

ADVICE TO MINISTERS

From: Malcolm Reed
Transport Scotland
6 July 2007

Cabinet Secretary for Finance and Sustainable Growth

EARL AND EDINBURGH TRAM: NEXT STEPS

Purpose

1. To provide you with advice on taking forward Parliament's view on the EARL project in response to the e-mail request from your office on 2 July 2007. Because of your undertaking to Parliament that alternatives to EARL would also be explored, I am also setting out proposals in respect of that work, and additionally, commenting on future roles in relation to the Edinburgh Tram project in the light of the position reached in Parliament.

Priority

2. Immediate. Agreement of the proposals set out in this minute will determine the scope of work and other actions which Transport Scotland and tie Ltd will carry out over the summer recess in relation to the EARL project, and which Transport Scotland will take forward in relation to wider improvements to the Edinburgh and Glasgow railway.

Background

3. Following the Transport Debate on Wednesday, 27 June you requested that Transport Scotland prepare advice on a number of matters relating to the EARL project.

EARL - Governance Review and Next Steps

4. In the light of your statement to the press following the Transport Debate on 27 June, our working assumption is that the Governance Review will lead to a decision to cancel the project. In taking forward the Governance Review, we are also instructing tie Ltd that current work on the project should be suspended, and a plan put in place that can be implemented in the event of the likely outcome. The objectives of this plan is to:

- Minimise any further expenditure on the EARL project;
- Understand the continuing obligations and liabilities associated with the role of Authorised Undertaker for the project.

Clarification of this last point will enable us to provide appropriate advice to you on the future discharge of this role.

5. You have offered to meet with BAA and Network Rail as part of the review process. This is welcomed, and in our view will help to contribute to the robustness of the Governance Review.

6. Your office has forwarded tie Ltd's letter of 28 June which refers to the disbandment of the EARL team. Separately, I have received from tie correspondence in relation to proposed redundancies, and further detail is provided in Annex A.

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7. I expect that the Governance Review will be completed by the end of August and the other related matters resolved in time for you to report back to Parliament in September as the amended motion specifies.

Edinburgh & Glasgow/EARL Replacement Study

8. The Minister told Parliament that Transport Scotland would investigate alternatives to EARL and report back to Ministers in the autumn. The alternatives would focus on ‘our priority for the rail network, which is to improve the reliability, attractiveness and journey time of the Edinburgh to Glasgow route’. We propose following the STAG (Scottish Transport Appraisal Guidance) process: work with our key stakeholders to identify the problems and opportunities on the route; use this to inform the specific objectives for the work; identify a whole range of options for improvements; and appraise how well the options achieve the objectives. The final STAG report will be used as the basis for providing Ministers with recommendations on options to be taken forward in the short, medium and longer term to improve Edinburgh-Glasgow rail connections, and we intend to provide this by end of September. We would also provide an outline delivery plan for the recommended options, which would indicate the further detailed design work that is required but cannot be completed within the next three months. Further details of this proposed approach are set out in Annex B.

Tram Project

9. The e-mail of 2 July asked how Tram might fit into the alternatives available to the EARL project. Our understanding is that, without EARL, the business case for the Edinburgh Tram scheme may be strengthened and we have also noted the possibility for the Tram to provide links to the airport from the rail network which will be explored further in the replacement study.

10. The Parliamentary decision on the Tram scheme has clarified the position in relation to future risk-bearing and governance in relation to this project, with responsibility now clearly lying with tie Ltd and City of Edinburgh Council. This is discussed further in Annex C.

11. Our recommendation would be that an early opportunity is taken to agree Transport Scotland’s capped financial contribution to the Tram scheme on behalf of Ministers, and that at the same time Transport Scotland should scale back its direct involvement with this project.

Recommendation

12. You are invited to note the terms of this minute and to agree:

- The actions proposed to implement the outcome of the Parliamentary debate on 27 June
- A restated cap of £500m on Transport Scotland’s contribution to the Tram scheme.

MALCOLM REED
Chief Executive
Transport Scotland
6 July 2007

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Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constituent Interest	General Awareness
Minister for Transport, Infrastructure and Climate Change					x

DG Economy
 PS/Transport Scotland
 Bill Reeve
 Jim Barton
 Frances Duffy
 Guy Houston
 Ainslie McLaughlin
 Jerry Morrissey
 Damian Sharp
 Lucy Adamson
 Communications Finance & Sustainable Growth
 Press Transport Scotland
 Stephen Noon
 Kevin Pringle

ANNEX A

EARL AND EDINBURGH TRAM: NEXT STEPS

TIE LTD: REDUNDANCIES

1. I have received a letter from tie Ltd indicating that 26 posts will be redundant because of the cessation of work on EARL, involving a total redundancy cost in the order of £450,000. We are examining the details and proposals that have been provided, but my expectation is that the calculations will be in order and that Transport Scotland will have an obligation to meet this liability. We are separately discussing with tie Ltd the possibility of transferring some staff to Transport Scotland to undertake specific pieces of work on a time-limited basis.

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ANNEX B

EARL AND EDINBURGH TRAM: NEXT STEPS

EDINBURGH GLASGOW IMPROVEMENT OPTIONS: PROPOSED SCOPE FOR PROJECT

Background

1. *The Minister said in Parliament on 27 June: 'Edinburgh airport needs an effective public transport link, but it does not need a tunnel under its main runway. I have therefore asked Transport Scotland to investigate alternatives to EARL ... and to report back to ministers in the autumn.'*

'I want to focus on our priority for the rail network, which is to improve the reliability, attractiveness and journey time of the Edinburgh to Glasgow route, which will improve significantly the connectivity between those two fine and important cities. Transport Scotland will work with Network Rail and First ScotRail on a package of measures, including infrastructure improvements such as a new station at Gogar as an alternative link to the airport, improvements at Dalmeny and firm proposals for the most cost-effective ways to improve reliability, bring down journey times and provide capacity for the expected continuing growth in rail passenger numbers.'

Aim and Objectives

2. The overall aim of this project is to provide Ministers with recommendations on cost effective improvements to the reliability, attractiveness and journey time of rail between Edinburgh and Glasgow by early October.

The specific objectives of this project will be agreed at the workshop on 19 July, but might be as follows:

- Improved journey times between Edinburgh and Glasgow
- Improved reliability of services between Edinburgh and Glasgow
- Improved capacity between Edinburgh and Glasgow and at the termini, if necessary
- An effective interchange from the rail network to Edinburgh airport

Key Deliverables

- Outline project plan (13 July)
- Pre-appraisal workshop to agree objectives and identify options for improvements (19 July)
- Draft report chapters covering problems, objectives and options to be appraised (end July)
- Option appraisal workshop (mid August)
- Draft of remaining report chapters covering appraisal of options against objectives (end August)
- IDM presentation to TS Board on conclusions (early September)
- Final STAG report (mid September)

- Submission to Ministers recommending improvements to the Edinburgh Glasgow rail routes, with annexes discussing costs and financing options, and giving an outline implementation plan (end September)
- Resourced project plan for delivery of agreed options (end November)

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ANNEX C

EARL AND EDINBURGH TRAM: NEXT STEPS

EDINBURGH TRAMS

1. Overall Funding

Last week's decision of Parliament that Ministers accept the wishes of Parliament to support the Edinburgh Tram project to the limit of the previous administration's funding limit. You subsequently set this at '£490m' and no more, although there were other references to '£500m', essentially emanating from the Auditor General's report. You also took the opportunity to confirm that the scheme was the 'City of Edinburgh's - not the Executive's' in the post-debate press conference.

The previous administration essentially undertook to support the construction of Phase 1a (from Newhaven to the Airport) with £375m that would be index-linked to inflation. At the time of this original commitment the final outturn contribution was estimated at £450m-£500m. Our latest calculation of the final contribution based on the published inflation indices and programme contained within the draft final business case (dFBC) place the final contribution at £492m.

The latest statements present the following possible interpretations: -

- 1) Maintain the contribution at £375m indexed to the dFBC programme with an expected final overall contribution of £492m but with the actual final contribution being dependant on actual inflation.
- 2) Maintain the contribution at £375m indexed to the dFBC programme with an expected final overall contribution of £492m and with any final contribution capped at £500m regardless of actual inflation.
- 3) £375m recalculated on the new baseline programme for 1a to be delivered at the July Tram Project Board. This programme is anticipated to present a degree of delay and therefore the current estimate of £492m will rise to circa £500m with an option to cap at that point or not.
- 4) £375m recalculated on the prevailing programme at the point of financial close, i.e. agreement of final business case. Based on the indexation methodology to date the estimated final contribution is likely to exceed £500m, i.e. anticipating further programme slippage between now and financial close.
- 5) Restate the £375m as an already out-turned fixed and capped sum of £490 or £500m.

In literal terms Option 1 is closest to the position of the previous administration but it could be argued that in the event of cost and time overruns that a definition in line with Option 2 could have been enforced.

Options 2 could be described as being unfair by not taking into account the latest debates around the scheme.

Option 3 would allow an indexed contribution to be calculated in a transparent way (and based on the latest available programme) with an anticipated final contribution at or very close to £500m with the cap applied at that point.

Option 4 reflects a certain degree of logic and transparency but exposes the Executive's contribution to a further period of uncertainty and therefore makes the task of capping it at £500 potentially more fraught.

Option 5 could be described on certain levels as arbitrary in nature. It may not be possible to adequately explain the basis of the contribution at a future point in time.

Recommendation

We believe Option 3 provides the most explainable, defensible, professional and fair position to adopt whilst maintaining a cap of £500m on the Executive's final contribution to the scheme.

Future Governance and the Role of Transport Scotland

1. The Parliament's decision places the risk of any cost overruns on the Tram Scheme with the City of Edinburgh Council, and makes it clear that responsibility for managing and delivering the scheme rests with the promoter.

2. To achieve this clarity of roles, and ensure that situations could not arise subsequently in the governance of the project which might generate further calls on central funding, I propose that Transport Scotland's future engagement with the Edinburgh Tram Project should be on the basis of revised grant conditions and once these conditions are in place Transport Scotland staff should withdraw from active participation in the governance of this project.

Transport Scotland

6 July 2007