

29 November 2006

Councillor D McGougan

Dear Mr McGougan

I understand that a draft Business Case for the Edinburgh Tram Scheme is due to be issued next month which will, hopefully, contain an up-to-date figure for the anticipated construction cost of the project.

I have recently read the UK Department for Transport Guidance Document, entitled "Procedures for Dealing with Optimism Bias in Transport Planning". Pages 27 – 29 of this report suggest that, where a Promoter wishes to be 90% certain that capital costs will not escalate, then, at the time of taking the decision to build (which I assume is to be December 2006), an uplift of 68% (for a light rail scheme) is required.

My understanding is that the sum required to cover optimism bias should be in place or readily available prior to proceeding with construction works and that, in the case of the Edinburgh Tram Scheme, the City of Edinburgh Council requires to be assured that there will be no cost overrun at all. This would suggest that a figure of upwards of 70% of the anticipated construction cost should be added to the cost stated in the December 2006 Business Case to allow for optimism bias.

Therefore, assuming that the draft Business Case in December 2006 gives a figure of (for ease of calculation) £500 million for the construction of Phase 1 of the Edinburgh Tram Scheme, this would suggest that a minimum of approximately £350 million requires to be added to cover optimism bias, giving a total of funding required to be in place or readily available prior to construction commencing of £850 million.

I am aware that the Scottish Executive has offered a grant of around £490 million, "subject to a robust Business Case", and that the City of Edinburgh Council has offered a contribution of £45 million, arising partly from proposed – not actual – land sales. Assuming a capital cost of £500 million, there would then be a shortfall of in the region of £315 million, funding for which would require to be identified and in place prior to construction works commencing.

I would be most grateful if you could advise how the additional funding required to cover the minimum 70% optimism bias is to be met?

Whilst I am aware that the UK Department for Transport has no remit in Scotland, I am sure you will agree that it has had significantly more experience of introducing tram systems than we have had in Scotland. Furthermore, I have heard many times from both TIE and the City of Edinburgh Council that "lessons have been learned" from England's disappointing experience of tram schemes and, with that in mind, I am sure that you will be placing great importance on any guidance the Department for Transport has issued on the subject.

In the event that Transport Scotland is, contrary to the DfT guidance document, content to allow a lower figure for optimism bias, and the construction costs subsequently escalate beyond the funding available, I would be grateful for clarification of how any such shortfall would be met.

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Finally, I would take this opportunity of drawing to your attention a report by the same author, Professor Bent Flyvbjerg, entitled "Inaccuracy in Traffic Forecasts" (<http://flyvbjerg.plan.aau.dk/pub.htm>), which concludes that based on a high sample number "for nine out of ten rail projects, passenger forecasts are overestimated; average overestimation is 106%. For 72% of rail projects, forecasts are overestimated by more than two-thirds".

If this has been the historical experience, then I would ask that you bear this in mind when considering the robustness of the patronage forecasts for the Edinburgh Tram Scheme, particularly given the absence of a preliminary design, much less a final, approved detailed design. In particular, I would ask that you give consideration to what impact such an overestimation would have on the operating viability of the tram scheme and clarify from what source any consequent operating shortfall would be met.

I look forward to hearing from you.

Yours sincerely

Mrs S. Polson

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