

Edinburgh Tram Network – Phase 1b Update

The City of Edinburgh Council

18 December 2008

1 Purpose of report

- 1.1 The purpose of this report is to update Council on the current position in relation to the development of the business case for Phase 1b of the Edinburgh Tram Network (ETN).

2 Summary

- 2.1 The Final Business Case for Phase 1a of the ETN was approved by Council on 25 October 2007. The contracts for tram infrastructure (Infraco) and tram supply (Tramco) were subsequently signed on May 15 2008.
- 2.2 As part of the negotiations for the final price in the Phase 1a contract an indicative price of £87m was provided by the Infraco contractor, Bilfinger Siemens CAF (BSC) for line 1b. This includes design, utility diversions, vehicles, project management and infrastructure costs along the route from Roseburn to Granton.
- 2.3 It was reported to Council at the time that a decision had to be taken on Phase 1b by the end of March 2009, in order for **tie** to take advantage of the price provided by the contractor.

3 Main report

- 3.1 The Council's aspiration remains to develop an integrated public transport network that will help the city develop its economy in a sustainable manner.
- 3.2 Since the early summer, **tie**, TEL and the Council have been re-appraising the incremental effect of Phase 1b on the TEL business plan and developing the business case for Phase 1b.
- 3.3 The work has looked afresh at the assumptions around patronage, revenue and operating costs associated with the construction of Phase 1b.

- 3.4 To establish the viability of Phase 1b a number of questions have been posed:
- is the economic case for Phase 1b still viable?
 - has there been a material change in the prospective costs and revenues of Phase 1b?
 - what are the operational risks to TEL of introducing Phase 1b?
 - when is the optimum time for construction of Phase 1b?
 - what is the funding gap for Phase 1b? and
 - what opportunity costs are there relating to Phase 1b, including development of other tram lines?

Operational Costs

- 3.5 The TEL Business Plan financial model consolidates bus and tram businesses. A refresh of the operating costs has taken place and includes updated lifecycle costs (heavy maintenance and refurbishment), management costs, tax and dividends. The significant cost drivers, which have been carefully considered, include changes in fuel prices, power and wages costs. The updated TEL Business Plan still reflects a very robust business case over the long term despite the current economic climate.

Development Assumptions

- 3.6 An update of the development assumptions in North Edinburgh was undertaken in July and August this year. This work was produced by the Council's Planning division and by Price Waterhouse Coopers (PwC) as part of the work they are undertaking on the Council's Tax Incremental Financing (TIF) proposal.
- 3.7 The results of this assessment have been used by **tie**/TEL, with the help of the Joint Revenue Committee of Steer Davies Gleave and Colin Buchanan consultancies to assess the patronage and revenue that can be derived from having Phase 1b in place.
- 3.8 Since this work was undertaken in the summer the wider economic climate has taken a further downturn.
- 3.9 The resulting impact has seen development slow dramatically across the city, with reports suggesting slippage of six years for the development at Granton Waterfront. This potential development was a significant driver behind the business and regeneration case for the Roseburn to Granton route.
- 3.10 The impact of the economic slowdown makes it necessary to reconsider the viability of the Business Case for Phase 1b. However, there is also an argument that construction of Phase 1b could act as a catalyst for the Granton Waterfront development, and that public infrastructure works may be advanced by Government as a policy response to the economic downturn.

4 Decision Making Timetable

- 4.1 As stated above the original timetable provided for a decision on Phase 1b by March 2009.
- 4.2 Any change to this timeline would have to be agreed by **tie** and the Infraco contractor. The current position is that in order for construction on Phase 1b to commence in mid July 2009 it is estimated that an instruction would have to be given to the contractor by the end of March 2009.

5 Funding Sources

- 5.1 As stated previously, the indicative estimated capital costs for Phase 1b was £87m at the time of Financial Close on Phase 1a.
- 5.2 The potential funding sources examined for Phase 1b currently are:
- unused headroom from Phase 1a;
 - a further contribution from the Scottish Government; and/or
 - prudential borrowing funded from revenues delivered in the TEL Business Plan.
- 5.3 For various reasons, slower than anticipated mobilisation of the Infraco contractor has been an issue in relation to Phase 1a. As a result, and until more information is to hand, a prudent view should be taken with regard to committing headroom from Phase 1a to the construction of Phase 1b.
- 5.4 Currently **tie** are engaged with the Infraco contractor on re-programming Phase 1a to address the slow start up of construction and this may impact on costs and risk allowances. This work will continue in the lead up to Christmas and the potential impact on financial headroom will not be known until the New Year.
- 5.5 There appears little prospect of additional Scottish Government funding being forthcoming for Phase 1b. Discussions in relation to the Council's TIF proposal are ongoing, but there will not be a clear view on this until the New Year. A positive response on the TIF proposal, or any additional Scottish Government funding for capital works, would clearly act as a stimulus to help re-generate the economy in north Edinburgh.
- 5.6 Valuable work has been done on the TEL Business Plan. However, a further review of the business plan needs to be undertaken to assess the scope for prudential borrowing as a result of the economic downturn. An assessment of the downturn that has been experienced in passenger numbers in relation to Lothian Buses is also required as part of the business plan review.

Wider Network

- 5.7 The South-East Tramline (SETL) was developed as “Tramline 3” some years ago and demonstrated a strong economic and social case. However, when the congestion charging proposals were not supported in the referendum it was not possible to proceed with the scheme. The route is south from the City Centre via Old College, Kings Buildings, Cameron Toll shopping centre; the New Edinburgh Royal Infirmary (ERI) and Bio Quarter. SETL also provides an opportunity for greater connectivity by potentially linking with Border Rail, existing park and ride at Sheriffhall or through to Newcraighall or Musselburgh.
- 5.8 Consultation on this route was conducted in 2005 and strong public support emerged. The linkages to the ERI and the BioQuarter are particularly important in the context of encouraging a sectorally balanced economy. Edinburgh University is a notable and enthusiastic supporter of the South-East Tramline. NHS Lothian have also supported the case for public transport improvements to the ERI and the BioQuarter. This need will be strengthened if the Sick Kids Hospital is re-located to Little France in the coming years. Plans to relocate neurosciences from the Western General to the ERI are also being considered by NHS Lothian. The Edinburgh Business Assembly are also supporters of extending the Edinburgh tram network to the south-east of the city.
- 5.9 This proposal would create a comprehensive tram network throughout the city providing connectivity both east to west in the context of Phase 1a and north to south by adding Phase 1b to the SETL proposal. The development of SETL would further enhance the integrated public transport network in the city, building on the existing bus services and Phase 1a of the tram network.
- 5.10 Initial discussions have taken place within the Council, ~~tie~~ and Lothian Buses about a proposal to commence a feasibility study in SETL, alongside an outline plan setting out the steps required to get from initial options appraisal to eventual Parliamentary approval to progress with the scheme.
- 5.11 A properly scheduled development and procurement programme could be executed within two years. This would afford time to examine all funding options, including contributions from the private sector and the extent of funding which could be supported by the operating cash flows of the integrated bus and tram network. This should lead to a balanced funding relationship between the Council, the private sector and the Scottish Government.

6 Environmental Impact

- 6.1 Tram developments have a favourable environmental impact.

7 Conclusions

- 7.1 The potential capital cost of Phase 1b and the impact on the revenues associated with the TEL Business Plan will be confirmed in the New Year. It should be noted that the capital cost of Phase 1a will incur design and demobilisation costs relating to Phase 1b of £6.2m in the event Phase 1b does not go ahead.

- 7.2 Taking into account the terms of the Infraco contract no decision on Phase 1b is required until the end of March 2009.
- 7.3 The Phase 1b position will be reviewed in 2009 in the context of the wider economic situation, progress on the Councils TIF proposal, progress on the delivery of Phase 1a and the strategic planning of the transport network across the city.

8 Recommendations

- 8.1 It is recommended that the Council:
- notes the work that has been done to bring the TEL Business Plan and Phase 1b Business Case up to date; and
 - notes that a further report will be submitted in the spring of 2009 on Phase 1b, and on the approach being taken for the feasibility study in relation to the South East Tramline, formerly known as Tramline 3.

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Appendices

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Wards affected

Single Outcome
Agreement

Background
Papers