

Edinburgh Tram Final Business Case

The City of Edinburgh Council

20 December 2007

1 Purpose of report

- 1.1 To seek approval of Final Business Case version 2 (FBCv2) prepared by tie for the Edinburgh Tram Network.
- 1.2 To seek approval for the award by tie of the contracts for the supply and maintenance of the infrastructure works (Infraco) and tram vehicles (Tramco).
- 1.3 To seek approval of the governance arrangements of the Tram through completion of the above contracts, commissioning and commencement of integrated transport operations.

2 Summary

- 2.1 A detailed report recommending approval Tram Final Business Case version 1 was presented to Council on 24 October this year. Negotiations with the preferred bidders have now been substantially completed concluding the contract price, terms and conditions. This current report summarises material changes to the Final Business Case drawing particular attention to developments and issues associated with project risks, project funding and governance arrangements.

3 Main Report

Recent Developments

- 3.1 Detailed negotiations between tie and the preferred Infraco contractor, Bilfinger Berger and Siemens (BBS), and the Tramco contractor CAF have now been substantially completed. Note that the Tramco contract will be novated to the Infraco contractor, on contract award, as explained in the October report to Council. These negotiations have encompassed contractual matters such as the novation of the Systems Design Services contract, design matters including detailed aspects related to the Employer Requirements, and risk and contingency allocation.
- 3.2 An important element of the negotiations on Employer Requirements has been a concerted "value engineering" process by tie in conjunction with BBS to achieve savings while ensuring that the overall goals of the City Council will still be met. On the conclusion of At present these negotiations have yielded total cost reductions of £xxm 20m had been achieved (compared to savings of

Comment [SMcG1]: They are not 'complete' at present. Are you not telling them that nothing has happened which invalidates our £498m cost estimate or anything which was in FBCv1 (e.g. re risk retained by the Public Sector?)

Comment [LH2]: Need to see actual FBC before this can be completed

Comment [MT3]: What about CAF

Comment [MT4]: Negotiations are not just on ER's – this sentence should relate to wider activities during the preferred bidder period as these include design, programme and non-infraco activities

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Comment [SMcG5]: You're not going to be able to put in a number here at this stage

£YYYm 30m assumed within FBCv2). The Infraco contract is a design and build and maintain contract and opportunities still exist for further cost savings to be achieved.

- 3.3 Negotiations have also encompassed design scope and details. However the final negotiated contract price is based on the preliminary and detailed designs made available to the bidders BBS during the tender negotiation period. As a result of the negotiations, and submission of designs for technical and prior (planning) approval, final designs may be changed from the preliminary designs with consequent cost changes. An additional contingency sum is therefore included in the cost estimates which are set out below in Section 4.2.

Project Governance

- 3.4 The report to Council of 20 September recommended that Council note the revised funding arrangements for the Tram Project and the implications for the transfer of financial risk to the Council. That report also recommended that the Council instruct the Council Solicitor to conclude Operating Agreements with tie and TEL. These draft Operating Agreements have now been completed in collaboration with tie and TEL are included as Appendices 3 and 4 to this report. The former agreement regulates the relationship between the Council and tie with regard to the procurement and delivery of the tram Project, while the latter agreement is aimed at ensuring the integration of the bus and tram networks for Edinburgh.
- 3.5 The full organisational arrangements now in place to ensure effective governance of the Tram project are summarised in the diagram shown in Appendix 1. Besides confirming the links between Council, the Transport Infrastructure and Environment Committee and the Internal Planning Group, that were first set out in the 20 September report, the diagram depicts the roles of tie TEL, Council Officers, the contractors and designers of Tram, the Tram operators, and the external advice provided by the Office of Government Commerce (OGC) available post financial close.

The Final Business Case

- 3.6 FBCv2 is included as a background paper to this report. It updates FBCv1 incorporating the outcome of the negotiations with the preferred bidders and risk assessments. Changes between version 1 and version 2 of the FBC are concerned with the confirmation of final capital cost estimates, project risks and the preferred bidders. Capital cost estimates are still forecast at a level slightly below those presented in the Draft Final Business Case. Phase 1a (Airport to Newhaven) is forecast at £498m and Phase 1b, from Roseburn to Granton, at £87m if a decision is made before March 2009. Note that out-turn costs must still remain as forecasts. This is mainly due to the form of the MUDFA contract, as explained in the October report to Council, but also due to possible design changes arising from the completion of detailed design and required by tie or CEC as explained in 3.3 above. However current cost forecasts still sit comfortably within budget given the headroom of £47m. This para to be replaced by tie's affirmation of contract costs from FBCv1.
- 3.7 The FBC repeats its recommendation of proceeding initially with Phase 1a within the funding of £545m committed to the project. Funding available from the Scottish Government will be 92% of the total cost and capped at £500m (excluding the costs of the new Gogar Station to serve Edinburgh Airport).

- 3.8 The financial viability and affordability of the project are reviewed below in the following section on financial implications and risk.

Comment [LH6]: Check wording of the Oc report on procurement

Comment [MT7]: The form of contract has no logical bearing on future saving opportunities

Comment [SMcG8]: Might this give the impression that nothing has moved on in the design for a long time? This has already been discussed with Duncan by Geoff Gilbert

Comment [SMcG9]: I think this needs to be clear about the difference between design evolution (emerging clarity about detail and the approvals process) and scope changes (building more) -- there is no ability to absorb scope changes here.

Comment [MT10]: No

Comment [SMcG11]: Cant this section just say that FBCv2 reflects no changes from FBCv1 which they have already approved??

Comment [MT12]: No revision of the risk assessment is anticipated

Comment [LH13]: The wording of this is dependent on final negotiated prices terms and conditions

Comment [MT14]: This gives the wrong impression: we have allowances for MUDFA

Comment [LH15]: Wording to accommodate actual cost estimates

Comment [LH16]: Check all these figures

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4 Financial Implications

4.1 The report to Council in October provided a detailed financial analysis of the final business case, based on the design work completed at that time and upon the firm bids received for tram vehicles and infrastructure. This section revisits the financial implications and risks associated with the project following the completion of the contractual negotiations with BBS the infraco contractor, and the design and value engineering work aimed carried out since October.

Capital Costs

4.2 The revised and final cost estimates are shown in the table below and [REDACTED]. They comprise the main infrastructure works for the tram network, utility diversions (under the MUDFA contract), tram vehicle costs, land compensation costs as outlined below and other project costs:

Capital Costs	October 2007 Estimate
Leith to Airport plus Roseburn to Granton (Phase 1)	£585m
Leith to Airport (Phase 1a)	£498m
Roseburn to Granton (Phase 1b) (incremental) *	£87m*

*based on non-concurrent construction with Phase 1a

4.3 These estimates include an allowance for risk contingency of [REDACTED], or [REDACTED] that was estimated to be expressed as a % of an agreed sum say £250M from a detailed statistical analysis of project risks. The estimates however exclude additional costs arising from final detailed design or from scope changes required by the client (tie or CEC). A further contingency of £25m is recommended to cater for required any such design changes as described in 3.3 above.

4.4 A separate document has been prepared setting out the formally agreed scope of the Infraco works to be carried out. This document is provided as Appendix 2 to this report and is the benchmark for costing purposes. The majority of inflation costs will be borne by the contractors.

4.5 As explained in the October report the scope of the utilities diversions works may vary under the MUDFA contract. Although this re-measurement contract has fixed rates, the out turn cost of the MUDFA works may vary depending on the number and complexity of utilities to be diverted. Accordingly a higher risk allowance has been included amounting to 18.9% of the total risk allowance of Phase 1 and 20.5% of the risk allowance for Phase 1a.

4.6 The tram vehicle cost is based on a fixed price bid from recommended preferred bidder for the construction and delivery of trams. Inflation and exchange rate risk is to be carried by the contractor.

4.7 Land compensation sums will not be known until all claims are made and settled. Present estimates are based on valuations provided by the District Valuer and are subject to challenge by landowners. In the event of these claims not being negotiated out such cases would normally be referred to the Land Tribunal

Comment [SMcG17]: As of today there is nothing which has changes what was in the FBCv1. Why so much detail?

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Comment [SMcG18]: ALARM BELLS ALL OVER THE PLACE – WHAT ADDITIONAL £25M???

Comment [MT19]: a) this gives impression cost estimate has risen by £25m & b) we should not indicate to contractors what we think their changes could be worth

Comment [SMcG20]: What additional document? Scope is in the FBC?

Comment [MT21]: we don't know of such a document and we should not publish budget assumptions on the Infraco works

Comment [MT22]: All contract inflation risk is carried by contractor, other costs in the estimate have been fully inflated

Comment [MT23]: this appears to be commercially sensitive information as it allows AMIS to work out how much is in the risk pot for them

Comment [MT24]: we should clarify that challenges are not a given & that so far we only received 3 claims which were settled

4.84.3 The updated current expenditure profile for phase 1a, based on the current programme is shown in the table below: to be revised by tie

Estimated capital expenditure	Phase 1a
Cumulative up to award of Tramco and Infraco	£129.0m
Cumulative to March 2008	£208.3m
Year to March 2009	£115.1m
Year to March 2010	£125.4m
Year to March 2011	£45.3m
Year to March 2012	£4m
Total capital expenditure	£498m

4.94.4 The risks associated with the capital cost estimates are discussed in section 4.16x.xx below.

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Funding

4.104.5 The available funding for the project remains at an estimated £545m. £45m of this sum has been committed by the City of Edinburgh Council with the remaining £500m as grant funding from Transport Scotland. The terms of the grant award have been agreed with officials from Transport Scotland. The award will confirm the split between the Council's and the Scottish Government's contributions to the project and the annual sums that will be provided by the Scottish Government. The Award letter is provided as a background paper to this report.

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4.114.6 The current breakdown of the estimated £45m contribution is included in the table below: It should be noted that an independent assessment has been made, by DTZ,. This independent assessment confirms the scale of contributions that can be expected. Their report states "*that the Council's tram funding strategy is realistic, based on sound assumptions and achievable within the timescales*".

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Comment [LH25]: This table may be removed with only changed items reported

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Contribution	September 2007 Update £m	Notes
Council Cash	2.5	
Council Land	6.2	This contribution is made up of land for phases 1a and 1b. Should 1b not proceed, alternative sources of funding will be required.
Developers Contributions - Cash	25.4	
Developers	1.2	This contribution is made up of

Contributions - Land		land for phases 1a and 1b. Should 1b not proceed, alternative sources of funding will be required.
Capital Receipts (Development Gains)	2.8	
Capital Receipts	6.9	
Total	45	

4.124.7 On 12 December the Planning Committee approved the revised Tram Developer Contribution Guideline. This will allow the Council to borrow against future developers contributions for the tram for up to 20 years after completion of the tram project.

Affordability

4.134.8 The overall position on affordability, as advised by tie, remains unchanged since the report to Council on 25 October. Including risk contingencies, but excluding scope and final design changes, the total project cost of Phase 1 is now estimated (see sections 3.2 and 3.3 above) at of £585m including P is some £38m and Phase 1a at £498m. Therefore only Phase 1a affordable should remains affordable if all of the identified risks materialise.

4.144.9 The recommendation of the October report for a phased approach therefore still applies with the option for Phase 1b still open within the Infraco contract up to March 2009. By that date there will much greater certainty on the out-turn costs of the MUDFA contract and any associated and other risks arising from the Infraco contract. The decision for inclusion of Phase 1b into the contract can therefore be deferred until March 2009.

Revenue Implications

4.154.10 There is no change in the position of future revenues from the October 25th report to Council. It should be noted however that the issue of concessionary fares being applicable to Tram, as they are at present to buses, has not yet been finally resolved, because the national concessionary fare scheme is under review by Scottish Government.

Risks

4.11 Tie to provide text

4.16 Active risk management on all aspects of the Tram project continues with strenuous efforts being made by tie to resolve, transfer or mitigate outstanding risks. The allocation of risk has a significant bearing on the final negotiated price and the final out-turn costs for the project. The procurement strategy aims to minimise risk to works costs by placing risks with those best suited to manage these risks. The detailed contractual apportionment of risk and responsibility between the public and private sector has been a central element of the structured negotiations with the preferred bidder. These negotiations have now achieved the fully defined contractual commitments referred to in the October Report to Council. The table below summarises all identified and significant extant risks. Once again it is noted that some significant risks still lie with the public sector, and given the cap on Government funding, may have direct

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Comment [LH26]: This assumes this will happen

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Comment [MT27]: This is a hanging sentence & the gap sum is £40m

Comment [SMcG28]: Are there words missing from this sentence?

Comment [MT29]: It should be stressed that the latter the decision, the less benefits of scale, e.g. ability to use MUDFA for utilities diversion as team demobilises after completion of P1a works in late 08

Comment [SMcG30]: March 09 is the latest date for taking up contractual option - decision making process would need to precede then

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Comment [SMcG31]: Why do we need additional risk insertions which are not already dealt with in the FBC risk section?

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Comment [LH32]: Have they?

financial impact on the Council. INSERT RISK TABLE HERE OR REFER TO APPENDIX 5m.

4.174.12 At the time of writing tThere are, however certain extant risks unresolved issues which bear on the Councilpublic sector's risks. These are explained in the Final Business Case section 11 ("Risks Retained by the Public Sector"). Typically this includes agreements with third parties, delays to utility diversions and finalisation of technical and prior approvals. listed in Appendix 6? Of these the most are to do with Network Rail and the most significant risk concerns acquisition and entry to land presently under their control and set to be purchased or leased from Network Rail. Certain parcels of land are crucial to the contract and the contract award cannot be given with incurring significant risk to the Council.

Comment [LH33]: Risk allocation table to be provided by DF before this paragraph can be completed. Needs to be crossed checked with Appendix 5 which itself may not now need to be included.

Comment [SMcG34]: As discussed with Duncan it would be madness not least from a commercial confidentiality to include any risk register in this report let alone a risk register which is not the same as that maintained by tie

Comment [SMcG35]: What is conceived as being in Appendix 6

Comment [MT36]: This gives the wrong impression -the issues are about timing and should not prevent contract award

4.18At the request of Council Solicitor a letter has been submitted by DLA (the Council's and tie's solicitors for the Tram project) confirming the limitations on the Council's exposure to risk arising from the Infraco and Tramco Contracts. This letter is available as a background paper to this report. DLA have also written to the Council recommending acceptability of risks for the Council's interests as guarantor to the Infraco and Tramco contracts giving the Council the assurance it needs before taking on this role.

Comment [SMcG37]: I guess this has all been discussed at the Legal Affairs Committee? The letter is not listed as a background paper. Does this paragraph not scream that CEC officers are unhappy with risk allocation.

Comment [LH38]: Check

Comment [MT39]: Would DLA be happy with this comment in the public domain?

4.13 A draft guarantee agreement between the City of Edinburgh Council and the Infraco contractor BBS has been prepared by the Council Solicitor and, with the approval of the Council, will be required to be executed on behalf of the Council before the Infraco contractor will agree to sign the Infraco contract

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4.194.14 The risk contingency included in the table at section 4.1 is designed to cover additional unforeseen costs, but it is recognised that there is an element of residual risk of costs exceeding current estimates. It should be noted that the cost of phase 1a (with a risk contingency of £49m) is £47m less than the total available funding. This represents a total contingency sum of £96m, compared to £220m of estimated outstanding costs (excluding fixed costs and costs already incurred).

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Comment [LH40]: Check the figures

4.204.15 It should also be noted that the risk contingency does not cover major changes to scope especially to areas out with the immediate Tram corridors. The scope of such changes will be reviewed after completion of the Tram works and commencement of Tram operations.

Comment [SMcG41]: Sorry but the uninformed reader would have no idea what is being referred to here.

4.214.16 Additional scope elements that will separately funded include

- Bermard Street urban streetscape (funded from Scottish Enterprise Edinburgh and Lothian and the Heritage Lottery Fund)
- Leith Walk- completion of footways as betterment with £2m funding from CEC spread over 3 financial years)

Next Steps

4.224.17 The table below summarises the milestone events in the final stages of the procurement and construction of the Edinburgh Tram Network. Some adjustment to these dates may be required in due course to fit with the Council meeting schedule.

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- Date	Milestone
11 th January 2008	Financial Close.

28 th January 2008	Tramco/Infraco contracts awarded following CEC/TS approval and cooling off period.
1 st February 2008	Construction commences - phase 1a.
6 th February 2008	Planning Committee approval of Landscape Habitat Management Plan.
31 st March 2009	Latest decision to instruct <i>tie</i> /BBS to commence 1b
17 th November 2009	TRO process complete.
27 th August 2010	Commencement of test running - phase 1a.
Q1 2011	Operations commence - phase 1a.

5 Conclusions

- 5.1 Contractual negotiations with the preferred bidder have been ~~satisfactorily substantially completed by tie.~~
- 5.2 **tie** advise that the detailed outcome of the preferred bidder negotiations, in terms of price, scope, design, and risk apportionment, give assurance that Phase 1a can be completed within the available funding even if the residual risks lying with the public sector are realised.
- 5.3 The total forecast project cost including the price, negotiated by **tie**, is £498m. **tie** is confident that risk contingencies and final ~~the approved design and scope changes~~ can be accommodated within the £545m??? funding available.
- 5.4 A decision on whether to proceed with Phase 1b, within the Infraco contract, can be postponed until March 2009.

6 Recommendations

- 6.1 To approve ~~tie's the~~ Final Business Case version 2.
- 6.2 To authorise **tie** to enter into contract with the Infraco bidder (BBS) and Tramco bidder CAF, subject to compliance with the Final Business Case and Employer's Requirements
- 6.3 To note that the formal award of these contracts are programmed to take place in January 2008.
- 6.4 ~~To instruct the Council Solicitor to prepare any necessary Guarantees/Surety for the Infraco Contractors.~~
- 6.5 To accept the terms of the draft Grant Award Letter
- 6.6 To approve the draft tie and TEL Operating Agreements ~~██████████~~ and instruct the Council Solicitor to sign these agreements on behalf of the Council.
- 6.7 To note the schedule of milestones presented at Section 4.34 above.
- 6.8 ~~To note the residual risks presented at ██████████ above~~
- 6.96.8 To note that the Directors of City Development and Finance will continue discussions with the Scottish Government with regard to including Edinburgh Tram in the national concessionary travel scheme.

Comment [SMcG42]: Not yet they haven't

Comment [SMcG43]: No – scope changes cannot be necessarily be accommodated within the £545m and the TS contribution is to deliver the project as defined

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Comment [MT44]: What about Tramco?

Comment [MT45]: This is a red herring – doesn't actually mean anything

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Comment [MT46]: Need to stronger statement that CEC must provide relevant payment guarantees

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Comment [MT47]: Have not seen this table

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6.106.9 To accept the outcome of the independent review of the Tram Funding Strategy S75 Developer Contributions by DTZ

Donald McGougan
Director of Finance

Andrew Holmes
Director of City Development

Appendices

- Appendix 1** Tram Governance Organogram
- Appendix 2** Draft TEL Operating Agreement 2 Scope of Infraco Works
- Appendix 3** Draft tie Ltd Operating Agreement3 Draft TEL Operating Agreement
- Appendix 4** Draft tie Ltd Operating Agreement
- Appendix 5** Summary Risk Register

Comment [MT48]: Don't know source of this document

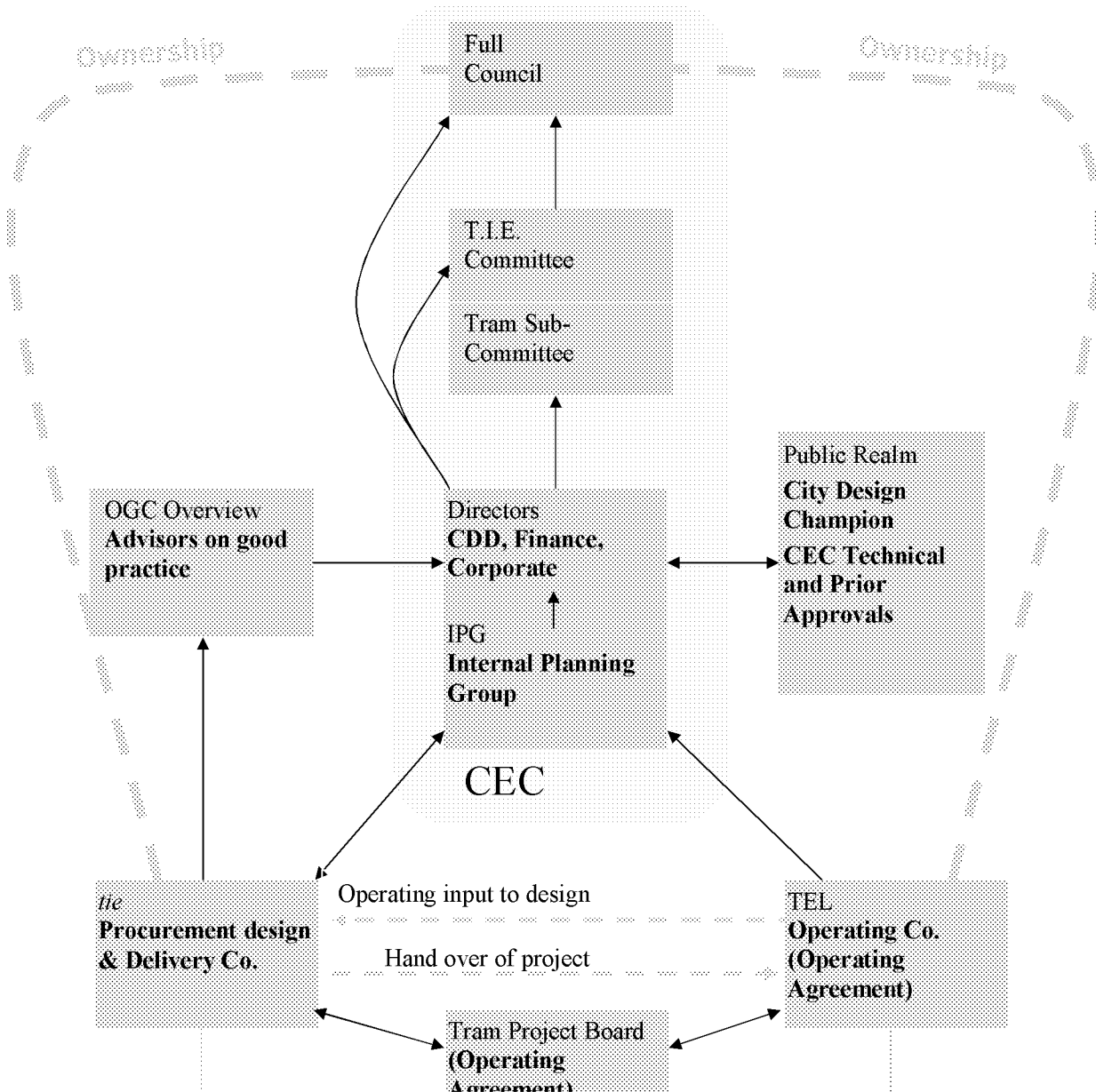
Comment [MT49]: No – can provide risk allocation matrices as per FBC

Contact/tel Duncan Fraser
Rebecca Andrew 

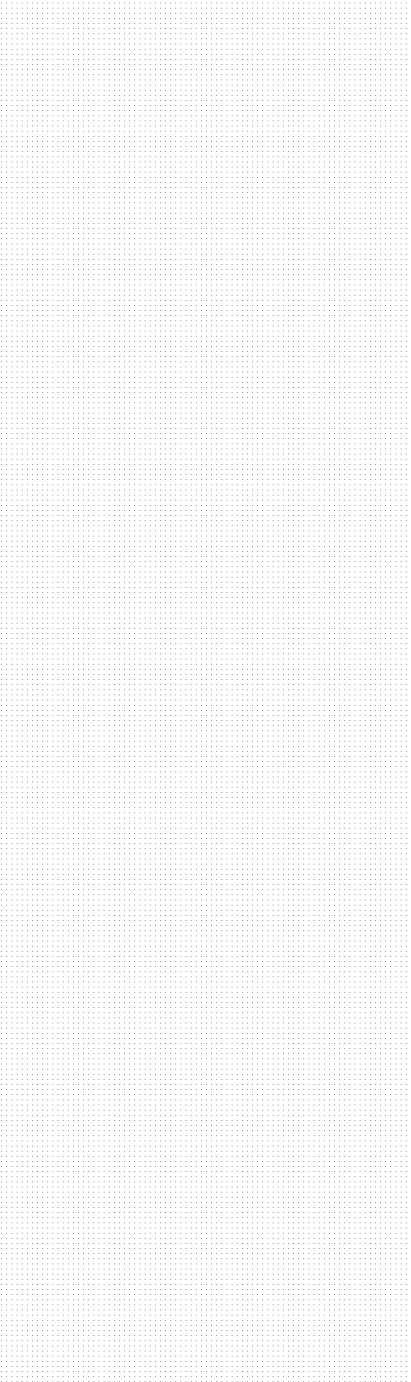
Wards affected All

Background Papers Edinburgh Tram Final Business Case Version 2
Report of Independent Assessment of Developer Contributions.
Draft Grant Funding Award Letter

Appendix 1 Tram Organisational Structure



Appendix 2 Agreed Scope of Works



Appendix 3 Risks

Comment [LH50]: This section may be removed depending on details of risk allocation table still to be supplied

The risks fall into the following broad categories

- a Project Risks (risks affecting the timeous completion of the project within time and budget and to the desired quality)
- b Operational Risks (risks affecting the long-term viability of TEL)

Project Risks

1. Between now and financial close there is a risk that the preferred bidder may withdraw from negotiations for a number of reasons, including the potential refusal to accept a novated contract for SDS or Tramco. Tie are working to minimise this risk through negotiations with the final bidder prior to Financial Close.
2. The most significant risks affecting the timeous completion of the project within budget are identified in the FBC as those arising from the advance utility diversion works (MUDFA); changes to project scope or specification; and obtaining consents and approvals.
3. The main risk in respect of utilities is that delays from MUDFA in handing over sites to the infrastructure contractor could lead to claims from the infrastructure contractor and significant additional costs. tie staff are working to minimise this risk by working with both infraco and MUDFA on their respective programmes. There is a further risk regarding the interface between MUDFA and the Scottish Utilities Companies (SUCS). If SUCs fail to approve designs on time, this could delay MUDFA works, which in turn could delay Infraco, leading to claims.
4. The Infraco contract is substantially a fixed price contract, so any scope changes post financial close will have to be implemented using a variation order, which will add costs to the project. It is therefore important that changes are kept to a minimum and to that end; the Tram Project has a clearly defined tight change control procedures, supervised by the Tram Project Board.
5. It is recognised that designs are not yet complete and some design assumptions may prove to be different to the aspirations of CEC and / or other third parties (e.g. Forth Ports). If the designs are built into the contract at contract close and the decision is made to change them at a later date, this will lead to additional costs and potential delay. In order to reduce this risk, further work will be done on the tram designs prior to contract close in the context of available funding.
6. Linked to this risk is that the visual aspects of the designs do not represent the preferences of the prior approvers so that Planning Approval is not given and designs have to be reworked and a variation order made to the contract leading again to additional cost and delay. The planning prior approvals programme is expected to be complete by March 2008, which is post contract close. To minimise the risk of planning approval being withheld post contract close, SDS and tie are involving planning staff in the design process so that concerns can be addressed at an early stage.
7. As noted in paragraph **Error! Reference source not found.** Value Engineering savings have been built into the cost estimates. If these cannot be achieved, there is a risk

Comment [MT51]: We will know if it is accepted or not

to the project estimate. To reduce this risk, further work will be done on Value Engineering prior to contract close, to improve the robustness of the VE savings. This will be considered prior to Contract Award taking account of the available contingencies and allowances for unrealised risk at that time.

Comment [MT52]: The risk is to the total project cost estimate – not the infraco £'number. We have allowances for this!

8. TRO hearing is mandatory requirement under current legislation and financial allowance has been made for this under the risk register. It should be noted that the Scottish Government is consulting on potential changes to the legislation, which if approved would remove the mandatory requirement to hold a hearing, where a project has been subject of Parliamentary Approval.
9. As noted in the Report to Council in December 2006 that , on the recommendation of tie that the Council is taking a long lease of land rather than outright compulsory purchase on two sites, one owned by Network Rail the other by BAA. There is a small risk that these landowners may seek to impose conditions on the operation of Tram at some future date.
10. It should also be recognised that any decision by the Council or Scottish Ministers to cancel the trams is not free from costs, as costs including compensation to contractors and redundancies at tie, it is estimated this could be between £20m/£40m (dependent on the timing of cancellation) . Transport Scotland has also indicated that should the Council cancel the tram for other than purely commercial reasons, the Council would be liable for the full cost of that decision. Conversely, should Scottish Ministers cancel the project for similar reasons, it is assumed that they would pay for the project termination costs. Transport Scotland have acknowledged this in discussions.
11. The £545m of approved funding also is not completely free of risk. In particular contributions to Tram from developers are of course subject to development activity. However Agreements under Section 75 of the Town and Country Planning (Scotland) Act total some £6.77m to date, with a number of further major contributions in the pipeline.
12. It should also be noted that since tie has no assets the Council will be called upon to give some form of formal guarantee of tie's contractual obligations. Current indications are that both Infraco bidders will be seeking a letter of undertaking from the Council to the effect that subject to final approval of release to the Council of grant funding by the Scottish Government, tie will be fully funded by the Council in respect of all payment obligations and financial liabilities incurred by tie pursuant to the Infraco contract, subject to compliance by the contractor with the contract terms. The undertaking would constitute a guarantee of payment only and not a commitment by the Council as to performance of the contractual obligations.

Operational Risks

13. Future risks arising from the forecasting process have been examined by the JRC. After recapping on the central or reference case forecasts and the assumptions in these forecasts the Revenue and Risk Report tests the sensitivity of Tram to alternative planning and growth assumptions. The JRC also tested assumptions on the attractiveness of Tram to potential users and on the possible impact of bus competition. The analysis of the JRC illustrates the sensitivity of Tram to development assumptions. The interdependence of Tram and development – especially in north Edinburgh should be noted.

14. A detailed statistical analysis has also been carried out that allows the assessment of the impact of a variety of relevant factors within assumed ranges. The analysis notes the sensitivity of the FBC financial projections for TEL. It also re-emphasises the fundamental relationship between the Tram and the continued growth of the City and associated movement demand, and consequently the sensitivity of Tram revenues to planning and economic growth.
15. In mitigation, it should be noted that Lothian Buses' extensive knowledge of the local transport market has been used to inform and validate the modelling process. Passenger growth assumptions are significantly lower than growth Lothian Buses has experienced in recent years.
16. While Council policy can influence planning and economic development there are decisions in the power of the Council and TEL which have a bearing on the outcome for Tram. In this regard the JRC examined the impact of partial completion of Phase 1, the effect of the Edinburgh Airport Rail Link (EARL) and of various detailed operational factors such as the quality of interchange, tram run-times, and bus service integration plans. The recent decision of Parliament to shelve EARL and the associate proposals for a new station at Gogar have not been included in the financial analysis for the FBC but will be positive.
17. The JRC concludes that the most significant risk to Tram arises from the planning growth assumptions (this applies especially to Phase 1b) but that TEL could manage its operations and reduce costs in response. However the most recent data available shows a continuing strong growth in development in areas close to the route of the Tram in north Edinburgh. The highest growth rates in the number of dwellings the City are to be found in Leith and Leith Walk where growth rates of approximately 8% from 2003 to 2005 have been recorded (Source Scottish Neighbourhood Statistics). Confidence can also be drawn from the continued growth in Lothian Buses patronage levels which continues at around 5% per annum – a figure well above the projections of the JRC report.
18. It also should be noted that current modelling assumes that the Edinburgh Tram Project will be covered by the Scottish Executive's Transport Scotland's national concessionary travel scheme. It is a fundamental assumption that has consistently been understood and endorsed by Transport Scotland for business planning purposes that TEL bus and tram will both participate in the national concessionary travel scheme. However, this concessionary travel scheme will be reviewed by Government prior to the commencement of the tram. There is a risk that either the scheme will no longer apply (or provide a lower rate of compensation to transport operators), or that it could apply to bus and not tram. Given the long-standing commitment to integrated operation it is difficult to understand how this would be feasible.