



Stewart Stevenson MSP  
The Scottish Executive  
St Andrew's House  
Regent Road  
Edinburgh  
EH1 3DG

Our Ref: WG/JPT

29<sup>th</sup> May 2007

Dear Minister

I write with regard to the concerns expressed by the First Minister in Parliament last week (and subsequently attributed to him in the press) about new information that shows the costs of the tram project are already well beyond budget and about what has been delivered for the money which has already been spent. This letter lays out some facts which will hopefully help to allay the Governments concerns on these matters.

The cost estimates for the design and construction of Phases 1a and 1b of the tram project, including inflation and allowances for risk, remain at £500m and £92m respectively as reported in the Draft Final Business Case delivered to Transport Scotland in November 2006. tie has since been engaged in an evaluation and negotiation of the proposals from the bidders for the main infrastructure and vehicle contracts and based upon a review of those submission and an action plan agreed we have a high degree of confidence in our overall cost estimates. Transport Scotland has been kept full informed with progress and the process has been approved by the project board.

The cost incurred in supporting the passage of the tram legislation was £17m. Of the projected cost to design and construct the combined Phase 1a and 1b of £592m, some £62m has already been invested including £10m in respect of land and property acquired (and which has a substantial resale value) with more than half of the remaining £52m spent on design related activities and the balance on advancing the procurement process and development of the business case.

The tram project is deploying an innovative procurement strategy whereby upfront investment by the public sector in procuring the different elements of the system, advance utility diversions and completing detailed design in advance of the commencement of the main works will secure significant reductions in risk and costs borne by the public sector. These preconstruction activities would be undertaken by the contractor directly under a traditional design and build arrangement. The quantum of costs is both in line with original expectations and benchmarks well against that which would normally invested on projects of this size and complexity. The value that we have secured to date from this expenditure comprises mainly:

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delivering transport projects

- Formulation of an agreed procurement strategy
- Development and letting of significant contracts for the operation and design of the tram system and the diversion of utilities
- Development of contracts for procurement of vehicle and infrastructure contracts
- Advanced detailed design (c.17,000 engineering drawings) to a point where it now forms the basis of securing competitive fixed prices for the main construction contracts
- Preparatory works in advance of the commencement of construction proper including the complete mobilisation of the utilities contractor
- Business Case developed which demonstrates the economic and operational viability of Phase 1 of the tram and reflects the establishment of Transport Edinburgh Limited as the future operator of the combined tram/bus business.

The procurement strategy and sequence being followed is detailed in the Draft Final Business Case, has at every stage been subject to scrutiny by Transport Scotland before approval of funding for subsequent activities. All commitments and expenditure are subject to strict budgetary controls and value for money tests as overseen by the project board (at which Transport Scotland is represented and has reserved powers in all material matters) and by the **tie** Board and comprehensive financial reporting is provided to the project board, Transport Scotland and City of Edinburgh Council each period.

I hope the content of this letter is helpful.

Yours faithfully



Willie Gallagher  
Executive Chairman

Copy to:

Andrew Holmes, City of Edinburgh Council