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Minister for Transport, Infrastructure and Climate Change

EDINBURGH TRAMS: Report on Current Progress

Purpose

1. To advise you of current progress with the construction of the Edinburgh Tram Project, following Financial Close, on 14 May 2008.

Timing

2. Routine.

Background:

3. CEC (and Tie) continue to co-operate in terms of Transport Scotland's standard monthly reporting procedures - a condition of the formal Financial Agreement between the City of Edinburgh Council and Transport Scotland. Regular discussions are held with City of Edinburgh Council (CEC) regarding appraisal of costs and programme and through these meetings, Transport Scotland is aware of the following key issues:
 - Project end date is slipping
 - Line 1b is unlikely to be funded
 - No consideration is being given to partial opening of the tram route from Haymarket to Edinburgh Airport.

Progress:

4. Failure to achieve Financial Close on schedule (11 January 2008) led to City of Edinburgh Council announcing that their previous "Open for Revenue Service" milestone of January 2011 had consequently slipped to July 2011. Following this, Tie has also advised of further slow progress on a number of key construction issues which have potential to further delay the July 2011 milestone. At this time, the reasons for this slippage are reportedly:
 - Continuing design differences between Tie and its contractors coupled with subsequent design slippage including changes resulting from the Council's planning and technical approvals processes.
 - Slow construction mobilisation, both by main contractors and their sub-contractors;
 - Problems associated with temporary works and the utility diversion programme, occasioned by traffic management constraints, particularly at the Mound junction of Princes Street.

Issue:

5. While failure to achieve Financial Close until May 2008 has already resulted in slippage for full operational service opening to July 2011, there are current indications that this may slip further, into late 2011 or early 2012. Tie is currently negotiating a mitigation programme with their contractors but has advised that they will not be able to report on any outcome until early in 2009.
6. Although CEC has formally advised Transport Scotland that they remain confident about maintaining the July 2011 milestone, and Tie has qualified this to say that full operational activity may lie within a range of dates between May 2011 and December 2011, the latest monthly report now indicates an "Open for Revenue Service" March 2012 date. This remains unmitigated but Transport Scotland considers that it is now more probable that this milestone will slip beyond July 2011 and is more likely to be early 2012.

Financial Impact

7. Formal agreement was reached with CEC in January 2008 (in the run-up to Financial close) that Transport Scotland and CEC would jointly contribute at a proportionate rate of 91.7% and 8.3% respectively of CEC's total expenditure. This was based on the outstanding balance of the Scottish Government's capped contribution of £500 million. The formal Financial Agreement also recognised that the funding for financial years 2008/09 and 2009/10 would be capped in line with SR07 at £120m and £149m respectively with the remaining balance paid in full in 2010/11. Tie are not achieving their planned spend rate e.g. for November 08, year to date, it was estimated at £108.4m against an actual spend of £66m, a variation of £42.4m. Transport Scotland's assessment of Tie's period spend has been more accurate than Tie's.
8. A direct result of the reduced contract performance since the Financial Agreement was signed has been a reduction in funding for this year and consequent impact on future years. Transport Scotland will not be able to assess the full cost and schedule impact of this until Tie's mitigation programme has been implemented in the first quarter of next year. It is clear that Transport Scotland will have to budget for payment support beyond 2010/2011 which is the current schedule for completion of project support.

Phase 1b, and Line 3 (South Eastern Tram Line) developments

9. CEC have recently confirmed their continuing commitment to construct Phase 1b and are working to complete development of the business case. The problems facing the Council stem from the issue of affordability, particularly as it had planned for substantial developer contributions but which are now at best uncertain in the current economic climate. Indeed there has been recent speculation on a possible CEC abandonment of Phase 1b and a switch to the preliminary development of Tramline 3. CEC has advised Transport Scotland that is currently exploring other aspects of income generation with a view to making a decision before the contractual deadline of next March, when the negotiated fixed-price of £87 million will expire.
10. CEC has approached Scottish Futures Trust and Scottish Government Finance officials with a draft proposal for funding major transport infrastructure development of the Waterfront area of the City through tax incremental funding which has the potential to

support additional Council borrowing for transport infrastructure, in addition to conventional means. The Council has identified a number of key infrastructure projects (not just the Phase 1b Tram network extension) in their TIF proposal which is worth £60m and comprises the;

- Waterfront Esplanade - £20m;
- Dock gates - £10m; and,
- Phase 1b of the Trams - £30m.

Following these discussions, the Council has been requested to provide further clarification of key areas. Discussions remain ongoing with no outcome as yet.

11. Ministers will wish to note that despite CEC's sustained desire to Phase 1b, Transport Scotland's current central affordability forecast assumes that Phase 1b will not proceed unless a substantial new source of funding is realised by the Council. It should also be noted that if CEC abandon their current plans for Phase 1b, a "penalty payment" of an additional £6 million will fall due, negotiated as part of the main contract agreement on the current fixed price of £512 million. Tie are currently in sensitive commercial negotiations with the same contractors regarding mitigation of the current programme delays and it is understandable that CEC will not wish to prematurely announce their decision until contractually obliged to do so. This is currently March 2009 but may be extended by mutual consent of the current contractors.
12. The Council has recently suggested to Transport Scotland that Line 3 (or SETL) is both strategically and economically more important to the City. On this point, Ministers may already be aware that the Scottish Government Transport Directorate met with officials from the CEC and Tie, on 20 October at the request of Tie to better understand the TAWS process and its powers as part of their consideration of possible extensions to the existing route, particularly construction of Line 3/SETL. TAWS powers are expected to be the main legal instrument that will assist promoters to deliver transport projects. While the Private Bill option remains available to promoters, the Scottish Ministers expect guided transport systems to be progressed through these powers.

Gogar Station,

13. The proposed new railway station at Gogar will integrate with the tram network to provide onward connection for passengers wishing to access Edinburgh airport and will improve public transport access to the airport and surrounding area. The station is planned to be completed in line with the opening of the Edinburgh Tram in 2011. Transport Scotland is working closely with CEC and Tie to produce the optimum integration between the railway and the tram network to provide an easy and effective interchange for passengers using the new station. Early design work is progressing well.
14. Ministers will also recall that the previous Executive Chairman of Tie gave a commitment to consider partial passenger operations of the trams from the Airport to Haymarket or at least Edinburgh Park. However, it was clear from recent meetings that neither CEC nor Tie has yet been able to consider such limited operations. Transport Scotland has asked CEC/Tie that, following their report on the mitigation programme with their contractors, consideration should be given to partial operations of the trams.

Recommendations

15. Ministers are invited to note;

- that the scheduled milestone for revenue service of January 2011 has slipped from January 2011 to July 2011 with prospect of a further slippage to late 2011, early 2012, which Transport Scotland considers currently the most probable outcome;
- That while there will be a £6 million penalty due if CEC abandon their plans for Phase 1b, CEC remain committed to the construction of this extension and continue to explore alternative means of funding as part of overall affordability. Meantime, the Council are also exploring what preliminary work is required for Line 3 / South East Tram Line (SETL), including an application under the Transport and Works (Scotland) Act 2007 (TAWs);
- That despite earlier expectations from Tie regarding limited operations from the Airport to Haymarket, including Gogar and Edinburgh Park, both CEC and Tie have not yet begun to study the implications of such limited operational activity; and that,
- Transport Scotland is continuing to closely monitor progress and development with both City of Edinburgh Council and Tie and will advise Ministers early next year of the outcome of current mitigation programme.

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Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constituent Interest	General Awareness
Minister, for Transport, Infrastructure and Climate Change			X		
Cabinet Secretary for Finance and Sustainable Growth					X

Comment [A1]: Annex D of the Guidance on Preparation of Minutes to Ministers provides advice on the construction of copy lists – including a flow chart which provides an easy-to-use mechanism for applying the guidance. For Ministers, mark the relevant box (or boxes) with an ‘X’ to indicate why the Minister is being copied in. Where a paper contains details of Financial Implications, the Minister for Finance and Public Services must be included on the copy list – and the Portfolio Interest box should be marked with an ‘X’. Delete any unused rows or insert additional rows if required. For officials, include details of their Department and Division. Only use group names in copy lists if there is a relevant e-mail distribution list.

DG Economy Cabinet Secretariat PS/Transport Scotland Bill Reeve Frances Duffy Richard Scott Jerry Morrissey Damian Briody Anne Martin Clare Keggie Communications Finance & Sustainable Growth Press Transport Scotland Stephen Noon Kevin Pringle

Comment [A2]: Click in the field below and then click on Option(s) from the toolbar to select a pre-set copy list. Note that you may choose any combination of Options. However, since Options 2 and 3 are subsets of Option 1 you should NOT select Options 2 or 3 if you have already selected Option 1. **OPTION 1: Ministers:** Select this option if the minute relates to a matter which is, or may become, the subject of significant media interest. **OPTION 2: Ministers:** Select this option if the minute conveys advice on a significant or sensitive policy issue and you have not already selected Option 1. **OPTION 3:** Select this option if there are significant or sensitive presentational issues and you have not already selected Option 1. **OPTION 4:** Select this option if there are significant financial implications. Once you have selected the relevant options, you will need to complete any variable fields within the pre-set lists (eg ‘Relevant Press Office Desk’). If you select more than one option, please re-order the names appropriately and check for duplicates. Remember that ALL minutes to Ministers should ALSO be copied to other Ministers with an interest, PS/Relevant Departments, Relevant Group Heads, Relevant officials in other areas and relevant Special Advisers. More detailed guidance on the construction of copy lists is set out in Section 5 of the Guidance on Preparation of Minutes to Ministers.