



Trams for Edinburgh - Post Election Briefing Note

Circulation

This note is available to all parties with an interest in the future of the tram project.

Important note

The results of the 2007 parliamentary and local authority elections mean that different political priorities may now prevail compared to those which have previously driven the project forward. The purpose of this paper is to set out fairly the current position of the Tram project and the future options, in order to inform those deliberations. **tie** Limited's interest is:

- to ensure that the decisions made are fully informed by the facts, important wider considerations and relevant professional judgements ; and
- to ensure that the interests of public money and of the people employed by the company (and in other organisations) are properly taken into account.

Summary

The benefits from the introduction of the Tram to commuters, business and tourism have been extensively evaluated and found to be compelling. These include the ability to meet forecast transport demand in an environmentally acceptable manner and the many benefits to the economy. As a publicly-owned company, **tie** believes it has a responsibility to set out the implications of different future options in a clear manner. The cost invested in the parliamentary process which led to the two Tram Acts was £17m and the investment in the project's implementation to date is £62m, making a total investment of £79m. In line with the Draft Final Business Case approved at the end of 2006, further funding of £394m from the Executive and £44m from the Council is required to complete the Airport to Leith tram line. The fundamental and related objectives of controlling cost within that total and having trams operational by early 2011 are both achievable.

The consequences of a decision to terminate the project would include up to £35m of contract wind-down, redundancy and other costs and there will be a number of wider, adverse consequences for Edinburgh and Scotland. The total sunk public sector money arising from a decision to terminate would therefore be £114m.

Tram project – opportunity and options

The case for the tram project has been developed and tested over many years and the project has evolved to fit the most important needs of the City while remaining within funding limits. The primary focus is on the tram line from the Airport to Leith (Phase 1a of the project), connecting the airport to development areas in West Edinburgh (the Gyle Business Park, RBS World Headquarters and development areas near the airport), the Central area (city centre and financial district) and the regeneration areas at the waterfront.

£79m has been invested in the project to date, including £17m on the parliamentary process leading to the two Tram Acts. The additional spend to deliver the Airport to Leith tramline from May 2007 is £438m including inflation and contingency. Of this sum, £394m is anticipated from the Scottish Executive and £44m from the City of Edinburgh Council.

£60m will be spent in 2007, currently at the rate of £5m-£10m per month, and the balance spread over the period to the end of 2010 when the tram is expected to be ready for operation. The bid process for the construction and vehicle contracts is well-advanced and there is a high degree of confidence that these capital cost estimates will be achieved. The underlying cost estimates have been subject to detailed review over many years and have been firm within a small tolerance since 2005.

Progress to date has been considerable. Design work commenced in 2005 and currently involves some 250 skilled designers working to a conclusion before the end of this year. Construction work has commenced with 50 staff mobilised at Leith on utility diversion work and 30 staff undertaking excavation works for the depot site at Gogar. Procurement of the principal construction and tram vehicle supply contracts is well-advanced and will reach a conclusion in the autumn of this year.

The project has a well-defined and rigorous governance and management structure with clear accountabilities including a Project Board with representation from all the main stakeholders, a nominated Senior Responsible Owner for the project and a Project Director, all with documented and unambiguous delegated authority. Just as important, the people involved have a personal and professional motivation to ensure the project is well-run. The contractors under consideration have UK and world-wide experience in delivering high quality light rail systems on time and budget. The **tie** Limited project team also have direct experience of delivering light rail systems and their work is monitored by the **tie** Board, which includes both elected members of the City of Edinburgh Council and business people with directly relevant experience.

The second phase of the project is scheduled to run from Phase 1a West of the Haymarket interchange (at Roseburn) to the Granton regeneration area (Phase 1b of the project). This is to be contracted as a separable part of the project, but on pre-agreed terms should a decision be taken to proceed. The additional capital cost of the Roseburn to Granton line is £92m.

Business leaders in the city believe that business and employment levels will be enhanced by the tram project in the long term through increased connectivity across the city, making it easier to get around and encouraging continued economic growth and inward investment. 30,000 new jobs are projected for the city by 2015 and the ability to support this growth with efficient transport infrastructure will be paramount. The principal wealth-creating organisations in Edinburgh see the tram project as a critical part of their strategic requirements in relation to their current workforces and their ability to attract both people and business from around the UK and the world.

Less tangibly, but just as important, the image of Scotland's capital city to business and tourism will be greatly enhanced by a modern transport system including the tram. Our ability to attract major business, conference and sporting events will be strongly influenced by the quality of transport for visitors. Competitor cities almost all have a sophisticated integrated transport system including trams. Trams can also help to revitalise shopping streets, with evidence from elsewhere that retail activity can enjoy dramatic benefits following the introduction of a tram system.

A key strength of the Edinburgh tram project is that it will result in a fully integrated bus and tram system which brings the best out of both modes through timetabling, common ticketing and interchange points. The tram can move high volumes of passengers rapidly along key arteries, complementing the flexibility of the bus system. The tram will also link to the highly successful Park and Ride site at Ingliston near the Airport (which is currently being expanded) and to other potential Park and Ride sites on the outskirts of the City, helping commuters, visitors and shoppers from outside Edinburgh. A further advantage of trams is their established ability to attract people away from car use, further reducing congestion.

All the signs are that the Edinburgh economy has excellent growth potential, with benefit for the whole of Scotland. Recent statistics reinforce the growth in public transport usage in Edinburgh. Future growth in demand for public transport will be increasingly difficult to meet in the absence of tram, forcing up the number of buses on the city's streets – especially in key arteries like Princes Street and Leith Walk - and creating substantial and undesirable environmental effects. The number of car journeys and levels of congestion will also increase, potentially to levels which will restrict economic growth. There is only limited scope for new bus priority lanes ("greenways") beyond the extensive network already in place. Accordingly, the commute into and through Edinburgh will be eased greatly by the tram, with more than 20 million tram passenger journeys a year forecast.

A vital by-product is that the increased volume of passenger movement can be achieved without the on-street emissions associated with bus transport, which directly assists the objective of meeting air quality targets.

Financially, the business case for the tram project demonstrates that the project is viable requiring no operational subsidy. There is no PFI / PPP

element in the capital funding of the project. The Benefit to Cost ratio, which is a proxy for a Return on Capital calculation, is positive.

The trams will connect people to jobs by ensuring that people without access to cars living in some socially excluded areas of the city can have a reliable and safe public transport link to job opportunities in the expanding areas such as West Edinburgh.

There is quite rightly some concern about the effects of disruption during construction. This can be effectively managed and **tie** has put in place a programme of local consultation alongside a construction management plan which meets the highest standards in the industry. A compensation scheme has also been put forward and embraced by local businesses.

Looking to the future, the Tram Acts give the Council the powers to extend the Airport route out to Newbridge, offering the option of extension outwards to West Lothian and to a new multi-modal Forth Crossing.

In summary, the case for the tram has been extensively analysed and validated. If the project proceeds, the risk factor moves from “does it make sense” to “can it be delivered on time and budget”. The machinery is in place to do so. Further investment of £438m will secure the primary tram line from the Airport to Leith with Edinburgh’s commuters, businesses and tourists enjoying the full benefit early in 2011.

Market and commercial consequences of termination

If a decision is taken in the short term to terminate the project, the implications would include :

- Very little if any value will be retained from the investment of £79m if the project is now terminated.
- Termination of two substantial delivery contracts – for system design and for utility diversion works – with consequential wind-down costs.
- Cessation of the procurement process for the tram vehicle and construction works with consequential wind-down costs.
- Numerous smaller scale contracts will also require to be terminated, with consequential wind-down costs.
- The construction market in the UK, especially in transport and infrastructure, is highly competitive with numerous high profile projects scheduled for the next five years and beyond. Commercial enterprises will evaluate the termination risk in relation to other Scottish Executive projects against a backdrop of a major project being terminated despite substantial prior investment and a strong business case. The appetite for future projects and the cost consequences through risk premia will be negative.
- In addition, with the weight of business opinion so firmly in favour of the tram, the attitude of those businesses to further growth within the City will be coloured by a decision to terminate the tram project.
- The pace and scale of regeneration in the Waterfront area will be curtailed.

- The curtailment of economic development will reduce future local and national tax take.
- If the EARL project is also terminated, Edinburgh will be left as one of very few major cities in Europe, with no rail link of any kind to its airport.

Implications for people

tie has assembled a team of 117 people, the majority working on the tram project. 70% of **tie**'s people are graduates and many have post-graduate qualifications. This team has excellent credentials for delivery of the project, with well over 1,000 years of experience of rail and infrastructure projects, much of it a senior level. The team also has a unique blend of public and private sector experience.

The team has been assembled in an increasingly competitive market and is a prized resource. The expertise will not be easily replicated and the ability in future to attract high-calibre people directly to public sector projects in Scotland will not be enhanced by a decision to terminate.

An orderly wind-down will incur redundancy payments and related costs. In total, the wind-down costs which will be incurred, including contractual, redundancy payments and other costs, are currently estimated at £27m-£35m.

There are additional implications for the project's partner organisations, which have around 400 people currently working on the project. The anticipated additional jobs created by the construction phase will also be foregone, including a large proportion of locally employed apprentices and experienced workers. The long-term jobs resulting from the operation of the tram will also be lost.

