EDINBURGH TRAM (LINE ONE) BILL COMMITTEE

Tuesday 7 February 2006

Session 2

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CONTENTS

Tuesday 7 February 2006

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EDINBURGH TRAM (LINE ONE) BILL.....1749

EDINBURGH TRAM (LINE ONE) BILL COMMITTEE
† 3rd Meeting 2006, Session 2

CONVENER

*Jackie Baillie (Dumbarton) (Lab)

DEPUTY CONVENER

*Phil Gallie (South of Scotland) (Con)

COMMITTEE MEMBERS

*Helen Eadie (Dunfermline East) (Lab)
*Rob Gibson (Highlands and Islands) (SNP)

*attended

THE FOLLOWING GAVE EVIDENCE:

Councillor Donald Anderson (City of Edinburgh Council)
Barry Cross (Transport Initiatives Edinburgh Ltd)
Andrew Holmes (City of Edinburgh Council)
Michael Howell (Transport Initiatives Edinburgh Ltd)
Tavish Scott (Minister for Transport and Telecommunications)
Damian Sharp (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

CLERK TO THE COMMITTEE

Jane Sutherland

LOCATION

Committee Room 4

† 2nd Meeting 2006, Session 2—held in private.

Scottish Parliament

Edinburgh Tram (Line One) Bill Committee

Tuesday 7 February 2006

[THE CONVENER *opened the meeting at 10:34*]

Edinburgh Tram (Line One) Bill

The Convener (Jackie Baillie): Good morning, everyone, and welcome to the third meeting in 2006 of the Edinburgh Tram (Line One) Bill Committee. Regular attenders will realise that we have had hundreds of meetings, each one more joyful than the last.

Before we take oral evidence from the City of Edinburgh Council and Transport Initiatives Edinburgh Ltd, I put on the record the committee's thanks to Catherine Scott, who has provided us with legal support during consideration stage. It appears that she has now escaped and moved on to pastures new.

In addition, members and the public will be aware of yesterday's article in the *Edinburgh Evening News*, which appeared to outline the committee's views on a number of different areas. I put on record that the committee has not yet reached any decisions on its consideration stage report and that it is only when that report is published that the committee's views on any aspect of the bill will be known.

The first item on the agenda is oral evidence taking on outstanding preliminary stage funding issues. At our meeting on 22 November, we agreed to invite representatives of the City of Edinburgh Council and Transport Initiatives Edinburgh and the Minister for Transport and Telecommunications to give oral evidence on those issues. Members are invited to note paper 1, which provides a copy of the council's paper of 19 January, which the council agreed on 26 January and which details the funding and phasing approach for constructing and operating the tram scheme. Paper 1 includes a briefing note from TIE, which provides further background information on the council's funding and phasing paper.

On behalf of the committee, I welcome to the meeting Councillor Anderson and Andrew Holmes from the City of Edinburgh Council, and Michael Howell and Barry Cross from TIE. Given that there may be some overlap in responsibilities, I thought that it would be prudent to take oral evidence from the representatives of the council and TIE together, as a panel. However, although questions will be directed to the panel, I do not expect all panellists to respond.

As we have the background papers, rather than invite opening remarks, I propose to move straight to questions.

Helen Eadie (Dunfermline East) (Lab): Good morning, gentlemen. When does the City of Edinburgh Council expect the first part of the tramline to begin operating?

Councillor Donald Anderson (City of Edinburgh Council): As things stand, the scheduled opening date is 1 July 2010. That is on the understanding that the proposal will get parliamentary approval. We anticipate that the utility diversion works will start in the autumn of 2006 and that work on the new infrastructure will begin in the following year. All things being equal, we will aim for 2010.

We have crossed a major threshold on progress to delivery of the tram project, in that we have now secured all-party support on the council for the construction of a tram for Edinburgh. That is highly significant, given the number of objections to the project and the amount of concern that has been expressed about it. I am extremely pleased that, following their robust scrutiny of all the information, the various political parties on the council have voted to take the next step. Not only the Liberal Democrat and Conservative members, but the council's newly formed Scottish National Party group of one member came in behind the tram proposal.

In my view, momentum is building up behind Edinburgh's tram project. As well as cross-party support, we have obtained an enormous amount of support from the business community, including the Edinburgh Chamber of Commerce and the Edinburgh business assembly, and from Scottish Enterprise, which is a key partner agency in the city. We now have the chance to move forward quickly, to build up that momentum and to ensure that we get the project completed, which is what we all want to achieve.

Helen Eadie: That sounds like progress.

When does the council expect to operate the Granton to Haymarket section?

Andrew Holmes (City of Edinburgh Council): The answer must be that, as was set out in our report to the council, we hope to be able to operate within the figure that is currently in the sums for optimism bias. We are working towards the objective of providing the section to Granton as part of the first phase. We would then consider the remainder of the northern loop against various future funding options.

Helen Eadie: When do you expect to operate the Granton to Leith section?

Andrew Holmes: That is what I was referring to. We intend to build the whole of tramline 1 as a loop. In my view, the funding issue revolves around the £45 million that is required for the Granton to Leith section. Initially, we will consider whether there are any funding options that we have not explored, but we will do so against the possibility of further development funding and funding that might become available from bids to the Scottish Executive. Historically, we are the most successful local authority in Scotland in terms of bidding for mobile funding. We will also consider the possibility of various innovatory funding solutions, which might include variations on private finance initiative solutions, with the intention of closing that gap within the next few years.

The Convener: Before I call Rob Gibson, I ask you for a precise answer to the question. We will explore funding in more detail later. We are keen to know not exact dates—I appreciate that the start date for the bit of the loop that you intend to construct is 1 July 2010—but your best guess as to when the subsequent phases are likely to be completed, or at least commenced. Surely you are able to give us your best guess?

Andrew Holmes: I would say almost certainly by 2020. The objective would be to be far ahead.

The Convener: Are you talking about both phases?

Andrew Holmes: The objective is to try to construct the section from Roseburn to Granton by managing the work within the optimism bias in the estimates. We will see whether we can get sufficient funding headroom from that and from the work that we are doing to explore possible further developer contributions within the timetable that Councillor Anderson set out for the first phase to Granton. On the remaining section along the waterfront, it is a question of exploring alternative funding options when the first section is up and running, but I would like to say that the date will be certainly no later than 2020.

Phil Gallie (South of Scotland) (Con): Given that it seemed obvious from the start that money was going to be a problem, why did you enter the private bills procedure with a proposal for a circular route? Why did you not propose a phased approach?

Andrew Holmes: The loop is still our desire and our intention. It is only when one gets the focus of being close to achieving the powers under the bill that one is able to start resolving the various difficult funding issues, such as indexation and the total level of developer contributions that one can extract. I still think that, within the optimism bias, only a small element of the total costs is unfunded. I do not think that it is usual, in the initial stages of the promotion of a scheme, to say that every last penny of funding should be guaranteed to be in the pot before one has the confidence to proceed. As I said, within the totality of the proposed tram network, we are confident that the vast majority of the funding is in place. Optimism bias apart, we are talking about a gap of about 10 per cent.

Councillor Anderson: In our consideration of the project, we must be careful that we do not throw the baby out with the bath water. We cannot build any part of the scheme unless we get parliamentary approval. We have a worked-up scheme with a robust business case, and the scheme comes within the cost parameters within which we are operating. We believe that the scheme can be built on a phased basis and we are confident that, with continued work for a period of time, it can be secured. If we cannot get the parliamentary approval process completed, we will not be able to build any part of the network and the whole project will fall. It is important that we remain focused on making sure that we get through the parliamentary process so that we can get the project going as quickly as possible.

Andrew Holmes: At an earlier stage in my career, I was involved in the promotion of the Edinburgh city bypass project. When we got that project up and running, we had funding for only one section, but it is all there now.

The Convener: I press you on the point because it is important. I could not agree more with Councillor Anderson's comment that he wants to see the process through, but I am keen to establish when you anticipate that the various sections of the tramline will be built. I am clear about the start date of 1 July 2010. Am I correct to state that Mr Holmes's answer is that you will attempt to build the Granton to Haymarket section within the period up to 2010? If, for any reason, you are unable to save some of the funds that are available as part of the optimism bias, when will you build that section?

10:45

Andrew Holmes: If we assume that we had the remaining two sections to build and we were unable to bridge the gap, we would try to mobilise funding from various sources to allow the first section—from Roseburn to Granton—to go in no later than 2015, say. The financial gap is such that it is reasonable to aspire to that target. We would then move on to construct the remaining section along the waterfront in the next phase.

The Convener: Thank you. That is the answer that I was looking for.

Rob Gibson (Highlands and Islands) (SNP): We want to explore the effects of the scheme on the residents of Edinburgh. What consideration

was given to the continuing blight on properties along the sections of tramline 1 that might not be built as part of the first phase?

Andrew Holmes: We must distinguish between blight as defined in law—there is a clear legal process for that—and uncertainty. Very few properties on those sections are affected by formal blight. An example of a property that was affected is the Caledonian Ale House, but a deal has been done on that and the property has been acquired. No residential property on tramline 1 is subject to formal blight. Odd, relatively small sections of non-council owned land are affected but I do not think that there is an issue with blight as defined in law.

Uncertainty is not new. The principal uncertainty exists in relation to the former railway corridors, including the Granton seafront as far as Starbank. The old railway lines were acquired by the council in the mid-1970s. At that time, the council recognised the strategic opportunity that the lines afforded and it acquired them specifically for the purpose of laying down some form of rail or road transport. To that extent, there has been uncertainty for the best part of 30 years. Most people who bought houses in those areas did so in the knowledge that there was uncertainty about the continued use of the former railway lines. I do not think that anything has changed in that respect.

We will try to keep the public informed about what is going on, but for the vast majority of the route there is no significant change of circumstances because of the promotion or non-completion of the tram system. There have been long-standing proposals for transport infrastructure and most people who bought homes in the area did so with that knowledge, because the proposals were well publicised at the time. Uncertainty remains, but the amount of blight as defined in law is minimal.

Councillor Anderson: The other point about people who live in close proximity to the tram route is that there will be a substantial uplift in property values when the line has been constructed. In every other transport system of a similar nature—whether it is an underground railway or a tramline—property values in the immediate vicinity have been enhanced. People who live near the line want the tram system to be built as quickly as possible, as we do. We hope that we will achieve that.

Rob Gibson: We are well aware of the potential increase in property values that trains and trams bring, but we are talking about the difference between a long-term principle in a plan and the actual construction of the system over a period of 15 years or more. The 15-year period from now until 2020 is considerable. What justification does the committee have for continuing to recommend that the blight provisions in sections 38 and 39 should remain in the bill, given the possibility of unlimited extension?

Andrew Holmes: It is reasonable for the committee to consider a realistic end date. That is quite normal. As I said, the amount of blight as defined in law is minimal and the uncertainty is, in part, simply a continuation of a long-term historical situation. Even if the tram project had never existed, that uncertainty would remain within the statutory planning system.

My final point is that the uncertainty is a disappointment for many of the communities in north Edinburgh. The last council meeting featured not just the deputation from one or two of the objectors, but deputations from communities who expressed the view that they would be disappointed if they did not get the tram into north Edinburgh.

Rob Gibson: Indeed, but we were not talking about that. The committee has its views about the potential of the service. I would like to press you to decide a reasonable maximum period for allowing this blight to continue.

Andrew Holmes: A 15-year maximum period would fit in with what I have just said about our desired completion timescales. It also fits in with things that exist in the statutory planning system—for example, the normal life of a structure plan, which brings its own planning blight with it.

Phil Gallie: Councillor Anderson referred to the fact that nearly everyone was clamouring for the tramline and that there will be little effect on people around the tramline. You said that their properties are likely to have added value. I put it to you that that conflicts with some of the evidence that we took when the committee considered objections.

Councillor Anderson: That evidence being what, exactly?

Phil Gallie: Did you not read the evidence that was given to the committee?

Councillor Anderson: I have read so much that I would not know where to begin. If you have a specific issue or concern, I would be happy to respond.

Phil Gallie: People are concerned that, during the construction period, the value of their homes will go down. Mr McIntosh confirmed that construction could well have an effect, although he was more positive about the longer term, in line with the comments that you have made. Many of the objectors feel that the tramline will not really serve their homes and that all that they will have is loss of privacy, noise and other problems. Although the majority will perhaps benefit, there is

certainly a downside for a considerable number of people.

Councillor Anderson: I understand that there is concern; however, the evidence of what happens when one of these schemes goes into place shows that the opposite is the case. The uplift in the value of residential properties along the tram route in Dublin is estimated to be 15 per cent, and in Strasbourg the uplift is 50 per cent. In reality, people see a substantial uplift. It is difficult to convince people of that; we can tell them almost until we are blue in the face, but they will not necessarily believe it. However, in reality, once these major infrastructure projects are in place, they have a positive effect on the value of property, both commercial and residential, along the route. I do not see that effect being any different in this scheme.

Phil Gallie: There are still doubts in my mind about whether that will be the case for some, but I recognise that the majority—

Councillor Anderson: People do not know what is involved in building a tram, and there are understandable concerns about the construction process. I sympathise with those people. However, in the case of London Underground, residential property values increase the closer that the properties are to an underground station. That is the evidence—that is the reality—but it is not always easy to convince residents that that is the case.

Phil Gallie: If there was evidence that that was not the case, especially during construction, TIE has given some commitment that it will recognise that and will take it into account by giving people financial support. Would that be your view?

Councillor Anderson: We are always happy to consider that. Indeed, we have been in discussion with the Edinburgh Chamber of Commerce about how we should handle the commercial premises that might be affected during the construction period. We have been as sympathetic as we can be in that regard, and those discussions will continue.

The Convener: Let us move on more explicitly to funding. Do you consider that additional costs arise from taking a phased approach to construction? If so, what are they?

Michael Howell (Transport Initiatives Edinburgh Ltd): There are two elements associated with the phased approach, the first of which is the obvious one of inflation. Our current estimate of the level of construction cost inflation is about 6 per cent per annum. Therefore, there would be an increase in direct costs associated with the parts of the line that we have discussed: the Roseburn section and the seafront section. I will give you the base numbers, first of all. At today's costs, we are talking about £75 million and £45 million, respectively, for those two sections of the line. With inflation—and assuming that work starts on those sections in 2011, which is three years later than planned—the increase would be in the order of £14 million and £9 million, respectively. That is the scale of the increase that arises from inflation.

I point out that we are mindful of another issue, which is a key reason why we want to encompass as much as we possibly can within phase 1. I refer to contractors' mobilisation and preliminary costs, including procurement and so on. It is hard to be clear about the costs, but if we stopped completely and then had to get going again we estimate that the impact of those factors could add up to 50 per cent of the cost—a substantial amount. My clear interest is, therefore, to find a way to do as much as we possibly can within phase 1.

The Convener: I am marginally confused. We had 2010 offered up a minute ago; then, when pressed, 2015, if all the ducks were not in a row. You are now offering up 2011.

Michael Howell: That is for the start of construction, leading to the start of operations on those extra pieces by 2014, which is within the timescale of 2015 that was mentioned by Andrew Holmes. I am just giving you that as an example.

The Convener: Okay. The start of construction would be 2011 and the start of operations would be 2014. So, for the original part of the tramline, 1 July 2010 is not an operational date. Is that a construction start date? I just want to be clear.

Michael Howell: No.

Councillor Anderson: We are talking about two different things.

Michael Howell: We will start construction of the original part of the tramline in 2008, and it will be commissioned in 2010. The example that I am giving—I am not making a commitment; I am just giving an example—is for three years of inflation, with construction of the new bits starting in 2011 and their becoming operational in 2014. There will be a two to three-year gap between the start of construction and the start of operations.

The Convener: My next question is for the council. Given the fact that the council has committed around £45 million of its own resources to the project, through section 75 agreements, where is it going to find the funding to construct the remaining sections?

Andrew Holmes: A basket of funding is involved. We are in a bit of a hiatus in Government funding initiatives between the old system and the establishment of transport partnerships and transport agencies, but ministers have said quite clearly that there will be a revival of the kind of

fund bidding that we have had in the past. There are mobile transport funds to bid for and, as I have said, we have been a successful authority in the past in that respect.

The other area to consider is further development contributions. The projections for the Edinburgh economy are pretty good for the next few years, in terms of further development. Within that is the projected planning gain supplement, for example, and we have been doing separate work on an Edinburgh approach to that. That will allow us to acknowledge that strategic infrastructure, such as the tram, is of benefit to the whole city and to tap into development value uplifts over a much wider area. My personal view is that funding that comes through the planning gain supplement—considering the figures that are being achieved down south at the moment—would possibly be in excess of £100 million in development funding over a 10-year period coming into transport across the city.

Throughout this tram exercise, a conservative view has been taken of patronage, returns and the rest of it. Both Dublin and Nottingham are projecting better-than-average revenues. If the Edinburgh scheme gets into that position, we can start to use the revenue stream as a source of capital funding itself.

That is rather a long answer—there is never a simple one—but those are three potential sources: mobile Government funding, development funding and potential revenue from the tram translated into additional capital funding.

Councillor Anderson: Although uncertainty over infrastructure such as the tramline does not necessarily make things easier, there tends to be a more significant contribution from the private sector to make such projects happen. In Dublin, they have managed to secure substantial contributions from the private sector to fund new elements of the tram network. The City of Edinburgh Council set up the waterfront regeneration process with its own regeneration company, and we are particularly keen to see whether we can work with it to try to make some of these things happen. A variety of different avenues are being pursued.

The council is passionately committed to delivering all of the network as quickly as is humanly possible. Obviously, we need to have regard to the resources that we have at our disposal, but we are actively pursuing other routes of funding.

11:00

Helen Eadie: As the costs of the tram scheme have always been ahead of the available funding, why has the project been scaled back only now?

Michael Howell: As both Donald Anderson and I said, the fact is that the project is not being scaled back—our intention is to build all the system. The issue is simply about matching the plans for construction with the available funding. Now that we are aware of the totality of funds that are available, we can focus on precisely what we can build within that budget. However, as the committee has heard, if we do our job efficiently—it is my job to ensure that we do—we will be able to build more than just the connection that we have discussed from Ocean Terminal to the airport: we will be able to get to Granton. I am hopeful that we will do that. The proposal is not to cut back; it is simply about phasing.

Helen Eadie: I press you for more detail on the grants and public funding for which the council might apply to construct the remaining phases of tramline 1.

Andrew Holmes: That was covered in the points that I set out earlier. Mobile Government funding is always available. We are not looking for special treatment, but the Government has transport funds at its disposal for allocation to local authorities or regional transport partnerships, and we expect to enter into the bidding process for such funds.

Another issue is development funding. Our sums already assume a fair element of development funding, but I am confident that, even without a move to the city-wide basis that I mentioned, the latter stages of development in, for example, Leith will produce more funding. The issue is about trying to access that funding. Finally, as I said, if one section of the tramline is up and running and producing a revenue surplus, that will form a source of finance for subsequent phases.

Councillor Anderson: All the evidence from elsewhere shows that, once tram schemes are up and running, they are enormously popular in the areas in which they operate, which creates genuine momentum and political and community desire to expand the networks. We have seen that in every example that we have studied. We are confident that, with the scheme up and running in 2010, there will be more momentum to secure additional support for the extension of the lines.

The Convener: I want to press Mr Holmes on his response. During our walk-round of the area, it seemed that the final phase of the development that you are talking about is limited and is predominantly residential. How do you intend to lever in the sums that you describe for development gain? It strikes me that you should have done that at the start of the process rather than at the end.

Andrew Holmes: We must distinguish between the different parts of the waterfront. You had a

walk round Granton, which is predominantly, although not entirely, residential. One feature of the property market in Edinburgh is that residential values are the biggest single source of uplift and development gain. Further, the contribution from the Granton area, as important as it is, will be outnumbered by that from the developments in the western and eastern harbours at Leith, which will be about twice the level that is forecast for Granton and will continue over a longer timescale. There are defined scales of tram contribution, but, because of the phasing, the current sums are not based on the totality of the construction of those developments. Therefore, we still have some development funding possibility to attack in north Edinburgh in the longer term.

As I said, we are considering the chancellor's announcement of the possible introduction of a planning gain supplement. There is a clear message that it will be possible to link development in a wider area with strategic infrastructure such as the tram scheme and therefore to consider development value uplift from the city as a whole. So we have a fair bit of potential in Granton, considerably more in Leith and more again if we start casting a wider net across the city.

The Convener: How much do you anticipate will be generated through that mechanism?

Andrew Holmes: If we moved toward a simplified single supplement system such as that in Milton Keynes, where £18,000 per house is raised, we would quickly get into large sums of money, given that around 2,500 private houses are built in Edinburgh a year, although I do not necessarily advocate that that would be the roof tax for Edinburgh.

Councillor Anderson: All those matters need to be explored. There are huge opportunities in the area that is being developed around Granton and Ocean Terminal. In the Leith docks area, we are talking about a population equivalent to that of the town of Bathgate, which represents the biggest residential development in Edinburgh for a long time. Once people see, smell, touch and taste the tram, major opportunities will arise to secure additional private sector support to extend the system. People will see the benefit and the increase in the value of their assets and will be prepared to come on board to a greater degree than they are prepared to do at present.

Andrew Holmes: This is not a United Kingdom example, but an announcement will be made today in Ireland about the southwards extension of the Dublin tram system, for which more than half of the funding will come from development contributions.

Phil Gallie: I may have picked up Mr Holmes wrongly, but I think that he referred to revenue surpluses from the operation of the trams. Given all the arguments that the committee heard that were based on the fact that passengers on the tram system would flow two ways and given the all-important link times to Haymarket from the waterfront, are you confident that those passenger numbers and profits will still be achieved with the phased-in construction of the scheme?

Andrew Holmes: At this stage, yes, although it is a given that the final business case, which will be produced towards the end of the year, must satisfy everybody before the Scottish Executive funding is released. Recent experience in Nottingham—which was the first UK system with the type of proper integration with the bus network that we propose—and Dublin is that the systems are producing revenue that is beyond what was originally forecast. Increased revenue is not required for the first phase, but it might provide funding opportunities for future phases of tramline 1 or, for that matter, future extensions of the tram system in the city.

Helen Eadie: What impact have the phasing and funding decisions had on the cost benefit ratio for the scheme?

Barry Cross (Transport Initiatives Edinburgh Ltd): The cost benefit ratio will be reworked in the preparation of the final business case, to which Andrew Holmes referred. However, we have already carried out a series of qualitative checks on the cost benefit ratio of the phase that we now propose and we are confident that it is at least as high as the ones that we presented to the Edinburgh Tram (Line One) Bill Committee in respect of the full loop and to the Edinburgh Tram (Line Two) Bill Committee in respect of line 2.

Rob Gibson: Will you confirm that the cost of the Haymarket to Granton section was to be £75 million and that the phasing would add another £14 million?

Michael Howell: That is correct.

Rob Gibson: How did the promoter arrive at an annual rate of increase of construction costs of 6 per cent?

Barry Cross: The figure comes from a range of indices, including some from Network Rail for similar types of work and others from throughout the construction sector. It was produced after consideration by an experienced technical team. The rate of 6 per cent that arose from that process meets with universal agreement and people can take comfort with it at this stage. We clearly need to go through a process with the Scottish Executive and Transport Scotland. That will involve an extensive piece of work not only on tramline 1 but on the portfolio of Scottish Executive projects.

Rob Gibson: Is 6 per cent something like the current industry norm?

Barry Cross: It takes account of the fact that there is a range of indices. If one builds a road, the index that is used is linked primarily to oil prices whereas, if one is dealing with a rail project, the key factors are steel and core skills. The tramline 1 project feeds on appropriate indices from the sectors of the construction industry that are most appropriate. That is how the Executive intends to deal with it; the Executive will not pluck a single figure out of the sky but undertake a piece of work that will draw on appropriate indices, depending on the type of work that is envisaged.

Rob Gibson: Is the figure likely to be higher or lower than the construction industry norm?

Barry Cross: It would be nice if it was higher, but the Scottish Executive will want to be entirely realistic in its determination of that figure and we are comfortable with that. However, we think that it is 6 per cent.

Councillor Anderson: To a large extent, it depends on the type of construction project that is taking place. The rate of increase for large-scale engineering works is at a particular level, and the rate for general housebuilding runs at a particular level, but the costs of some big projects that involve excavation and tunnelling are becoming even more competitive because of technical changes in the way in which that work is carried out. The rate varies across the industry. We must try to ensure that we get it right and we are happy to work with the Scottish Executive to ensure that we do.

Helen Eadie: On what basis has Transport Edinburgh concluded that the first phase of the tram combined with bus offers the best option for Lothian Buses' dividend payments?

Barry Cross: The task is not really focused on Lothian Buses' dividend payment. We have arrived at the phasing through a range of agencies—TIE, the City of Edinburgh Council, Transdev Edinburgh Tram Ltd, which will be the operator, Transport Edinburgh and Lothian Buses—working together and then having that work validated by the Scottish Executive. That group of agencies debated discursively to determine through argument and reason which phases within the totality of lines 1 and 2 would be the best to proceed with. Although I am sure that Lothian Buses kept one eye on the consequential impact on its dividend as part of that exercise, the starting point was not Lothian Buses' dividend but the issues about which we have argued here for the past two and a bit years—accessibility, mobility, linking key destinations and integration.

Helen Eadie: Do you think that you satisfied our concerns with that answer? We might perceive it as being more about short-term gain than the suggested long-term vision for Edinburgh that was previously used to justify the tram scheme.

11:15

Barry Cross: The fact that you asked the question suggests that you are still a little unconvinced by the argument. If you examine the phases that we have derived from the process that I mentioned, which was particularly rigorous, you will see that there is a certain logic to the phasing that almost makes it seem as if this is the most natural conclusion. For example, phase 1—from the airport through the city centre to Leith waterfront—serves a range of key destinations and mirrors the main axis of activity in a significant part of the city. It links the airport, Gogarburn, Edinburgh Park—all those things that are on line 2—with the city centre, the high-density residential developments on Leith Walk, Ocean Terminal and Leith waterfront.

In effect, there is a sort of validation of the process that makes it clear that the answer that arose from it is a long way from short-term planning and fits with long-term objectives. That is even more the case with phase 2, which the council aspires to construct at the same time as phase 1. The driver that resulted from the technical reviews, which focused on the need to link Granton with the rest of the network and the rest of the city, was confirmed at a political level. Granton is linked to the network via the Roseburn corridor, which is phase 2 and which also links the Western general hospital, Craigleith and other key destinations. If the answer had run counter to logic, one might have asked whether short-termism was at play, but the end result is clearly in line with all that we have said over the past two and a bit years. You can take confidence from that that the process is logical. The bottom line, as we have said, is the ultimate test of the final business case in the autumn.

Councillor Anderson: To be clear, we aim to make Edinburgh the most successful and sustainable city in northern Europe by 2020 and the tram project contributes to that vision. The route connects one of the fastest growing airports in Europe with Edinburgh Park, the Royal Bank of Scotland headquarters, the exchange financial district, the city centre and Ocean Terminal; it connects the bits of Edinburgh that make wealth for Edinburgh and the east of Scotland—perhaps the whole of Scotland. It is a hugely important area, as it is where much of our economic development and growth will come from, and it is right that we have the proper and modern infrastructure that is necessary to service that development. That is what the project is about. We are trying to achieve that vision and the tram

project is simply one of the mechanisms by which we intend to do that.

Helen Eadie: What assurances can you give Edinburgh council tax payers that they will not be liable for any future shortfalls in funding for construction or operation?

Councillor Anderson: That is an important point. As I have said in the past, we have made it clear that we will on no account add any burden to the council tax for running a tram system in Edinburgh. We have an excellent record on keeping council tax bills low—a recent Bank of Scotland survey showed that we had the joint-lowest council tax increase in Scotland—and we are determined to do everything possible to retain that record in the foreseeable future. We are working actively with the Minister for Finance and Public Service Reform, Tom McCabe, to reach agreement on a way ahead, which includes considering proposals such as shared services.

We are determined to ensure that no additional burdens fall on the taxpayer as a result of the tram scheme, but the council will consider that aspect before the project is signed off finally. The final business case will be considered at the end of the summer and we have made it clear through our group and the other groups on the council that, when it comes back, we want reassurance on these issues. The project will be considered on that basis.

Helen Eadie: Will you make it abundantly clear to everybody in Scotland that you will not use the Forth road bridge to pay for the tramline?

The Convener: That is not relevant and I do not expect the witnesses to comment.

Councillor Anderson: I am kind of—

The Convener: No, I do not expect a comment. The question was not relevant and was a bit sneaky. I also point out that West Dunbartonshire Council is another local authority with a bridge.

I am conscious of time, so we will move swiftly on to questions on the identification of route phasing. I ask for responses to be as concise as possible; we will try to make the questions the same.

How did you go about identifying the optimum first phase for the tram project? Without straying into the territory of the Edinburgh Tram (Line Two) Bill Committee, will you explain why you picked the route that you did when you are also promoting a bill for the Edinburgh airport rail link?

Barry Cross: The bulk of my answer is the same as the one that I gave to Helen Eadie's question about short-termism. Your question is also dealt with in response 18C of 31 January to the committee. We dealt with the relationship of the tram with the Edinburgh airport rail link at considerable length in response 3 of 26 October to the Edinburgh Tram (Line Two) Bill Committee.

The key issue is that EARL and the tramline are different projects for different markets. EARL will link the airport with the country as a whole—Fife, Aberdeen, Glasgow or wherever—but the tram is a scheme to link Edinburgh and its suburbs with the airport. We have done a considerable amount of work that demonstrates that both schemes can cohabit entirely satisfactorily. The paper that we submitted to the Edinburgh Tram (Line Two) Bill Committee deals with the issue at length.

The Convener: Why have you gone for the Leith to Haymarket section first?

Barry Cross: I dealt with that issue in answer to Helen Eadie's question, but I will go back through it if you want. The key drivers behind building that section first are that that is where the greatest level of activity on line 1 is. Line 1 from Ocean Terminal to the city centre, leaving aside the airport, has the highest-density residential development, and it links the city centre with the development sites in Leith docks and Ocean Terminal shopping centre. The Leith to Haymarket line is where the greatest benefits are.

Helen Eadie: How did you arrive at the estimate of 13 million passengers a year for the first year? How does that level of patronage compare with the other options for phasing that were considered?

Barry Cross: The answer to that question lies in work that was undertaken by Transport Edinburgh Ltd using confidential data from Lothian Buses that I have not seen, and it is obvious why those data are confidential. TEL looked at existing patronage on the public transport network in considerable detail—bus route by bus route. In partnership with TIE, it assessed what changes will be likely when the tram is introduced. In addition, TEL undertook work to look at patronage from people who do not currently use public transport and patronage that will be delivered from the new developments. The sum total is the 13 million that you quote. That figure accords with previous work that we undertook directly that gave us a figure of about 11.5 million.

The figures were derived, on the one hand, from modelling and on the other from looking practically at how many people are moving at the moment. Work to educate the final business case includes more detailed study of the precise patronage that would result from the integration of bus and tram, not just the patronage that trams would attract as an individual mode of transport.

Rob Gibson: Given that linking the developing waterfront area with the rest of the city was one of the main reasons for the tram, what are the main

reasons for the tram project now? How will the former objective of linking be realised?

Andrew Holmes: As I said in response to an earlier question, slightly more than two thirds of the development that is proposed for the Edinburgh waterfront is in the wider Leith area and it will be served by the proposed first phase at its absolute minimum. Two thirds of waterfront development will be served by the absolute base first phase. Our objective is to manage the optimism bias down so that we can construct the link to Granton and we are still reasonably hopeful that we will get the remaining third in there. Even as a base point, easily the majority of the Edinburgh waterfront will be served by a first phase to Leith without the Granton spur, although we hope to incorporate that as well.

Rob Gibson: So about two thirds will be served—

Andrew Holmes: At an absolute minimum, two thirds will be served. It is a fact that two thirds of the total waterfront development lies at the Leith end of the waterfront and that will be served. However, as we said throughout and as we reported to the committee at the end of January, we are pulling out all the stops to manage the costs so that we can include the Granton element as part of the first phase.

Councillor Anderson: Securing that element, as it is certainly our intention to do, would serve the overwhelming majority of the north Edinburgh waterfront area.

The Convener: I want to understand this absolutely. When you say that the tramline will serve two thirds of the waterfront development, you are including the section along the Roseburn corridor to Granton in the first phase.

Andrew Holmes: No. We mean purely and simply the link to Leith. That will serve two thirds of the waterfront development. Two thirds of the proposed development along the Edinburgh waterfront is contained in the area that runs across the Leith waterfront between Newhaven and the eastern end of the Victoria dock in Leith. Two thirds of the totality—approaching 20,000 houses plus shops and offices—is within that arc. The tram will serve that area extremely well.

Councillor Anderson: Figures have changed during the consideration of the bill and Forth Ports has made revised proposals for Leith docks. Under the latest proposals, a community the size of Bathgate will be built in Leith docks. That constitutes two thirds of the development that will take place on the waterfront. If we get competitive bids in the tendering exercise, we hope to put in the Granton spur. That would mean that the overwhelming majority of the waterfront would be served by the tramline.

Rob Gibson: We understand that the waterfront development is coming along faster than had been estimated initially and therefore the section that you are talking about will be an added market. Given that the tram may not serve the Granton spur initially, what interim traffic management measures would be implemented to avoid congestion and an increase in rat running in the surrounding areas?

Councillor Anderson: Do you mean measures specifically for Granton?

Rob Gibson: Yes.

Andrew Holmes: Developers have already been asked to fund interim traffic management measures and, as a result of one of the earlier allocations of public transport funding that we won from the Government, there are further traffic management measures and bus priority areas serving north Edinburgh. Up to a point, the initial impact of development will be served by measures to which we have already committed and which are in the pipeline. However, we will reach the point of diminishing returns, as the network south of the waterfront is constrained. Setting aside the constraint that not having the tramline may put on development, we believe that congestion will increase. That brings us back to the importance of the waterfront section of the tram.

Councillor Anderson: We re-emphasise the point that we intend to include the Granton spur as part of the line and we are very hopeful that it can be included in the first phase.

Rob Gibson: I understand that. However, the phasing of the process was your decision and tramline 1 will not be constructed as a loop. Therefore, we must be clear that the Granton spur could be in doubt.

Councillor Anderson: The doubt in this issue is that if we do not get the bill through the parliamentary process, we cannot lay any of the tramline. We want to ensure that we have a sustainable, affordable tram scheme for Edinburgh; that is what we are focusing on. Within the constraints that we are under, we are confident that, if the tenders are right, we can install the Granton spur. We are equally confident that down stream from the construction of the Granton spur we will be able to fill the gap that exists between Granton and Leith.

11:30

Rob Gibson: I want to pursue a couple of points that relate to the southern part of the tramline as it heads towards west Edinburgh and the section at Roseburn. It has been strongly put to us that if the tramline is not built, there could be serious congestion and rat running within 20 years. You

have talked about the line to Granton, but you have not talked about the traffic management measures that you will put in place in the interim, to get people from Granton to west Edinburgh.

Andrew Holmes: Some on-street measures are already in place and others have been promoted—improved traffic signals, short sections of bus lane, and various developer-funded bits of infrastructure. A large number of traffic management measures have been put in place in the area to protect communities from rat running. If the tram were not an option, we might have to go back and consider some not very satisfactory alternative uses for the rail line, to be developed in phases.

As I have said, there is a limit to the amount of traffic management that one can have in north Edinburgh without the tram. That is why we are working hard to ensure that we can get the tram.

Councillor Anderson: If we do not provide any of the tram route, there will be problems across whole swathes of Edinburgh. Road capacity in the city centre is pretty much used to the full. There is no space for more vehicles at peak times. An extra car is coming on to the streets every two hours and car ownership and use are growing in Edinburgh, so we cannot offer protection to any communities. We all have to live with the consequences of higher levels of car ownership. However, the proper modern infrastructure that a tram provides will help us to cope. That is why we are passionately committed to the tram and are determined to see the project through.

Rob Gibson: We understand the passion, but I want to probe the practicalities a little further. How many buses will be displaced by the tram? What is the environmental impact of buses on Leith Walk and what will be the impact of the tram?

Barry Cross: A group that involves Transport Edinburgh Ltd, Lothian Buses, TIE and City of Edinburgh Council has been working on that. When concluded, that work will feed into the business case that I referred to earlier. Consideration of environmental impacts is essential to that.

The bus network will be modified and there will be reductions on the busiest corridors. At the moment, there is one bus a minute on Leith Walk. The tram will have higher capacity and speed, so it will inevitably reduce the number of buses on that corridor.

We still have a fair way to go in the process. The refined modelling that I have referred to will be important in determining what the combined networks will look like. That modelling will feed into the final business case.

Councillor Anderson: I have just had it confirmed by Andrew Holmes that Neil Renilson estimates that 2 or 3 per cent of the bus network might be affected. That will amount to a significant number of buses, but bus patronage in Edinburgh has grown by 25 per cent in recent years. Our urban bus network is the best in the United Kingdom outside London. That network will continue to grow; the tram will not disrupt the bus company or its services, but it will enhance overall public transport in the city. That is the key objective.

Rob Gibson: I am surprised that you have not tried to quantify the environmental benefits of the tram. If the environmental impact can be reduced in places such as Leith Walk—and we are talking about serious pollution—it might convince the committee and the Parliament that your passion for the tram should be backed.

Barry Cross: As Mr Gibson will recall, we have discussed the environmental impact of the tram on a number of occasions at the committee. The environmental statement also refers to the impact. We have disagreed with objectors over the extent to which air quality will be improved by the introduction of the tram, but we continue to believe that it will improve air quality, especially at the point of energy use. The biggest impact will be on the corridors with the biggest volumes of buses—Leith Walk, the foot of the walk and Haymarket.

Councillor Anderson: I am sorry, Mr Gibson—I may have come at your question from the wrong angle. It is not only buses that we can reduce; it is cars as well. I visited Manchester with the First Minister—although I do not want to name drop in a committee such as this—and the council there was lauding the trams for getting huge numbers of people out of their cars and on to public transport. That is the prize—a win-win situation with a mode of transport that carries more people more effectively than the existing bus service or private cars do and which provides an environmental benefit.

Rob Gibson: The committee would like to see the figures, if you can provide them. That would help in our consideration of the arguments.

Councillor Anderson: Yes.

Phil Gallie: Councillor Anderson has spoken about the importance of the committee clearing the way for the tramline. However, a difficulty that we face lies in the fact that the route in the bill is circular. All the arguments that we have heard have been based on the importance of the loop but, now that the loop has been fragmented, other issues arise in my mind—even though our decision will still be based on the circular route.

Mr Holmes said that two phases—the first phase and the second phase down through Roseburn to Granton—picked up virtually 100 per cent of the new development and, in so doing, picked up the

major proportion of the patronage for the tram. Will there ever be a case for making the final link—the third phase?

Andrew Holmes: I did indeed say that the tram would pick up 100 per cent of the development but I do not think that I said that it would pick up 100 per cent of the patronage that a complete loop would.

Phil Gallie: You did not; I am querying the patronage.

Andrew Holmes: The most important thing is to serve the development and to mitigate its impacts in ways that cannot otherwise be done.

Councillor Anderson: We have not fragmented the route; we are talking about delivering the route in phases. We are optimistic that if the tenders come in at the right level, we can build the Granton spur and, given the momentum of other transport schemes, we are optimistic that public and private sector funding will be available to allow us to complete the link. We have not moved from our determination to complete the circular route, but we are trying to do the best we can with the funding that is available. We want a robust business case for the route that serves the maximum number of people and businesses, providing the maximum benefit for Edinburgh and Scotland.

Phil Gallie: I understand that but, as with everything else, costs must be justified and value for money must be provided. It seems possible that you might not be able to justify the cost of the third phase to complete the loop. That is why I was wondering about patronage.

Councillor Anderson: I understand that concern, which has been aired by elected members from the north Edinburgh community. All I can say is that we remain committed to the loop, because we foresee enormous benefits.

However, I re-emphasise a point that I made earlier: unless we get through the parliamentary process, we cannot deliver anything. The most important thing for us is to get into a position from which we can build a tram system for Edinburgh and Scotland. We must have a robust business case. The trams must serve the maximum number of people and businesses.

The Convener: I will move the discussion on to practical points. If you intend to stop the tram at platinum point, will you build a turnaround area? Will there be land take? What will be the impact on neighbouring communities? If you plan to have a turnaround area in Granton, that question applies there equally. The beauty of the loop is that the trams just go round.

Michael Howell: It is quite straightforward. The tram will come to the end of the line. Of course, it is a two-ended tram. There will be a crossover, and anyone who has been to Dublin lately will have seen at St Stephen's Green exactly the kind of thing that we have in mind. There will be two platforms on the current lines and, when the route is extended, the lines will continue beyond that point. The tram will come in, the driver will move to the other end of the tram and switch the switch and off the tram will go in the opposite direction. Therefore there is no requirement for extra land take.

The Convener: New technology is wonderful, is it not?

The original plan was to have a sizeable depot at the bottom of Leith. Have plans for that changed in any way? Do you require as much land? Have there been any changes from the phasing?

Michael Howell: I will ask Barry Cross to answer that.

Barry Cross: If both bills are consented to, a tram depot at Leith may not be required. However, the tram depot site may still need to be used as a construction site. The construction programme and the tendering process will determine whether the site will be used for construction. At the moment, we cannot be specific because we cannot assume that both bills will be agreed to. However, a construction yard would still be associated with the building of that part of the network.

Helen Eadie: TIE's response 7 states that the total value for utilities, at quarter 2 2003 prices, is expected to be £52.6 million. That is considerably higher than the £31.8 million that was predicted for line 1 in December 2003. Will you explain that rise and how the current funding will meet it?

Michael Howell: The short answer is that we made a mistake in response 7—that has already been mentioned to you. That £52.6 million is for lines 1 and 2, whereas the £31.8 million is for line 1 alone.

I hope that such mistakes do not happen often. Despite that one, we are comfortable that we will be able to build the system on time and on budget. Giving you very quick headlines, I will tell you what we have done. We have looked at the National Audit Office's report on trams; benchmarked our costs against those of other systems; and hired a very experienced team, which includes people with experience of the Nottingham, Croydon and Melbourne projects. Indeed, you may know that our tram director constructed the Croydon tram. We also have integration with the bus service, a problem that has always been the Achilles' heel of tram systems around the country. Transport Edinburgh Ltd and Lothian Buses support the project. All that adds up to TIE having substantial confidence that the project will be delivered on

time and on budget. We hope that we will be able to free up the resources to build the section to Granton, as we have been discussing.

Helen Eadie: TIE has provided further detail on the procurement method that will be used. It indicates that that method will enable it to identify reasonably accurately any contract cost rises above those that are currently budgeted for. How will the promoter secure funding to meet such cost rises, especially as they may not be identified until much later in the process?

Barry Cross: There are two parts to that. First, that is precisely the purpose of optimism bias, which the Treasury developed to manage that risk. Secondly, picking up Michael Howell's point, we are so confident about our figures precisely because we have taken on board the National Audit Office's findings, because our procurement methodology means that we have benchmarked this project against real ones elsewhere, and because of the advance works contract that the committee has heard about. Therefore the optimism bias is very much an insurance, but the real challenge is to manage costs as we are doing and as we are confident of doing through the entire project.

Councillor Anderson: I have been impressed by the way in which we have drawn lessons from tram schemes in the UK and Ireland and further afield. I commend the work that city development officials and TIE have done to ensure that we have a blend of the best, making this the most robust business case for any tram project that has come forward in the UK and Ireland.

The Convener: Do members have any further questions?

Members *indicated disagreement.*

The Convener: I thank all of you for giving evidence. I found the evidence particularly useful in clarifying some of the areas that are outstanding. We ask you to remain, on the off-chance that we need you to come back once the minister has given evidence.

11:46

Meeting suspended.

11:53

On resuming—

The Convener: I welcome to the committee Tavish Scott, the Minister for Transport and Telecommunications. With the minister is Damian Sharp from the public transport major infrastructure team at the Scottish Executive. I propose to members that we move straight to questions.

My first question will give the minister an opportunity to put something on the record. Has the Executive reached a view on whether to index link to inflation its existing £375 million contribution to the Edinburgh tram scheme?

The Minister for Transport and Telecommunications (Tavish Scott): Thank you for inviting us to appear before the committee. We have been a bit delayed, but we got here in the end.

I will answer your question as directly as I can. However, first I would like to make one or two introductory remarks, given that this is the Scottish Executive's first opportunity to state where it is with this public transport project. Importantly, the project is part of an overall package of commitments with which we are all entirely familiar from other debates in the Parliament.

We support the City of Edinburgh Council's decision to phase the construction of the Edinburgh tram project and welcome its commitment to provide £45 million towards the costs. The council's decision represents a recognition of the reality of the present funding situation, and it will help to ensure that our partnership agreement commitment to invest in a tram network in Edinburgh remains on course.

The initial work that the promoter has undertaken on the first phase gives me confidence that the economic benefits and the costs of the proposal will continue to offer value for money. The initial work on the new proposal suggests that the benefit cost ratio is healthy, but the promoter has begun a full update of the outline business case for the tram project. The next stage of that work will be completed and presented to Government before the summer recess. That will be followed by a draft final business case, which will be produced in late summer 2006. Financial close will be reached in summer 2007.

The commitment of our devolved Government is dependent on the continued development of a robust and positive business case. That is crucial, so we will continue to test the business case rigorously at each remaining stage of project development. At this stage, our commitment remains an in-principle commitment. There will be no release of significant capital funds for utilities diversion works or the main construction until the City of Edinburgh Council and Transport Initiatives Edinburgh have presented satisfactory updates of the business case for the new proposal.

To give a direct answer to the convener's question, I have agreed to index link the £375 million, which will bring our cash contribution to the capital costs to between £450 million and £500 million, approximately. The final value will depend on the level of cost inflation in the construction

industry. Together with the £45 million that the council is providing, that will provide the necessary funds for the construction of the first phase, the present estimate of the cost of which is £484 million.

Construction of the remaining phases of the network could be completed if patronage figures are confirmed and future funding becomes available. If risk can be managed effectively and the optimism bias can be managed down through ever more accurate assessment and procurement, any funds that are released could be reinvested in the construction of the remaining sections of the tram network. However, the committee would not expect me to be able to make a commitment that that will happen. That will be a choice for the future. The Executive's transport budget has many calls on it, so I cannot give such a commitment today.

We welcome the proposal to construct the Ocean Terminal to Edinburgh airport tram link and are prepared to index link the £375 million of committed funds, but the release of funds will be dependent on the production of a robust and positive business case. I am sorry—that was a long answer to your question.

The Convener: I was happy to afford you the opportunity to give us that context, as it is important to the committee's understanding.

I want to test a few of the things that you said, to check that I am clear about them. You gave us two figures on indexation. The final figure will obviously depend on the cost of construction, which could vary. What is your base assumption? What percentage rate have you applied?

Tavish Scott: The indexation rate that we have applied is in a range between 4 per cent and 6 per cent.

Damian Sharp (Scottish Executive Enterprise, Transport and Lifelong Learning Department): A figure of £450 million would equate to an inflation level of just below 4 per cent, whereas a figure of £500 million would result from an inflation level of just above 6 per cent. The final figure will depend on construction cost inflation during the relevant period. We will meet that rate. That explains why our contribution falls within a range.

The Convener: You are assuming that the rate will stay at around 6 per cent and will not exceed that.

Damian Sharp: Yes. We should bear it in mind that the current rate is around 4 per cent.

Tavish Scott: The same consideration applies to all the other major transport projects that we are doing.

The Convener: Earlier this morning it was put to us that building other sections of the tram route might at some point attract additional public funding. You stated clearly that you could make no such commitment.

Tavish Scott: Correct.

The Convener: Is the City of Edinburgh Council accurate in making that assumption?

Tavish Scott: Since I came into post, I have made it clear to the Local Government and Transport Committee and to Parliament that I want clarity on the numbers and the timescale for all major transport projects. That is what parliamentarians and local people expect. As I have said, I am not prepared—nor should I be prepared—to make any commitment on future funding. It should be recognised that that will be for a future transport minister to do at the appropriate time.

As Damian Sharp has indicated, I firmly hope that the management of the project can deliver what we expect it to: the completion of the phase, and the potential for savings through the management of the project finances. However, I am not a minister who will write a blank cheque. I want to ensure that there is clarity around the numbers, that we deliver what we say we will deliver and that we do so in the timescale that we have outlined.

12:00

Phil Gallie: The £375 million figure was set at the start of the committee's deliberations on tramline 1 and was accepted. Now, we are talking about only partial implementation of tramline 1. Do you still feel that you are getting good value for money?

Tavish Scott: That is a fair question. A number of years have passed since the original announcement of the project. I can only go with the work that we have done in the past six months to two years to nail down the precise nature of the project and to ensure that it meets the criteria that you and your colleagues would expect us to meet by getting the best value for a lot of public money. The project meets those criteria and the ratio is good when compared with other public transport projects. As long as we hit the numbers and ensure that the timescale is adhered to, I assure the committee that we are comfortable with the robustness of the business case and with the money that we are talking about.

Rob Gibson: On that point, you have used two different phrases: "value for money" and "best value". Is there a difference between them? What is the definition of "best value"?

Tavish Scott: Do you want a long, rhetorical discussion about Government phraseology?

Rob Gibson: No, but I am concerned because you certainly ask local councils to provide strict definitions of best value. Nevertheless, you talk about value for money and the rough 6 per cent ceiling on the increases that can be expected. I take it that both terms mean the same thing.

Tavish Scott: Let me be very clear. The manner in which all public transport projects are assessed means that they have to meet a value-for-money criterion. Best value is something that we expect of the entire public sector, including local authorities and central Government. We are very clear about the requirement for public sector capital transport projects to meet those criteria—I am sure that you are familiar with all the projects in our programme. As I suggested to Mr Gallie, this project meets those criteria.

Helen Eadie: You have updated us on the outline business case. Do you have any concerns about it?

Tavish Scott: I have no concerns at this stage. I would not be coming before the committee today if I had concerns, because that would not be very clever. I am comfortable with where we are now. However, in response to the convener's opening question, I laid out the timescale according to which we will continue to assess fully the arguments and the business case made by the promoter. It will go through endless hoops so that we continue to be satisfied.

That process is not confined to the Edinburgh trams project; we now demand that all our capital investment projects go through that because large amounts of public money are involved and the taxpayer demands that the processes are as robust as they can be.

We can certainly provide you with as much detail as you would like about our approach to that, but you should have no doubt that the project will continue to be assessed not just on the main gateway dates but on a day-to-day basis by Damian Sharp and his team at Transport Scotland.

Rob Gibson: In its progress report of November 2005, the promoter notes that in the spring of 2003, the Treasury implemented new guidelines for capital cost estimates, including the concept of optimum bias. If that had been applied to the trams, the projected costs would have been about £150 million higher. In addition to the inflation linking, what consideration have you given to providing additional funding to ensure that the estimate of the required funding for the tramline meets the new guidance on optimum bias?

Tavish Scott: I will ask Damian Sharp to answer that—it is a pretty technical question, so let me ask the technical expert.

Damian Sharp: Although the optimism bias provision officially came into full force early in 2003, officials were already well aware of its existence and its likely impact when the advice was given. Therefore, we took into account the likely impacts of optimism bias in the run-up to Iain Gray's original announcement of the £375 million funding.

Tavish Scott: Every process of financial capital management involves managing optimism bias.

Damian Sharp: Yes. Optimism bias exists because past experience suggests that people get costs wrong. We would like to learn from mistakes, not repeat them, which is why we agree completely with TIE's intention not to use up the optimism bias and not to need that sum of money. However, Treasury guidance is that it is prudent to allow for it.

Tavish Scott: The mechanism is a genuinely sensible one to have in place for all capital transport projects.

Rob Gibson: I am delighted that that is so. I hope that we are talking about optimum bias, although I understand that optimism is creeping into the debate—the word crept into both of your answers.

Damian Sharp: Sorry, but the technical term is "optimism bias".

Rob Gibson: That is fine; I am glad that we have clarified that. Let us be optimistic then. Do you anticipate making any contributions to the operation of the tram, especially given that the promoter may raise capital funding by offsetting against future revenue projections?

Tavish Scott: If you are asking whether we will make commitments on the revenue cost of running the trams, the answer is no.

Rob Gibson: Will you make any contribution to the development of the system?

Tavish Scott: Again, I cannot make commitments in relation to situations when I cannot guess what they might be.

Rob Gibson: What consideration have you given or will you give to providing funding over and above the £375 million, to enable later phases of the tramline to be built, if they are to be built?

Tavish Scott: The straight answer is that those phases would be considered along with every other major or minor capital project that was being assessed at that time. Mr Gibson will be aware that we are embarking on a national transport strategy consultation and, as part of that, a

strategic projects review. Many projects from throughout Scotland and involving all modes of transport will be part of that assessment. Any future phases would have to take their place in an assessment that involved many other competing priorities.

Rob Gibson: I am tempted to ask the philosophical question about what kind of assessment will be involved, but that is for another day.

The Convener: I want to tease out the issue to help my understanding. The index-linked £375 million is for the first phase, which is from Leith to the airport.

Tavish Scott: Correct.

The Convener: We have had described to us what I call the second phase—although it is more like part 2 of the first phase—which is the Haymarket to Granton stretch, running along the Roseburn corridor. There is a notion that if we are cute with the optimism bias, there could be spare resources which, when coupled with developer contributions, will allow part 2 to fly. If there is any saving from the optimism bias—say, the sums are right and the promoter does not need the extra millions—do you expect your contribution to come back to the Executive to go into the pot that you have just described so that projects from throughout Scotland can bid for it? If so, the assumption that the City of Edinburgh Council and TIE have made is inaccurate.

Tavish Scott: We would have to assess that at the time, depending on the numbers. We cannot predict at this stage anything about the tendering process and nor can we predict what the shortfall, if there were one, would be in relation to the cost of part 2 of phase 1, as you described it, convener.

I understand why you ask the question, but it is genuinely difficult to answer at this stage because we do not know the numbers involved in dealing with that eventuality.

As I tried to say at the outset, all I can say is that we will continue to analyse robustly the proposed business case. I still think that we need to be sure that the business case for part 2 of phase 1 will always stack up—not just the capital costs, but the other aspects of the project, into which I am sure the committee has gone in great detail. We are some years away from having to deal with that.

The Convener: Sure. I was keen to test the principle rather than the specific numbers. There was a suggestion in evidence this morning—this was certainly the assumption that I made—that if there were savings on the optimism bias, those would automatically be put towards the Haymarket to Granton stretch. You are saying clearly that that is not the case. Any decision will be subject to the numbers. We might want to test that further with the earlier witnesses.

Tavish Scott: Correct.

Phil Gallie: I find that slightly difficult to understand given that the committee has been talking about a circular route and about £375 million, which was to be sufficient for the costs of the entire route.

You said that time has passed from when the announcement about the £375 million was made. I suggest that the time that has passed could have been envisaged at the time. Was the date of construction considered to be viable at the time of the announcement of the £375 million?

Tavish Scott: It is a little difficult for me to answer that because I was not a minister in 2002.

Phil Gallie: Perhaps Mr Sharp could answer.

Tavish Scott: I am not sure that Damian Sharp was with us then, either. To avoid passing the buck completely, all I can say is that we will write to you on that specific question and try to give you a fuller answer. I cannot say today because I do not know what the calculations of the timescale were in 2002, but I am sure that some of them must be on the public record. We can get that detail for you.

In response to your earlier point, I am sure that in assessing the evidence that has come before the committee, it has been plain what the £375 million means in the context of the whole network. After all, that is why we are here today—to talk about the specific section that we will fund.

Phil Gallie: On that point, was the optimism bias that we have spoken about considered when the figure for the project was first set? Is it not part of what has been eaten up to date because of what you consider to be the delayed start?

Tavish Scott: As Damian Sharp said earlier, the optimism bias has been part of the mechanism for some time. It would not be fair to say that this project has been delayed more than some other capital transport projects. This is not the only time that I have been before a committee to explain a series of events that have led to where we are today. That is why I have been so clear about seeking clarity around numbers and timescales since I came into post. Those are not easy to deliver—invariably, we are dealing with 10-year time horizons. We are not just talking about the physical construction of a project; we are dealing with all the other varied aspects, including planning.

I would love to be able to ensure that projects are delivered more quickly and with more certainty, particularly the large capital transport projects, but now I understand so much more of

what must happen before we get to the stage of signing a contract physically to construct a project or of talking about the revenue streams that might flow from that.

Phil Gallie: Thank you very much.

Helen Eadie: Forgive me, minister, but in the debate that has raged in the Parliament on the subject, I think that we were led to believe that the £375 million was for the entirety of the tramline. Now, phased development of the tramline may mean that the optimism bias that was set is not reached. If the Scottish Executive deems it appropriate to take back money from the tramline, does not that create a situation in which the Parliament has been slightly misled? As I said, my understanding was that the £375 million was for the entirety of the tramline. Therefore, surely it would be wrong of the Scottish Executive to take it back.

12:15

Tavish Scott: Two issues are involved. First, I need to read the *Official Report* of the statement that Iain Gray, the former Minister for Enterprise, Transport and Lifelong Learning made. I think that he talked about our "contribution" to the project. I remember sitting in the chamber up the road when he made the statement some years ago. Again, I am pretty sure that he said our "contribution", or words to that effect. Clearly, we can check the wording for Helen Eadie.

No suggestion should be made that we are taking money away from the project. We are making a £375 million commitment, plus index linking. I find it a little bit difficult to take any suggestion that we are doing anything—

Helen Eadie: The minister misunderstands what I said. What I am really saying is that, if there is spare capacity, can that money be transferred to other phases of the project?

Tavish Scott: Again, neither Helen Eadie nor the taxpayer would thank me for opening up a blank chequebook. I do not know—and, with respect, neither does the committee know—exactly what part 2 of phase 1, as the convener described it, means for the numbers. We also do not know what the numbers for any of the other phases will be. Given that the committee has been studying the project for some considerable time, committee members know the situation better that I do.

We must handle the transport budget and our commitment to projects, wherever they are in Scotland, on the basis of the most precise numbers that we can get. That is why we have Damian Sharp and other officials in Transport Scotland; they are nailing down the numbers that parliamentarians rightly expect. Ultimately, members such as Helen Eadie and I have to explain the numbers to the taxpayer. Having as much clarity as possible on the numbers is the most important part of my job when it comes to making commitments on capital transport projects.

Helen Eadie: Thank you.

The Convener: If I may, minister, I have one final question.

Tavish Scott: Of course.

The Convener: I might change my mind and ask you some more, but for the moment, it is the final question.

I am clear on the importance of the tram project to the parts of Edinburgh that it will serve and, indeed, to the city as a whole. It has been suggested that the project is of importance to the economy of the whole of Scotland. Do you agree with that suggestion? In what way do you think the project is important?

Tavish Scott: I accept that the project is important to Scotland because of the link to the airport, which is one of the fundamentals of that argument. The project has to be seen in conjunction with the airport rail link, which I argue strongly is not an Edinburgh rail link but a Scotland rail link; it will provide Scotland-wide transport linkages. If the project is taken in that context, it is an important project for Scotland.

I suppose that the more rhetorical assessment is that Edinburgh is Scotland's capital city. We need to do the best that we can to improve public transport in all of Scotland's cities, but Edinburgh is our capital city and, with the local council and local promoters, we want to consider the best way in which to improve the transport system in the city. I am involved in other debates at the moment that are directly related to transport in Edinburgh; they are exercising me somewhat.

The Convener: Do members have any final—

Helen Eadie: We do not want—

The Convener: I am not going to let Helen Eadie accept the invitation that was dangled there.

Helen Eadie: We do not want congestion charging on the Forth road bridge—

The Convener: No, Helen. Thank you.

Tavish Scott: I am sorry, convener. That was my mistake.

The Convener: Absolutely.

Helen Eadie: But—

The Convener: Hold on a minute, Helen. You were doing so well up to that point, minister.

Tavish Scott: I realise that now.

The Convener: Are there any sensible questions from members of the committee?

Helen Eadie: That is not fair, convener.

The Convener: There are none. I thank Tavish Scott, the Minister for Transport and Telecommunications, and Damian Sharp, who accompanied him this morning.

I propose to take a one-minute break in which to consult colleagues on whether to bring back our earlier witnesses. I ask them not to leave the room: we might want you back.

12:19

Meeting continued in private.

12:21

Meeting continued in public.

The Convener: Welcome back.

Councillor Anderson: We are glad to be back.

The Convener: It seems like only yesterday that you were here.

Councillor Anderson: It comes as welcome light relief after preparing a budget and considering this year's council tax.

The Convener: I am sure that you do not mean that.

Councillor Anderson: No, I do not—but I thought that I would try it anyway.

The Convener: I can tell you that it can get much worse than this.

We are in the confusion zone again, councillor.

Councillor Anderson: I am happy to clarify issues for you.

The Convener: The minister made it abundantly clear that the money available is an index-linked and capped £375 million. Indeed, stage 2 of phase 1—as I have been describing it—is actually phase 2. Is that correct?

Andrew Holmes: I will kick off on this question. In the absence of the *Official Report* of what the minister said, I listened extremely carefully to him and made notes, and my understanding of what he said is that it was the same as our working understanding throughout the process. He said that, within the funding that has been made available, what I will call phase 1A, between Roseburn and Granton, might be considered if patronage is confirmed and if the business case is made as part of the process. That has been our working assumption throughout.

Councillor Anderson: I welcomed the minister's contribution this morning. Indeed, if I were in his position, I do not think that I would be any more forthcoming than he was.

Phil Gallie: I have made clear my difficulty with all this several times already. The committee has to consider the circular route as a whole; it cannot deviate from that objective when it reports on what it has heard today. My difficulty with the minister's comments is that the original amount for the project, which is now index linked, was supposed to provide not only for the whole circuit but for tramline 2—which is more than this committee is concerned with. I cannot see how the minister is able to claim that money can be clawed back from the project that we are considering, unless the entire project itself is completed.

Councillor Anderson: To be fair, I do not think that the minister was suggesting that he was about to claw money back from the scheme. He was saying that, as far as the Roseburn to Granton corridor was concerned, the Executive wanted the case to be demonstrated before it gave any approval. I understand that perfectly. After all, we all live in the real world. However, the basic fact is that we cannot put one brick on top of another unless we get parliamentary approval for the whole route. I appeal to the committee to think very carefully about the fact that, in order to progress any part of the scheme with a view to completing it, we need the Parliament's approval.

Phil Gallie: Mr Holmes or Mr Cross suggested earlier that there was potential for commencing phase 1—the Roseburn to Granton link—in line with the waterfront link. It would be difficult for you to take that on board if there was uncertainty about the final amount of money available. All our deliberations on the bill have been based on the fact that TIE has made a business case for the entire circular route. If we are now saying that the business case is open to question and has to be reconsidered, that throws the matter into confusion.

Andrew Holmes: As we have said, and as the minister said, none of the projects in the national programme will go ahead unless a satisfactory business case is in place at the point of funding commitment. This project is no different from any other in that respect.

What I think I said—as my report to the council on 26 January said, which I think you have been given—is that if we can manage the costs within the optimism bias, it is feasible to aspire to complete the link from Roseburn to Granton. As the minister said, that could be reconsidered within the overriding consideration of satisfying the business case, which applies to every project.

That leaves us with phase 1B or phase 2, which is the section from Granton along to Newhaven. For the reasons that I set out in my earlier evidence, in my view it is feasible to aspire to obtain funding for that £45 million section.

Councillor Anderson: On the position of the minister and the council, no one is saying that we will spend money on the project regardless. We all want to ensure that further work is done on the business case, and to ensure that the tendering process is complete, so that we understand the figures that we are dealing with. Only at that point will we take final decisions with regard to the project. I sympathise entirely with the minister's position; the Executive will want to see that the Granton to Roseburn element stacks up before it makes any decisions about the amount of optimism bias that could be released from it. That is a fair and understandable position.

Barry Cross: It is also worth noting that the council report, which sets out clearly the desire to move saved optimism bias from phase 1 to effectively implement phase 1A, was checked and signed off by the Executive before it proceeded. It would have been very easy indeed for the Executive simply to say, "I'm sorry, but we can't live with that paragraph."

Michael Howell: The detailed design of the Haymarket to Granton piece will be undertaken at the same time as all the other design, which means that we shall have the facts on costs and revenue projections when we make a determination and for the financial close. All those things will be decided in the timeframe that has been discussed—in other words, by 2007.

Helen Eadie: If we are not talking about the entirety of the tramline, we ought not to be talking about the entirety of the £375 million or, depending on index linking, the £500 million. We should be having a discussion about the phased amount being the absolute maximum. If phase 1/2 comes to a figure of only £200 million, that is what the Scottish Executive and you ought to be talking about.

I am worried that we are getting smoke and mirrors here. I am of the same opinion as Phil Gallie. The minister said clearly—despite what you are saying, Councillor Anderson—that if there were an underspend that money would go back into the Scottish Executive kitty for it to consider for other projects throughout Scotland. I watched your body language when I asked the minister about that, and I noticed some smiles and exchanges of words between all of you in the front row of the public gallery. It perturbed me that you might think that my question suggested that an overspend would be a way out of the box. That is what came to me in a flash when I asked the minister about it. Will you clarify that fundamental point? The minister clearly said that money would go back to the Executive if there was an underspend, and that we should not talk about the full £375 million.

12:30

Councillor Anderson: My body language has been interpreted in a number of ways over the years, but that is perhaps the strangest interpretation yet. I repeat that the minister said not that the money would go back into the kitty for redistribution, but that he could not commit to releasing the money for the Roseburn link.

On the overall funding for the Edinburgh tram package, I well remember that Iain Gray stated that the Executive funding was intended as a contribution to tram development and to securing a tram scheme for Edinburgh, not that it would cover the whole cost. We are still at that stage, and there is no disagreement on our objectives. We believe that we have a tram scheme for Edinburgh that pulls together all the best elements of recent developments in the UK, Ireland and beyond. I am convinced that it will have a robust business case. It has all-party support in the City of Edinburgh Council. There are a number of very sceptical people—perhaps even more sceptical than members of parliamentary committees—in the City of Edinburgh Council, but they have given the scheme their backing. We all want to see the final figures for the tender and the business case in the autumn before we finally sign it off, but we cannot get to that stage until we clear the parliamentary hurdles, so I encourage you to look at the big picture and ensure that we get to that stage.

The Convener: We will look at the big picture once we have scrutinised the fine detail. I find it hard to believe that there are more sceptical people than us in the City of Edinburgh Council, but there we go.

I will pose a couple more questions, because it is important for the big picture that we have clarity on the fine detail. I am clear that the £375 million is index-linked funding to build the parts of lines 1 and 2 that run from Leith to the airport. It is not to build the rest of the route. Is that correct?

Councillor Anderson: That is what the minister has said.

The Convener: I am clear that the City of Edinburgh Council aspires to complete the route—I would be astonished if it did not have that aspiration.

Councillor Anderson: Absolutely.

The Convener: I am equally clear that you will have to make a robust case to the minister for that aspiration, based on patronage and how much you

can bring to the table. On that basis, you cannot argue for the Roseburn route to Granton—unless you are going to tell me something different. That argument will be made post-2007, but because the other bit of the tram scheme will not be operational until 2010, you will not know whether the overall financial envelope will cope. We are not talking about a phase 1 part A; we are talking substantially about a phase 2.

Andrew Holmes: The point is that it is our intention to take to tender and final business case stage the airport to Leith and Roseburn to Haymarket stages. Whether the business case, the available funding and Government consent stack up is an issue that we and the minister have said will need to be thrashed out at that stage, but we intend to progress to that point and leave for a future extension the section from Granton Square to complete the loop back to Leith.

The Convener: That is helpful. How much of the £75 million that you would require to complete the Roseburn corridor section would be dependent on saving from the optimism bias and how much would you get from elsewhere? What is the degree of risk?

Michael Howell: I will cover that in brief. The numbers are in the council's submission, but I will reiterate them. At the moment, we expect the base cost of the airport to Leith stage to be £429 million. Therefore, the £535 million that has been mentioned—which is the total anticipated funding—is £106 million more than our base cost for that length of line. If we compare that with the £75 million that we have just discussed, we see that there is a bit of headroom that allows us to be reasonably optimistic about the Roseburn route fitting within the cost envelope. Patronage is a separate issue; that is where the business case comes together.

The Convener: As there are no other questions, I thank you for remaining, gentlemen. I do not want to hold you back from any budget considerations that you might have.

Councillor Anderson: I cannot wait to get back to the council chambers.

The Convener: We now move into private to consider our draft consideration stage report. Committee members will recall that, on 5 December, we agreed to consider the draft report in private, as it might not reflect the committee's final views.

12:36

Meeting continued in private until 13:39.

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