



[PAPER !]

Confidential

Cllr Andrew Bums
City of Edinburgh Council
Room 9/33
City Chambers
High Street
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Our Ref: 09.16/EB/JRM

Date: 12th January 2004

Dear Andrew

You will receive on 14th January 2004 a report from **tie** which contains our recommendations on the congestion charging scheme. That report is focused on the configuration of the scheme and the consultation process and is the product of considerable analysis by the **tie** team and their advisers. During broadly the same period, the team have finalised the two Tram Bills, with comprehensive supporting documentation. As a consequence, **tie** has a very good and detailed perspective on the overall integrated nature of the range of schemes which we have for a long time captured in the description "Integrated Transport Initiative" and which it is **tie's** responsibility to promote. The purpose of this private letter is to underline **tie's** view of the inseparability of the main components of the ITI, in response to any voices which may favour severe curtailment or elimination of the congestion charging scheme.

In operational terms, it is proposed that a new tram system will be constructed and will have a positive effect on the City's economy and on other key social objectives. However, the tram will have a marginal effect at best on congestion within the City Centre - this is not the purpose of the tram.

More fundamentally, since mid 2003 **tie** has been required to approach the funding of the tram (lines 1 & 2) independently from congestion charging revenues. Our work since then has identified a funding requirement greater than the level of Executive grant award. The linkage and attitude of the Executive is critical here. The additional funding requirement is of such a scale that additional Executive money will be required if lines 1 and 2 are to be built. Line 3 would likewise have no serious likelihood of ever being built. In the absence of any such financial increment, only a severely truncated system could be constructed. Having created an expectation of a city wide system, any such truncation will inevitably appear to the public and press to be an abject failure in execution by the Council.

In addition, there is no guarantee that a truncated system will produce the robust economic appraisal which the existing proposal exhibits. A less robust economic case

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could be an excuse for the Executive's withdrawing the grant offer. There is therefore a clear risk that Edinburgh could end up with no tram system at all. It is the considered and strong view of the **tie** Board that the chance of persuading Scottish Ministers to provide further substantial support to the Edinburgh tram project will be virtually zero if the congestion charging scheme is not pursued, at least to the point of a referendum. Our exchanges with the Executive have been extensive and this is the view of all the senior **tie** team who are involved.

On the other hand, a real commitment by the Council to implementing congestion charging will in our view transform the funding opportunity for the trams. Clearly, we have a joint responsibility to seek funds from all relevant sources, but **tie**'s view is that in these circumstances a residual funding gap will be looked on favourably by the Executive. At a minimum there is a basis for a robust negotiation. Without a commitment to congestion charging we believe that, realistically, there would be little likelihood of productive dialogue.

There is a further potentially fundamental financial issue. **tie** has spent considerable time assessing how operational cash flow within the tram system should be managed and concluded there was no chance of getting the private sector to take the lion's share of revenue risk at an acceptable price. Accordingly, someone must take that risk if the tram is to operate and at present this is presumed to be the Council. This risk assessment has still to be quantified and may yet prove to be a barrier to the tram's proceeding. However, it would be possible to construct a risk underwriting or sharing arrangement with the Executive to mitigate the risk to the Council. **tie** believes that the likelihood of reaching such an agreement is caught in exactly the same trap as the prospect of incremental capital funding. With congestion charging, the probability of reaching agreement improves enormously; without it, we believe there is little chance of passing any of this risk to the Executive.

The ITI is visionary and it is also deliverable. Without a commitment to congestion charging **tie** believes there is in fact no ITI – instead, at best only a limited tram system with no guarantee that even that can be delivered. We hope these points are considered fully in determining the way forward for congestion charging.

Yours sincerely,

A large black rectangular redaction box covering the signature area.

pp Ewan Brown
Chairman