

Transport Initiatives Edinburgh (tie) Business Plan – 2004/05

The City of Edinburgh Council

29 April 2004

1 Purpose of report

All Council owned companies are routinely required to submit annual reports to receive Council approval for their business plans. The purpose of this report is, in respect of the Integrated Transport Initiative and the proposed Edinburgh Airport Rail Link, to seek approval from the Council for the contents of a draft annual Business Plan by Transport Initiatives Edinburgh Ltd (**tie**) for the financial year 2004/5. A further report reviewing overall financial performance of **tie** will be submitted to the Executive later in this financial year.

2 Summary

- 2.1 **tie** is a private company wholly owned by the City of Edinburgh Council. The company was established by the Council to assist the development, procurement, project management and implementation of certain nominated projects as determined by the Council and contained in the Integrated Transport Initiative (ITI). The past year has seen a significant increase in the level of activity in **tie** who are now developing or implementing seven major transport projects. These comprise:- Congestion Charging; the West Edinburgh Busway Scheme (WEBS); and three tram schemes serving north, west and south east Edinburgh (designated Tram Lines 1 to 3 respectively); Ingliston Park and Ride and the Edinburgh Airport Rail Link (EARL). The last project is, in effect, being channelled through the Council on behalf of the Scottish Executive and is supported by a direct grant of £5m. All the other projects form part of the Council's Integrated Transport Initiative.
- 2.2 **tie** are also responsible for the SESTRAN 'One-Ticket' travel ticket scheme. This project provides a travel ticket throughout the SESTRAN area. This has seen a favourable growth in turnover compared with last year.
- 2.3 The legal operating agreement between CEC and **tie**, identifies the requirement for an annual business plan setting out the company's activities, costs and funding to be approved by the Council.

- 2.4 This report summarises the status of **tie**, and projects remitted to **tie**. The monitoring arrangements remain as reported to Council in last year's report on the Business Plan. However a review of the operating agreement between **tie** and the Council is presently underway. Progress on the various projects is described and staffing and accommodation requirements are discussed. A summary of costs and funding is given before financial implications, conclusions and recommendations are presented.

3 Main report

tie

- 3.1 **tie** is a private limited company wholly owned by the City of Edinburgh Council, with a private sector majority board. The company was registered at Companies House in April 2002 and started operating in May 2002. The objectives of **tie** are defined in the Company's Memorandum of Association and relate to assisting the Council in developing and delivering its Integrated Transport Initiative (ITI).
- 3.2 Under the terms specified in the legal operating agreement between CEC and the Company, **tie** are required to submit a draft annual business plan for the following financial year which sets out the companies activities, costs and funding requirements. This plan requires the approval of the Council.
- 3.3 **tie** has submitted a draft Business Plan for financial year 2004/ 05 (Copies are available for inspection in party group rooms). Internal **tie** costs are based on continuation of 2003/4 costs with allowance for anticipated increases in staff numbers, salary levels and other costs.
- 3.4 No detailed projections have been made for year 2005/06 as there are likely to be major changes in work programmes after April 2005 as projects move from their initial planning phases through to detailed design and procurement especially following receipt of Parliamentary powers for the tram projects. The Business Plan includes indicative costs likely to accrue in 2005/06, based on current information. More accurate costings will be provided in the next Business Plan.

tie Monitoring

- 3.5 In the Business Plan, **tie** confirms its commitment to high standards of corporate governance. To ensure these standards are maintained the Council has put several levels of monitoring in place. The detailed monitoring structure remains as reported to Council in connection with the annual Business Plan for 2003/04 in June 2003.

tie Projects

- 3.6 The Council has directed **tie** to progress 6 key projects from its Integrated Transport Initiative. Progress on these projects is given below:
- a *Congestion Charging*. Following clarification, with the Scottish Executive, of the statutory processes necessary for approval of the system, a draft order was published for consultation in October 2003. The results of that consultation were presented to Council in January 2004 and led to the Council's decision to continue with the statutory procedures. Following a public inquiry, a referendum will be held, as previously agreed by the Council, before a final decision is taken on whether to seek confirmation of the order from Scottish Ministers.

- b *Edinburgh Tram Lines 1 and 2* (serving the city centre and north Edinburgh and west Edinburgh respectively). **tie** undertook stage 2 transport assessments following the Scottish Transport Appraisal Guidance (STAG) procedures. Preparatory work was also undertaken to enable the Council to obtain powers to construct these tram lines by promoting Parliamentary Bills. The Council submitted Bills for both these tram lines to Parliament on 29 January.
 - c *Edinburgh Tram Line 3* (serving south east Edinburgh). **tie** is presently undertaking a STAG stage 2 appraisal and will make the necessary preparations for submission of a Parliamentary Bill. Public consultation commenced on 24th March 2004.
 - d *West Edinburgh Busway Scheme (WEBS)*. **tie** have completed development of this project and awarded a design and build contract for the off road guideway sections in January 2003. Following completion of the design, progression to the build stage of the contract was authorised in November 2003. Works are now well underway, with the current programme set to make up the initial construction start delay. The contract is now expected to be completed by the original target date of October 2004.. Traffic Regulation Orders for the on-street elements of the project are in preparation and the works contract at tender stage.
 - e *Ingliston Park and Ride* Detailed design and planning procedures for this project are underway with a design and build contract award scheduled for May 2004. It is envisaged that the site will become operational early in 2005.
- 3.7 **tie** is also responsible for the 'One-Ticket' scheme and has been given a wider remit by the Scottish Executive for heavy rail schemes including the airport rail link. Consideration is currently being given to **tie** managing the delivery of the Stirling Alloa Clackmannan Kincardine line.
- 3.8 *Edinburgh Airport Rail Link*. Technical Operational and Environmental feasibility studies for this project, which is wholly funded by the Scottish Executive are now underway. The studies are examining the provision of a new underground heavy rail link integrated into the existing rail network. The project is programmed for Parliamentary submission in March 2005. This project is not part of the Council's Integrated Transport Initiative.
- 3.9 SESTRAN 'One-Ticket' travel ticket scheme. This project provides a travel ticket scheme throughout the SESTRAN area. Sales for the year ending 31 March 2004 are still to be finalised but are estimated at £500,000. This compares favourably with last years turnover of £152,000.

Staff and Accommodation

Chief Executive

- 3.10 The interim and part-time Chief Executive position described in the previous report to Council (June 2003) was made full time and permanent on the recommendation of the **tie** Board in view of the substantially increased scope and responsibility. This recommendation was accepted on behalf of the Council by the Director of City Development through delegated powers that were granted to him on 2 May 2002.

Staffing

- 3.11 Details of the current staffing levels together with proposals for the coming financial year are set out in the Business Plan, which includes a full staff organisation chart.

- 3.12 There are currently 18 employed posts in **tie** augmented by substantial consulting and seconded resources. There will be a considerable increase in activity in the coming financial year within **tie** as the major projects in their portfolio are progressed. To cope with this increased workload and to reduce costs through greater in-house working **tie** propose to increase the staff complement to about 40 members. Additional posts are proposed in Tram programme management, tram operations, congestion charging and finance. **tie** also emphasise the need for an additional £600,000 to publicise issues surrounding congestion charging in advance of a referendum.

New Office Accommodation

- 3.13 The company presently occupies serviced office accommodation at 91 Hanover Street, Edinburgh. The expanding staff compliment necessitates a move to larger premises and gives the opportunity to reduce costs with standard leased office accommodation.

Costs

- 3.14 The Business Plan reports an underspend, of £3.6m, for the financial year 2003/04. Arising mainly from slippage, the largest underspend is noted in the WEBS project. Reduced spends are also reported in the tram projects but these are contrasted by additional expenditure on congestion charging of £0.7m in the financial year 2003/04.
- 3.15 As a result of reaching a more advanced stage of the programme, in financial year 2004/05 **tie** propose further substantial increases in spending on congestion charging. The planned spend is £4.2 m – an increase of £3.1m over the budget for 2003/04 approved by the Council in June 2003.
- 3.16 **tie** report that during the financial year 2004/05 about half of the expenditure on the congestion charging scheme will arise from technical development and the statutory and decision making processes. The remainder of the congestion charging expenditure will be associated with the detailed design and procurement processes considered by **tie** to be necessary to meet the 2006 implementation deadline.
- 3.17 In response to the concerns over the impact on the Council's budget that were expressed by the Directors of City Development and Finance, **tie** has proposed several efficiency savings. The savings comprise a reduction in the budgeted staff bonus level; a reduction in proposed salary increases to match the anticipated Council increases; a re-profiling of the proposed staff intake and a reallocation of key overheads associated with congestion charging. In total, **tie**'s savings amount to £238,000 of which £100,000 are realised in the Council's budget (match funding contribution).
- 3.18 Total costs for congestion charging for the year 2004/05 are £4.159m. Funding available from the Scottish Executive (awaiting ministerial approval), plus funding already provided in the Council budgets amount to £3.177m. There is therefore a shortfall of £0.982m. Details of how to fund this shortfall are set out in the financial implications section (paragraph 4.3 below).
- 3.19 The table at the end of Section 3 of this report summarises the costs and funding of Transport Initiatives Edinburgh for the financial year 2004-05.

Risk

- 3.20 Concerns have been expressed over the risks of incurring abortive expenditure since the implementation of congestion charging is dependant on a successful outcome of the referendum and approval to implement the Charging Order being received from the Scottish Executive. While this is clearly an important issue, and one which requires to be managed carefully, it is not unique to the Council's Integrated Transport Initiative. It applies to any major transport project, especially those requiring Statutory Powers, including the Scottish Executive's other strategic transport projects. There are probably significant sums at risk across Scotland at the present time associated with the delivery of key transport projects.

Previous reports have indicated an introduction date for congestion charging of Spring 2006 and the supporting work has been prepared on this basis. To delay introducing beyond that date would be to erode the value of the income stream and disrupt the delivery of the integrated investment package.

- 3.21 The referendum was agreed by Council in January 2003 and is scheduled for January 2005. A public hearing on the proposal will commence in April 2004, the results of which will be fed into the Council's case, for obtaining the necessary powers from the Scottish Executive to make the Charging Order.
- 3.22 To avoid a lengthy delay following the public hearing and the anticipated receipt of powers, the Council has elected for a target implementation of spring 2006. To ensure that this implementation date is met **tie** have proposed a procurement strategy to minimise procurement risks and maximise public acceptance of the proposals. Key features of the strategy are an early start to the procurement process, parallel development of prototype systems by two short-listed tenderers, and an active role in public relations and opinion leadership - the stakeholder "client management" approach. "This was the approach successfully followed in the run up to implementation of the London congestion charging scheme".
- 3.23 All of these steps necessitate incurring expenditure that may prove abortive should the referendum or the Scottish Executive not favour the implementation of congestion charging.
- 3.24 At the request of the Directors of Finance and City Development **tie** has set out the financial and programming implications of a deferral in the implementation of congestion charging until after the referendum and after receipt of approval from the Scottish Executive.
- 3.25 **tie** note that the costs associated with congestion charging fall into two categories. The first category of expenditure are those costs which needed to allow the public inquiry to take place and therefore allow the recommendations of the inquiry to be known before the referendum is held. The second category of expenditure is directly associated with the procurement of the system for collecting and enforcing the congestion charge. This would encompass the system design and prototyping.

- 3.26 Deferral of the second category of expenditure would reduce the risk of abortive expenditure totalling £1.98m, of which the Council's share is £0.99m. This deferral, **tie** suggest, would delay the start of the congestion charging scheme to October 2007. However current proposals envisage a £2 cash charge to be applied whenever the scheme starts. Any delay in start would reduce the real value of the toll revenue by the amount of inflation of the period of the delay. **tie** has suggested that inflation over this period could be between 3.5% and 4%. While the toll charges thereafter would increase in line with the RPI, the diminished value of the start-up toll level reduces the lifetime revenue return by £28m. A 20-year scheme life is assumed by **tie**. Delay in the investment programme also follows from deferral of congestion charging implementation. As a consequence **tie** point to a total of £60m in project funding being unavailable between spring 2006 and autumn 2007.
- 3.27 The Council's current funding relationship with the Scottish Executive is based around the total Integrated Transport Initiative and the approved Local Transport Strategy. To remove or delay any element obviously raises a risk in terms of this partnership. The Scottish Executive is aware of the risks set out above and has indicated that it is provisionally prepared to continue with it's current 50/50 matched funding commitment.

Summary of TIE Costs and funding 2004-5

		£	
Congestion charging			
Costs			
Development and Procurement	3,759,033		
Information Campaign	600,000		
Efficiency Savings	-200,000		
	<u>4,159,033</u>		
Funding			
Scottish Exec Match Funding	2,079,517		Awaiting ministerial approval
Total Approved Funding	822,566		
Additional Revenue Funding	275,000		
<i>CC Funding Shortfall</i>	<u>981,950</u>		
Trams			
Costs			
Tram 1	1,356,612		
Tram 2	1,929,474		
Tram 3	1,782,532		
DPOF	1,031,538		
Infraco	270,000		
Savings	-38,000		
	<u>6,332,156</u>		
Funding			
Integrated Transport Fund	4,541,420		
Slippage from previous years	501,698		
Advance on £375m award (to be confirmed)	1,289,038		
<i>Trams Funding Shortfall</i>	<u>0</u>		
WEBS			
Costs	6,763,944		
Funding	<u>3,551,000</u>		
Slippage adjustment	3,212,944		
<i>WEBS Funding Shortfall</i>	<u>0</u>		
Ingliston			
Costs	2,033,662		
Funding	<u>2,033,662</u>		
<i>Ingliston Funding Shortfall</i>	<u>0</u>		
EARL			
Costs	4,138,629		
Funding	<u>3,500,000</u>		
Slippage adjustment	638,629		
<i>EARL Funding Shortfall</i>	<u>0</u>		
One Ticket			
Costs	50,665		
Funding	<u>50,665</u>		
<i>OT Funding Shortfall</i>	<u>0</u>		
Total CEC Funding Shortfall		981,950	

4 Financial Implications

- 4.1 There is an increase in **tie** net funding requirements from the report to the Executive in June 2003. This conclusion is based on the draft business plan supplied for 2004-5 and the **tie** forecast out-turn for 2003-04 and is subject to any expenditure in excess of **tie** projected out-turn for 2003-04 being contained within the **tie** 2004-05 budget
- 4.2 Additional matched funding is being sought from the Scottish Executive for congestion charging, and a verbal indication of approval has been received. Advanced funding is also being sought from the Scottish Executive to cater for the accelerated programme for tram implementation including early operator involvement.
- 4.3 It is now expected that the net budgetary shortfall of £0.982m identified in paragraph 3.18 can be offset by increased sums anticipated to be received by the Council in respect of the Lothian Investment Fund for Enterprise (LIFE). The total of such realisations is now expected to be significantly in excess of that assumed in the setting of the Council's budget on 12th February 2004. A prudent view is that funding from LIFE will be more than sufficient to meet expenditure in 2004/5, but there may be a funding shortfall in later years. This will be kept under review in the light of actual disposals from the LIFE portfolio and other income streams in the City Development Budget.

5 Conclusions

- 5.1 **tie**'s operation as an arm's length company has progressed in the period since the last Business Plan was reported to Council. The present plan represents a significant stage in the development of **tie** and the major transport projects under its direct control. **tie** is proposing a major increase in in-house resources to cater for future demands.
- 5.2 The coming year will see the passing of critical points in the development and implementation of **tie**'s projects. A commensurate effort will be required from the Council's own staff in their close partnership with **tie** to ensure a successful outcome for all **tie** projects.

6 Recommendations

- 6.1 To approve the **tie** Business Plan, for the financial year 2004-05, and subject to any expenditure in excess of the **tie** projected out-turn for 2003-04 being contained within the **tie** 2004-05 budget.
- 6.2 To reaffirm approval of the implementation programme for congestion charging with a start date of Spring 2006, noting that in the event of the scheme not progressing and other major projects being reviewed that significant abortive expenditure would be incurred.
- 6.3 To instruct **tie** not to commit to any expenditure until written funding approvals have been received.



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22.4.4

Appendices	None
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Wards affected	All Wards
Background Papers	Transport Initiatives Edinburgh Business Plan – 2004/05