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## **EDINBURGH TRAM PHASE 1A**

As you know Tavish Scott has today announced that Transport Scotland will provide £60m in grant to allow you to start utilities diversions and advance works for Phase 1a of the Edinburgh Tram Network, to continue with the design and development of Phase 1a and to continue procurement activity necessary to complete the Final Business Case (FBC).

This is a huge step forward towards the return of trams to the Capital and recognises the strong economic and social contribution the tram will make to development of the Edinburgh city region.

I would like to thank you for the impetus you have given to tram over the last year since the tram bills achieved Royal Assent. You have made it clear throughout the Council that priority must be given to the tram project and that solutions must be found to the challenges facing the tram team. I know that we share a conviction that this message will need to be reinforced over the coming months and years to ensure robust delivery against timescales and budgets. I have reminded those involved with tram in Transport Scotland of this need and I have no doubt you will do the same in the Council, tie ltd and Transport Edinburgh Ltd. The partnership between these organisations established in the Tram Project Board is starting to work well and we must build on that and ensure the board members are supported fully.

As projects move forward from development into delivery the challenges change and it is appropriate that the systems that support strong project delivery develop alongside the project itself. For this reason we have now decided that it would be appropriate for the tram project to build on the improving quality management system in tie ltd by completing a system of robust, transparent, externally verifiable project controls. These controls need to apply to tie ltd, Transport Edinburgh Ltd and the Council. I see this as a step towards achieving certification for ISO 9000 (or equivalent standard) for the project and I look forward to agreeing an action plan to achieve certification.

In making this grant award Ministers have agreed some key conditions that must be met between now and 1 October 2007. Further detail of these is set out in Damian Sharp's grant offer letter of today's date addressed to Andrew Holmes but I thought it would be helpful to summarise some of the key tests that will be applied to the tram scheme.

Ministers will expect a re-assessment of the benefit cost ratio of the scheme in the light of final bid costs for tram vehicles and infrastructure and taking account of actual experience in managing utility diversions.

My team will pass on some further comments on the draft Final Business Case and we will expect to see these reflected in the completed FBC. These are matters of detail and should not require any fundamental reworking of the draft FBC. Often these are clarifications of where we would expect updates to be provided and of the nature and extent of any update.

Once you have received best and final offers from the Tram and Infrastructure bidders we will need to conduct a final analysis of the affordability of the scheme and progress to contract award will depend on the scheme remaining affordable within available funding.

We need to complete discussions on the funding agreement between Transport Scotland and City of Edinburgh Council for the project. That agreement will need to cover all aspects of project funding and risk allocation and must be signed before negotiations are concluded with the preferred bidders for the tram vehicle and infrastructure. Clearly we would like to conclude an agreement well before that and I have asked Damian Sharp to resume the very constructive discussions that he had with Andrew Holmes and Donald McGougan last year that led to the existing agreement in principle that is reflected in the draft FBC.

The final condition is that you need to submit the Final Business Case by 1 October 2007 to allow Ministers to take a decision on releasing the capital grant to allow purchase of the tram vehicles and infrastructure.

I know that the Council strongly supports Phase 1b of the Edinburgh Tram Network and that the business demonstrates that it performs well in economic appraisal terms. The challenge that now lies before the Council is to ensure that Phase 1b is affordable. To do this tie ltd will need to demonstrate that the savings it believes can be achieved are actually being achieved in practice. Ministers also attach great importance to development contributions from those who benefit from transport infrastructure. We are not convinced that the full development potential of Phase 1b is reflected in likely contributions and I know you are working hard to ensure contributions are in line with the benefits.

In light of this Ministers consider it appropriate only to go ahead with work on Phase 1a at this time but look to the Council and tie ltd to demonstrate the affordability of Phase 1b.

We have come a long way on the journey to a very significant enhancement in Edinburgh's public transport network and we must keep moving forward by tackling the challenges such a complex project brings. I look forward to making further positive progress over the next 7 months.

I am copying this letter to Andrew Holmes and Donald McGougan at City of Edinburgh Council, to Willie Gallagher at tie ltd and to David MacKay and Neil Renilson at Transport Edinburgh Ltd.

**MALCOLM REED**