to cover key interface issues – transport/traffic management, financial monitoring, legal and PR/communications.
- 3.3 The tram project is currently in a difficult, commercially sensitive position in which the role of IPG in providing oversight of the project has become especially critical.

Future Remit and Key Objectives

- 3.5 It is proposed that the remit of IPG should in future be focused more explicitly to address the following objectives:-
- To provide Council management scrutiny and oversight of the tram project and identify high level risks against the programme timetable and budget that may need to be discussed at the Tram Project Board or taken up with the senior management within tie Ltd;
 - To identify, manage and mitigate any programme level risks to the Council and the city resulting from a failure by the project to achieve its objectives, including risks arising from commercial and legal disputes and financial pressures arising from programme delays and scope changes.
 - To ensure that Council departments co-ordinate their resources and activities in the most effective manner to support the successful implementation of the project; and,
 - To ensure that the interests of wider stakeholders in the tram project are fully considered and communications with key stakeholders are properly managed.

Future Membership of IPG

- 3.6 No fundamental changes are proposed to the memberships of IPG. It is proposed that the core membership of the group should remain as follows:-

Tom Aitchison, Chief Executive (Chair)

Jim Inch, Director of Corporate Services

Mark Turley, Director of Services for Communities

Donald McGougan, Director of Finance

Dave Anderson, Director of City Development

Alastair Maclean, Head of Legal and Administrative Services

Marshall Poulton, Head of Transport and TMO

Isabell Reid, Head of Communications

Additional members will be co-opted to provide technical and operational support in the following areas:

Transport (Andy Conway)

Finance (Alan Coyle)

Legal Services (Nick Smith)

Communications/**tie** (Lynn McMath)

Role of TMO

- 3.7 The role of the Tram Monitoring Officer (TMO) will be critical to the effective functioning of the Tram IPG. The TMO will act as a key link between the Council and **tie** Ltd ensuring that the project is professionally implemented and that competent arrangements are in place to ensure the Council's interests are fully represented and protected. The role of the TMO is described at Appendix 2.

Arrangement for Deputies

- 3.8 In the absence of the Chief Executive, the role of Chair will be delegated to the Director of Corporate Services, or another Director.
- 3.9 In the absence of Directors or Heads of Service, representation on IPG should be delegated to the next management level. If this is not possible, then the Department/Service will not be directly represented at the meeting and should arrange for any Departmental issues to be raised by another core member.
- 3.10 In the case of discussion on matters of financial, legal and commercial sensitivity the Chief Executive, in his role as Chair, will reserve the right to restrict discussion to the core members of the group, plus invited additional members.

4 Financial Implications

- 4.1 This report aims to sharpen the remit of the Tram IPG; it has no additional cost implications.

5 Environmental Impact

- 5.1 There is no direct environmental impact arising from this report.

- 6 Recommendations
- 6.1 Tram IPG is asked to endorse the revised remit of Tram IPG proposed in this report.

Dave Anderson
Director of City Development

Appendices Appendix 1 – Remit of the Group – 26 October 2006
Appendix 2 – Tram Monitoring Officer (TMO) Role

Contact/tel/Email Dave Anderson, Director of City Development
5 [REDACTED] dave.anderson@edinburgh.gov.uk

Wards affected

Single Outcome Agreement

Background Papers

Remit of the Group

Edinburgh Tram Internal Planning Group

26 October 2006

Purpose of report

- 1 This report identifies the purpose of the Edinburgh Tram Internal Planning Group.

Main report

- 2 The creation of a tram network for Edinburgh is a vital project for the ongoing development of the capital and for the delivery of some key objectives for the city. It is a uniquely complex project that will require the coordinated input of several agencies and, internally, of different departments of this Council.
- 3 A Business Case will be presented to the City of Edinburgh Council and the Scottish Executive in December 2006. The intention is to report to Council on 1 February 2007 seeking their approval of the Business Case.
- 4 It is imperative that this decision is taken at the February Council meeting to avoid a substantial delay in progressing the project work. Should a decision not be made at that point, further discussion and decisions would be prevented by the impending Local Government and Scottish Parliamentary elections. Such a delay would be costly in time, financial resources and public perception of the project. With sufficient planning, that risk can be minimised.
- 5 The Department of City Development has the primary role in achieving this deadline. However, support from Finance and legal input from Corporate Services will also be necessary factors without which the timescales will not be met.
- 6 I have therefore instituted this group to ensure that there is a clear corporate understanding and oversight of the various strands of work that must be undertaken in anticipation for the February decision. All relevant preparation, including consultation with elected members, must be understood and appropriately sequenced. I will chair this group and I expect it to take a corporate responsibility of r the successful delivery of this programme of work.

- 7 Other reports on this agenda will inform and influence the future role of this group. The paper on the high level project plan clarifies the key milestones over the next months of which this group should be aware and towards which I expect us to work.
- 8 The paper on governance arrangements is similarly foundational to this group. Clarity is needed with respect to the roles of the various bodies in terms of decision making as it relates to this project, particularly in the period leading up to the February Council.
- 9 Given the volume of work in the coming months I have cleared time in my own diary for weekly meetings for this group. A paper outlining the programme for these meetings is also on this agenda. Obviously, the volume of business at each meeting may vary, but given the importance of this project I would expect attendance to be treated as a priority.

Recommendations

- 10 Understanding the importance of this project, I would therefore request that this group:
 - agree to the remit as I have defined above in paragraph 6;
 - agree to attend weekly meetings.

Tom Aitchison
Chief Executive

Appendices

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- **Contact/tel** Chris Highcock, Business Manager
469 3126
chris.highcock@edinburgh.gov.uk
-
- **Wards affected**
-

Background Papers

All on this agenda:

- High Level Project Plan
- Governance arrangements
- Programme for future meetings

TRAM MONITORING OFFICER (TMO) ROLE

The TMO will be responsible for monitoring the Tram Project on behalf of the Council. In particular, the TMO will oversee the Programme, Project Management, Financial, Commercial and Legal aspects of the project, ensuring the Council's interests are represented appropriately.

The Tram Monitoring Officer (TMO):-

- will ensure that Transport Edinburgh Limited (TEL) demonstrates that all third party contracts provide a duty of care to the Council.
- will carry out an initial review of all appropriate policies of insurance in relation to all elements of the TEL business and, in particular, the Tram project.
- will ensure that all contractors and consultants engaged or employed by TEL in any capacity have in place the appropriate policies of insurance.
- will request an initial report from TEL providing details of all its insurances, thereafter the TMO will ensure that there are annual reports prepared.
- will ensure that copies of all relevant TEL Business Plan, Tram Project Board papers and Financial, Commercial and Legal papers including governance arrangements are all properly documented, reported and filed.
- will escalate as soon as practicable to the Directors of City Development and Finance the likelihood of delay to, or overspend in, the Tram Project.
- will approve the transfer of any rights or obligations under any contractual arrangement which the Council has approved with TEL.
- will ensure that TEL comply with the terms of all agreements.
- will be responsible for determining what approval is required from within the Council to allow TEL to give any consent or recommendations required in terms of the Operating Agreement.

Summary Table

CEC Statutory Council Approvals and Consents	Total Number of Submissions	Total number of Approvals	% Complete
Prior Approval	65	61	94%
Full Planning Permission	13	9	69%
Listed Building Consent	13	11	85%
Scheduled Monument Consent	1	1	100%
Building Warrant	19	17	89%
Technical Approvals (including Structures, Roads and Drainage)	151	108	71%
Total	262	207	79%

Table 1 - Planning and Building Warrant Approvals

CURRENT STATUS	Sub Totals	Prior Approval	Full Planning Permission	Listed Building Consent	Scheduled Monument Consent	Building Warrant
Informal consultation not started	8	1	3	0	0	2
Informal consultation started	2	1	1	0	0	0
Application submitted	2	2	0	0	0	0
Approval granted	99	61	9	11	1	17
GRAND TOTAL and Sub Totals	111	65	13	11	1	19
% Complete	87%	94%	69%	100%	100%	79%

Table 2 - Roads & Structures Technical Approvals

CURRENT STATUS	Sub Totals	CEC Technical Approval	*Network Rail Form A	*SW Drainage Outfall Consent	*SNH	*BAA Approval	Roads Construction Consent
TA delayed due to recent change	0	0	0	0	0	0	0
Issued for informal consultation	0	0	0	0	0	0	0
Issued for Technical Approval	16	11	0	4		1	1
Technical Approval Granted	108	85	12	10	1	0	
Not Yet Due	27	25	2	0	0	0	1
Delay	0	0	0	0	0	0	0
GRAND TOTAL and Sub Totals	151	121	14	14	1	1	1
% Complete	71%	70%	85%	71%	100%	0%	0%

* These consents are not CEC's responsibility, but for completeness they have been included as they are required to allow construction to commence.

APPENDIX 4

COMPULSORY ACQUISITION

LOCATION	PREVIOUS OWNERSHIP DETAILS	DV VALUE	PLANNING BASIS	PLANNING/CAAD RISK	RISK VALUE	TOTAL AT RISK INCLUDING FEES & INTEREST	BUDGET RISK	ACTION TO MITIGATE
FORTH PORTS	CALA Management Ltd		transport reservation/amenity					CAAD appeal in front of reporter
"	CALA Management Ltd	£ 10,000	transport reservation/amenity	residential	£1,500,000	£ 1,910,356	£ 1,900,356	
"	CEC		transport reservation/amenity	residential	incl in above			
HAYMARKET YARDS	Haymarket SPV Ltd	£ -	transport reservation/amenity	office/business	£0	£ -	£ -	risk arises from CAAD decisions where different from planning advice given to District Valuer when estimates were prepared. BAM have application for CAAD currently live CALA at appeal and likely to go further to appeal. Thereafter to Lands Tribunal. considerable costs already incurred and not recoverable possible substantial third party costs to meet. Statutory obligation to pay. CEC defending actions. Planning dept confirming Negative CAADs appropriate. All legal routes of defending applications being employed.
"	Haymarket Yards Ltd	£ 28,750	transport reservation/amenity	office/business	£250,000	£ 351,726	£ 322,976	
"	The Institute of Chartered Accountants of Scotland, 1 unknown owner, & Bagbies Traynor (as liquidator for Braemar Homes Ltd in respect of 21 m2)	£ 50,000	transport reservation/amenity	office/business	£250,000	£ 351,726	£ 301,726	
"	CEC & Jones Lang LaSalle Ltd as agents for the Universities Superannuation Scheme Ltd	£ 45,104	transport reservation/amenity	office/business	£250,000	£ 351,726	£ 306,622	
GYLE	CEC & Jones Lang LaSalle Ltd as agents for the Universities Superannuation Scheme Ltd	£ 57,500	transport reservation/amenity	retail	£1,000,000	£ 1,156,904	£ 1,099,404	Risk caused by changes to planning framework rules regarding retail developments. This land previously thought of as amenity land now has potential to be considered as extension to car park to permit larger shopping centre so much more valuable. Hopefully claimants have not picked up on this so we may not have to pay. no claim lodged yet so nothing we can do as yet. no real betterment issue here, although having the tram stop will help value of centre.
"	CEC	£ 1,150	transport reservation/amenity	retail	£0	£ -	£ -	
"	CEC & Jones Lang LaSalle Ltd as agents for the Universities Superannuation Scheme Ltd	£ -	transport reservation/amenity	retail	£35,000	£ 88,742	£ 88,742	
"	CEC	£ 33,580	transport reservation/amenity	retail	£0	£ -	£ -	
"	CEC & Jones Lang LaSalle Ltd as agents for the Universities Superannuation Scheme Ltd	£ -	transport reservation/amenity	retail	£600,000	£ 714,142	£ 714,142	
"	CEC	£ 14,407	transport reservation/amenity	retail	£0	£ -	£ 14,407	
AIRPORT/A8	CEC	£ 7,266	hope value	hope value	£0	£ -	£ 7,266	Risk here arises from the evolving planning position with prospect of development now more realistic than when estimates were done. Land valued on a hope value basis and hope element is increasing. Risk being managed by betterment issue which could offset any compensation amounts. likelihood that no claimant will accept that without Lands Tribunal decision so we are looking to pick our case. EAL currently front runners as we consider it would be very difficult politically for them to claim that the tram was of no benefit to the airport. Consider CEC applying for CAAD on future basis so we are on the front foot
"	Haslemere Estates as agents for Meadowfield Developments Ltd	£ 153,841	hope value	hope value	£450,000	£ 548,107	£ 394,266	
"	CEC	£ 213,645	hope value	hope value	£0	£ -	£ -	
"	Haslemere Estates as agents for Meadowfield Developments Ltd	£ 86,430	hope value	hope value	£600,000	£ 714,142	£ 627,712	
"	BAA plc, Edinburgh Airport Ltd, & Scottish Airports Ltd	£ 779,174	hope value	hope value	£2,100,000	£ 2,374,498	£ 1,595,324	
"	Haslemere Estates as agents for Meadowfield Developments Ltd	£ -	hope value	hope value	£650,000	£ 769,488	£ 769,488	
"	Pinnacle Towers Ltd, Royal Bank of Scotland plc	£ 115,000	hope value	hope value	£250,000	£ 326,726	£ 211,726	
"	Haslemere Estates as agents for Meadowfield Developments Ltd	£ 69,000	hope value	hope value	£120,000	£ 182,828	£ 113,828	
"	New Ingliston Ltd	£ 175,000	hope value	hope value	£850,000	£ 990,868	£ 815,868	
"	New Ingliston Ltd	£ 150,000	hope value	hope value	£1,100,000	£ 1,267,594	£ 1,117,594	
"	New Ingliston Ltd	£ 180,000	hope value	hope value	£1,800,000	£ 2,042,427	£ 1,862,427	
"	New Ingliston Ltd	£ 100,000	hope value	hope value	£600,000	£ 714,142	£ 614,142	
"	FSH Airport (Edinburgh) Services Ltd	£ 550,000	hope value	hope value	£4,000,000	£ 4,477,616	£ 3,927,616	
"	"	£ 75,000	hope value	hope value	£450,000	£ 548,107	£ 473,107	
"	"	£ 2,894,847			£ 16,856,000	£ 19,881,867	£ 17,236,396	

Notes

- 1 No allowances for Injurious Affection
- 2 No allowances for severance
- 3 No offset for betterment
- 4 No allowance for change of Planning

	CLAIMS LODGED	DV ESTIMATE	SHORTFALL
WEST CRAIGS	£ 8,500,000	£ 240,271	£ 8,259,729
NIL	£ 11,500,000	£ 1,445,500	£ 10,054,500
BAM	£ 2,000,000	£ 28,750	£ 1,971,250
CALA	£ 1,500,000	£ 10,000	£ 1,490,000
EAL	£ 4,500,000	£ 666,825	£ 3,833,175
TOTAL	£ 28,000,000	£ 2,391,346	£ 25,608,654

FORTH PORTS
HAYMARKET YARDS
GYLE
AIRPORT/A8
EAL
GENERAL

RISK OF ADVERSE CAAD REQUIRING REVISED BASIS OF VALUATION
RISK OF ADVERSE CAAD REQUIRING REVISED BASIS OF VALUATION
RISK FROM CHANGING PLANNING REQUIREMENTS FOR SHOPPING CENTRES PERMITTING ADDITIONAL DEVELOPMENT THEREFORE INCREASED VALUATION
ONGOING PLANNING DISCUSSIONS INCREASING HOPE VALUE PLUS CHANGE OF PLANNING CONSENT WITHIN 10 YEAR PERIOD ALLOWS CLAIMANT TO REVISIT CLAIM
NOW SUBMITTED CLAIM
CONSIDERABLE EXPOSURE TO COSTS FOR CAADS, LANDS TRIBUNAL AND COURT REFERRALS
ADDITIONAL SETTLEMENTS ALSO RESULT IN ADDITIONAL FEES AND INTEREST PAYMENTS

CALA CAAD at appeal stage: Awaiting appointment of Reporter.

BAM CAAD being considered