

NOTE
for
tie Limited
re
Funding Proposals for
Tram Lines One and Two

It is understood that the City of Edinburgh Council (“the Council”) and the Scottish Executive wish both Tram Line 1 and 2 Bills to be enacted and receive the royal assent by the end of March 2006. Since full funding is unlikely to be available by that time, some form of phased construction would be proposed. There is, however, a clear funding gap.

Each Bill was accompanied by an Estimate of Expense and Funding Statement. For Line 1 the total cost was estimated at £243,050,000. There were two sources of funding; the Scottish Executive, providing £210,000,000 from the originally promised £375,000,000, and the balance of £33,050,000 coming from: “Funding from operational surpluses net of refurbishment and replacement costs, commercial income, property contributions related to the project, other public sector and private sector sources to be developed in due course” (“the Council’s share”). The estimated cost of the shared section of line common to both Lines 1 and 2 was £48,100,000. That sum was included in the estimated cost of Line 1 but was wholly excluded from the estimated cost of Line 2.

The estimated cost of Line 2, excluding the cost of the shared section, was £230,400,000. The funding of that sum was proposed to be £165,000,000 from the Scottish Executive – the balance of the promised £375,000,000 – and the remaining £65,400,000 (“the Council’s share”) was to come from the same source as the sum of £33,050,000 for Line 1. The cost figures for both lines contained a general contingency of about 10% but no allowance for optimism bias.

In recommending that the general principles of the Bill should be agreed to, each Committee expressed reservations on the question of funding. For example, the Report on the Line 2 Bill stated:

“203. On the funding package for the scheme, following assurances by the promoter, the Committee is content at this stage that the expectations of funding from sources other than the Scottish Executive are reasonable and that the information is as robust as could reasonably be expected at this point in the process.

204. However, while the Committee recognises that the promoter has been able to address many of the issues on which the Committee was initially sceptical, the Committee did not consider that it would be appropriate – given the level of public funding which the scheme would attract – to give an unqualified endorsement of the promoter’s case at Preliminary Stage. The Committee’s principal concern is that there remains a significant funding gap that requires to be bridged before the project can be completed in full.”

Since the Estimate of Expense and Funding Statement was submitted, it would appear that the funding gap has increased. This is due to the fact that the cost estimates were initially stated at 2003 prices. Those cost estimates remain unchanged, but the figures have now been indexed for inflation - hence the increase in costs in real terms. The funding from the Scottish Executive remains the same. There is a suggestion that the Scottish Executive may be prepared to index-link the original £375,000,000, but they are not at present prepared to commit to do so. No new sources of funding have been identified, and the Council’s share has increased through inflation. Furthermore, the Committees have sought updated information on among other things: “funding that is likely to be generated from private sources, and what has been secured” (Line 2 Report, paragraph 206). Funding estimates of how to meet the Council’s share have produced a figure of £45,000,000 (including indexation) but a substantial gap remains. In respect of line 2 the Committee has also asked for updated information on: “whether the scheme is likely to have phased implementation, resulting in delayed construction of the airport to Newbridge section of the line.”

Phasing is an obvious possibility for Line 2, but has not even been considered by the Line 1 Committee. Any phasing proposal for Line 2 would have to be fully considered before it could be presented to the Line 2 Committee. Inevitable issues would include realistic timing, realistic funding prospects and the additional costs that would be caused by phasing.

It is understood that **tie** has been giving consideration to the possibility of initially constructing parts only of Lines 1 and 2 – having attempted to identify the best performing sections of both Lines in terms of meeting the Council’s aspirations as well as financial performance. In our opinion it is not an option to seek to amend the Bills in this way. The possibility of amending Tram Line 2 Bill so as to omit the airport to Newbridge section was considered and rejected in the Opinion of Malcolm Thomson, Q.C., dated 4th April 2005. The reasons for rejecting the possibility of omitting any section of Line 1 are, in our opinion, even stronger. Line 1 is an endless loop. That is the principle which has been agreed to in respect of the Line 1 Bill. No case has been made out for a linear – ie horseshoe-shaped - Line 1.

It is important to bear in mind that there are two separate Bills being considered by two separate Committees. That is the result of a deliberate decision which was taken in the Autumn of 2003. The alternative was a “network” Bill which would have authorised the construction and operation of a line comprising part or all of the present Lines 1 and 2. Such a network Bill would have been necessary, for example, to have enabled both lines to make use of a single tram depot. The principal reason for choosing two Bills rather than one was to enable progress to be made and construction to be started on one line even if the Parliamentary progress of the other line was delayed for whatever reason. While that option was and remains a valuable benefit of having two separate Bills, there are inevitable consequences. In particular, the merits, including financial viability, of each line have to be demonstrated separately and the reasonable funding and operational viability of each line has to be established. While each Bill enables the whole assets of each line to be operated as part of a single system, that does not detract from the need to be able to prove to the satisfaction of each Committee the financial and practical viability of each line on its own.

In light of the scale of the funding shortfall, and in particular the lack of any improvement on the funding side since either the December 2003 or September 2004

Preliminary Financial Cases, we consider there to be three options in dealing with the requests from both Committees for further information regarding funding:

1. Continue with the strategy contained in the original Estimate of Expense and Funding Statements and apportion the available funding pro rata to each Line. The risk of that course of action is that one or other or both Committees are not satisfied that the funding gap for a particular Line can be closed and accordingly that the powers sought in that Bill should not be granted. In light of the perceived increasing scale of the funding gap as described above we consider this to be a very real prospect.
2. Apply as much of the available funding as is necessary to fully fund Line 1 and apply any remaining balance to Line 2. This ought to have the effect of satisfying the Line 1 Committee that there is no funding difficulty and that the principle of Line 1 is fully and unreservedly established. The inevitable consequence, however, is that the prospects for the Line 2 Bill become poor to very poor depending upon the size of the funding gap for that Line. Inevitably the prospects for Line 2 under this option are significantly worse than would be the case under the previous option.
3. Apply as much of the available funding as is necessary to Line 2 with the balance going to Line 1. We consider this to be a significantly less attractive option than the preceding one for three main reasons. First we do not consider that either the Committee or the Parliament would regard such limited funding as appropriate for a tram line, namely Line 1, the principle of which was to operate a loop. Secondly, there is less obvious need for Line 2 while the EARL project is being actively promoted. Thirdly, this option would involve committing scarce resources to the airport to Newbridge section before starting on Line 1.

Finally, it should be noted that it is only the fact that there are two separate Bills which afford this choice of options at this stage. If all the available funding had been committed to a single, network Bill, there would have been some minor savings, such as a shared network depot, and advantages, such as being able to demonstrate financial viability against a lower capital cost (£48,100,000 for the common section at present is a cost of each Line), but an unbridgeable funding gap would have caused the total loss of the scheme.