

**SCOTTISH CABINET**

**EDINBURGH TRAMS:  
DRAFT FINAL BUSINESS CASE  
AND START OF UTILITY DIVERSIONS**

**MEMORANDUM BY THE MINISTER FOR TRANSPORT**

**Purpose**

- ◆ To recommend that we release £60m funding to undertake utilities diversions and allow tie to conclude the analysis of bids for tram vehicles and infrastructure

**Previous Consideration by Cabinet**

1. Cabinet last considered the Edinburgh Tram Project as part of its discussion of the Transport Infrastructure investment plan in December 2005. At that time Cabinet agreed in principle to:

- ◆ support Phase 1a of the tram scheme from Leith Waterfront to Edinburgh Airport;
- ◆ index link Scottish Ministers' contribution of £375m at 2003 prices using the Transport Scotland index for major rail schemes. In return City of Edinburgh Council would contribute £45m and take revenue risk;
- ◆ review the scheme again following production of the draft Final Business Case

**The case for Trams**

2. The case for trams is made by tie in its draft Final Business Case (FBC) for the scheme which has been drawn up in line with standard appraisal practice. That case is marginal for Phase 1a but needs to be seen in the context of the importance of tackling congestion in Edinburgh for the Scottish economy.

3. Edinburgh has a crucial role in the Scottish economy and the West of Edinburgh in particular has contributed significantly to growth in the Scottish economy through financial services and knowledge-based industries. That economic growth has brought increased pressure on transport networks including significant growth in congestion which is forecast to continue and in turn congestion will start to threaten economic performance.

4. City of Edinburgh Council has pursued a variety of policies to encourage more sustainable travel and has had success with some of these – notably in terms of encouraging high bus ridership. However, the failure of congestion charging has left Edinburgh with only one remaining option for significant intervention to boost public transport within the city and

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that is the tram. The tram alone will not be sufficient to tackle the capital's congestion problems but without the tram we would be relying on future economic measures to restrain traffic growth.

### Draft Final Business Case

[Note: this section will need to be reviewed and updated following receipt of infrastructure bids in January]

5. tie has conducted 3 tests of the viability of the tram scheme:
  - ◆ **economic viability** – a standard assessment of the quantifiable benefits and costs of the scheme plus environment, safety, integration and accessibility impacts;
  - ◆ **financial viability** – whether the scheme integrates with bus services and whether the combined bus and tram services can operate without subsidy;
  - ◆ **affordability** – whether the initial capital costs are likely to be affordable within the available funding.
  
6. tie argues that all 3 tests have been met for Phase 1a and that the economic and financial viability tests have been met for Phase 1a + 1b<sup>1</sup>. In particular Phase 1a is projected to be affordable within the available funding, cover its operating costs from revenue from year 2 of operation and have a benefit cost ratio (BCR) of 1.10.
  
7. My officials have reviewed the draft FBC and the key points of their review are:
  - tie's evidence is that line 1a would cost £500m and is therefore affordable within available funding with a benefit cost ratio (BCR) of 1.10 and that 17% (2011) rising to 20% (2031) of patronage is not simply displaced from bus. tie and City of Edinburgh Council will therefore argue that they have met the conditions set by Ministers and Transport Scotland's Investment Decision Meeting (IDM) last consideration of the tram scheme;
  - phase 1a plus 1b would cost £592m and will not be affordable within available funding unless significant additional savings are achieved. However, phase 1a plus 1b performs significantly better in BCR terms (1.63);
  - the assumptions made by tie in the business case for the tram are key to the positive BCR and the case for the tram is now marginal and very sensitive to assumptions;
  - the tram supports economic development at Leith Waterfront, West Edinburgh and, subject to line 1b, Granton Waterfront. The appraisal attributes 590 Full Time Equivalent jobs to Phase 1a and a further 340 to Phase 1b;
  - there are significant levels of risk remaining with the project although to some extent a key risk – around capital cost – may have been mitigated by February 2007 through the receipt of initial bids for the main infrastructure contract;
  - the ability to proceed as proposed depends on receiving sufficient quality information from the initial infrastructure bids and this may not happen – it is possible that the bids will be either too high (and thus make the scheme unaffordable) or too qualified to give the necessary confidence in the overall scheme price

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<sup>1</sup> Phase 1b runs as an extension of Phase 1a from Haymarket to Granton.

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- the draft FBC is predicated on the Edinburgh Tram Project being covered by the national concessionary travel scheme. As concessionary travellers make up roughly a quarter of all passengers, failure to include the trams in the national scheme would threaten Transport Edinburgh Limited financial viability and would lead to both a subsidy requirement for the tram and reduced efficiencies in bus operation;
- the inclusion of tram in the concessionary fares scheme would fall to be negotiated as part of the renewal of the scheme and a large amount of the funding required is already being paid to Lothian Bus for existing concessionary travel. There would be additional pressure on the national concessionary fares scheme from the generated travel and from renewed arguments that Glasgow Underground should be included.

8. Annex A sets out further analysis of the business case and Annex B analysis and mitigation for the key project risks.

### Experience in other Cities

9. Tram schemes have been implemented in several English cities and in Dublin. They have had clear benefits in tackling congestion and encouraging economic development. On my recent trip to Dublin I heard firsthand how initial opposition had been turned round by the success of the tram and heard how developers are now pressing for extensions to the tram and are willing to fund a significant proportion of an expanded network.

10. In some cases benefits were slower to arise than originally predicted and competition from bus services threatened early schemes such as Sheffield. Edinburgh has learned from experience in other cities and has benchmarked its costs and benefits. In particular, the creation of Transport Edinburgh Ltd as a single economic entity covering Lothian Buses and the tram provides a robust basis for achieving an enhanced and integrated public transport network in Edinburgh.

### Project control

11. The tram has been subject to Transport Scotland's quarterly review process and monthly monitoring by my officials. Bill Reeve, Director of Rail Delivery, Transport Scotland sits on the Tram Board within a clear framework of delegated responsibility for developing the scheme. Since Cabinet last considered the tram scheme tie Ltd has strengthened its internal team and is improving its internal project control disciplines. This progress must be maintained. The tram project has also been through the Scottish Executive Gateway 2 review and an action plan is in place to implement the review's recommendations.

12. I have asked Transport Scotland to review the risks in relation to the tram project and to ensure that funding released is accompanied by further improvements in project control as the scheme moves towards full implementation.

13. A final decision to commit to infrastructure and tram vehicle procurement is not required before late Summer 2007. However, the momentum behind the tram will certainly increase significantly once utilities diversions are underway. Delay in utility diversions would, on the other hand, add very significantly to the risks facing the scheme and would certainly delay the completion of the scheme.

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14. Before a final commitment is made I will require tie and City of Edinburgh Council to implement improved project controls, provide further evidence of scheme affordability and continue to comply with Transport Scotland's project review programme including the Scottish Executive Gateway 3.

### Presentation/Handling

15. This is a very significant investment in Scotland's capital and I would expect to make an announcement to coincide with the start of utilities diversions work in March. A full media plan for that announcement is being prepared.

### Conclusion

- ◆ **The tram represents a significant opportunity to demonstrate our vision of a competitive Scotland committed to tackling difficult and entrenched problems such as congestion**
- ◆ **The scheme needs to be managed very robustly and I will be requiring further improvements in project governance and control from tie Ltd and City of Edinburgh Council**
- ◆ **The scheme is within the Budget envelope that Cabinet previously agreed**

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