

**The Scottish  
Government**

# Edinburgh Tram Project

Briefing for the Cabinet  
Secretary for Finance and  
Sustainable Growth and the  
Cabinet Secretary for  
Infrastructure and Capital  
Investment

21<sup>st</sup> June 2011



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# Background

- **Long running** contractual dispute
- **Complex contract:** gave rise to different expectations between the parties
- Major problems arose from **incomplete design** and **unfinished utility diversions**
- The disputes resolution process had reached a **contractual impasse**
- This created **further time delays** and **cost over-runs**
- **Ministerial advice** and **Council instruction** was given to **enter mediation talks**



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# Key outcomes of Mediation

- Agreement reached to make **early progress on priority works** at key locations
- **Detailed legal and technical work** to deal with dysfunctional management of the contract and achieve a commercial settlement
- Fresh approach agreed on **project governance**
- Council assert its role as **project sponsor**
- **Remediation of Princes Street** at contractor's expense



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# Current Status

- Utility diversions **95%** complete
- Tram depot and test track **80%** complete
- Ancillary works **100%** complete
- Off street section Airport – Haymarket **40%** complete
- All **27** tram vehicles complete and factory tested
- Spend to date: **£461m**
- All materials and equipment now **vested** in Council ownership



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# Current Options

- **Grind on:** under existing contract: attrition, delay, uncertainty and run out of cash
- **Separation:** separate from contract by mutual consent and cancel project (or delay and reprocure) : at least as expensive as completing to St.Andrew Square, but with no value to Edinburgh or Scotland.
- **Complete to Haymarket:** needs revenue subsidy of £4m.
- **Complete to St.Andrew Square:** provides link from Airport to city centre with option to procure remaining sections to Leith incrementally.
  - Trams running on test track later this year.
  - Revenue surplus following patronage ramp up period.



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# Option review: Grind on

## Benefits:

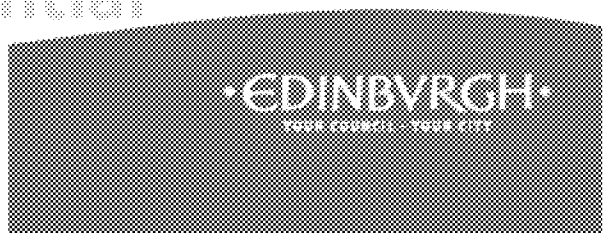
- Asserts tie's view of its rights under the contract

## Risks:

- Loss of further disputes
- More reputational damage
- Additional cost and delay
- No price certainty
- Project would run out of cash



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# Option review: Separation

## Benefits:

- Brings certainty on costs to terminate (only if separation agreed on amicable basis, there could still be years of litigation)

## Risks:

- Loss of almost all value of investment
- Reputational damage to Scotland's capital city and its competence to deliver infrastructure
- Opportunity to modernise Edinburgh's public transport system would be lost for another generation
- Positive impact on Carbon policy lost



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# Option review: Completion to Haymarket

## Benefits:

- Project completion for guaranteed maximum price
- Reduced funding gap, but still significant

## Risks:

- Revenue subsidy of £4m
- Loss of fixed transport link between city centre, heavy rail and the airport.
- Reputational damage to the city.
- Virtually no integration opportunities with bus network.
- Significant funding gap remains without benefits of St Andrew Square.



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# Option review: Completion to St. Andrew Square

## Benefits:

- Project completion for guaranteed maximum price (Off Street Section)
- 'On-street' firm prices plus allowance for Utilities Risk
- Profitable, open for revenue service ready by early 2014
- Opens up major development potential in West Edinburgh
- Tackles the city's congestion problems and contributes to Scotland's carbon reduction targets
- Subsequent completion to Newhaven deliverable in incremental stages.
- Additional costs of line from Haymarket covered by improved revenue position
- Connects with Scotland's rail network via Edinburgh gateway inter-modal station at Gogar



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# Option review: Completion to St. Andrew Square

## Risks:

- Revised approach to contract may not be 100% free of procurement challenge
- Contractor's previous behaviour could resurface if not tightly managed



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# Estimated Cost of Options

The estimated costs are:

- Grind on: £1.1bn minimum
- Separate and cancel: £690m-£740m
- Separate and reprocure: £1bn
- Complete to Haymarket: £700m  
*(£3.1m - £4.3m Revenue subsidy required per annum)*
- Complete to St.Andrew Square: £743m-£773m  
*(significant risk allowance provided of c £40m - £70m)*

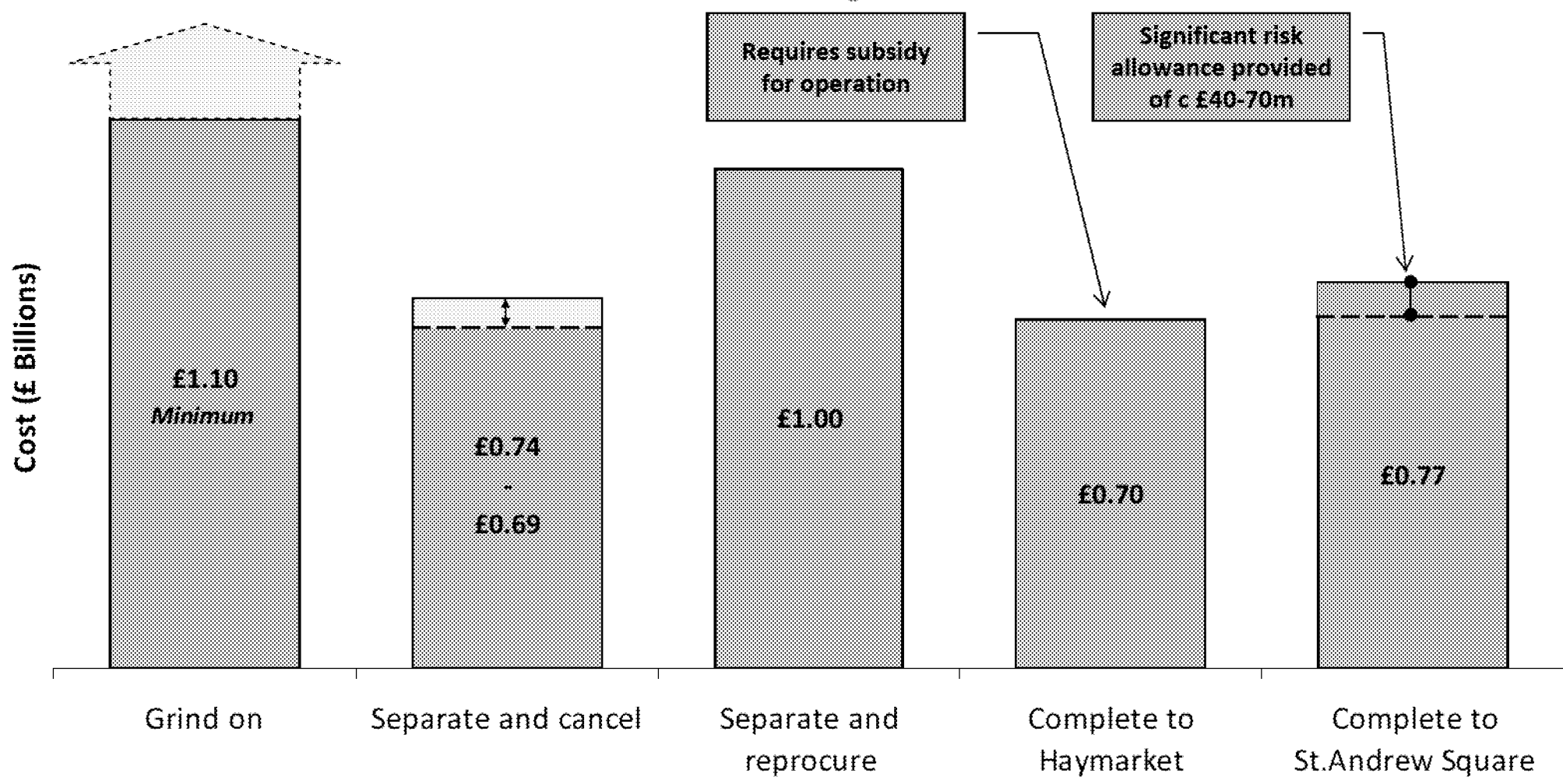
Costing of the options has been subject to external diligence involving McGrigors (legal); Faithful & Gould (Cost Evaluation) and HG consulting (Quantity Surveyors and Engineering cost consultants ).



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# Proposed Changes to Project Governance

- **tie Ltd** is now a *toxic* brand; the organisation will be radically restructured and downsized and its role will change.
- The Council has asserted its position as project sponsor and will take control of the project.
- A new project partnering approach has been agreed with the contractors.
  
- The Council will welcome the participation of the Scottish Government and Transport Scotland in the new arrangements.



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# Proposed Changes to Project Governance

- The proposed governance model will conform to the Office of Government Commerce guidance and **PRinCE2** methodology
- A **Joint Project Forum** of all the principal players will be set up to provide strategic direction and control
- A **Joint Delivery Group** will be established to provide one team with a clear focus on delivering to St. Andrew Square on time and to budget.



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# Funding Issues

- Further Prudential **borrowing** would result in **affordability issues**.
- **Opportunity Costs:** Funding from the Council's future capital programme would probably displace schools and other projects.
- Moves to **private finance** could put the opportunity for integrated bus and tram services in **jeopardy**
- Sale and leaseback options on rolling stock would affect **service profitability** (without revenue grant)
- **Tax Increment Finance (TIF)** might become an option for completing to Newhaven.



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# Funding

**Issues**

- Conditions of Current Grant (for Tram to Newhaven)
- Clarity on concessionary travel
- Treasury Risk to Prudential borrowing

## Current position

|                       |       |
|-----------------------|-------|
| Government Grant      | £500m |
| Council Contribution: | £45m  |

## Funding Gap: Airport to St Andrew Square

|  |              |
|--|--------------|
| Council Contingency funding:                                       | £55m         |
| (Business case surpluses and headroom in Long Term Financial Plan) |              |
| • Surplus Trams Value (10 trams)                                   | £25m         |
| • <u>Total Funding</u>   | <u>£625m</u> |

- Further GAP £118m to £148m
- Revenue Consequences (if Council borrowing) £8.4m to £10.6m  
*per annum*



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# Our request of Scottish Government

- To help the Council achieve a financial solution for the outstanding amount of funding required to complete the tram project to St. Andrew Square.
- Revenue or Capital support is required.



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