

• EDINBURGH •

THE CITY OF EDINBURGH COUNCIL

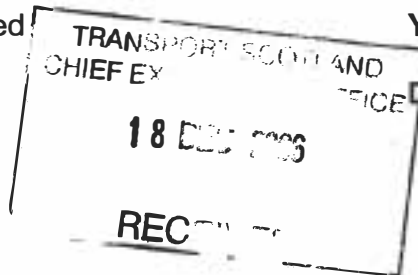
Tom Aitchison CBE
Chief Executive

Mr David Mackay
Chairman
Transport Edinburgh Limited
Annandale Street
EDINBURGH
EH7 4AZ

Our Ref: ceo\transport\tram01

Your Ref:

Date: 13 December 2006



Dear David,

EDINBURGH TRAM NETWORK - BUSINESS CASE – CONDITIONAL FUNDING PROPOSAL

I am writing in connection with the tram project business case which will be placed before the Council on 21 December 2006.

You requested the Council to update its previously stated position on funding now that the updated business case is complete. As you will appreciate, this letter does not formally commit the Council to any course of action nor to any specific level of funding for the project. This letter must also be read in conjunction with the letter from Transport Scotland of even date which addresses the same issues. I also refer to the report to the Council by the Directors of City Development and Finance, which sets out comprehensively the Council's rationale for supporting the tram project.

The conclusions in the business case 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.

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 and strategically important area.

The Council's financial commitment, as discussed with Transport Scotland, is £45m, which was formally approved earlier this year. When added to our understanding of the contribution from Transport Scotland, the package comfortably accommodates the cost

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of delivering the Airport-Leith core section of the network. The report to the Council by the Directors of City Development and Finance recommends that this section of the network be commenced as soon as is prudent and practical.

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.

I am hopeful that the Council will agree to support the construction of the full Airport–Leith–Granton network, including the Granton tram line and will examine the means of providing further support to meeting capital costs, should that prove necessary and assuming also that there is a commitment from Transport Scotland to provide the support needed to reach the aggregate funding requirement. The letter from Transport Scotland sets out its proposed approach to the project's funding and contains similar critical conditions to those set out here.

In assessing an 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. We would expect that any such increased financial commitment will be placed before the Council in late 2007, within a final business case for the project, and that the decision at that time will be conditional upon *inter alia*:

- 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 it will enjoy from the substantial public investment; and
- satisfaction that the anticipated pace of development at Granton is adequate to avoid sustained operating losses.

Although this conditional funding proposal does not formally commit either the Council or Transport Scotland to construction of the full network, I believe it should provide the TEL Board with a clear statement of the Council's intentions with regard to construction. There is much work to do between now and final contractual commitment but the contractual and funding approach being adopted 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.

Yours sincerely


TOM AITCHISON
Chief Executive

cc Malcolm Reed, Chief Executive, Transport Scotland