

Edinburgh Tram Network – Update Report

The City of Edinburgh Council

30 April 2009

1 Purpose of report

- 1.1 The purpose of this report is to update Council on progress that has been made on the Edinburgh Tram Network recently. The report also addresses the funding position in relation to Phase 1a of the Edinburgh Tram Network (ETN), the impact of the Princes Street traffic diversions, the issues surrounding the development of Phase 1b of the ETN and the appointment of the new Chief Executive of **tie Ltd**.

2 Summary

- 2.1 The position with regard to Phase 1a has changed since last reported to Council. **tie Ltd** have been engaged with the tram infrastructure contractor through a series of negotiations which have resulted in a supplementary agreement for the construction of Princes Street infrastructure works.
- 2.2 Further developments have taken place regarding Phase 1a relating to the establishment of a Project Management Panel between **tie Ltd** and the infrastructure consortium members and the initiation of the Dispute Resolution Process (DRP) on certain matters. These matters are covered in greater detail in the main body of the report.
- 2.3 At the Council meeting of 12 March it was agreed that a report be prepared on the implications of the continued closure of Princes Street and the impacts on businesses and events.
- 2.4 An update on Phase 1b of the ETN was reported to Council on the 18 December 2008. This highlighted the work that had been undertaken to review the TEL business case and the assumptions on Phase 1b. A further report covering the decision on Phase 1b was to be reported to Council in the spring of 2009.
- 2.5 As part of the original negotiations for Phase 1a, the final price to be provided by the infrastructure contractors, Bilfinger, Siemens, CAF (BSC) was to include an indicative price for infrastructure works which led to an overall estimated cost of £87m for Phase 1b. This was to include design, utility diversions, vehicles, project management and infrastructure costs along the route from Roseburn to Granton.

- 2.6 Following the report of 18 December 2008 further work has been undertaken on:
- (i) Cost and programme issues relating to Phase 1a (which now means a more definitive position can be taken in relation to the funding of Phase 1b.)
 - (ii) The estimated capital cost of Phase 1b between **tie ltd** and the infrastructure contractor.
 - (iii) The potential for delivery of Phase 1b as part of a future potential procurement for the South East Tram Line (SETL). This report covers the proposal in more detail.
- 2.7 The main report also updates the Council on the appointment of the **tie ltd** Chief Executive following a recruitment process concluded in late March 2009.

3 Main report

Phase 1a Update

- 3.1 The tram operating agreement between the Council and **tie ltd** require that an update be provided to the Council covering changes to the outturn costs of the project and any claims in excess of £500k.
- 3.2 There have been a range of well publicised commercial issues which have emerged recently which could have potential to impact on cost and programme.

Relationships with BSC

- 3.3 Following the commercial difficulties experienced between **tie ltd** and BSC in Princes Street a supplementary agreement has been entered into between **tie ltd** and BSC to allow progression of Princes Street infrastructure works on demonstrable cost. This allows the contractor to be paid on this basis, for Princes Street works only, should they discover unforeseen ground conditions. This represents no further transfer of risk to the public sector.
- 3.4 Following agreement on Princes Street the Project Management Panel (PMP) has been set up to address and process the other commercial issues in a practical and pragmatic manner. The PMP includes principals from **tie ltd** and consortium members and will seek to reach commercial resolution on known issues of disagreement, wherever possible.
- 3.5 The PMP will aim to establish a more constructive dialogue, building confidence between **tie ltd** and the consortium, while achieving commercial resolution on a value for money basis providing appropriate protection to the public purse.
- 3.6 Both the Princes Street supplementary agreement and the PMP have made good progress which can be further demonstrated by works commencing at the Gogar depot and Edinburgh Park.

- 3.7 While the PMP will enable certain commercial issues to be resolved it is realistic to expect that some commercial issues will still need to be escalated to the formal contractual Dispute Resolution Process (DRP). As issues are progressed through the Panel and DRP, increasing levels of confidence should be established about programme and cost considerations.
- 3.8 Due to the nature of negotiations with the contractor, the Council is asked to note the extremely sensitive nature of the discussions and the requirement for commercial confidentiality at this stage. This makes full public reporting of the detailed position in relation to programme and costs impractical. In these circumstances regular updates have been programmed between senior Council Officers and political group leaders to keep them informed of progress with the project.

Strategic Options

- 3.9 Following initiation of the DRP with the contractor, work has been undertaken by **tie ltd** and the Council examining the strategic options available to the Council. This has involved examining a number of possible scenarios around Phase 1a, providing a range of cost and confidence levels for Phase 1a which will enable the Council to make better informed decisions about the project. As a result of this analysis the preferred option remains to work through contractual and commercial issues with the current consortium. Transport Scotland is being kept informed of the position as it evolves.
- 3.10 Council officials and **tie ltd** are working closely together to continuously review the commercial position, the adequacy of risk allowances and any potential impact on cost and programme implications to the project.

Cost Update

- 3.11 A recent review of the tram budget has been undertaken by **tie ltd** to re-examine resources and costs relating to the project. Additional costs have been incurred relating to project management, traffic management and site access costs related to the utility diversion work. Any further adjustments to this value will depend on the outcome of commercial discussions and the DRP undertaken by **tie ltd** and BSC and any such adjustments will be subject to rigorous assessment to ensure the public purse is protected. At this stage the range of numbers indicates the base case scenario remains that the full scope of the project can be delivered within previously agreed funding levels.
- 3.12 The Council are asked to note and approve a £1.2m settlement under the utility diversion contract to Carillion relating to changes to baseline programme, delay and disruption and preliminaries. A full report was provided to the TMO by **tie ltd** setting out the reasons why this settlement was regarded as appropriate and fair. This settlement was covered within the risk allowance for utility diversions contract and was, therefore, contained within the previously agreed budget.

Programme update

- 3.13 Currently **tie ltd** is engaged with the contractor on a full review of programme, base costs and risks with the aim of reaching a revised commercially agreed programme by the end of June. Clearly delivery of the commercially agreed programme will be dependant on continued good progress in the Project Management Panel and through any formal Dispute Resolution Procedures.
- 3.14 In addition to the work currently being undertaken on strategic options, Council officers are currently reassessing the timing of developers contributions as part of Council's £45m contribution to the project. Until all these commercial agreements are in place, there remains an element of risk in relation to both the timing and final value of such contributions. The Council will be seeking an updated external review of its funding strategy which will be subject of a further Council report.

Princes Street traffic diversions

- 3.15 At the Council meeting on 12 March 2009 it was agreed that a report would be submitted within one cycle which outlined the implications of the continued closure of Princes Street and the impacts on businesses and events.
- 3.16 When the tram construction methods were being considered at the planning stage, consultation was undertaken with local businesses on Princes Street to help determine the most appropriate way to undertake the works. The strong message from the retailers was that they wanted the work to be completed as quickly as possible, with minimal disruption and for the construction to be completed before their busy Christmas sales period, which is considered to begin from the last weekend in November until the first week in January.
- 3.17 As a consequence, the Princes Street diversions were developed to be in place until November, for the duration of the construction works. To minimise public disruption, and to reduce the amount of changes required, all the traffic management works were undertaken at one time and are intended to remain in place until the Princes Street works are complete. It is not practicable to return the bus services to Princes Street during the planned August roadworks embargo. There will be minor changes required around St Andrew Square later this year.
- 3.18 This method of working was agreed with the contractor prior to the award of the tram contracts and any change now to extend that time period would incur additional costs.
- 3.19 On 21 February 2009 the Princes Street diversion was successfully introduced enabling the construction of the tram to progress. Several months of careful traffic management planning involving 1200 hours of modelling work were successfully implemented with no significant delays reported. During the construction works buses, taxis and cycles have been diverted temporarily onto George Street.

Monitoring

- 3.20 Pedestrian footfall has been monitored at key locations in the city centre since 2008. A comparison of weekly pedestrian footfall before and after the diversion for the same period in 2008 highlights that, in general, pedestrian activity has increased significantly on George Street (by an average of 49%) and decreased on Princes Street (by an average of -23%). A contributing factor to the changes to the figures was the relocation of all bus services and bus stops to George Street. Appendix 1 provides a year-on-year weekly change in footfall. Pedestrian footfall monitoring will continue throughout the tram construction process.
- 3.21 Car parking monitoring has also been undertaken for both on and off street sites. A comparison for January and February between 2008 and 2009 has shown that there is an average reduction in the on street car parking usage of 7.2%. Off street car parking use fluctuates across different sites; however the average utilisation has increased by 4% over the same period. Appendix 2 provides further detailed car parking information.
- 3.22 When considering the monitoring data it is important to be mindful of the global economic conditions which are affecting travel patterns and footfall in all cities across the UK.

Communications and Marketing

- 3.23 A communications and marketing campaign has been implemented to publicise the relocated bus stops and to emphasise that the city is still open for business and accessible to all. This included a media campaign utilising print, radio and broadcast media as well as the web. Appendix 3 provides further information on the communication and marketing undertaken.

Events

- 3.24 Princes Street remains an attractive and popular location for city events and this was recognised during the Parliamentary process for the tram project. Section 57 of the Edinburgh Tram (Line One) Act 2006 states that only three events will be permitted on the tram route once operational running has commenced. These are:

- The Edinburgh Festival Cavalcade
- The Edinburgh Festival Fireworks Concert
- The Hogmanay Street Party.

All other events on the tram route need to be considered in accordance with Roads (Scotland) Act 1984 and the Civic Governance (Scotland) Act 1982 and must "have regard to the safe, efficient and economic operation of the tram".

- 3.25 During the construction work, provision has been made to potentially retain the above noted events on Princes Street by introducing a roadworks embargo in August and if necessary in December. It may be necessary to have localised pedestrian and traffic management in place to allow these events to take place.

- 3.26 There are a number of additional events that will need to find alternative locations or routes. Work is underway to achieve that whilst meeting the aspirations of all those concerned. The High Street is being considered as a possible alternative route, if appropriate. Appendix 4 to this report details the events that are planned on or around Princes Street.
- 3.27 Whilst if everything went to programme and there were no unanticipated difficulties with works in Princes Street, it could be possible for the Festival Cavalcade to take place along Princes Street on the 9 August during the works embargo, however, there remains an opportunity to allow the tram construction work to continue throughout August to maximise the opportunities for the work being complete before the critical Christmas period. Relocating the Cavalcade for this year would effectively mitigate construction and financial risk and may create the opportunity to reduce overall costs and programme implications.
- 3.28 An alternative route for the Festival Cavalcade can be sought if Princes Street is used for tram construction during the August embargo. The preferred alternative route would involve Holyrood Park, but this needs to be confirmed with Historic Scotland and the event organiser. The alternative route would have to provide assembly and dispersal areas for the Military contingent of the Tattoo plus around 80 vehicular floats and 3000 participants along with the viewing public. The alternative route will need to be agreed by Lothian and Borders Police, the Council and the event organiser.
- 3.29 There is some impact on the Festival Fireworks event being held on 6 September. That ticket only event is held in Princes Street Gardens and the event can go ahead as planned. Public viewing of the fireworks may need to be focused away from Princes Street to Inverleith Park, Calton Hill or other locations if the roadworks continue through the August embargo. Limited pedestrian access to Princes Street for the concert may be possible but this will depend on construction progress.
- 3.30 Consultation with local businesses and stakeholders will continue throughout April. It is proposed that a final decision on the relocation of the Cavalcade and the embargo will be made at the Policy and Strategy Committee on 12 May 2009.

Phase 1b

- 3.31 The Council report of 18 December highlighted a number of questions to establish the viability of Phase 1b. These questions centred around the economic case for Phase 1b, the costs and revenues, operational risks to TEL, the optimum time for construction, funding and opportunity costs relating to Phase 1b.
- 3.32 The TEL Business Plan financial model consolidates the bus and tram businesses. A review of the operating costs has taken place and includes updated lifecycle costs (heavy maintenance and refurbishment), management costs, tax and dividends. The significant cost drivers, which have been carefully considered, include changes in fuel prices, power and wages costs. The updated TEL Business Plan still reflects a very robust business case over the long term despite the current economic climate.

- 3.33 An update of the development assumptions in North Edinburgh was undertaken in July and August 2008 and was summarised in the report to Council in December 2008. Since this work was undertaken last summer the wider economic climate has substantially deteriorated as recently demonstrated by Forth Ports having to write down land values by £222m and indicating that they were having problems finding development partners for the Leith Docks area. Similar difficulties have affected Waterfront Edinburgh Limited and other Council companies.
- 3.34 The most significant catalyst behind the business case for Phase 1b was the proposed housing and commercial development of Granton Waterfront and the patronage that this would provide. This development has been delayed for the foreseeable future which would result in a gap in revenues and place pressure on the TEL business plan.
- 3.35 The indicative estimated capital cost for Phase 1b was £87m at the time of Financial Close of Phase 1a. BSC have been asked to update the estimate given at the time of Financial Close. The updated estimate is significantly in excess of the previous cost estimate which materially affects the advisability and the affordability of progressing Phase 1b under the current contractual arrangements. The Council should also note, as previously reported that £3.2m of additional costs will be incurred for BSC demobilisation should Phase 1b not progress under the current contract. Design costs of £3m are also a Phase 1b sunk cost.
- 3.36 Possible funding sources which had previously been identified for Phase 1b included unused headroom from Phase 1a, further Scottish Government contribution and the potential of prudential borrowing funded from revenues delivered through the TEL business plan.
- 3.37 The contractual difficulties being experienced on Phase 1a of the tram project and additional costs outlined in paragraph 3.11, requires a prudent view to be taken when considering committing any headroom from the existing budget.
- 3.38 Further Scottish Government funding for Phase 1b would be very unlikely at this time due to current pressure on public spending and the previously declared position in Parliament. Phase 1b did not form part of the government's Strategic Transport Projects Review (STPR) and therefore is not high on the government's list of priorities in relation to transport projects. In addition, the downturn in the economy and the consequent slippage of the Granton Waterfront Development weakens the business case for Phase 1b. Any acceleration of the Granton Waterfront Development could potentially drive the timing of Phase 1b.
- 3.39 While in times of projected economic growth, the Benefit Cost Ratio, which measured the economic viability of the project, was very positive, the contribution to TEL revenues from Phase 1b patronage was minimal. The economic downturn and loss of patronage would put further pressure on TEL revenues and consequently there appears to be no commercial case to progressing with the extension at this time.

South East Tramline (SETL)

- 3.40 The report to Council in December provided detail on the potential for a feasibility study for Tramline 3 or the South East Tramline (SETL), with Phase 1b potentially being developed as part of, but separate, from the SETL proposal.
- 3.41 Consultation on this route was conducted in 2005 and strong public and business support emerged. The linkages to the ERI and the BioQuarter are particularly important in the context of developing the economy in the south east of the city.
- 3.42 This proposal could help to create a comprehensive tram network throughout the city providing connectivity both east to west in the context of Phase 1a and north to south by adding Phase 1b to the SETL proposal. The development of SETL and potentially Phase 1b would further enhance the integrated public transport network in the city, building on the existing bus services and Phase 1a of the tram network.
- 3.43 If it is possible to progress SETL then opportunity will exist for future upgrades of the network to cover Phase 1b and SETL. In addition any future procurement could also examine the potential for closing the loop between Phase 1b (Roseburn to Granton) and Phase 1a (Newhaven).
- 3.44 Development of SETL would have to involve discussions with other stakeholders such as Scottish Enterprise, Transport Scotland, the University of Edinburgh and NHS Lothian.

tie ltd Chief Executive Update

- 3.45 The appoint of Richard Jeffrey, former managing director of Edinburgh Airport, to the vacant tie ltd Chief Executive post was announced on 1 April 2009. Richard is a chartered civil engineer, and is currently President of Edinburgh Chamber of Commerce with strong links to the business community in Edinburgh as well as a Non-Executive Director with Edinburgh Leisure. Richard has a strong track record in construction and project management and has chaired project boards responsible for delivering multi million pound capital projects.
- 3.46 The appointment follows a targeted recruitment process which attracted keen interest from a very strong field of leading professionals. Richard took up his post on Wednesday 22 April 2009.

4 Financial Implications

- 4.1 The strategic options appraisal indicates the base case scenario confirms that the full scope of the project can be delivered within the previously agreed funding levels of £545m.
- 4.2 The commercial issues faced on Phase 1a construction coupled with significant increase in the capital cost of Phase 1b requires a prudent approach towards the commitment of any funding to Phase1b.
- 4.3 Allowing tram construction work during the August embargo or relocating certain events would create opportunities to mitigate significant programme and financial risks.

5 Environmental Impact

- 5.1 The Edinburgh Tram Project will make a positive contribution towards reducing emissions and air quality in the city centre and in the transport corridor to the west of the city and the airport. This will have a positive impact on current pollution levels and provides a quiet mode of public transport.

6 Conclusions

- 6.1 Overall the assumptions underlying the base case for Phase 1a remains very robust. Strategic options are under review but the preferred option is to work through the commercial issues with the current consortium to deliver the entire project scope within agreed funding levels.
- 6.2 Following several months of careful planning the Princes Street diversion was introduced very successfully on the 21 February 2009.
- 6.3 Pedestrian and car parking monitoring in the city centre continues to be monitored.
- 6.4 A communications and marketing campaign has successfully been implemented to emphasise that the city is open and accessible to all.
- 6.5 City wide events management is ongoing and a final decision will be made on August roadworks embargo on Princes Street at the Policy and Strategy Committee on 12 May 2009.
- 6.6 The economic climate and updated construction costs have materially affected the business case for Phase 1b at the current time.
- 6.7 Funding Phase 1b has also become more difficult due to the additional costs outlined in paragraph 3.11 which will reduce the funding headroom.
- 6.8 The Council will continue to examine further extensions to the Edinburgh Tram Network. It would be sensible to re-evaluate the business case for Phase 1b and closing the loop, possibly as part of any feasibility study and procurement related to SETL, once the economy recovers from the current recession and the development potential of Granton Waterfront becomes clearer.

7 Recommendations

7.1 It is recommended that the Council:



- a) notes the updated position in relation to progress, programme and cost of Phase 1a.
- b) approves the settlement negotiated by tie ltd under the MUDFA contract for Phase 1a.
- c) notes the pedestrian footfall and car parking utilisation monitoring, including the major media and marketing campaign undertaken.
- d) notes the position with the city events and that a final decision on the August roadworks embargo will be taken at the Policy and Strategy Committee on 12 May 2009
- e) agrees the proposal to postpone the development of Phase 1b due to current economic and funding constraints.
- f) agrees to discussions being taken forward for the feasibility study in relation to the South East Tramline, formerly known as Tramline 3.
- g) notes the appointment of the Chief Executive of tie ltd.


Dave Anderson
Director of City Development

22/4/09


Donald McGolgan
Director of Finance

22nd April 2009

Appendices	Appendix 1: Year on Year Weekly Change in Footfall Appendix 2: On and off street parking comparison (2008/2009) Appendix 3: Communications and Marketing Undertaken Appendix 4: Planned City Events	
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Wards affected	All	
Single Outcome Agreement		
Background Papers	None	