

Tom Aitchison
Chief Executive
City of Edinburgh Council

Malcolm Reed
Chief Executive
Transport Scotland

30 November 2006

Gentlemen

EDINBURGH TRAM NETWORK – BUSINESS CASE

PROJECT FUNDING

Background

We have spent considerable time in recent weeks assessing the affordability of the tram network. The key elements of the affordability equation are :

- the estimated aggregate capital cost for the full Phase 1 network of £592m ;
- the underlying cost of delivering Phase 1a Airport / Leith only of £500m ;
- the incremental cost of delivering Phase 1b Roseburn / Granton of £92m ; and
- the funding package previously determined by your respective organisations at a total of £545m.

The funding package comprises a commitment of £45m from the Council and an assumed grant contribution of £375m from Transport Scotland which is estimated to result in a cash contribution of £500m once indexation is applied.

We believe the affordability assessment is the only significant outstanding area in the business case. As you will be aware, it is the intention to embark upon a series of briefings commencing next Tuesday 5th December for elected members of the Council and members of the press. Accordingly, it is critical that we reach an agreed position on affordability urgently.

Affordability statement

It is our intention that the briefing will communicate the following messages with respect to network scope and affordability :

- The Council has reconfirmed its previous commitment to a contribution of £45m toward the tram project
- Transport Scotland has reconfirmed its previous commitment to a grant of £375m, which is estimated to result in a cash contribution of £500m allowing for inflation.
- The total funding committed to the project is therefore £545m which comfortably exceeds current estimates of the cost to deliver the core section of the tram network from the Airport to Leith. Accordingly, subject to the conditions below, the TEL Board recommends that construction of this section of the network should proceed.
- The conditions applicable to this recommendation include the need to achieve satisfactory contractual terms with bidders for the supply of infrastructure and tram vehicles and that property developer contributions are committed at an appropriate level to support the funding.
- We understand that the Council remains committed in principle to the construction of the Roseburn / Granton tram line. Before a commitment to

proceed with construction of this section can be made, the following conditions need to be fulfilled :

- As for the Airport / Leith core section, satisfactory contractual terms require to be reached with bidders and appropriate terms with property developers negotiated
 - In addition, there will need to be a rigorous assessment of the financial viability of the Roseburn / Granton tram line, in particular the assumptions about the scope and pace of development in the Granton area.
- We understand that, should these conditions be satisfactorily fulfilled, it is the intention of the Council to seek additional funding, should that be necessary, from Transport Scotland to enable the completion of the Roseburn / Granton tram line on terms to be agreed and which will require to reflect value for money.
- To ensure that the overall capital cost commitment is controlled, the construction programme will be phased such that the Airport / Leith section will commence before the Roseburn / Granton section.

Supporting documentation

We believe this approach is consistent with the intentions of your respective organisations. In order for TEL and tie to be able to make public this approach, it is necessary that we have an agreed form of letter from the Council and Transport Scotland which sets out the basis on which funding will be provided. We believe that documented clarity is in everyone's interests in view of the high public profile and sensitivity of these matters.

We have attached two draft letters which seek to document these terms and look forward to discussing their content with you.

Time is not on our side and it is imperative that these terms are agreed by all parties prior to the first public briefing which is scheduled for the evening of Tuesday 5th December 2006. Both of us are available at any time for a discussion on these matters.

Yours Faithfully

DAVID MACKAY
CHAIRMAN, TEL

WILLIE GALLAGHER
CHAIRMAN, TIE

