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Andy Park
Strategy & Investment Directorate
Transport Scotland

Transport Scotland IDM Board?

EDINBURGH TRAMS – NOTE ON APPRAISAL AND FBC ISSUES

Purpose

1. To provide the IDM Board with forewarning of issues surrounding the Business Case and Appraisal of Edinburgh Trams.

Priority

2. Medium High – For information and discussion.

Background

3. The Edinburgh Tram Business case is due early November 2006. A group of consultants, termed the JRC, consisting of SDG and Buchanan are responsible for producing this.

4. A first pass was produced on 7th September that showed a very weak economic case for the Tram. Further work was undertaken to refine this case resulting in a more healthy picture as of 29th September. A comparison of the two results is shown in Annex A.

5. It will be noted that there are extremely significant differences between the two versions and work is ongoing to examine the reliability of the current position. There are two streams to this – the without Tram model and the with Tram model. The important details are

6. The without tram model has been revised as follows:

- 6.1 Planning growth to 2031 brought forward to 2021
- 6.2 Incorporation of new without tram bus service patterns
- 6.3 Priority to cater for increased buses and to maintain bus journey time and reliability introduced into model.

7. As the without tram model, in theory, is the Do-Minimum, 6.2 and 6.3 have resulted in the notion of a pure Do-Minimum being rejected. The without-tram model should now be viewed as a reference case, although it is open to interpretation if it even can be classified as such. This has a severe implication in that it is contrary to STAG guidance – See Appendix B. There are also concerns over the 6.1 measure.

8. The with tram model has been adjusted as follows:

- 8.1 Removal of some need for bus/tram interchange
- 8.2 Optimised with-Tram highway network
- 8.3 Higher proportion of PT passengers on employers business applied to journeys from airport.
- 8.4 Adoption of light rail values of time

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9. The figures used in 8.3 (44%) have already been pointed out as a major overstatement that appears to have been made in error. Indications are that this is now being corrected. 8.4 is currently being investigated.

Progress

10. Bill Reeve and Andy Park met with the JRC and officials from TIE on 11 October to attempt to resolve the issues detailed above – primarily the Do-minimum or lack thereof. A strong suggestion was made that the appropriate way forward was to construct a Do-Minimum in line with guidance and compare Do-Something and Reference case against this.

11. BR and AP were informed that the nature of the transport model, constructed by the JRC, meant that the JRC are now of the view that it was not possible to agree and construct a formal Do-Minimum that would be “sensible”.

Discussion

12. Edinburgh trams, as the only light rail project in Scotland at present, is distinctly different to “standard” road and rail projects. The model that has been developed by JRC is considerably more detailed, although not more sophisticated, than models such as TMfS. This is the cause of many of the issues.

13. It would appear that the redefinition of the Do-Minimum is a major responsible factor for the change in the economic case. Put simplistically, the tram causes severe highway disbenefits but if these disbenefits are already in place in the (redefined) base case, then they do not count against the tram. It may be argued that what is within the new base case is appropriate but it should still be compared with a true Do-Minimum – this would be defensible as it would place the tram system in a public transport in Edinburgh context. This approach has been rejected by JRC for technical reasons.

14. A view may be taken that these technical reasons did not seem to be an issue in the first pass. As such, it will be useful for the Transport Planning team within S&I, TEAR to examine the model in detail, not least to obtain a clearer understanding of this technical reasoning.

15. The revisit of the STAG appraisal of Edinburgh Trams (which is distinct from the FBC) is at present an unknown issue.

Risks

16. The timescale for this work is very tight. The most basic risk is that the JRC work will not present a true assessment of the Edinburgh tram scheme. It is noticeable that the assumptions made, where challenged so far, have all improved the case.

17. There is a political risk if Transport Scotland take the view that the FBC is an unacceptable document.

18. If the document is accepted it is likely to be very difficult to defend, particularly in terms of the Do-Minimum issue – it is in relatively clear contradiction to our own guidance, notwithstanding the discussion above.

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Recommendation

19. That the board be aware of the potential issues to be raised.

20. Although it will be difficult to make a firm decision before the receipt and digestion of a finalised version of the FBC, it may be useful for discussion of potential scenarios to take place in advance.

Andy Park
Strategy & Investment Directorate
13 October 2006

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Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
PS/Transport Scotland Frances Duffy, Transport Scotland, S&I Jim Barton, Transport Scotland, TRNMD Bill Reeve, Transport Scotland, Rail Delivery Guy Houston, Transport Scotland, Finance & Corporate Services John Howison, Transport Scotland, TRIPS Damian Sharp, Transport Scotland, Rail Delivery John Ramsey, Transport Scotland, Rail Delivery Steven McMahon, Transport Scotland, S&I Hugh Gillies, Transport Scotland, S&I					X

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Annex A – First pass (7/9) vs “Central Case” (29/9)

All values in millions (unless otherwise stated) “-” = loss/dishenefit otherwise gain/benefit		Appraisal Scenario	
		First Pass	Central Case
Annual Tram Patronage (excludes ramp-up)	2011	23.1	17.6
	2031	27.9	31.6
% of Tram Patronage not from PT	2011	16%	17%
	2031	6%	20%
Annual Tram Revenue* (excludes ramp-up)	2011	£17.3	£14.3
	2031	£21.3	£32.4
Annual Net TEL Revenue* (excludes ramp-up)	2011	£1.9	£4.1
	2031	£1.8	£10.8
User Benefits PV		£107	£897
Non-user (highway) Benefits PV		£278	£18
Tram Opex PV		£195	£189
Bus Opex PV		£192	£295
Tram Revenue PV		£180	£646
Bus Revenue PV		£246	£113
Rail Revenue PV		£41	£53
PV Benefits		£19	£710
Cost to Government PV		£447	£195
NPV		£129	£215
BCR		0.84	1.63

*Revenues at base 2005 prices with 1% real increase above RPI

Reproduced from JRC Central Case Update 29th September 2006

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Annex B – Explicit wording from STAG

This section reproduces, for reference, the exact wording in STAG regarding the definition of a Do-Minimum and a Reference Case.

The do-minimum and reference case

4.3.19 The *do-minimum* applies to all proposals, i.e. projects, plans and strategies. The *do-minimum* comprises all schemes and proposals under construction or for which statutory powers exist to develop the proposal and the funding mechanism has been approved or funding is available. Options for the future transport proposal will be appraised by reference to their performance against the do-minimum scenario.

4.3.20 There are often a number of other proposals which do not meet the criteria to allow their inclusion in the do-minimum. It may be appropriate to concoct a "do-minimum plus" or *reference case*, in which non-controversial but non-committed elements are added. These may be proposals that are believed by the planner to be almost certain to gain statutory approval and for which funding is very likely to be made available. If this is done it must be appraised against the do-minimum for achievement against study objectives. When developing a strategy, other strategic options can be appraised against this reference case. At the end of the analysis, when completing the appraisal described later in this Guidance, the agreed way forward needs to be appraised against the do-minimum.

4.3.21 If this process is followed, it is important that the inclusion of some elements within a reference case does not preclude other proposals being included in other later options, or even that items included in the *reference case* do not get excluded from greater development in later options. An example is including some "hearts and minds" options in the reference case to their potential exclusion from widespread implementation as one of (or part of one of) the later options.