

EDINBURGH TRAMS

Key issues

1. In reaching an investment decision I would invite the IDM meeting to consider the following key issues:

- does the revised tram scheme still represent value for money?
- affordability
- performance of City of Edinburgh Council (CEC) as client
- contents of the draft Final Business Case (FBC)
- corporate governance
- procurement strategy

2. This paper gives summary consideration to these issues. Papers giving further detail on the draft FBC, corporate governance and the procurement strategy are included in the pack.

Does the revised tram scheme still represent value for money?

3. STAG appraisals have been carried out on each tram line individually and combined to produce an appraisal of the entire network. These gave BCRs in the range 1.2 – 1.4 with broadly positive or neutral impacts across the other 4 STAG criteria.

4. In reconfiguring the tram network to phases that fell within overall affordability limits CEC concentrated on those sections of the tram scheme that had greatest predicted patronage. By concentrating on the core network the BCR has risen to approximately 1.5 without significant change in the other criteria. However, these are initial results and need to be confirmed once new revenue and operational cost data are available from the Joint Revenue Committee and tender prices from potential infrastructure providers.

5. The evidence currently available indicates that the tram scheme does still represent value for money.

Affordability

6. Overall our investment of £375m plus indexation remains affordable within the terms discussed by Cabinet in December 2005 and with the Finance Minister in January 2006.

7. The current request is for £32.678m for the period to end December 2006. Given recent events I would expect spend to be slightly slower than tie ltd expects and this request would see the project through to around the end of January 2007. At that point a further funding request for up to £25m would follow to allow utilities diversions to commence before the end of March 2007.

8. The request for £32.678m would be affordable within the current budget allocation for major projects this year (£31.2m out of £167m allocated spend from a budget of £178m). If progress on all schemes took place at full speed then the further request in January 2007 would put pressure on the major projects budget. That pressure would be manageable through decisions across the major projects programme on whether to complete land

acquisition late in the 2006-07 financial year or early in the 2007-08 financial year. The further request for funding from Edinburgh Trams would include £10-16m of land acquisition that could be postponed until 2007-08 if necessary.

Performance of CEC as a client

9. In approving previous funding for the Edinburgh Tram scheme Ministers have been concerned about the visible commitment of CEC to the scheme and about the lack of financial contribution at that stage.

Financial contribution

10. CEC agreed initially to contribute £1m in 2005-06 and £1.5m in 2007-08 towards the implementation of the tram scheme. In approving 2005-06 implementation funding Ministers accepted this including the absence of a contribution in 2006-07.

11. On 26 January CEC approved, in principle, a contribution of £45m as set out in a report to the Council and subject to a satisfactory Final Business Case. The wording of CEC's commitment carefully mirrors Ministers' in-principle contribution of £375m plus indexation subject to the FBC. The primary difference is that our means of funding our contribution are more certain.

12. The CEC contribution of £45m needs to be firmed up through a further Council resolution following production of the draft FBC. That resolution needs to confirm the timing of CEC contribution throughout system construction and to accept that CEC will need to use prudential borrowing wherever developer contributions lag behind that contribution schedule.

Visible commitment to the scheme

13. Since last August when the previous version of the Outline Business Case was presented, the Council has made some significant progress in confirming its commitment to the scheme:

- commitment in principle to £45m contribution to capital costs
- agreeing a phasing strategy for the tram that recognised affordability constraints
- Transport Edinburgh Ltd (TEL) has been properly established as a single economic entity for Lothian Buses and the tram operator. It has secured experienced and effective directors including a Chairman (David McKay) and another key Director (Willie Gallagher) drawn from the private sector

14. There has also been limited progress in aligning the Council's various departments to support the tram as far as possible without falling foul of its other statutory duties. Further progress is needed to give us confidence that the scheme will not become unaffordable due to imposition of "gold-plated" conditions from other parts of the Council.

Contents of the draft FBC

15. The funding requested would lead to the production of a draft Final Business Case at which point preparatory physical works in the form of utility diversions would be ready to

start. It is essential that we spell out specifically what we expect from that document to ensure that the “spades in the ground” target can be met (provided the scheme continues to meet IDM tests).

16. The more detailed paper on the draft FBC includes recommendations on content. It also recommends an initial baseline review in late May/early June to establish the extent to which existing material is already fit for purpose and recommends a progressive approval process that allows parts of the FBC to be finalised before presentation of the completed draft in November 2006.

Corporate Governance

17. There is a further paper – prepared by tie ltd – in the pack on corporate governance that sets out the current and proposed governance structures. These illustrate how key decisions are to be taken.

18. The main current governance issue is that the functional specification and scope of infrastructure works to be included needs to be confirmed by all relevant parties (tie, TEL, CEC, Transport Scotland) before tender release. This needs to follow on from the readiness review and should be a condition of funding award.

19. The governance structure needs to be kept under review to ensure that the structure which gives the relevant parties (tie, TEL, CEC and TS) rights in the decision making process actually works. The functioning of sub-groups that make recommendations to the TEL Board (acting as Tram Project Board) will be key to a decision making process that needs to be both agile and robust.

Procurement strategy

20. Further detail of the procurement strategy is set out in a separate paper in the IDM pack.

21. tie’s preferred procurement strategy for the tram system has been developed in the light of lessons from other tram schemes in the UK – both those that were actually implemented and those that didn’t proceed to construction.

22. This drove the decision to appoint an operator for the scheme early. Transdev, the chosen operator, has experience of running tram systems in the UK, Europe and around the world. Transdev brings an operator’s perspective to decisions on infrastructure and vehicles and will need to sign up to the revenue targets for the tram. This will significantly reduce the risk that the FBC contains unrealistic revenue assumptions.

23. Another key feature of tie’s preferred strategy is the separate selection of tram and infrastructure supplier before novating the tram supplier into the infrastructure contract. This is aimed at ensuring the best combination of tram vehicle and infrastructure provider rather than leave this to chance through the establishment of consortia.

Concessionary fares

24. The Interim OBC assumes that concessionary fares will be available on the tram on the same basis as in the local Edinburgh concessionary fares scheme in force before the national scheme began. This assumption needs to be updated in the light of the introduction of the national concessionary fares scheme and the fact that funding for that scheme is capped. It is also likely that other bus companies would expect reassurance that expanding the current bus-only scheme to cover tram would not prejudice their share of this capped funding pot. We would require that to be addressed explicitly in the coherent and viable TEL business plan that is a prerequisite for approval of the draft FBC.

Bus/tram integration

25. In making this level of investment in public transport in Edinburgh we would need to be clear that:

- (a) the tram would offer a step change in public transport service not just a replacement for buses
- (b) tram and bus would work together to provide integrated transport rather than competing.

26. The proposed means of achieving this is through the creation of Transport Edinburgh Ltd (TEL) as a single economic entity covering both the tram and Lothian Buses. This would allow integration and joint ticketing to operate effectively. Part of the work required to support the draft FBC is a business plan for TEL that has been signed off by both the TEL Board and the Council. That business plan must demonstrate the improved service that would be offered together with the operational viability of the combined tram and bus network.

27. Discussions are also underway between TEL and other bus operators to take account of the impact of the tram on non-Lothian Bus services.

28. The STAG appraisal for the scheme to date has taken account both of revenue lost to the bus operator through transfer from bus to tram and of operating cost savings to the bus operation. The appraisal therefore takes full account of the impact on bus services. The revised STAG required as part of the next phase of work will need to be consistent with the TEL business plan.

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