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**From:** Sharp DP (Damian)  
**Sent:** 23 August 2007 11:12  
**To:** PS/Transport Scotland; Reeve W (Bill)  
**Cc:** Houston G (Guy); Duffy F (Frances); Spence M (Matthew); Ramsay J (John); Davis L (Lorna); Adamson L (Lucy); Morrissey J (Jerry); McShane N (Natalie); Pettit M (Mark)  
**Subject:** Edinburgh Trams - progress note  
**Importance:** High

Malcolm  
Bill

## **EDINBURGH TRAMS – PROGRESS NOTE**

### **Purpose**

1. To provide an update on progress with Edinburgh Trams issues and outline issues that still need to be resolved.

### **Discussions with CEC and tie ltd**

2. I have made it clear that all discussions should now be between CEC and Transport Scotland. To reinforce the Minister's point on CEC's ownership of the project, I have stressed that we are very happy for the Council to invite tie and/or TEL staff but that we will not in future meet either organisation.

3. I have met Donald McGougan and Graeme Bissett with the two-fold purpose of resolving as much as possible of the practical arrangements for project finance, monitoring and control and identifying issues that are likely to require escalation to resolve. I am due to meet them again late this afternoon.

4. These discussions have progressed well and we are nearly there on practical arrangements and only have 3 issues of substance left to resolve:

- concessionary fares
- whether the grant is available for 1a only or for 1a and 1b (but only if the whole of 1a is delivered)
- whether any additional funding is needed before financial close and, if so, from whom it is needed

5. I attach a latest, clean version of the proposed grant offer letter and a marked up copy with commentary on issues that still need to be reflected in the grant. There may be a need to reflect the resolution of the 1a/1b question in the letter – it currently assumes Ministers will stick to the 1a only line.



Edinburgh Trams -  
grant offer ...

- clean version



Edinburgh Trams -  
grant offer ...

- mark up version

6. I have drafted the letter to go in Malcolm's name given the amount offered.

7. The latest version has just been shared with CEC but with the explicit caveat that its contents are still subject to internal clearance within Transport Scotland. The mark up highlights the main changes since the earlier version shared with CEC.

### **Concessionary Fares**

8. It is a sticking point for CEC that trams are eligible for concessionary fares on the same basis as buses. They understand that the rules of the scheme at the time could be different to how they are now and are not particularly concerned by that. This is a decision for Ministers who would need to promote the necessary secondary legislation and this need only be done a few months before the tram begins operation. However, CEC are clearly unwilling to commit to tram construction without comfort from Ministers that the tram will be included in the concessionary fares scheme.

9. The reason this is so important is not so much income since the no better, no worse principle of concessionary fares means TEL should not lose out without concessionary fares. The issue is that concessionary travellers will not transfer from bus to tram without concessionary fares on the tram and this will mean that scheme benefits will not be realised and TEL will not be able to reduce bus services once the tram is in place.

10. I suggest that we dig out the advice we gave to previous Ministers, check the numbers against our latest info for Lothian Buses and then seek a decision from current Ministers. We have already highlighted the issue to Mr Swinney so this should not be an unpleasant surprise for him.

### **Phase 1a or Phase 1?**

11. CEC want to conclude the deal now that the £500m is available for all of Phase 1 leaving them to find the total costs of 1a and 1b above £500m. As currently drafted we are not guaranteeing the whole of £500m if CEC does build 1b.

12. I know that we have agreed the current position of offering grant for 1a only with Ministers and they have made the principle clear that they will offer no more than previous Ministers. However, I think we need to put the question to Ministers as to how they wish to take this forward – if we do not then CEC certainly will.

13. The CEC proposal is effectively that the grant would be structured as up to £500m for phase 1. Phase 1a from Leith Waterfront to Edinburgh Airport would be a minimum deliverable. If only phase 1a were delivered then CEC would be entitled to up to £500m and any saving from £545m would be split between us. If phase 1b were also delivered then the remainder of our £500m would be used up and CEC would have to find everything above £545m.

14. Committing to availability of savings for phase 1b goes beyond previous Ministers' public position and Ministers may want the flexibility to decide about 1b later. Declaring availability of savings now does encourage CEC to make sure that Phase 1a comes in under £545m as they then get to keep all the saving not just 10-11% of it. It also prevents a campaign over the next year to 18 months to get 1b funded by making it entirely CEC's problem.

### **Any further grant award before financial close?**

15. tie has presented information arguing that more funding will be required. These numbers are not exactly aligned with CEC's own financial profile for the same period so I have put the ball back in CEC's court to say they will need to come up with one set of numbers that CEC submits as evidence that there is a real issue.

### **Timetable to decisions**

16. The current plan is to:

- produce a final business case by end September to support choice of preferred bidder
- get this endorsed by the Council in October subject to final prices
- come back to Council in December to confirm scheme is still within budget
- complete financial close in January

17. This raises the question of when would Ministers consider the revised business case – would they be willing to give conditional approval in October following the Council decision? ie confirm that they will support the scheme so long as the Council continues to do so. If not then they will need to consider the scheme after the final Council decision on 20 December introducing the risk of delay over Xmas. Confirmation in October (subject to final confirmation of affordability by the Council) would help maintain bidder confidence. We would already know enough to confirm that the BCR remains above 1 and the Council could, as part of its decision, confirm that no ongoing subsidy would be sought from Scottish Ministers.

### **Detailed issues**

18. I attach a further list of detailed questions that need to be resolved together with suggested actions and potential timescales.



Tram issues.doc

### **Conclusion**

19. I invite you to note the current position, likely future actions required to resolve outstanding issues and would welcome any feedback.

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