

Tom Aitchison CBE
Chief Executive

By email only

Dr Malcolm Reed CBE
Chief Executive
Transport Scotland
Buchanan House
58 Port Dundas Road
GLASGOW
G4 0HF

Our Ref: ceo\transport\reed01

Your Ref:

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Dear Malcolm

EDINBURGH TRAM NETWORK – FUNDING CONSIDERATIONS

I am writing in advance of our conference call tomorrow to set out a proposed way forward on the funding requirements for the Edinburgh Tram Network.

The business case which will go to the Council for approval on 21 December 2006 is now largely complete and is under detailed review by our respective officials. The conclusions I have seen to date firmly reinforce the rationale for a project which the Council has been driving for more than six years. The business case provides the financial, economic and social policy justification for the project and sets out the benefits to the City of Edinburgh and to Scotland as a whole over the medium and long term. The advantage enjoyed by Edinburgh in having a fully integrated tram and bus system is a major source of confidence in the viability of the project. The design and routing of the tram facilitates high quality interchange with other modes. I believe that you have had similar insight into the emerging conclusions.

You will be aware that considerable effort has gone into the encouragement of a political consensus within the Council committed to the project. At official level, we believe we have not only clarity of purpose but also a deliverable plan which would see trams running on the City's streets by the end of 2010.

Without pre-judging the important review processes now underway, I think it is important to plan ahead for the publication of the business case and the public statements which will accompany publication. At this point the key feature which needs to be addressed is the funding package and the scope of the network - the affordability question.

We believe that the regeneration of the North West Waterfront area ("the Granton waterfront") is a vital element of the City's economic future. Regeneration would also progress materially the Council's social policy objectives for a relatively deprived area and there is a need to support the substantial investment in life-long learning capability represented by the new Telford College, which has a student population already approaching 20,000.

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Our financial commitment is £45m, which was approved by the full Council earlier this year. When added to our understanding of the contribution from Transport Scotland, the package comfortably accommodates the cost of delivering the Airport - Leith core section of the network.

There is little doubt that the introduction of the Granton tram line would accelerate development and indeed we see the regeneration work and the enhancement of transport links as integrated processes. Equally we recognise that financial prudence must be applied to the decisions needed for the line to proceed. The addition of this line takes the total estimated capital cost to £592m.

To support the construction of the full Airport - Leith - Granton network including the Granton tram line, I am prepared to recommend to the City of Edinburgh Council representatives that the Council's contribution be increased from £45m to £55m, if Transport Scotland can provide the support needed to reach aggregate funding of £595m.

You will note that the ratio of contributions we are proposing for the additional funding component is significantly more onerous on the Council than the 11:1 ratio we agreed for the underlying funding package. I hope you will take this as further evidence of the Council's commitment to delivering the tram network.

In providing the enhanced funding package, both the Council and Transport Scotland will retain full control over the decision to proceed with the tram vehicle and infrastructure contracts. In addition, the construction programme will be phased to achieve greater certainty of outturn capital costs before committing to the construction of the Granton line. I would expect to recommend to the Council that final approval to contractual commitment, anticipated to be toward the end of 2007, be conditional upon:

- receipt of acceptable final estimated costs, including the negotiated outcome from the tender process for vehicles and infrastructure;
- satisfaction that the property development community's contribution to the project's funding is commensurate with the benefits they will enjoy from the substantial public investment; and
- satisfaction that the anticipated pace of development at Granton is adequate to avoid sustained operating losses.

This will achieve a number of objectives:

- the enhanced financial contribution to the project will underline the commitment of the Council and Transport Scotland to supporting the growth of the Edinburgh economy, which benefits the country as a whole. It will also underline Scottish Ministers desire to develop modern transport links of a world-class standard.
- the ability to continue the tender process for construction of the full Airport - Leith - Granton network will reinforce bidder confidence - you will be aware that market conditions are not helping us in this respect - and will most likely lead to the optimum tender costs;

- the clear statement that final approval remains dependent upon bid costs and developer contributions will ensure the costs and contributions are optimised;

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- the conditional commitment to the Airport - Leith - Granton network will provide tangible evidence of a step-change in public transport within the city and city region; and
- assuming the full Airport - Leith - Granton network proceeds, the emergence of a tram network across the whole city connecting the key employment, residential, retail and leisure locations can only add to the acceptance by our citizens of this new mode of travel, and consequently, accelerate patronage growth and mode shift from cars.

A total package of £595m would support a conditional commitment to the full Airport - Leith - Granton network and allow a modest sum for the preliminary work needed to refresh the work in support of a further extension to the South East of the City. It will reinforce confidence in the project as a whole, but will not commit either the Council or Transport Scotland to the full network. I believe this is a rational and risk-controlled approach to maintaining momentum behind a project which is of vital importance to the City of Edinburgh and to Scotland as a whole.

I look forward to discussing this with you and to reaching an agreement which will give real impetus to the project.

Best wishes



TOM AITCHISON
Chief Executive