

- There would be consequential disruption to tie's other projects ; overall the disruption will be a cause for SE concern. At a minimum, execution of this model will delay the tram programme.
- In some respects, places TEL in a position of conflict in that it is fully responsible for the tram delivery but has no direct control over LB (unless the share transfer can be executed early without tax risk). TEL would not have the same over-arching role as under Scenario 1, removing a valuable level of oversight from the structure.
- The nature of TEL would change from "intelligent client" to an operating project management company. This is not what was intended as TEL has been developed and has implications for Board composition, management structure, operating costs, insurance
- As a company with a range of projects, tie is in a position to sustain employment as project demands change and ultimately cease ; this enables tie to attract and retain high quality project-related people, whereas TEL would be a one-project business (in the sense of tram construction) and would not have this attribute.

OUTLINE BUSINESS PLAN FOR TEL

BACKGROUND

This document summarises the process required to prepare a business plan for TEL. The migration plan implicit in this proposal is that set out in the paper for the TEL Board on 22 November 2005. This has yet to be fully debated and approved and therefore the business plan process is also subject to change. The paper does not address other aspects of TEL's role such as communications and the proposed dialogue with third party operators, which require further debate.

The proposal envisages three planning periods, for which discrete but linked plans are required :

TEL 2006 Plan :

This should be prepared for approval by CEC prior to the end of the 2005-06 financial year. This plan covers the period to financial close which incorporates the FY 2006-07.

The Plan should set out the workstreams required to support the service integration role envisaged for TEL. In particular, the workstreams will be those which produce a basis on which to make transparent network scope and funding decisions in the latter part of 2006. The output will form the Integrated System Financial Projections ("the Projections") which will be a critical part of the Final Business Case for the tram project which is formalised in mid-2007 at financial close. These Projections will incorporate the construction period and the 30 year period of operation.

The plan will also reflect the day to day TEL operating costs of these activities in 2006-07, the funding sources and other matters relating to TEL's evolution such as resources, office accommodation etc

TEL 2007 Plan :

To be prepared c one year from now. This will reflect the fact that the scope decisions and work on all aspects of the Projections is substantially complete. The plan will incorporate the Projections as well as updating the 2006 Plan information for the period to financial close. The Projections will reflect the project budget for the construction period, subject to any changes required from the finalisation of the contracts in the period up to financial close. This Plan will therefore reflect TEL's role as primary contracting party from financial close and will also set out the final agreed governance structure for the construction period.

The Plan will also include the operating costs of these activities, the funding sources and other matters relating to TEL's evolution such as resources, office accommodation etc.

This Plan should survive through to 2009/2010, when a third stage plan will be required for the ensuing operational period.

The separation of the overall plan into 2006 and 2007 versions reflects CEC's requirement for annual plans, but also reflects the critical decision-making period around one year from now. The 2006 plan essentially prepares the ground for decisions on scope and the preparation of the Projections ; the 2007 Plan incorporates those decisions and establishes the plan for the construction period.

DELIVERABLES

TEL 2006 Plan

- Detailed workstream plan supporting assessment of different scope & funding options ; assessment of all aspects (operational and financial) of an integrated service plan including patronage and revenue modelling through the JRC process ; and Financial Projections capturing the cash flows.
- Preparation of Financial Projections
- Project management plan to deliver Projections
- Resource analysis for TEL operations
- Detailed governance, legal and corporate / tax structure for all periods of project

TEL 2007 Plan

- Fully optimised network scope and integration plan*
- Analysis of alternatives*
- Financial Projections reflecting optimum network, supporting assumptions and sensitivity analysis*
- Resource analysis for TEL operations
- Governance and contractual arrangements re-confirmed

*Essentially the output from the workstreams defined in the 2006 Plan.

RELATIONSHIP WITH OVERALL TRAM PROJECT PROGRAMME

Q4 2005

- JRC patronage / revenue modelling commenced
- Agreement on definition of configuration and integration options to be modelled
- SDG commence data capture and model construction
- Aggregate funding established in outline
- Governance and corporate structure and migration plan developed, including contractual structure to support tender process ; corporate tax planning developed
- Prepare draft TEL 2006 Plan

Q1 2006

- TEL governance and corporate structure and migration plan finalised, including contractual structure, tax planning
- High level review of principal Plan variables and assessment of Ocean Terminal / Airport financial characteristics
- Finalise TEL 2006 Plan
- Funding proposals developed, including financial risk-sharing
- OBC submitted and evaluated

Q2 2006

- Systems and vehicles tender commencement
- Financial model supporting Integrated System Financial Projections compiled

Q3 2006

- Tenders received and evaluated
- JRC modelling output received and evaluated
- Projections prepared covering all aspects of capital, revenue, lifecycle and operating costs and sensitivity testing
- Funding proposals re-assessed, including financial risk-sharing
- Scope evaluation

Q4 2006

- Draft FBC prepared, scope and funding decisions determined
- CEC / SE approval in principle
- Prepare draft TEL 2007 Plan

Q1 2007

- Tender negotiation and legal process
- TEL 2007 Plan finalised in line with draft FBC

Q2 2007

- Financial Close and construction commencement

TEL 2006 Business Plan index

1. Executive Summary
2. Background to TEL (brief but enough to let an un-involved reader understand its rationale)
3. Key issues (Challenges TEL faces)
4. Statement of TEL Accountabilities - based on governance structure and relationships with CEC, tie, LB, Transdev and SE including current and prospective contractual arrangements
5. Governance and corporate structure and migration plan, including contractual structure to support tender process ; corporate tax planning
6. Definition of workstreams for :
 - a. Scope option determination
 - b. JRC patronage & revenue modeling - tram & bus ; "Superbus" / Streetcar
 - c. Fares strategies
 - d. Ticketing
 - e. Integration with third party operators
 - f. Strategic marketing in support of the integrated system, especially in relation to car use and assessment of brand positioning / development.
 - g. Physical infrastructure - interchanges, Park and Rides, tram & bus stops, ticketing equipment ; all including capex and revenue generation potential
 - h. Revenue protection strategy
 - i. Back-office integration
 - j. Depot co-location
 - k. Asset realisation
 - l. Operating costs of bus and tram operations and synergy assessment
 - m. HR planning
 - n. Advertising revenue planning
 - o. Developer contributions and other property matters
 - p. Capex planning (tram construction, bus acquisition)
 - q. Lifecycle cost planning
 - r. Overall project funding including financial risk-sharing
 - s. Operational tax planning and cash flow modeling
 - t. Safety management plans and strategy
 - u. Quality systems development
 - v. Purchasing strategy and opportunity analysis
 - w. Risk planning and insurance

Compilation of Financial Projections and sensitivities reflecting all components as appropriate.

7. Economic & social impact [STAG / equivalent in line with FBC for SE purposes]
8. Communications and stakeholder management
9. Resource requirements with names / roles
10. Key Issues & Risks
11. Hygiene factors - e.g. Accommodation, advisors
12. Budget including detailed relationship to other budgets

Subsequent plans to adopt broadly the same headings but relevant to the stage of development. Need to consider also plan approval processes.

PROJECT MANAGEMENT

To be discussed - needs a clear structure and responsibilities, including the people involved, the information required from all parties, interfaces with other groups including the JRC working group, TEL Board and TPB, review and reporting disciplines etc

GB 29.11.05

TRAM PROJECT FUNDING
TRAM PROJECT BOARD MEETING 19.12.05

Purpose

There has been progress in recent weeks towards achieving some clarity on the tram project funding structure, but there are now critical decisions to be taken about the programme in relation to the main contracts. It is vital that the TPB on 19 December is able to conclude on the optimum process for the next steps otherwise substantial elements of the programme will be threatened. All parties are aware of the inflationary cost implications of delay and the attendant risks to execution from loss of key team members, loss of market credibility and resulting risk premia.

For planning purposes, we must assume both Bills receive Royal Assent by 31 March 2006 with minimal imposed additional cost, that financial close (award of Infraco) occurs as programmed at the end of June 2007 and that commencement of tram operations is 3 years later in mid 2010.

Decisions Required

The key principles which require decisions now are:

1. The decision at the last TPB was that there would be no release of the MUDFA tender until in-principle agreement between CEC and SE on funding has been reached. The target date for release of MUDFA tenders is early January 2006. This decision needs to be reconfirmed.
2. MUDFA, Vehicles and Infraco procurement will progress as programmed and for the scope of works and configuration options described in this paper. However no physical work will take place under the MUDFA contract until CEC/SE have a higher degree of confidence as to the economic and financial viability and affordability of the phase 1 network. This must be at the end of September 2006 at the latest to maintain programme for award of the Infraco and Vehicle contracts.
3. Confirm that the Outline Business Case (OBC) at end February 2006 will include details of the in-principle agreement between CEC and SE which sets out the aggregate funding for the project. This in principle funding agreement will also include the details of such project financing facilities as are deemed desirable to incentivise the Infraco contractor and manage cash flow commitments by CEC and SE. Clarity is also required regarding the sources of funding for the financing costs associated with such facilities.
4. Whether the Outline Business Case at end February 2006 should describe and provide justification for an assumed phase 1 network predicated by the in principle funding agreement at 2 above and an outline review of the economic and financial viability of that network by tie and TEL in the context of integrated tram and bus services. **However the Outline Business case will not be definitive in setting the phase 1 scope.**
5. The objective of delivering a Final Business Case in draft at the end of September 2006 reflecting the outcome of preliminary appraisal of Infraco and Vehicle tender prices, the output from JRC modelling and the parallel TEL Business Planning process.
6. Commitment to a stage-gate funding approach where all funding will be approved prior to the end of March, following a satisfactory OBC, for all activities in the period April to September 2006, specifically excluding physical utilities work and land acquisition costs. The total funding required for April to September 2006 will amount to £17m but this represents a stagegate in the total funding requirement for April 2006 to June 2007 of some £158m.

MUDFA, Vehicles and Infraco Procurement Timetable

The issue of tenders for the MUDFA utility contract will take place in early 2006. This will facilitate award of the MUDFA contract in April 2006 following Royal Assent and OBC. In the initial months MUDFA will focus on the planning and other activities required to support the construction timetable.

Tender documentation for the Vehicles and Infraco contracts will be prepared in the period to March 2006. Tenders will be issued in April 2006 following Royal Assent and will be returned in July for Vehicles and August for the Infrastructure contract. This timing facilitates issue of tender documents in early April to fit the overall programme, including Financial Close at the end of June 2007.

For MUDFA, Vehicles and Infraco, the above activities in the three months to March 2006 require clarity on aggregate funding to within a reasonable tolerance so that scope options are minimised. The basis on which funding will be provided must also be clear – the extent to which the bidders are being asked to provide independent funding will have a major bearing on the structure of the contracts, cost and programme. The recommended approach is set out under Project Financing below.

The construction timetable must also be clear or bidders will price in slippage risk in an undesirable manner. In particular the terms of the utility diversion contractual arrangements and the utility programme must be clear to support the construction tender.

Outline Business Case at end February 2006

tie has previously committed to producing an OBC in Spring 2006 to support the decision to go to tender for the Vehicles and Infraco. It was understood that this would represent an update on the documentation provided during the second half of 2005 which detailed the procurement strategy, risk management processes and an up to date view of the capital costs (which are unlikely to have changed materially).

There has recently been some focus on a high-level view of the operating viability of the Airport to Ocean Terminal route as a backstop or core network. This is being progressed by TEL with input from tie and will feature in much more detail when the full operating projections emerge in the TEL Business Plan later in the year, including output from the JRC modelling. The Final Business Case for tram will essentially be a sub-set of the TEL Business Plan which will support Financial Close.

It is important to recognise that any work done now on the Airport to Ocean Terminal will not benefit from the rigour being applied through the JRC modelling and TEL Business Planning process. It is necessary to recognise this now, so that no false expectations are built about the "new" information that may feature in the OBC. In addition, it is important to note that the two tram lines have previously been subjected to detailed financial and economic assessment and the conclusion was that both passed the relevant tests.

The over-arching factor which will be assessed in the TEL Business Plan is the operational viability of an integrated network of tram and bus, a complex and sensitive exercise which is fundamental to the view that CEC takes as the party ultimately responsible for the operational viability of the integrated network. That exercise cannot be completed to inform the OBC.

Phase 1 network assumptions

tie has been working toward an "Airport Network" model, including all of Line 1 plus Line 2 to the Airport. The total inflated capital cost is estimated at £575m including contingency allowance (£648m including incremental optimism bias). This assumes the 2010 programme is not delayed. It is currently estimated that the £375m grant would index to £490m and that CEC will provide £45m in cash and land contribution. This leaves a gap of £40m compared to the cost estimate including contingency or 7% of the total.

tie believes this gap is sufficiently small to justify proceeding with the work designed to deliver the Airport Network pending re-evaluation when tender responses are received.

tie is working with the assumption that it will now proceed with the construction of documents for tender of the network for the following 3 configurations:

| | Cost including contingency | Cost Including Optimism Bias |
|---|----------------------------|------------------------------|
| 1. Airport to Ocean Terminal – the core affordable network to be appraised as part of the OBC. | £429m | £484m |
| 2. Airport to Ocean Terminal <u>plus</u> Haymarket to Granton Square | £505m | £569m |
| 3. Airport to Ocean Terminal <u>plus</u> Haymarket to Granton Square <u>plus</u> Granton Square to Ocean Terminal | £575m | £648m |
| <i>For reference – the cost of the full network of Lines 1 and 2</i> | £634m | £714m |

The tenders will be constructed to ensure the capital cost information for all three options is available and the TEL Business Plan / Final Business Case will examine the economic and financial viability operational viability of all three options.

Stage-gate funding to progress the project

The strategy which follows is predicated on the following objectives :

1. Minimise programme risk and consequential cost risk
2. Present a coherent approach to the market which gives the best possibility of achieving value for money
3. Minimise aborted cost risk

The strategy proposed to balance these outcomes is:

- Accelerating the JRC modelling to the maximum extent possible - the earliest we believe it can be credibly and reliably delivered is June / July. The contractor is being consulted with a view to obtaining outputs to support the delivery of a draft TEL Business Plan / tram Final Business case at the end of September 2006.
- Ensuring that all aspects of the TEL business planning are executed in advance of JRC output, so that the final compilation and assessment can be handled as soon as the JRC output is available.
- Ensuring that the Vehicles and Infrastructure tenders are released in early April 2006 and are returned by end-July 2006 and end August respectively.
- Restricting utility work to planning, preparation and purchase of long lead items, but no physical work prior to end-September 2006.
- Preparing for land & property acquisition but making no actual acquisitions until after 30 September 2006.

- All design and procurement work proceeds as planned such that the overall programme is unchanged

The unconstrained funding requirements presented in the draft tie Business Plan are £157m for the 15 months from April 2006 to June 2007. This sum needs to be approved subject to confirmation to proceed immediately following delivery of a draft Final Business Case in September 2006. At that stage-gate review point, when the scope and funding decisions can be reconfirmed with a high degree of confidence and if positive, actual utility work can commence, land & property can be acquired and the process toward financial close (Vehicle provider selection and CARP/BAFO bidders for Infraco selection) can proceed.

This strategy would require funding of £9m for the quarter to June 2006 and further funding of £8m through to the end-September 2006 stage-gate when a further commitment will be required. Total funding that would require approval from CEC/SE upon receipt of the OBC and prior to 31 March 2006 is therefore £17m to end September 2006.

The detailed numbers require further work but should not change materially.

This strategy does not impede programme unnecessarily (more than 3 months) and therefore mitigates incremental costs from delay. It also minimises abortive cost risk. However, the existence of a stage-gate at end-September will require careful handling in the tender process with MUDFA, Vehicles and Infraco bidders. There may be a requirement to underwrite bid costs and (in the case of MUDFA) some run-off costs. However, the principal of a clear-cut decision point should not be too alarming. If this strategy is adopted, MUDFA proceeds as presently planned and the Vehicles and Infraco tenders also proceed as planned.

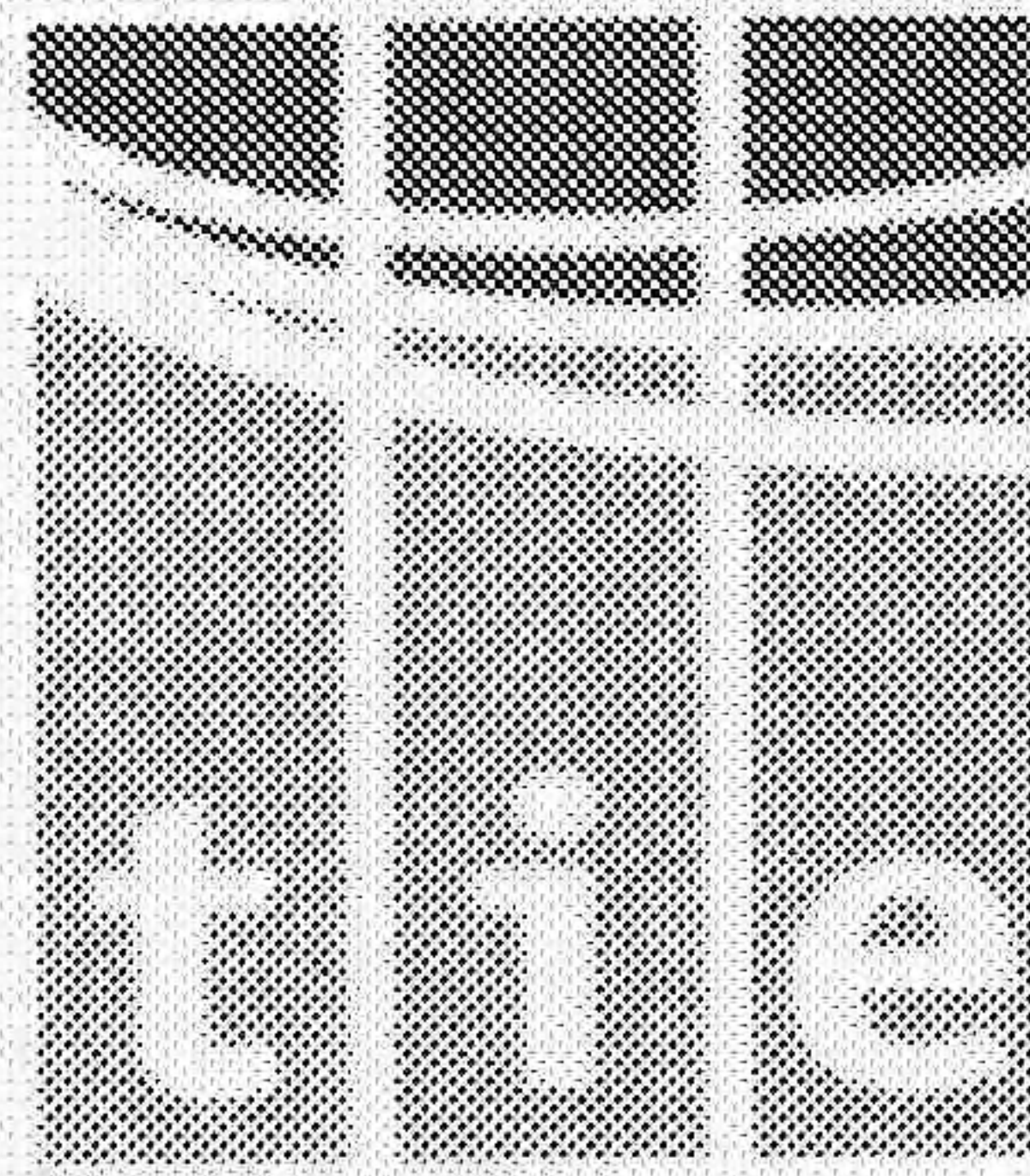
Project Financing

tie requires a definitive position from CEC/SE on the need for Infraco and Vehicle bidders to incorporate external finance into their bids. This has the capacity to create substantial delay, which can be mitigated only by an early evaluation of the requirements and a detailed legal and financial evaluation of the implications for the tender process.

As part of the continuing process of developing our procurement strategy, tie is focussing on a payment mechanism under the Infraco contract which will require a proportion of the total costs to be financed privately under Infraco and to be repaid by system availability linked payments from the public sector in the first six years of operation of the tram network. The profile of such payments might be 10% in years 1 and 2, 15% in years 3 and 4 and 25% in years 5 and 6. The construction of such a financing and availability payment regime will ensure private sector capital is put at risk in a manner similar to that achieved under a full PFI arrangement.

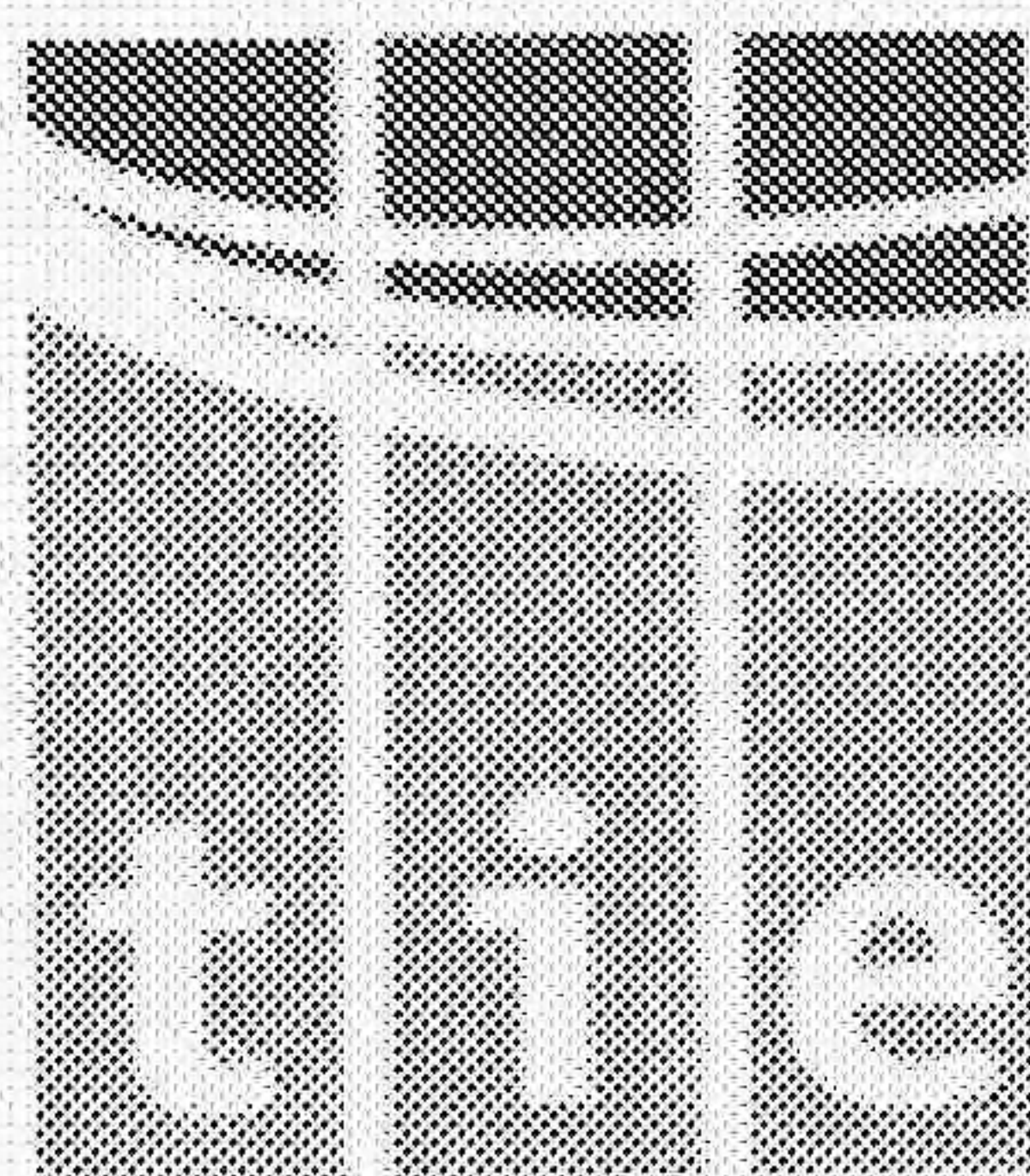
The unanswered question is how much of the total costs should be financed in this manner. tie considers that if a meaningful proportion of the total costs are financed in this manner it will deliver the desirable risk transfer to the private sector. However there may be underlying reasons why CEC/SE might want the extent of such facilities to be higher. If extensive facilities are envisaged then the funding of the underlying financing costs becomes a significant issue in assessing affordability and there must be clarity at the outset as to how these costs might be financed. tie can provide the necessary financial modelling to facilitate this decision making process.

In advance of further detailed analysis being available, tie would recommend that financing amounting to £100m should be sought from the private sector.



PARLIAMENTARY PROCESS UPDATE

VERBAL REPORT



TRAM PROGRESS REPORT – HIGHLIGHTS AND QUESTIONS

Edinburgh Tram Project

1 – 30 November 2005

Prepared by: David Carnegie, Commercial Manager

(Signature)

Approved by: Stewart McGarrity, Project Finance Director

(Signature)

Approved by: Barry Cross, Deputy Tram Project Director

(Signature)

Approved by: Ian Kendall, Tram Project Director

(Signature)

Project Name: Edinburgh Tram
Progress Report No. 5: 1 – 30 November 2005

1. Executive Summary

1.1 Costs and Funding

A detailed tabulation of costs to date, commitments not yet spent and the forecast outturn for 05/06 is included at Appendix i.

Implementation

Outturn costs on Tram Implementation activities during the year to March 2006 have been re-estimated at £16.1m (previously £15.0m), the increase being primarily due to a review of the latest SDS providers programme resources and cost profile following award of the contract in September. Further details of this variance are contained in section 1.3 of this Executive Summary.

Implementation funding for the year to March 2006 has been reduced by £1.6m to £16.25m by the transfer of a similar amount to increase funding for parliamentary activities. This is the method by which SE has approved funding for the previously reported increase in Parliamentary costs as explained below.

The incorporation of the latest cost profile for SDS, and other smaller changes in elements of the outturn costs for the year to March 2006, have not resulted in any change in the components of the overall costs to complete the project and are essentially a re-estimate of the timing rather than scope of activities. However, viewing the year to 05/06 in isolation the overall cost estimate has increased by £1.1m and members asked to note and endorse this transfer from the previously reported Scope / Programme Contingency.

Parliamentary

Funding for additional Parliamentary costs of £1.6m, comprising the costs of promoting Bill amendments in respect of the realignments at Haymarket and Gyle (£0.5m) and an upper estimate of the additional cost of continuing development activities up to the end of March 2006 (£1.1m) has been approved by SE and effected by a transfer from approved Implementation funding as described above.

1.2 Programme

The parliamentary programme is continuing as planned with major objection withdrawals achieved.

Work has continued on the SDS contract. Parsons Brinkerhoff is approaching the end of the Requirements Definition Phase, scheduled for completion on 23rd December 2005. At this point, the SDS provider will have produced a suite of Functional Requirements Specifications which will be reviewed by tie, and thereafter, will allow the Preliminary Design Phase to commence in the New Year.

MUDFA – Tie received a positive response to the Prequalification submissions with eight candidates moving forward to PQQ review. The review process is due for completion on 16th December with a maximum of four candidates going forward to ITT stage.

Confidentiality agreements have been concluded with all PU companies and progress continues with Heads of Terms agreements.

Infraco & Tram – The Tramco OJEU was issued on 28th November with presentations to take place on 11th January and PQQ return on 27th January.

1.3 Issues that have/will affect Cost or Progress

The SDS provider has been developing the detail of their programme over the past 4 weeks. The outcome of this exercise has been to report that their expected year-end spend will be £7.3m, as opposed to the £4.8m identified and reported in the progress report for October. The higher figure is compatible with achievement of the programme. To achieve the higher level of spend there will need to be a significant deployment of resource and upturn in delivery in January – March 2006. This period marks the commencement of the detailed design phase of the project, so a marked increase should be expected. tie has taken the view that the realistically achievable cost profile on the SDS contract to the end of March 2006 is £6.3m. Progress will be monitored closely and the cost profile continually reappraised. Mechanisms exist within the contract to manage the maximum spend to budgeted levels.

1.4 Decisions required re Governance

Progress has been made with regard to the design of the processes for dialogue and agreement for the Tram project (between CEC and tie) which will precede the final presentation of matters to the Tram Project Board. It is now critical with the commencement of SDS that these processes are completed. The position regarding Change Requests is included at Appendix iii.

2. Parliamentary Progress

- tie has prioritised objections based on likelihood of success and the timetable for appearing at the Parliamentary Bills Unit. The prioritisation is as follows:
 - P1 – by 6th September 2005.
 - P2 – by 30th September 2005.
 - P3 – by 15th November 2005.
 - P4 – will not remove objections

A tabulation of the current status of objections under each of the above categories is included at Appendix iv.

- Negotiations are continuing with a number of other significant objectors to secure removal of objections on a prioritised basis.
 1. Objections removed in November include: BRB (Residuary), Kenmore Capital, Land Securities Trillium, FSH, Meadowfield, Servisair, James McNee, USS, Safeway / Morrisons, Clerical & Medical, Norwich Union Linked Life Assurance, & Haymarket Yards.
 2. There are now only seven Priority 1 – 3 Objections left. Work is continuing to resolve these prior to Christmas. These include: BAe Systems (Selex), Secondsite, Stanley Casinos, & SRU.
- The Parliamentary process is now drawing to a close. Both Committees have completed their general evidence taking sessions. Tram Line 1 Committee alone, will be questioning the Minister, Leader of the City of

- Edinburgh Council and the Chief Executive of tie on the question of funding and expense at a single session on 10th January 2006.
- Tram Line 2 Committee has completed its report on the evidence heard. The report was positive and imposed no additional burdens on the promoter.
 - Tram Line 2 Committee has now started its "clause by clause" consideration of the Bill aided by frequent inputs from tie and its legal team.
 - Tram Line 1 Committee are about 6 weeks behind Tram Line 2 Committee.

3. Public Relations & Media

Trams Positive

Tram Press

The November edition of Outlook, out 27/11 featured a full page spread on trams covering the costs and the benefits, specifically looking at integration and the tram v's buses debate.

A large article focusing on trams has been published in EuroTransport.

Attendance on the 16 November at the FirstGroup Streetcar event helped us to plan for the obvious media attention and comparison that followed.

Press releases have been issued on the Wire Free decision and further withdrawals.

Press coverage on the Tram Line 2 Committee report has been prepared for and statements from tie and CEC are prepared.

E-Newsletter

The new monthly tramtime e-newsletter has been sent to all interested parties and stakeholders. This will now happen monthly.

Strategy

Work on the strategy for communications post Royal Assent started on 19 October. Deliverables are a Stakeholder Strategy (delivered), Royal Assent Strategy (due first week) in December and Tram Communications Strategy (in January 2006). The Tram Communications Strategy will include the detailed communications needed for the Public Utility work and construction.

Stakeholder Strategy

A draft strategy for Primary, Secondary and Political Stakeholders has been delivered. Work to identify 'owners' and arrange meetings is taking place. Regular reporting will take place to ensure all parties are kept informed as to progress.

Tram fact sheets (modules) are being prepared to answer many of the questions being asked. These will support the Stakeholder work that is ongoing.

Dublin Visit

A visit to Dublin took place on 1 December. Attending were John Mclellan, evening News Editor, Geoff Ball representing the Business Assembly, Graham Bell representing the Chamber of Commerce and Leanne Maberley. A positive

experience the information imparted has opened up conversation and a vision to how trams will benefit Edinburgh.

Meeting with Chamber of Commerce

A further meeting was held on 6 December with the Chamber to discuss plans. A productive meeting resulted in key actions to work with the Chamber on plans for compensation, meet key influencers in the Chamber and attend their January Transport Group meeting.

4. Project Spend: Actual Versus Budget & Anticipated Cost to Year End

Note: November month end costs, where applicable, are based on estimates and these will be confirmed upon receipt of invoices.

A tabulation of the costs, commitments and forecasts for both Implementation and Parliamentary activities is included at Appendix i.

4.1 Line 1 Parliamentary

- The TL1 Development estimate has been revised to take account of the approved change request associated with the 'Bill Amendment', additional funding relating to delayed Royal Assent, and the re-allocation of costs between TL1 and TL2.
- The Forecast spend to year end is £2,925k.
- The successful removal of objections to the Parliamentary Bill over recent weeks will undoubtedly result in a downturn in the amount of technical support required on this aspect of the project. This will be assessed over the next few weeks, together with the requirement to resource the parliamentary committee hearings, and presented in next month's report, but it is expected that there will be a reduction in anticipated spend until year end.

Appendix ii shows a graphical representation of actual spend against the forecast.

4.2 Line 2 Parliamentary

- The TL2 Development budget has been revised to take account of the approved change request associated with the 'Bill Amendment', additional funding relating to delayed Royal Assent, and the re-allocation of costs between TL1 and TL2.
- The Forecast spend to year end is £1,981k.
- The successful removal of objections to the Parliamentary Bill over recent weeks will undoubtedly result in a downturn in the amount of advisor support required on this aspect of the project. Moreover, TL2 has now completed the parliamentary hearing process. The budget implications will be assessed over the next few weeks, and presented in next month's report, but it is expected that the forecast spend to year end will be reduced.

Appendix ii has a graphical representation of actual spend against the forecast.

4.3 Tram Implementation

- Costs to end November amount to £5.02m compared to the forecast costs to November in the original budget of £12.1m. The underspend being mainly due to the delayed award of SDS and JRC (planned for end of May when the

budget was prepared) together with the consequential rephrasing of related activities.

- Forecast outturn costs for the year to March 2006 have been re-appraised as £16.129m (October £15.000m) including a required contingency of £1.010m (October £1.835m).
- Details of the elements of the outturn forecast that present a significant variance with the elements of the outturn forecast presented at the end of October are as follows:

| Bud Ref | Title | Comment | Variance (£k) |
|---------|------------------------------------|---|---------------|
| 1 | tie Resources | Co-location for SDS, TSS and relevant members of tie Tram team. Additional costs include fit-out and ITC costs net of SDS contribution. | 262 |
| 3 | Legals | Additional costs allowed in relation to DPDF agreement and in response to Infracore and Tramco market consultations. | 123 |
| 4 | SDS | Executive Summary section 1.3 refers | 1,477 |
| 5 | JRC | Programme acceleration to meet revenue forecasting timescale (proposal). | 110 |
| 6 | TSS | Resource increased to support TIE in approval process to meet SDS deliverables. | 269 |
| 8 | Design Support | Early resolution of objections has reduced level of design support required for Parliamentary process. | (158) |
| 9 | 3 rd Party Negotiations | Negotiations with 3 rd parties indicated that allowance not required – especially with regard to Network Rail where SE framework agreement will now be utilised. | (110) |
| 14 | Service Integration | Re-phasing of costs to beyond March 06. | (125) |
| 18 | Utilities | Additional costs to facilitate efficient-start up of MUDFA e.g. development of cost estimates and scope with PU's. Re-phased from period beyond March 06. | 150 |

Appendix ii has a graphical representation of actual spend against the forecast.

5. Programme

5.1 Planned versus Actual

| Key Activities / Deliverables | Original Completion Date | Projected completion Date | Status |
|--|--------------------------------|--|---|
| Appointment of TSS | 27 th June 2005 | 18 th July 2005 | Slippage due to delayed funding. |
| Appointment of SDS | 27 th June 2005 | 19 th September 2005 | Slippage due to delayed funding and SDS signatories. |
| Appointment of JRC | 27 th June 2005 | 6 th September 2005 | Slippage due to delayed funding. |
| TL1: Achievement of Royal Assent | 31 st December 2005 | 31 st March 2006 | Anticipated to be completed end of Mar '06 |
| TL2: Achievement of Royal Assent | 31 st December 2005 | 31 st March 2006 | Anticipated to be completed end of Mar '06 |
| Design Requirements Definition | 31 st December 2005 | 19 th December 2006 | Accelerated within SDS contract |
| Submission of Outline Business Case | 28 th February 2006 | 28 th February 2006 | On target |
| Completion of preliminary design (critical sections) | 31 st December 2005 | 31 st July 2006 | Delay in award of SDS contract – no impact on tender issue for MUDFA, Infraco or Vehicles contract. |
| Completion of Detailed Design (crucial sections) | 31 st March 2006 | 30 th June 2006 (part 1) 30 th October 2006 (all) | Co-ordinates strategy with Infraco preferred bidder(s) selection |
| MUDFA Award | 31 st December 2005 | 1 st April 2006 | Delay in funding threatens award |
| Infraco Award | 29 th June 2007 | 29 th June 2007 | On target |
| Vehicles Award | 29 th June 2007 | 29 th June 2007 | On target |

5.2 Programme Summary

The parliamentary programme is continuing as planned.

The implementation programme has been re-phased to account for the delay in the approval of the project budget.

The next key milestones relate to:

- SDS provider to issue requirements definition phase documentation on 19th December for tie approval.
- MUDFA Prequalification report complete by 16th December 2005.
- ITT for MUDFA to be issued Jan 2006.

The Master Summary Programme is unchanged from last month and is attached – the scheduled opening date remains at 1st July 2010.

6. Change Control

6.1 Approved Changes this Month

tie's internal change process is continuing. The changes are tabulated at Appendix iii.

There is no material increase in capital cost to report.

6.3 Disputes, Claims and Early Warnings

Nil.

7. Risk Management

7.1 Completed Activities

The following key activities have been carried out on risk matters in the past month.

- Attended and contributed to risk workshop with SDS/TSS for advance utilities diversion works
- Awaiting updated Risk Management Plan from Parson Brinckerhoff (SDS). It is noted that SDS have commenced in-house training on ActiveRM software to bring inputs from project team
- Review of cost contingencies with Turner Townsend (TSS)
- Continued preparation of the OJ Notice for the Owner Controlled Insurance Programme (OCIP)
- Discounted the option of a combined Tram & EARL OCIP
- Review of MUDFA Pre-Qualifications, Conflict of Interests and Insurances with issue of queries to bidders
- Met with Steer Davis Gleave (JRC) to discuss their risk management approach. From the meeting JRC were asked to prepare their input to the Risk Management Plan to be incorporated by SDS
- Reviewed caveats that are placed in Sheriff Court and Court of Session and updated caveats to include tie

- Safety Audit conducted by Turner & Townsend has been concluded. This has reaffirmed the roll out of the Safety Management System

7.2 Planned Activities

The following key activities are ongoing throughout next month(s).

- Detail the requirements of the risk remit that the successful contractor will have to follow on being awarded the MUDFA Contract.
- Development of detailed procurement plan for Tram and Infraco following market soundings;
- Finalisation of the OJEU Notice for the OCIP & infraco to be posted within the European Journal
- Initiate the insurance requirements for bidders of the MUDFA Contract, involving detailing the controlled insurances that we shall have in place
- Pass current risk register onto TSS to edit accordingly so that it can be passed on to SDS to be fed into the ActiveRM software
- Resolution of funding for ongoing Parliamentary Committee commitments in 2006 and consequences to date of Royal Assent, commencement of utility diversions and issue of ITT documentation for vehicles, infrastructure contractor and insurances
- Review Risk Management Procedures that SDS have been asked to amend to incorporate tie comments. Once these have been reviewed and accepted, pass on instructions to JRC to proceed with required risk approach.
- Turner and Townsend to continue working on risk management issues including allocating specific risks within the risk register to relevant owners

8. Safety Management

The following points provide a summary of the main items being worked:

- Induction process for Tram Project is being developed with first inductions planned for 16/12/05.
- Information for survey works submitted by SDS provider under tie review.
- Application of CDM regs to survey works has been assessed.
- Developing preconstruction health & safety plan for SI works.
- Structure of health & safety file has been developed.

9. Decisions Required

As noted in the Tram Project Director's Executive Summary for the Tram Project Board.

10. Business Case and Finance

10.1 Funding

A strategy for the stage-gated funding of the project through 2006 is being presented to the 19 December TPB for endorsement.

10.2 Business Case Documents

Work is now progressing on the Outline Business Case (OBC) to be submitted in February 2006. The paper on stage-gate funding through 2006 referred to above outlines some critical decisions with regard to the content and status of the OBC which must be made now for the delivery of the document to proceed in an efficient and effective manner.

10.3 JRC

As previously reported, the JRC contract is being overseen by a Modelling and Revenue Stakeholders Group (MRSG) comprising representatives of the (and its advisors), TEL, Lothian Buses, Transdev, CEC Transport and SE.

The work of this group is progressing with a focus on delivering information to the contractor on the assumptions they should be making about service integration patterns for bus and trams operating in an integrated manner and the sensitivities around these assumptions we wish to test.

These assumptions are critical to the development of a Final Business case (and TEL Business Plan) in the autumn of 2006 which will be owned by all the stakeholders in the project including CEC, SE and TEL. The Tram Project Board and TEL Board will be kept fully informed of progress and asked to endorse the deliberations of the MRSG.

Discussions are underway with the JRC contract with regard to the possibility of delivering elements of the modelling earlier than programmed to mitigate the risks associated with delivery of the Final Business Case.

END

tie Limited

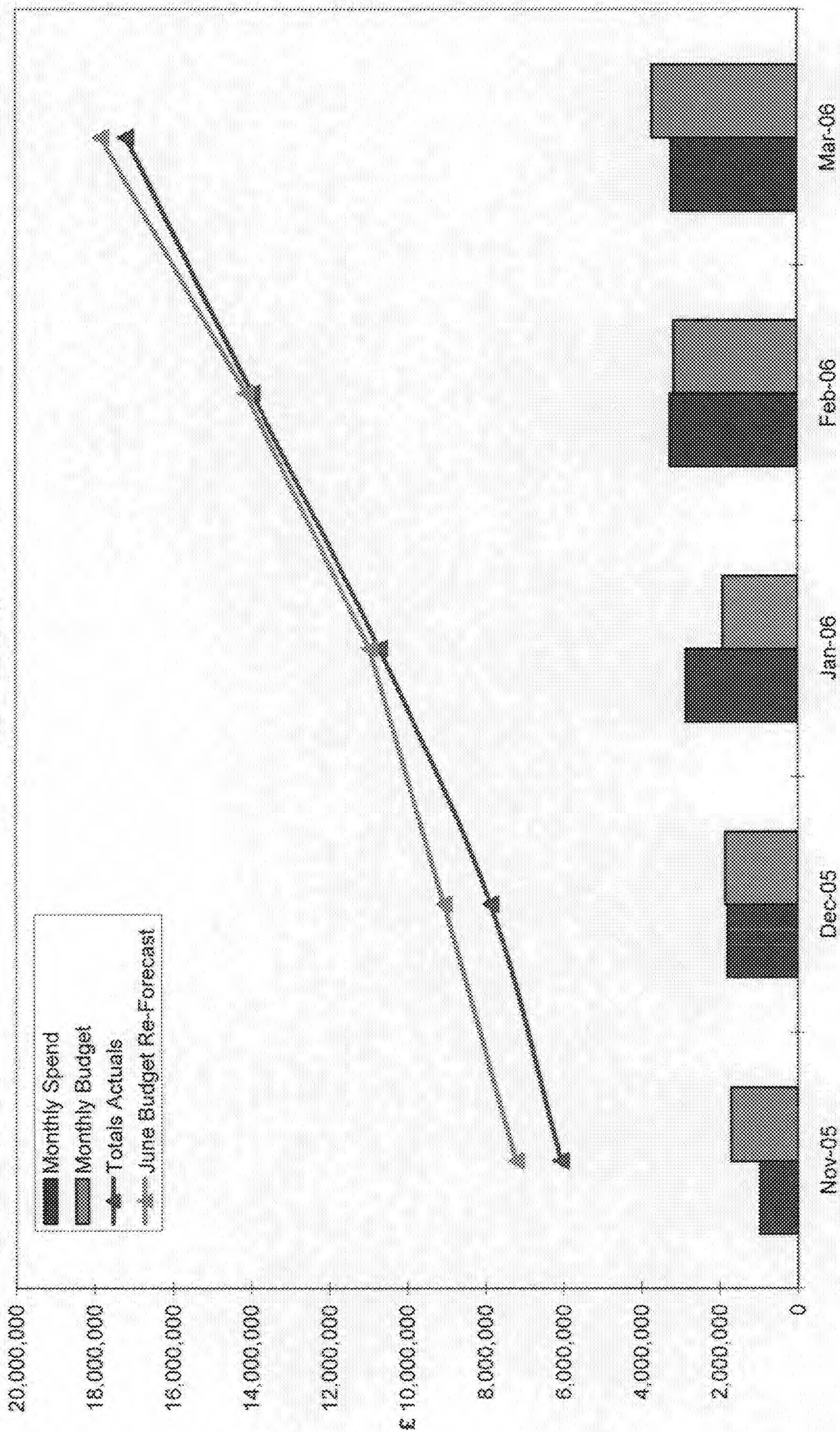
ETN PROJECT PROGRESS REPORT - PROJECT SPEND

| Ref | | This Month | | | | Forecast 05/06 5=2+3+4 | Last Month | Original Budget | | Variances | |
|-----------------------|-------------------------------|----------------|------------------|------------------------|------------------|------------------------------|-------------------|------------------|-----------------|-----------------------------------|---|
| | | Costs Month | Costs to date | Committed not spent | Not Committed | | Forecast 05/06 | Costs to date | Budget 05/06 | Forecast this month v. last | Actual costs to date v. budget |
| | | 1 | 2 | 3 | 4 | | 6 | 7 | 8 | 9=5-6 | 10=7-2 |
| IMPLEMENTATION | | | | | | | | | | | |
| 1 | tie RESOURCES | 201 | 1,737 | 330 | 776 | 2,843 | 2,561 | 1,768 | 2,656 | 262 | 31 |
| 2 | DPOF | 35 | 262 | 75 | 70 | 407 | 407 | 384 | 600 | (0) | 122 |
| 3 | LEGALS | 42 | 341 | 130 | 326 | 796 | 673 | 771 | 1,276 | 123 | 431 |
| 4 | SDS | 320 | 872 | 1,080 | 4,355 | 6,307 | 4,830 | 4,745 | 8,000 | 1,477 | 3,873 |
| 5 | JRC | 102 | 326 | 135 | 284 | 745 | 636 | 915 | 1,148 | 110 | 589 |
| 6 | TSS | 143 | 513 | 360 | 1,326 | 2,199 | 1,930 | 500 | 960 | 269 | (13) |
| 7 | UTILITIES | | 16 | | | 16 | 16 | 396 | 2,700 | | 380 |
| 8 | DESIGN SUPPORT | 22 | 259 | 20 | 55 | 334 | 492 | | | (158) | (259) |
| 9 | 3RD PARTY NEGOT | | | 20 | (20) | | 110 | 259 | 577 | (110) | 259 |
| 10 | LAND & PROPERTY | 83 | 334 | 140 | 202 | 676 | 384 | 305 | 450 | 282 | (26) |
| 11 | TROs | | 1 | | | 1 | 294 | 346 | 506 | (293) | 345 |
| 12 | COMMS / MKTG | 6 | 79 | 10 | 8 | 97 | 97 | 32 | 48 | | (47) |
| 13 | TEL | 3 | 14 | 5 | 6 | 25 | 25 | 53 | 68 | | 38 |
| 14 | SERVICE INTEGRATION | | 25 | 30 | 45 | 100 | 225 | 317 | 597 | (125) | 292 |
| 15 | PUK | 10 | 62 | 20 | 20 | 102 | 127 | 72 | 109 | (25) | 10 |
| 16 | FINANCIAL ADVISORS | 1 | 138 | 20 | 106 | 264 | 264 | 220 | 282 | | 82 |
| 17 | INSURANCE | 3 | 26 | | | 26 | 46 | 36 | 54 | (19) | 10 |
| 18 | UTILITIES/INFRACO/TRAM | | | | | 150 | | | | 150 | |
| 99 | OTHER | 5 | 8 | 10 | 10 | 28 | 28 | 1 | 2 | | (7) |
| | SPECIFIED CONTINGENCY | | | | 1,010 | 1,010 | 1,835 | 972 | 1,838 | (825) | 972 |
| | SPECIFIED COSTS | 975 | 5,015 | 2,385 | 8,579 | 16,129 | 15,000 | 12,094 | 21,873 | 1,129 | 7,078 |
| | SCOPE / PROGRAMME CONTINGENCY | | | | 1,721 | 121 | 2,850 | | | (2,729) | |
| | FUNDED COSTS | 975 | 5,015 | 2,385 | 10,300 | 16,250 | 17,850 | 12,094 | 21,873 | (1,600) | 7,078 |

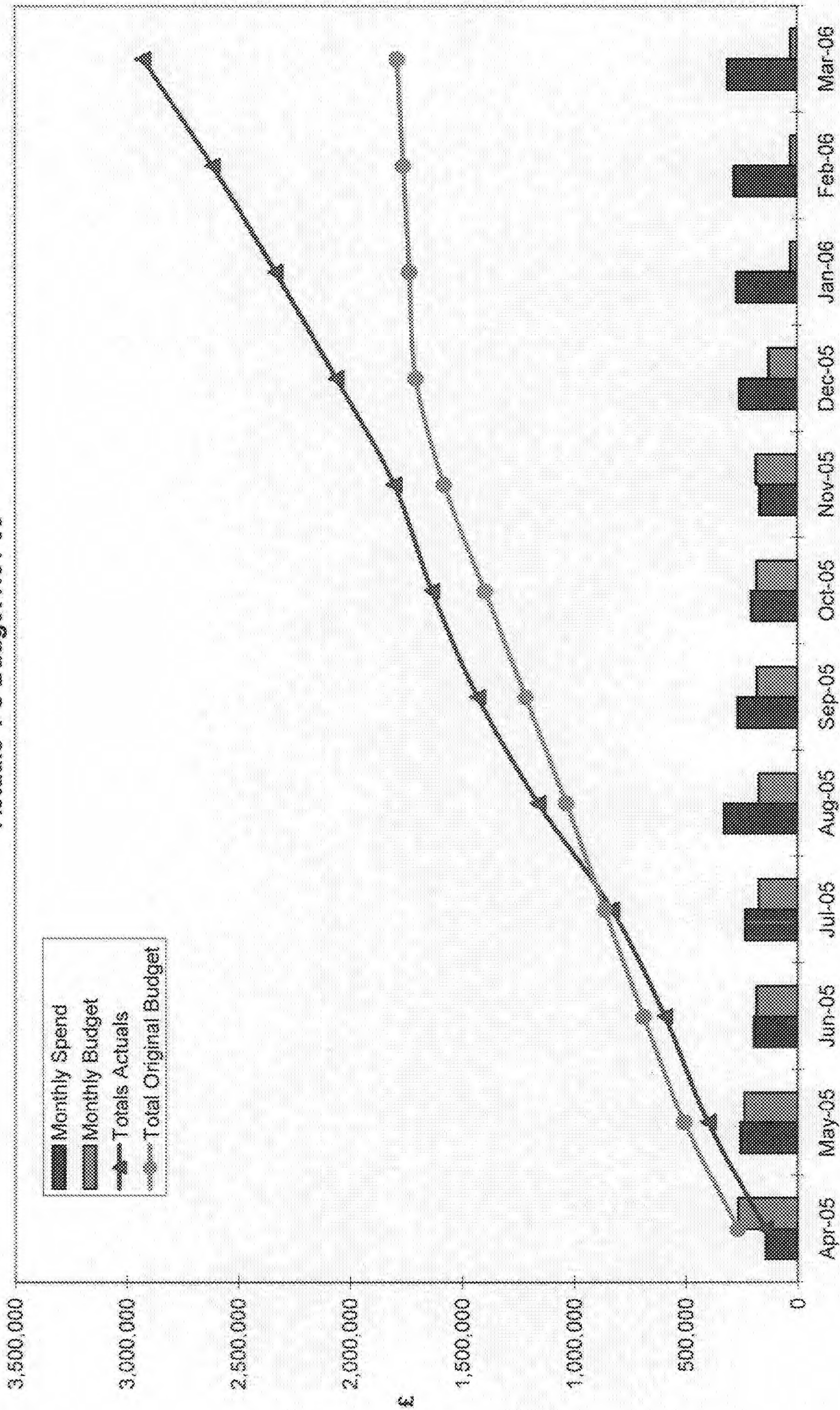
tie Limited
 ETN PROJECT PROGRESS REPORT - PROJECT SPEND

| Ref | This Month | | | | Forecast 05/06 | Last Month | | Original Budget | | Variances | |
|----------------------------|----------------|---------------------|------------------------|-----------|-------------------|-------------------|-------------------|------------------|------------------|---------------------------|----------------------------|
| | Costs Month | Costs to date | Committed not spent | Committed | | Forecast 05/06 | Forecast 05/06 | Costs to date | Budget | Forecast this month | Actual costs to date |
| | 1 | 2 | 3 | 4 | 5=2+3+4 | 6 | 7 | 8 | v. last 9=5-8 | v. budget 10=7-2 | |
| PARLIAMENTARY - TL1 | | | | | | | | | | | |
| 1 | 15 | 125 | 54 | 17 | 196 | 196 | 134 | 203 | 446 | 9 | |
| 2 | 108 | 1,185 | 300 | 373 | 1,839 | 1,393 | 751 | 855 | 175 | (414) | |
| 3 | 45 | 505 | 110 | 150 | 764 | 589 | 592 | 618 | 75 | 89 | |
| 99 | | 5 | | 120 | 125 | 50 | 101 | 110 | | 96 | |
| | 168 | 1,800 | 464 | 681 | 2,925 | 2,229 | 1,577 | 1,787 | 696 | (223) | |
| PARLIAMENTARY - TL2 | | | | | | | | | | | |
| 1 | 18 | 125 | 51 | 22 | 198 | 197 | 132 | 201 | 1 | 7 | |
| 2 | 61 | 551 | 210 | 118 | 977 | 818 | 582 | 653 | 161 | (89) | |
| 3 | 44 | 454 | 120 | 127 | 701 | 586 | 592 | 618 | 115 | 139 | |
| 99 | | | | 106 | 106 | 33 | 88 | 96 | 72 | 88 | |
| | 123 | 1,230 | 381 | 371 | 1,981 | 1,632 | 1,395 | 1,578 | 349 | 155 | |
| | 291 | 3,030 | 845 | 1,032 | 4,906 | 3,861 | 2,972 | 3,365 | 1,045 | (57) | |
| | 291 | 3,030 | 381 | 1,032 | 4,964 | (497) | 2,972 | 3,365 | 555 | | |
| | | | | | 58 | 3,364 | 2,972 | 3,365 | 1,600 | (57) | |

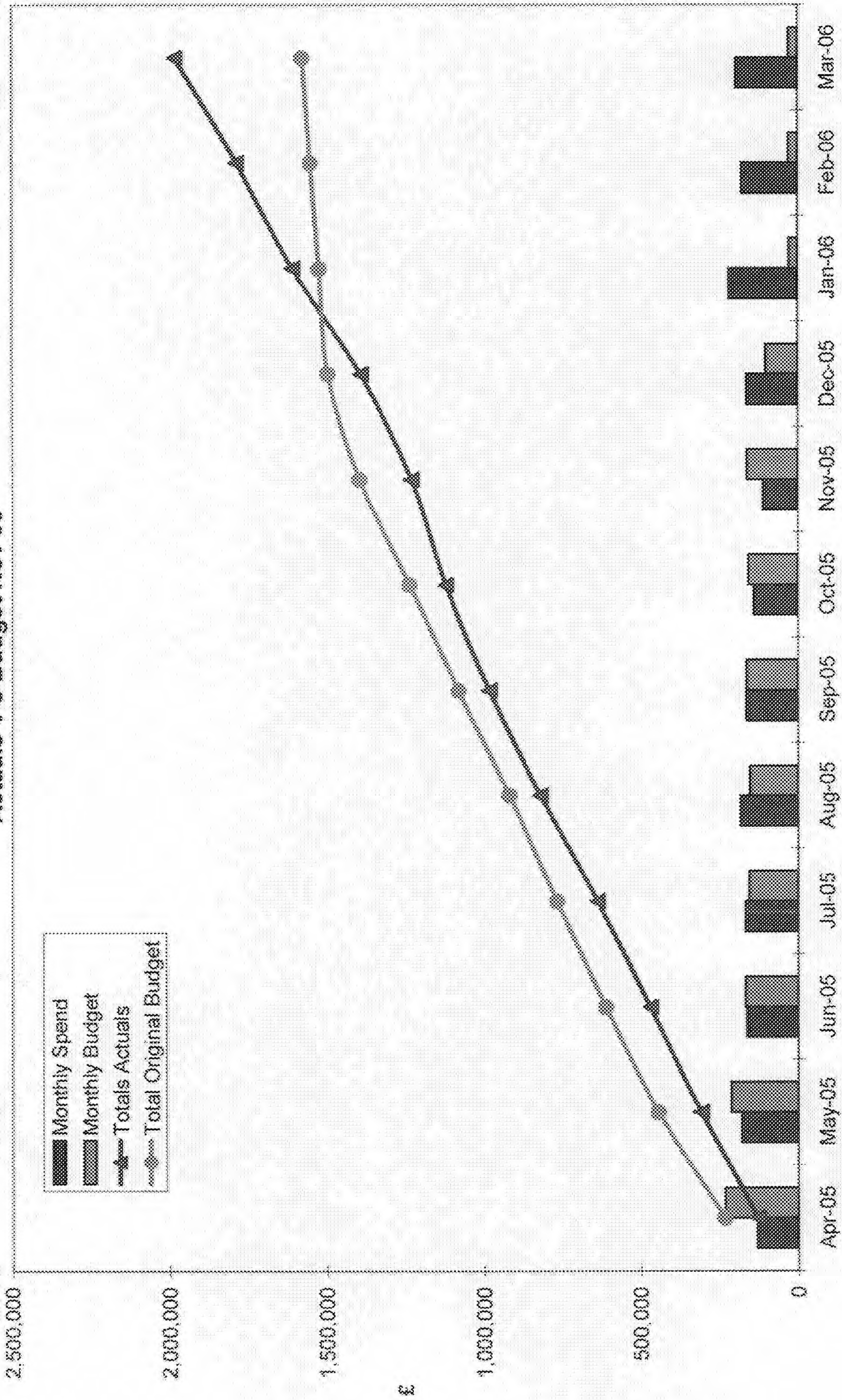
Implementation Actuals V's Budget Nov '05



Tram Line 1 Actuals V's Budget Nov'05



Tram Line 2
Actuals V's Budget Nov'05

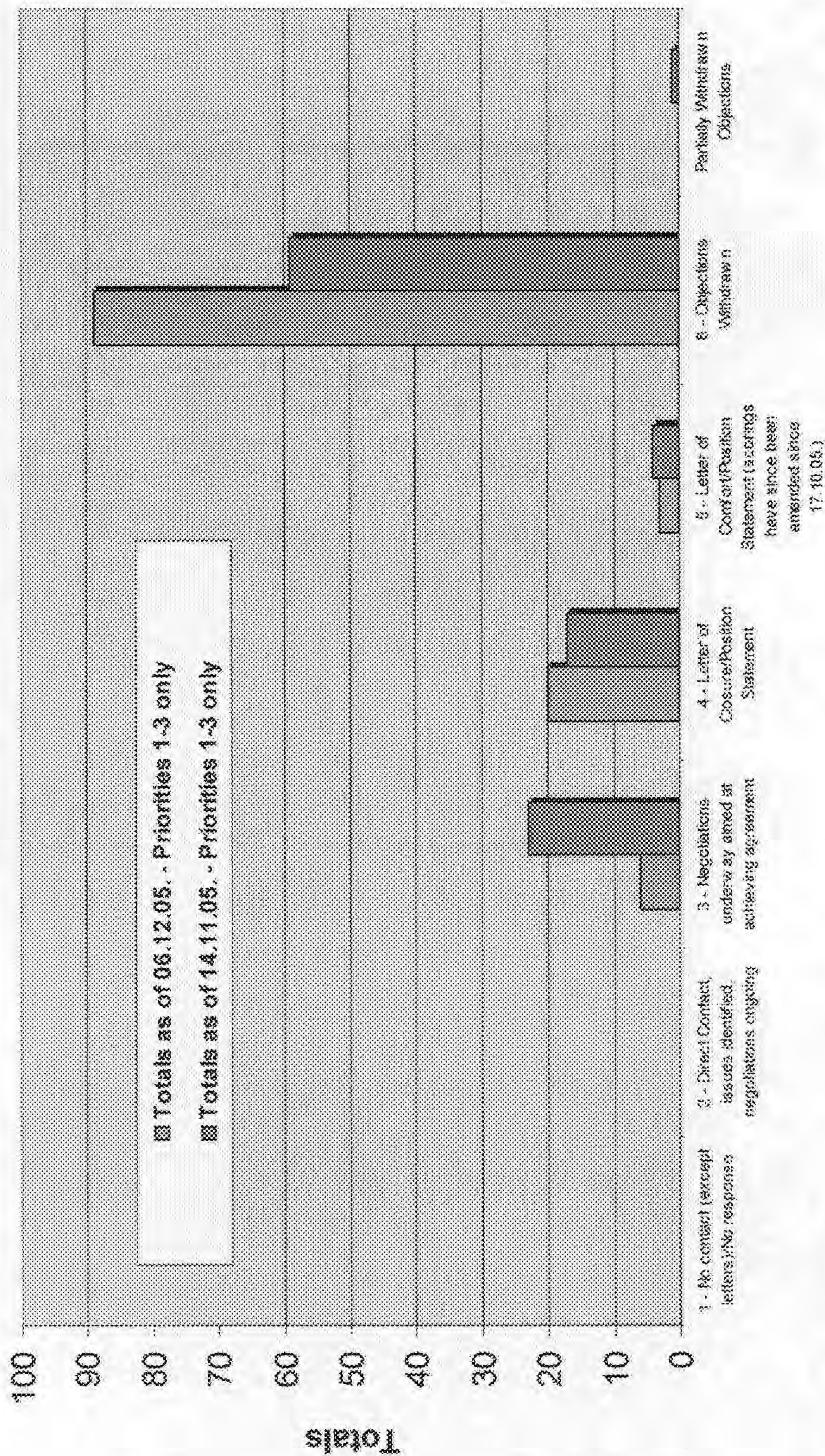


Appendix iii
Change Requests

| CR No. | Description | tie Approval | TPB Approval | SDS Issued |
|----------|---|-----------------------|----------------|------------|
| 1 | Haymarket Yards | Yes | Approved | Using |
| 2 | Gyle Re-alignment | Yes | Approved | Using |
| 3 | Baird Drive | Yes | Approved | Using |
| 5 | Leith Docks | Yes | Approved | Using |
| 8 | Ancient monuments | Yes | Approved | Using |
| 9 | Cycles on trams | Yes | Submitted | |
| 10 | Partial low floor | Yes | Approved | Using |
| 13 | Safety zone | Yes | Approved | Using |
| 14 | Wireless Traction | Yes | Submitted | |
| 18 | Segregated Princes Street | Yes | Approved | Using |
| 19 | Ditto 9 Leith Walk | Yes | Approved | Using |
| 23 | Gogar Depot/ BAA | Yes | Approved | Using |
| 27 | NHS worksite | Yes | Not req'd | Using |
| 28 | Stop locations Princes St. | Yes | | Developing |
| 32 | Crewe hill interchange | Yes | Approved | Developing |
| 33 | Traffic signal priority | Yes | Approved | Using |
| 37 | Leith Walk interchange | | Developing | Developing |
| 41 | Utilities Construction | Yes | Approved | Using |
| 43 | Scotrail Car parking | Yes | Current Needed | Using |
| 46 | CGM side agreement | Yes | Catch-up | Using |
| 47 | Elphinstone agreement | Yes | Approved | Using |
| 48 | Stray current | Yes | Approved | Using |
| 50 | Tram length | Yes | Approved | Using |
| 51 (b,d) | EARL/TL2 modelling | Yes | Approved | |
| 54 | St Andrews Square | | Developing | Using |
| 55 | PI Budget | Yes | Approved | Using |
| 57, 58 | FM model | Yes | Approved | Using |
| 61 | TL1 part | Yes | Approved | |
| 62 | TL2 part | Yes | Catch-up | |
| 65 | Advertising on trams and stops (stops 6-sheet, on-board & all-over wraps) | Yes - GBC fundamental | Approved | Using |
| 67 | Ticketing | | Developing | |
| 68 | Replica | Yes | Approved | |
| 69 | TL2 model | Yes | Approved | |
| 70 | Land compensation part 1 | Yes | Approved | |

| CR No. | Description | tie Approval | TPB Approval | SDS Issued |
|--------|---|--------------|--------------|------------|
| 73 | Turnback @ Haymarket Yards | Yes | Approved | Using |
| 74 | B&Ae alignment/parking | Developing | Approved | Using |
| 76 | TL2 model | Yes | Approved | |
| 78 | Future proofing TL3 | Developing | Approved | Using |
| 79 | Additional Modelling (Mgt) - TL1 | Yes | Approved | - |
| 80 | TL1 Parliamentary - contingency drawdown to balance overspend | Yes | Approved | - |
| 81 | TL2 Parliamentary - Additional modelling reqd by MVA. | Yes | Approved | - |

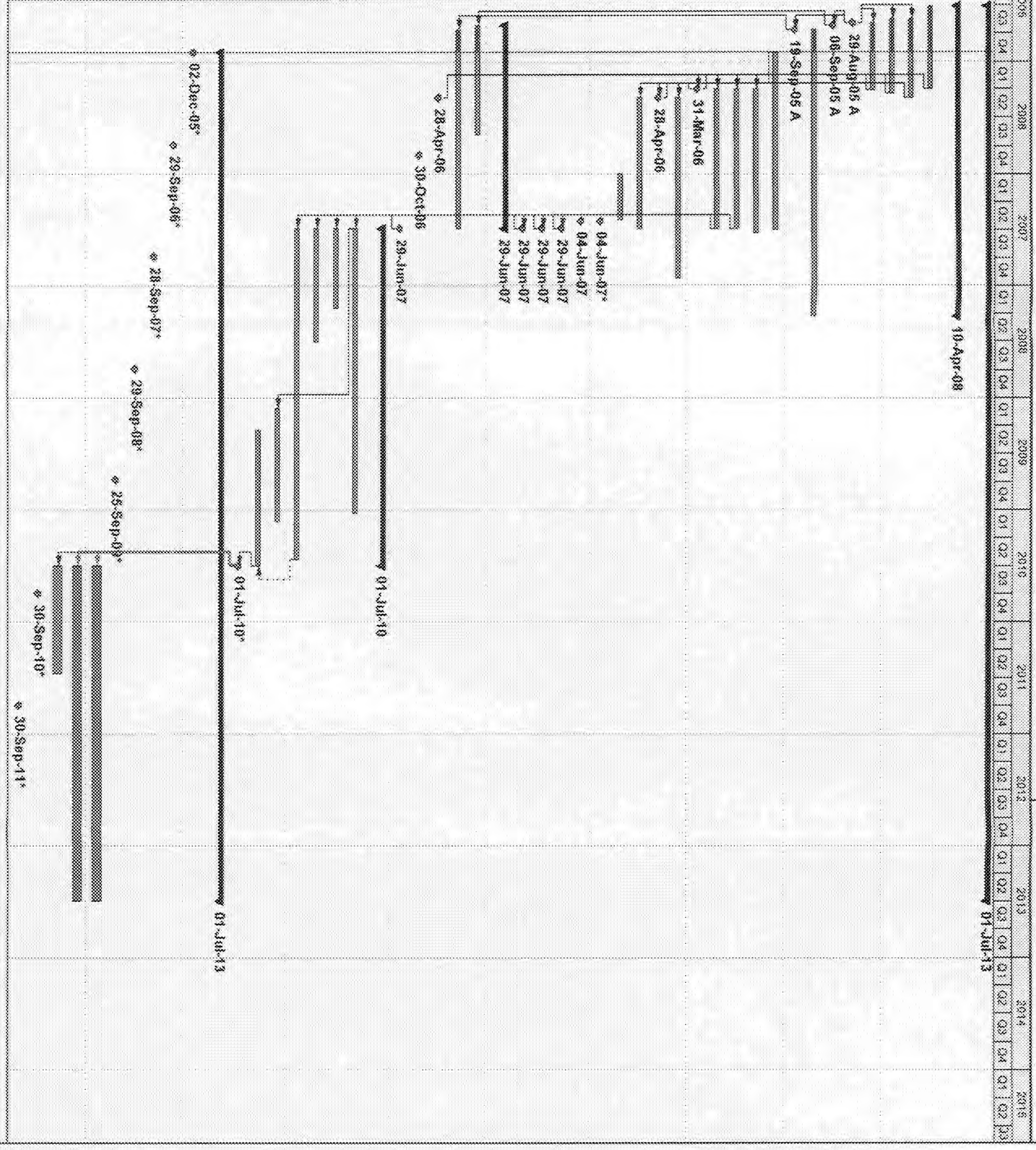
ETL One and Two Objections: Summary of Progress



Appendix v
Programme

| Activity Name | Start | Finish |
|---------------------------------------|-------------|-----------|
| Edinburgh Trams 40 High Level Summary | 04-Jul-05 A | 01-Jul-13 |
| Initial | 04-Jul-05 A | 10-Apr-08 |

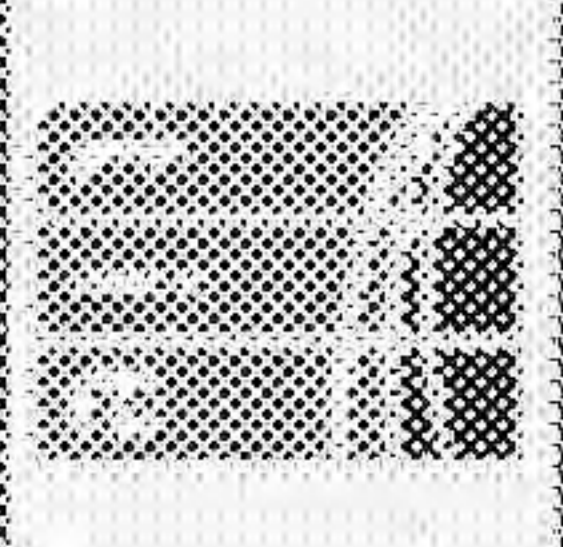
| | | |
|--|-------------|-----------|
| Remove Objectors | 04-Jul-05 A | 31-Mar-06 |
| OJEU and ITT for Utility Diversions | 18-Aug-05 A | 27-Apr-06 |
| PN & OJEU for INFRACO | 15-Aug-05 A | 14-Apr-06 |
| PN & OJEU for TRAMS | 29-Aug-05 A | 03-Apr-06 |
| SE Funding Approval for 2005/2006 BP | 06-Sep-05 A | |
| Award JRC | 19-Sep-05 A | 10-Apr-08 |
| Traffic Management Plan and TRO's | 19-Sep-05 A | |
| Award SDS | 19-Sep-05 A | |
| TTRO's | 02-Dec-05 | 02-Jul-07 |
| Planning Approvals | 31-Mar-06 | 12-Jul-07 |
| INFRACO ITT | 31-Mar-06 | 28-Jun-07 |
| TRAMS ITT | 31-Mar-06 | 28-Jun-07 |
| Royal Assent | 31-Mar-06 | |
| Utility Diversions | 29-Apr-06 | 06-Dec-07 |
| Award Utilities | 29-Apr-06 | |
| Land and Property Agreements | 28-Apr-06 | 28-Jun-07 |
| Final Negotiations and System Acceptance | 02-Jan-07 | 01-Jun-07 |
| Financial Close | 04-Jun-07 | |
| CECISE Final Funding Project Sanction | 04-Jun-07 | |
| Award INFRACO Contract | 29-Jun-07 | |
| Award TRAMS Contract | 29-Jun-07 | |
| Novate Planning Approvals to INFRACO | 29-Jun-07 | |
| Design | 06-Sep-05 A | 29-Jun-07 |
| Modelling | 06-Sep-05 A | 25-Aug-06 |
| Design | 19-Sep-05 A | 28-Jun-07 |
| Design Freeze 1 | 28-Apr-06 | |
| Design Freeze 2 | 30-Oct-06 | |
| Novate SDS to INFRACO | 29-Jun-07 | |
| Construction | 29-Jun-07 | 01-Jul-10 |
| Tram Manufacture | 28-Jun-07 | 11-Jan-10 |
| Completion of Detailed Design | 28-Jun-07 | 13-Mar-08 |
| Completion of Planning Approvals | 28-Jun-07 | 03-Jul-08 |
| Construction | 28-Jun-07 | 10-Jun-10 |
| Tram Delivery | 06-Feb-09 | 08-Feb-10 |
| Commissioning, Trial Running & Driver Training | 17-Apr-09 | 30-Jun-10 |
| Scheduled Opening Date | 01-Jul-10* | |
| Maintenance & Review | 02-Dec-05 | 01-Jul-13 |
| Fares Policy Review Year 1 | 02-Dec-05* | |
| Fares Policy Review Year 2 | 29-Sep-06* | |
| Fares Policy Review Year 3 | 28-Sep-07* | |
| Fares Policy Review Year 4 | 29-Sep-08* | |
| Fares Policy Review Year 5 | 25-Sep-09* | |
| Initial Maintenance and Defects Period | 01-Jul-10 | 01-Jul-13 |
| Service Integration Optimisation | 01-Jul-10 | 01-Jul-13 |
| Tram System Optimisation | 01-Jul-10 | 15-Jun-11 |
| Fares Policy Review Year 5 | 30-Sep-10* | |
| Fares Policy Review Year 7 | 30-Sep-11* | |

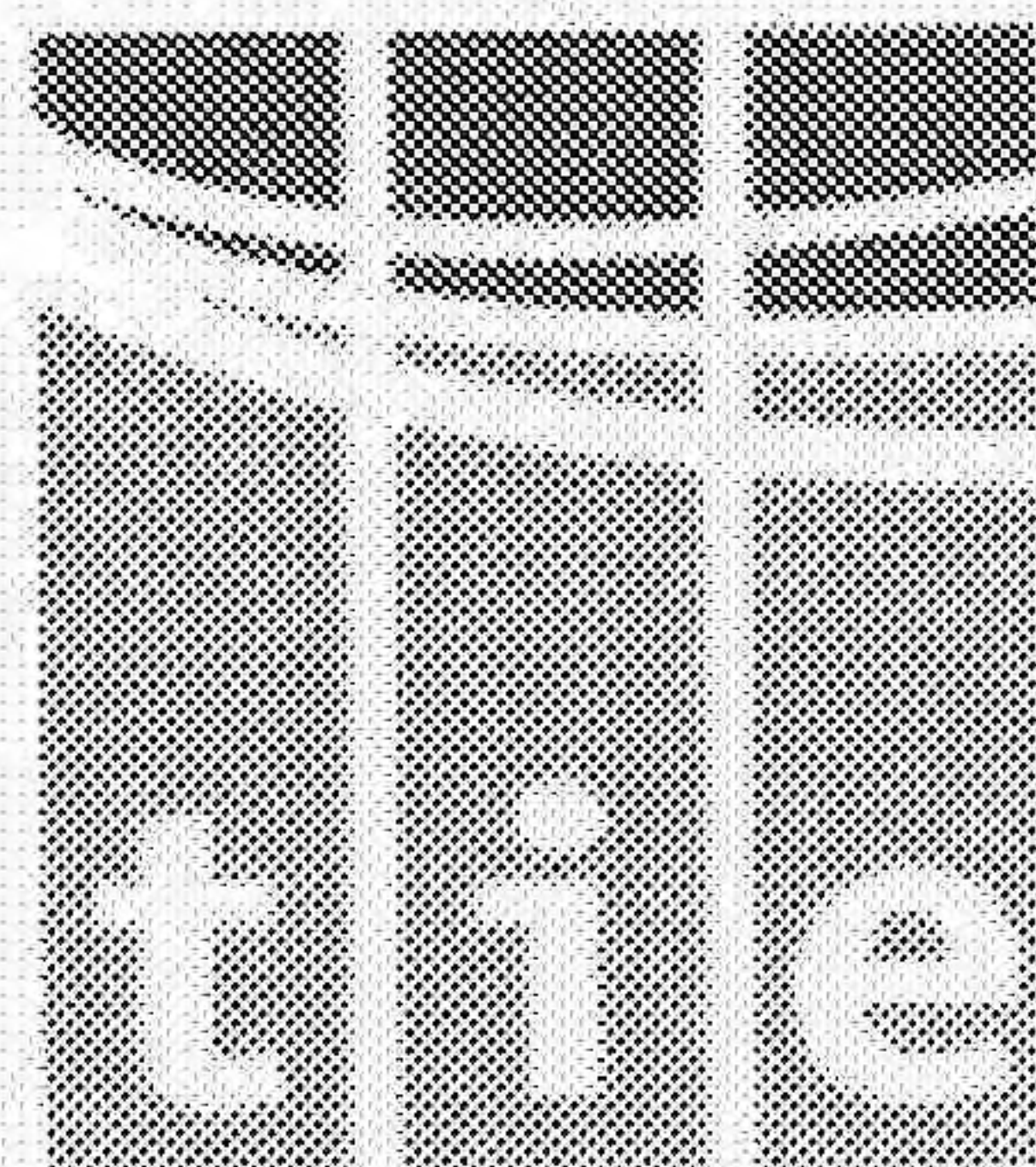


Remaining Level of Effort Remaining Work Summary
 Actual Level of Effort Critical Remaining Work
 Actual Work Milestone

High Level Summary Schedule

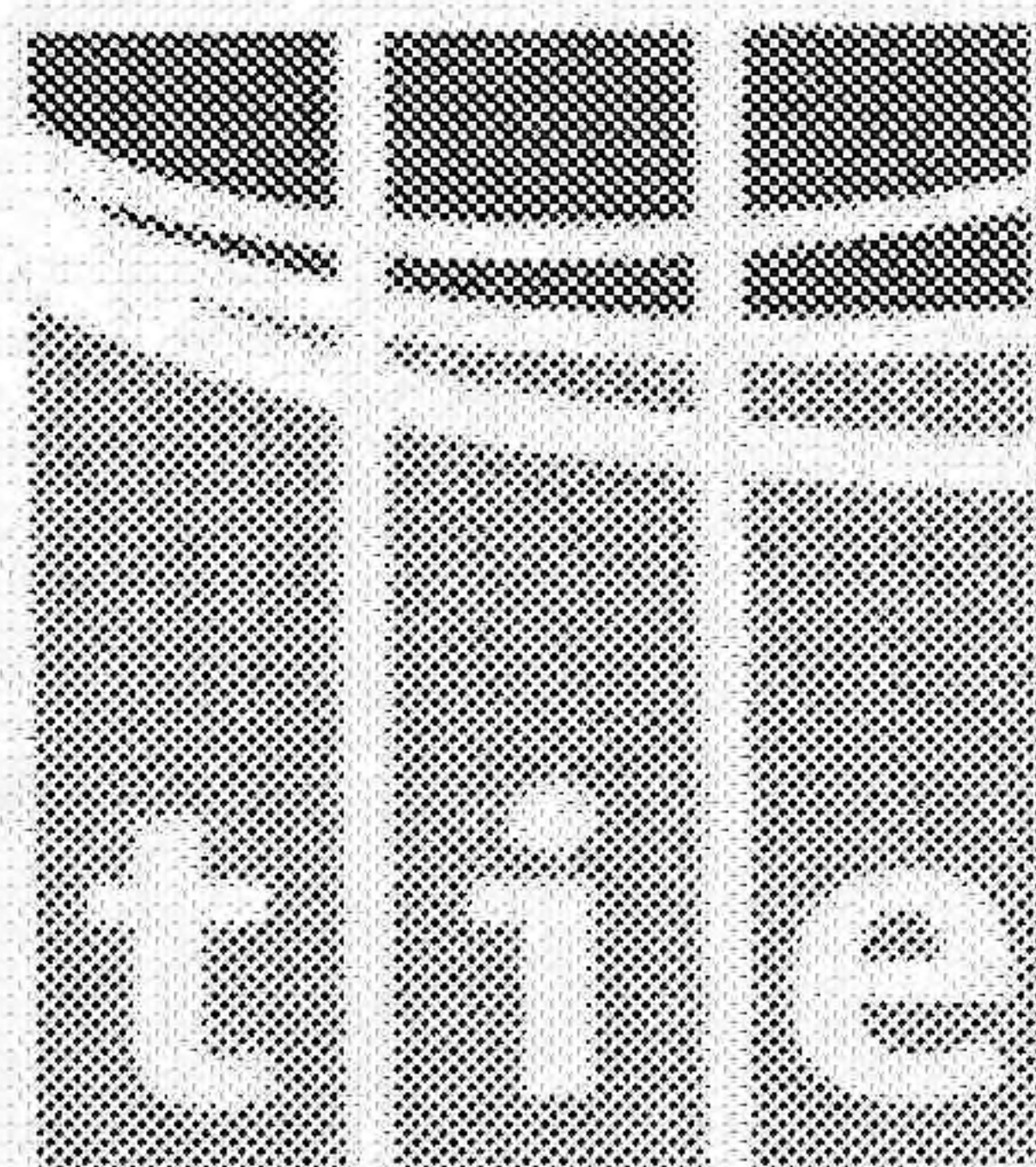
Progress to 2nd December 2005



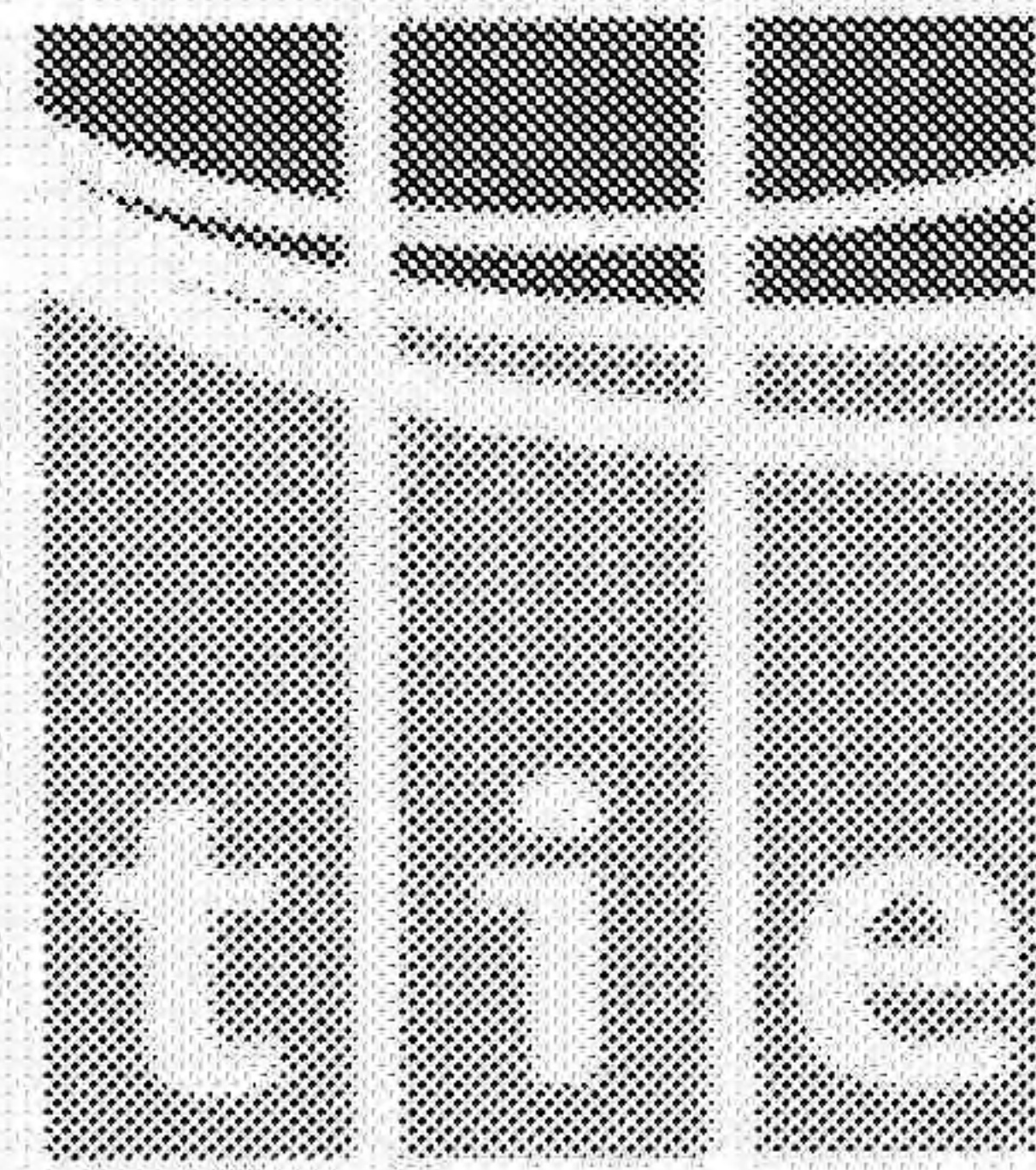


TEL BUSINESS PLAN AND FINANCIAL MODEL – PROGRESS

VERBAL REPORT



AOB



DATE OF NEXT MEETING: MONDAY 23rd January 2006

9.00AM-11.00AM

TIE OFFICES, VERITY HOUSE