

**DRAFT LETTER FROM CHIEF EXECUTIVE TRANSPORT SCOTLAND
TO CHIEF EXECUTIVE CITY OF EDINBURGH COUNCIL**

Dear Tom

EDINBURGH TRAM NETWORK - BUSINESS CASE

CONDITIONAL FUNDING PROPOSAL

Background and status of letter

You have requested a letter of intent from Transport Scotland which sets out the funding support available to the project and the principal conditionality which attaches to that funding proposal, as part of the framework for the business case which will be placed before the Council on 21 December 2006.

As you will appreciate, this letter does not formally commit Transport Scotland or Scottish Ministers to any course of action nor to any specific level of funding for the project. The business case will be reviewed by Scottish Ministers in the early New Year and this letter will not fetter in any way the judgement which Scottish Ministers will bring to bear on the content of the business case.

I have taken account of the content of your letter of even date, a final draft of which I have seen and which addresses the same issues. It is clearly important that the Council and Transport Scotland have a good mutual understanding of the best means to fund and execute the project and I believe that our dialogue over recent months has enabled our organisations to reach that mutual understanding.

Scope of the tram network

Transport Scotland recognises the importance of the project to the delivery of critical economic and social policy objectives which will benefit the City of Edinburgh and Scotland as a whole over the medium and long term.

We understand that the Council's objective is to construct a tram network which includes the core Airport / Leith line and which will also support the regeneration of the North West Waterfront area ("the Granton waterfront"). We have seen and are considering further the Council's proposed approach to delivering the project which phases construction such that the Airport / Leith tram line will commence prior to the Roseburn / Granton tram line. We acknowledge the sense of this approach which enables construction of the core line to proceed whilst retaining discretion over the aggregate capital cost entailed by the addition of the Roseburn / Granton line.

Project funding

The Council's financial commitment discussed with Transport Scotland is £45m, which was approved by the full Council earlier this year. We welcome the Council's proposal to examine the means of providing further support to meeting capital costs on certain conditions.

The current estimated capital cost of the full network is £592m and the Council recognises that there are a number of critical variables which will require to be determined before the final aggregate funding requirement is clear. These include, but are not restricted to :

- 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 they will enjoy from the substantial public investment**

In addition, we understand that the Council will assess carefully the anticipated pace of development at Granton to ensure that the risk of sustained operating losses is properly mitigated. We endorse the importance attached to this assessment.

Transport Scotland's current position

At this stage of the project's development, Transport Scotland can confirm its previously stated conditional commitment to project funding of £375m in 2003 price terms. The intention is that this grant will be indexed to allow for construction industry inflation and we anticipate that this sum, taken together with the Council's own contribution of £45m, will aggregate £545m and will be adequate to enable commitment to the construction of the core Airport / Leith tram line. It should be emphasised that this is not a binding commitment by Transport Scotland and any actual commitment will depend on the terms of a final business case to be prepared in support of the commitment to the contracts for construction of the infrastructure and delivery of tram vehicles, anticipated to be in late 2007.

We regard as critical that the contracts to deliver the tram network are structured such that the Council and Transport Scotland retain full control over the decision to proceed with the tram vehicle and infrastructure contracts relating to the Roseburn to Granton tram line. We also understand that the construction programme will be phased to achieve greater certainty of outturn capital costs before committing to the construction of the Granton line.

Any further financial contribution from Transport Scotland will be assessed strictly on the basis of value for money in the context of the final business case. At this stage it is not possible for Transport Scotland or Scottish Ministers to provide any specific guidance about additional capital funding which may be forthcoming. However, Transport Scotland recognises the strength of the Council's intent with respect to the Granton waterfront area. Accordingly, we encourage the Council to set out the financial requirements of the full network and to demonstrate their value for money in the final business case. Based on this, Scottish Ministers will be in a position to decide upon the final level of funding support for the project including the funding that may be required to complete the Roseburn to Granton tram line.

Malcolm Reed
Chief Executive, Transport Scotland