

## Edinburgh Tram Project Appointment of Tram Operator

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### City of Edinburgh Council

29 April 2004

#### 1 Purpose of report

- 1.1 The proposed Edinburgh Tram Project is ranked fourth among the top ten Scottish transport projects as detailed by the Transport Minister in an announcement made on 21 March 2002. The project is a key element of the Councils Integrated Transport Initiative and will radically improve transport in the City.
- 1.2 The Council noted at its meeting of 13 November 2003 the progress **tie** had made with procuring a tram operator.
- 1.3 The purpose of this report is to update the Council of progress to date and seek approval of **tie's** recommendation to appoint an operator under the terms and conditions of the current Design, Partnering, Operating, Franchise, Agreement (DPOFA) documentation.

#### 2 Summary

- 2.1 A corner stone of the Council's Integrated Transport Initiative is the introduction of a modern integrated tram system. This will complement and build on the existing high quality bus network.
- 2.2 Edinburgh has a thriving and growing economy, with growth forecast to continue and to ensure continued success and investment there is a need for a high quality public transport system to match our British and European competitors.
- 2.3 The number of private cars and light goods vehicles registered to Lothian residents increased from 280,000 in 1996 to 308,000 in 2000 (10% increase in four years)

- 2.4 In 2000 there were more new vehicle registrations in Edinburgh than in any other Scottish local authority and daily commuting in Edinburgh has grown from 51,000 trips in 1981 to an estimated 88,000 in 2001 (72% growth in 20 years).
- 2.5 To address these and other concerns the Council is proposing a vision for transport in Edinburgh through an Integrated Transport Initiative, and the tram scheme is one of the key elements. The tram will offer a first class alternative to the car for many urban trips. Without the Initiative and trams, congestion will reach intolerable levels throughout the city and both the economy and quality of life will suffer.
- 2.6 Trams can carry up to 300 passengers in each vehicle, many more than conventional buses. Furthermore trams encourage new people to use public transport. Recent research from Croydon in London indicates that 18% of tram passengers formerly made the journey by car. In the medium to longer term the effect will be even more marked.
- 2.7 Trams are easily accessible, particularly for elderly and disabled members of the community as level boarding is provided at tram stops. This is also beneficial for parents with young children and pushchairs.
- 2.8 Trams are electrically powered with zero emissions at the point of use and will have a positive impact on air quality. Trams are also less noisy than most forms of public transport

### **3 Main report**

#### **Introduction**

- 3.1 **tie** proposes to create two companies, one for tram operation and the other for the procurement construction and maintenance of tram infrastructure.
- 3.2 In order to anticipate and mitigate difficulties which other UK light rail schemes have encountered, **tie** has pursued the selection of a private sector operator to assist during the development phases.
- 3.3 This is known as a Development Partnering and Operating Franchise Agreement( DPOFA). This procurement strategy and risk mitigation measures is endorsed by Partnerships UK plc (formerly the Treasury Task Force) and by the Scottish Executive.
- 3.4 **tie** arrived at this decision following a review of the UK experience of light rail procurement and project implementation. Within the constraints of applicable procurement regulations, the DPOFA procurement has been designed to create optimal conditions for **tie** to work in a partnering approach with an experienced private sector partner to achieve delivery of a high quality, fully integrated tram system capable of incremental expansion.

The objectives of the DPOFA are summarised as follows:

- support for Private Bill process and project development stage;
- assist in refining system specification and developing durable cost and revenue sharing arrangements;
- engage long-term partner early to create ownership and a stable operating organisation;

- strengthen capability to manage procurement of network infrastructure and vehicles;
- facilitate incremental construction of core network;
- maximise opportunity to integrate with bus operators; and
- develop fare setting and through ticketing regime.

The DPOFA is structured as follows:

- Stage A - Development
- Stage B - Infrastructure/Vehicle Procurement
- Stage C1 - System Construction
- Stage C2 - Mobilisation and commissioning
- Stage D - Operation.

3.5 During stages A, B and C1 (development phase) the operator will provide a core team of expert advisors. During stage C2 the operating organisation will be mobilised and will support infrastructure commissioning and operating trials, and stage D will open and operate the system and continue development phases for further lines. Under the agreement **tie** retain contract termination safeguards.

3.6 Among the many commercial, technical and legal issues inevitably surrounding the development and implementation of a scheme with the importance and potential of the Edinburgh Tram Project three stand out:

- tie** believes that the DPOFA appointment will capture valuable contributions from an experienced operator, the incentive being a 10 year operating franchise at the end of a successful development phase.
- Robust patronage demand forecasts and what level of farebox risk can be transferred economically to the private sector. Virtually all light rail schemes in the UK have struggled with this issue, particularly those schemes in which commercial debt is to be serviced by farebox receipts (not the case under DPFOA as described below).

Most have gone into full scale infrastructure procurement not knowing the answers, which have then appeared under adversarial conditions only to disappoint universally. The DPOFA seeks to interrogate the information and possible modalities at an early stage in the project's development by joining the know-how of the operator ultimately responsible for running the tram schemes with that of **tie**'s own consultants.

The DPOFA envisages that the public sector will be required to underwrite a significant portion of farebox risk as previously reported to the Council. This means that in the event that the tram operation resulted in an operating deficit then the public sector would be liable for an element of the loss. It is therefore of paramount importance through DPOFA that a robust economic and business case is developed to minimise financial risk to the Council. Clearly if that financial risk proves unacceptable at contract point then the project cannot proceed. This will be the subject of future reports as the business case is refined.

- c An important objective of DPOFA is to achieve appropriate and sustainable integration between tram and existing public transport modes. DPOFA procurement process has already required bidders to engage with existing public transport operators to consider integration. The successful bidder through the various phases of the DPOFA process will further develop this.

### **Procurement Process**

- 3.7 The **tie** Board approved the DPOFA procurement process and delegated authority to proceed on 3 March 2003. A Prior Information Notice (PIN) was issued on April 18 2003 and interviews were held with 6 respondents during May 2003.
- 3.8 An OJEC Notice was issued on 11 June 2003 and this resulted in 6 Prequalification returns and this was reduced to a shortlist of 4 as follows:
- Serco;
  - First;
  - Transdev; and
  - Keolis.
- 3.9 An Invitation to Negotiate (ITN) was issued in September 2003, and 4 bids were returned by November. Standard and variant bid clarification and evaluation resulted in the selection of 2 bids which were taken forward to the Clarification and Refinement Process (CARP) as follows:
- First; and
  - Transdev.

Both First Group and Transdev are experienced Tram bus operators.

The CARP was completed in April 2004 and resulted in **tie** recommending a preferred bidder to the Council.

### **Evaluation Methodology**

- 3.10 The ITN Bids submitted by Serco, First, Transdev and Keolis in November 2003 were evaluated by **tie** in accordance with the detailed evaluation criteria and process described in the Instructions to Bidders and the requirement of the ITN and CARP.
- 3.11 **tie** appointed 5 teams (Project Team and Methodology, Technical, Financial, Service Integration, and Legal/Commercial) to evaluate the 4 bids. The recommendations of the teams, together with the **tie's** Projects Director's recommendations were reported to and approved by the **tie** Board on 15 December 2003. This resulted in First and Transdev being selected for CARP.
- 3.12 A similar approach was used during the CARP. The bids by First and Transdev were developed and evaluated in accordance with the methodology in the ITN and CARP. Again the recommendations of the teams and the Projects Director's recommendations were reported to and approved by the **tie** Board on 20 April 2004. This has resulted in **tie** recommending to the Council that Transdev should be appointed. An edited version (with certain commercially sensitive material removed) of the report to the **tie** Board is available for inspection in Party Group Rooms.

- 3.13 Worldwide, Transdev operates and maintains over 6500 transport vehicles, including 428 light rail vehicles and employs over 14,200 staff. In France, it operates 65 interurban/intercity bus networks and 35 urban transport networks. In Portugal, it operates and maintains the Porto Light Rail Metro network and in Australia it operates 200 trams (almost half) in Melbourne.
- 3.14 In the UK Transdev have recently commenced the operation of the Nottingham tram system and Transdev's subsidiaries, London United and Sovereign, are responsible for the operation of approximately 10% of London's bus services.

#### **4 Financial Implications**

- 4.1 The overall cost to undertake all the stages of the contract is within budget estimates set by **tie**. There is presently no approved funding to cover these costs.
- 4.2 Application for funding has been made to the Scottish Executive, and **tie** will not appoint Transdev until funding approval has been granted.
- 4.3 The franchise agreement is structure into 5 Stages. The development stages A,B, and C1 are programmed to develop the detailed design of the scheme with expert input from an experienced tram operator.
- 4.4 This will have a significant bearing on the financial case of the tram project including financial risk to the public sector. These matters will the subject of future reports to the Council. **tie** retains the right to terminate the DPOF agreement as required.

#### **5 Conclusions**

- 5.1 The proposed Edinburgh tram project ranks fourth in the top ten national transport projects as set out by the Scottish Executive.
- 5.2 The tram forms a key component of the Councils Integrated transport Initiative and will radically improve transport in Edinburgh.
- 5.3 The appointment of a tram operator to assist in the development of the project will provide operational, technical and commercial benefits and assist in risk minimisation.

#### **6 Recommendations**

- 6.1 To note that **tie** have undertaken a robust procurement process to select an experienced tram operator to engage in Design, Partnering, and Operating Franchise Agreement for the Edinburgh Tram Project.
- 6.2 To note that on 20 April 2004 the **tie** Board recommended that Transdev should be appointed as the tram operator for the Edinburgh Tram Project.
- 6.3 To approve the recommendation of the **tie** Board and agree that **tie** should appoint Transdev subject to funding approval being granted from the Scottish Executive.

- 6.4 To note that there will be future reports to the Council during the development phase of the DPOF agreement.



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22.4.04

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<b>Appendices</b>	None
<b>Contact/tel</b>	Ewan Kennedy – 0131-469-3575
<b>Wards affected</b>	All
<b>Background Papers</b>	Report (Edited) to <b>tie</b> Board – 20 April 2004