

# **EDINBURGH TRAM (LINE TWO) BILL COMMITTEE**

Wednesday 8 December 2004

Session 2

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## **EDINBURGH TRAM (LINE TWO) BILL COMMITTEE**

### **11<sup>th</sup> Meeting 2004, Session 2**

#### **CONVENER**

\*Bill Aitken (Glasgow) (Con)

#### **DEPUTY CONVENER**

\*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

#### **COMMITTEE MEMBERS**

\*Marilyn Livingstone (Kirkcaldy) (Lab)

\*Kate Maclean (Dundee West) (Lab)

\*Alasdair Morgan (South of Scotland) (SNP)

\*attended

#### **THE FOLLOWING GAVE EVIDENCE:**

Graeme Bissett (Transport Initiatives Edinburgh Ltd)

Damian Sharp (Scottish Executive Enterprise, Transport and Lifelong Learning Department)

Nicol Stephen (Minister for Transport)

Simon Temple (FaberMaunsell)

John Watt (Grant Thornton UK LLP)

#### **CLERK TO THE COMMITTEE**

Graeme Elliot

#### **LOCATION**

Committee Room 3



## Scottish Parliament

### Edinburgh Tram (Line Two) Bill Committee

*Wednesday 8 December 2004*

[THE CONVENER *opened the meeting at 11:07*]

#### Item in Private

**The Convener (Bill Aitken):** Good morning, ladies and gentlemen. Thank you for your attendance. I remind members to switch off mobile phones and pagers. Everyone is here; no apologies have been received.

Agenda item 1 is to consider whether the committee should take item 3 in private. The reason for taking item 3 in private is to allow the committee to consider its approach to evidence taking at the final evidence session at the preliminary stage, which may include reference to topics that the committee wishes to pursue and possible witnesses. That is in accordance with the normal procedure. Do members have any comments or are we agreed that the item should be held in private?

**Members** *indicated agreement.*

## Edinburgh Tram (Line Two) Bill: Preliminary Stage

11:08

**The Convener:** The next item on the agenda is oral evidence on the updated preliminary financial case. Members have had an opportunity to consider the submission from the Minister for Transport, the review of the preliminary financial case that was undertaken by the committee's adviser, Ove Arup & Partners Scotland Ltd, and the supplementary written evidence from the promoter.

The first evidence session will be with the Minister for Transport and his colleague Damian Sharp, who is a Scottish Executive official. I welcome them and thank them for their attendance. I understand, minister, that you wish to make a five-minute introductory statement.

**The Minister for Transport (Nicol Stephen):** It might take less than that, convener.

**The Convener:** That is the sort of news that I like to hear.

**Nicol Stephen:** Today, I am pleased to be able to give evidence on the general principles of the Edinburgh Tram (Line Two) Bill and to confirm the Executive's support for bringing trams back to the city of Edinburgh.

The Executive supports tramline 2 for four main reasons. First, it will contribute to tackling congestion in west Edinburgh as part of the city's wider transport strategy. Secondly, west Edinburgh is an area of significant economic opportunity, not only for the capital city but for the whole of Scotland, and it is important that we support development there with sustainable, modern travel choices. Thirdly, the tram scheme will benefit social inclusion by opening up a wide range of employment, education and leisure opportunities to people in the communities that the tramline serves. Finally, and perhaps most simply, the scheme will offer quicker and more reliable public transport journeys for passengers, which will encourage more people to leave their car at home and make use of public transport.

We have demonstrated our commitment to encouraging people to make greater use of public transport and to encouraging radical improvements in public transport in Edinburgh by announcing the availability of funding for the tram projects—we have offered £375 million towards a modern tram system for the capital city. We expect Transport Initiatives Edinburgh and the City of Edinburgh Council to identify and secure the remaining funding, but they can do so secure in the knowledge that the Executive is strongly

committed to the tram scheme. Of course, our funding is provisional on the production of a robust final business case. Members will be aware that only a draft business case has been prepared at present. The Scottish transport appraisal guidance—STAG—appraisal and the preliminary financial case as presented show that the scheme is developing well and has a positive net present value. However, we have made it clear to TIE that we expect progress to be maintained in its work on developing the business case to its final stage.

The Executive believes that Edinburgh needs and deserves a high-quality public transport network in which buses, rail, cycling and walking, as well as trams, play a full part. The tram scheme is an important part of a wider strategy to tackle congestion, which harms the environment and inhibits economic growth. We are clear that the scheme must improve the available public transport opportunities and not simply displace users of other forms of public transport such as the bus. We expect the scheme to add to the number of people who travel by public transport and we have made it clear to TIE that that must be a central factor in determining the success of the scheme.

**The Convener:** The Executive's role is as the principal financier and you have made your views known on the project. It could be argued that the business case should have been fully completed and closed before the committee considered the bill. What was the thinking behind proceeding with the present business case, which means that we do not have the full answers at this stage?

**Nicol Stephen:** We need either a business case or a draft one to use as the basis for a proper assessment. We felt that we could make an assessment of the scheme with the information that was available. The decisions on the announcement were made just before my time in office, but Damian Sharp was directly involved and will perhaps give more insight into the background.

The last occasion on which I gave direct evidence such as this was during the consideration of the Stirling-Alloa-Kincardine railway scheme. Although we stated our financial support for that scheme to the committee considering the bill for it—indeed, I had previously announced our financial commitment to the scheme in the chamber—work is still being done to ensure that the project continues to be value for money and that the project cost comes in on budget. All such projects involve continuing project management and financial effort to ensure that they remain on time, on budget and good value for the public investment.

**The Convener:** The buck having been neatly passed, I ask Mr Sharp whether he has any comment.

11:15

**Damian Sharp (Scottish Executive Enterprise, Transport and Lifelong Learning Department):** I have. The amount of information that is available at different stages is always a difficulty. An important issue for the promoter is that the finalisation of the business case depends on its ability to get firm numbers from contractors, potential financiers and the operator. Some of that information cannot be finalised until we know exactly what the route will be. Corporate financiers would take a different view of a project that might not go ahead because it still had significant third-party approvals to go through.

The business case cannot be completed without the Parliament's approval of the bill and without knowing exactly where the route will go. There is a chicken-and-egg element to the situation that makes it difficult. The process is being managed by funding further development when indicative numbers look good. There is a series of gates to be gone through, as more information comes in, before the final business case can be completed. However, at this stage the business case shows that there is a good probability that, once all the negotiations have been completed, there will be a good scheme that will stack up and that should proceed.

**The Convener:** In paragraph 4.3 of your written submission, you provide a list of issues on which you expect progress. Can you update us on why you regard those issues as being so important? In particular, can you let us know what progress has been made in the issues and when you expect to receive the full business case or the draft business case?

**Damian Sharp:** We expect to receive the final version of the outline business case—the terminology is a bit complex—around March. We have had continuing discussions with TIE about a number of issues. We know that discussions have gone on between TIE and Lothian Buses plc about, for instance, bus-tram integration, on which we expect significant progress to be made. We have not been party to those discussions, but TIE must report back on them over the next few months.

**The Convener:** What about procurement?

**Damian Sharp:** We have had discussions with TIE about that. However, at this stage, TIE is mainly working up material that it will share with us in January and February so what we can comment and discuss whether it is going the right way. We will provide an active feedback role within what is ultimately TIE's case to justify.

**The Convener:** What about third-party funding?

**Damian Sharp:** We have not had any further discussion with TIE about that, but we have made it clear that TIE must make progress on that issue.

**The Convener:** I certainly hope that some progress has been made, because that is clearly an important part of the equation.

**Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD):** I hope that the minister or Mr Sharp can comment on the four main reasons why the Executive supports the tram.

First, the Executive states that the tram will help to reduce congestion. However, the promoter has said that line 2 will have a negligible impact on congestion. In fact, at peak travel time on the A8 within Edinburgh, the promoter forecasts only a 0.3 per cent reduction in congestion because of the tram.

Secondly, the Executive has said that the tram will bring considerable economic opportunity to west Edinburgh. However, the STAG 2 document states:

"In respect of property related impacts the tram line is projected by 2025 to directly contribute towards the creation of minimal additional residential, retail and industrial development".

The STAG 2 document indicates that just 406 jobs of the 20,000 projected for Edinburgh Park are expected to be developed because of the tram. The document also states that

"developments within the tram line study area are already planned to proceed irrespective of whether or not"

there is a tramline in the area. Jim McFarlane, from Scottish Enterprise Edinburgh and Lothian, said in evidence to the committee that he was not involved in the part of the discussions that put together the STAG 2 document.

On social inclusion, the National Audit Office report certainly raised questions about whether comparable tramlines have had a big impact on social inclusion.

On the fourth area, you say that the tram will be quicker and more reliable than the current arrangements. It is certainly true that it will be more reliable but, last week, the bus operators told us that there would not be a marked difference in speed, especially when the tram is compared to the number 22 bus or the Edinburgh airport bus.

I am questioning whether those are the major factors with regard to the STAG process. From the promoter's own evidence, we can see that there are big question marks over each of the four criteria.

**Nicol Stephen:** A significant element of the justification of some major transport projects is job creation and the economic development that will be stimulated by the scheme. You are suggesting,

based on the promoter's evidence, that there is a small element of that in relation to line 2 but that it is not a central element of the argument. I would argue that where significant economic development is taking place, it is even more important that we support that development with sustainable transport choices and that we think about the transport implications of any new major development from the outset.

It is fair to say that the developers of a number of developments across Scotland that have significant economic potential for the country tend to think about the success of those developments in terms of access to the trunk road network and the need for new roads investment. The approach that I think should be taken with regard to those projects involves thinking, from the very start, about cycling, walking, tram and rail opportunities as well as considering the need for good-quality road connections. We need to make a shift towards that approach in our transport thinking. The project that we are discussing is consistent with that approach.

Some people will criticise the project because this part of Scotland will have good-quality bus, tram and rail connections as well as road connections. However, I would see that as a success that we want to roll out to other parts of Scotland. Many modern European cities and cities around the world not only have bus, tram and rail connections but are investing in high-speed rail connections, such as the magnetic levitation system.

People in Scotland should not feel that they have only one transport option. They should certainly never feel that that one option is the private motor car. Wherever possible—including in remote, rural and island communities—there should be public transport options because not everyone has access to the private motor car.

Damian Sharp will talk in detail about the detail of the STAG appraisal.

**Damian Sharp:** I can offer some comments on all four of the points that Mr Purvis raised.

I do not have a breakdown of decongestion by road. However, the estimate is that, on opening, of the slightly more than 5 million trips by tram that will be made, 20 per cent—or just over a million—will come from car travellers or will be new trips that might otherwise have been made by car. To put that in context, that is only 1.1 per cent of the current total number of car trips to, from and within west Edinburgh. However, in a road network that is already at capacity, taking away that 1.1 per cent will have a disproportionate benefit—and not doing so will cause disproportionate pain. We expect TIE to continue refining its modelling work to determine the exact scale of the decongestion

that will result, but it is important to remember that 1 per cent of car trips does not represent 1 per cent of the delay in a congested network.

I echo what the minister said about development. The issue is not about the tram leading redevelopment in west Edinburgh. That development is going to happen, and if we do not provide sustainable travel choices it will put an ever-increasing strain on the local and strategic roads network in west Edinburgh. We are not creating jobs by building the tramline, but we are providing real alternatives to car use to access those opportunities.

That in part links to social inclusion. It is fair to say that the tram alone does not bring great social inclusion. Transport is only one barrier to accessing the jobs market. If we have a package that aims to tackle skills issues, wages issues and all the things that stop people getting into employment and taking advantage of training, but we are stuck with a transport problem at the end of it, we will not succeed. Similarly, if we succeed with transport, but do not succeed with skills, it will not work. Trams have to be part of a joined-up picture. The tram will not do it on its own, but it is an important part of the picture.

Trams are predominantly more reliable, but during the peak they are also faster. I believe that you heard evidence from Neil Renilson that bus journey times, including those of the number 22 bus, go up during the peak. The advantage of the tram, with its large section of off-street railing and its traffic-light priorities, is that its journey time does not increase significantly in the peak.

**Jeremy Purvis:** The impact of line 2 will vary road by road, but it is anticipated that it will reduce overall peak traffic by 0.3 per cent in 2011, and by 0.1 per cent along Gorgie Road. If the tram does not happen, will there be an increase in congestion? The proposed reduction is nowhere near the targets of the council or the Scottish Executive to reduce congestion over that period.

**Nicol Stephen:** Our concern is that unless we take action and invest in schemes of this type, the trend for congestion to get worse throughout Scotland will be followed, particularly in urban areas. One of the highest predicted levels of congestion growth is in Edinburgh, which is why the council and TIE have a package of ambitious proposals to do something about it. Any one of those proposals taken on its own will help to improve the situation. I am sure that the City of Edinburgh Council would argue that you need the full package to have the maximum impact, but that is straying into territory that we do not need to discuss this morning. However, it is important that we examine all the reasons and justifications for this project, one of which is that congestion will get worse if the tram proposal is not delivered.

**Jeremy Purvis:** My question was whether congestion would get worse by 0.1 per cent along Gorgie Road and by 0.3 per cent overall if the tramline were not built.

**Nicol Stephen:** Some of your questions are fair questions that you could press the promoter harder on. As a Scottish Executive minister making a significant financial contribution, I undertake to do similarly.

I mentioned rail. On the Edinburgh airport rail link, I want to be clear that there is no double counting of potential passenger journeys by tram and rail. However, I understand the argument that tram and rail will serve different markets. Passengers starting their journey at St Andrew Square and going all the way to the airport might choose to walk the couple of hundred metres to the railway station, but if they were starting their journey along the tram route, it is unlikely that they would want to travel to Waverley or even to Haymarket. They would probably get on the tram and go directly there.

Obviously, the tram will serve only a local Edinburgh market whereas the rail link will provide a significant other benefit by rerouting the east coast main line to bring in journeys between Edinburgh and Dundee and Aberdeen, and by rerouting journeys between Edinburgh and Glasgow. Therefore, the rail link offers significantly different markets from the tram project.

All those issues need to be clearly explained not only to local people in Edinburgh but to people throughout Scotland so that they understand those different benefits. People need to be confident that the tramline 2 project has been well scrutinised both by the committee and by me, in my role as Minister for Transport with a duty to ensure the best use of public funds.

11:30

**Kate Maclean (Dundee West) (Lab):** The minister's memorandum rightly states that the Scottish Executive takes a neutral position on the tramway's exact route and specification—which I suspect the committee will consider in more detail at consideration stage—but the Executive must obviously take an interest in the extent of the route. Given TIE's suggestion that the Ingliston to Newbridge section of tramline 2 might be delayed or even abandoned, what impact would such a decision have for the Executive's support for the scheme? The issue is raised in the written evidence on the updated preliminary financial case.

**Nicol Stephen:** Any such decision would be for TIE and the City of Edinburgh Council rather than for the Executive, but our £375 million of support for the tram network would still stand. However, as



the convener mentioned, other sources of support such as the private sector would still be needed because the savings gained from dropping that section of the line would not be sufficient to complete the project with Executive support alone. We would still need to deal with the same issues that have already been touched on. Clearly, those issues need to be properly agreed, finalised and pinned down before the schemes can proceed. Any funder or construction company needs to be clear about the route that is to be built and how it is to be funded.

The Executive will continue its discussions with TIE on how we can support the introduction of a tram network in Edinburgh, but we have made the level of our financial commitment clear. Given the current almost £500 million costing for the two lines plus our need to factor in an assessment for what the Treasury calls optimism bias, significant issues are still to be resolved. I am sure that the committee, like the Scottish Executive Enterprise, Transport and Lifelong Learning Department, will want to take those issues into consideration and comment on them.

**Kate Maclean:** I guess that I am asking for a clear answer to this question. Given that TIE is not confident about the adequacy of available funding for the Ingliston to Newbridge section of the tramline, how would the Executive respond to any approach from TIE for additional funding? Has TIE made any approaches to the Executive for funding in excess of the £375 million?

**Nicol Stephen:** As far as I am aware, I have not received any formal approach from TIE, although informal discussions may have taken place with Damian Sharp. Given the funding gap that has been mentioned, I am sure that TIE would be delighted if the Executive were to show a willingness to offer more funding for the scheme.

**Kate Maclean:** Has TIE made any formal or informal approach for additional funding over and above the £375 million? On what basis was that approach made?

**Damian Sharp:** Informal discussions have taken place between TIE officials and Scottish Executive officials about the circumstances in which more than £375 million could be made available.

**Kate Maclean:** What was the response?

**Damian Sharp:** The response was that the Executive has made available a significant contribution of £375 million and that it expects TIE to find sufficient additional funding to construct the route.

**Kate Maclean:** So that is a no.

**Damian Sharp:** Yes.

**Kate Maclean:** Or a maybe.

**Nicol Stephen:** Although the matter has not come to me, if it were to do so, I would say no for the reason that the £375 million that the Executive has made available is a significant level of investment. If we were being asked to make an additional contribution, the money would have to come from somewhere else in the transport budget. A number of other projects right across Scotland would have to be reconsidered—perhaps the ministerial way of phrasing that is to say that we would have to deprioritise them. If we were to make an additional contribution, that would mean the removal or delaying of other important projects, which is a decision that I would be reluctant to take.

All of us know that major projects can occasionally run over budget and that time delays can occur. The management of those major capital transport projects is a big challenge. Some of them are in the order of £500 million—we are talking about long-term projects with completion dates that can run right through this decade and into the beginning of the next decade. Some projects will require such timescales to be constructed, opened and made available for passenger use. We have to continue to work closely with the promoters and project management teams of all the projects and to discuss problems as they arise. Let us be clear: no additional funding is available beyond the £375 million that has been offered for the Edinburgh trams project.

**The Convener:** You said that capital projects frequently overrun in time and cost. Who would bear the risk if there were to be an overspend? Would it be the Scottish Executive or the promoter?

**Nicol Stephen:** It would be the promoter: the promoter is seeking the committee's approval for the project and will sign the relevant contracts, proceed with the project management of the scheme and be responsible for its delivery on time and on budget. Clearly, the Scottish Executive will work closely with the council and TIE on the project and provide the lion's share of the funding. Under the existing public transport legislative structure in Scotland, the situation is not the same as that which applies to roads projects, where the risk lies with the Scottish Executive; the risk in new public transport infrastructure projects rests with the promoter.

**Kate Maclean:** But the point is that if the project reached a certain stage in its construction and then ran out of money, there would be a great deal of pressure on the Scottish Executive to provide additional funding simply because of the perception that the project is an Executive project. The committee understands that it is not; we know that it is not an Executive proposal. However, the

perception would be that the Scottish Executive had wasted £375 million. I am worried about the fact that we are being asked to take a decision in principle without a clear financial case.

**Nicol Stephen:** I do not doubt what you say for one second. However, your question looks to a hypothetical future, and politicians are often reluctant to answer such hypothetical questions. If the project were to run out of money, all I can say is that that could happen with any of the projects that are the responsibility of the Enterprise, Transport and Lifelong Learning Department or any of the other big projects that are being managed or funded by the Executive, including big water and sewerage projects or big hospital and schools projects.

Clearly, we work hard to avoid such situations developing. We hope that our project management skills and our ability to deliver those projects are improving significantly. However, if such a situation were to arise—let us hope that it does not on the Edinburgh tramline 2 project—all of us, working collectively, would have to deal with the problem. No doubt the Minister for Transport would be at the sharp end. If that happens, I just hope that it does so beyond my period in office.

**The Convener:** Right. We note that you will have to consider the extent of the problem.

**Nicol Stephen:** I will work hard to ensure that, during my period in office, all projects continue to progress on time and on budget. It is important to emphasise to all MSPs that the pace of the parliamentary process is part of the issue. As members know, the number of public transport projects that require approval and the ability of the Parliament to cope with them is an issue. The ability to deliver a project on time and on budget heavily depends on parliamentarians being able to process and progress schemes. That is a cross-party issue that we all want to consider.

**The Convener:** I certainly concur with that view.

**Damian Sharp:** The issue is that large risks will remain. How should those risks be dealt with? One issue that we expect the final business case to address is that of having a contractual structure that reduces to an absolute minimum the risk to which Kate Maclean referred. It is clear that it would be unacceptable for the project to get part of the way through and then run out of money. We must be clear that we have a contractual structure that allows us to say, "We can deliver this within the set budget", that backs that up with teeth and that means that there is a very low risk of getting part of the way through the project and running out of money. There can never be no risk of that happening, but if we get the structure and risk allocation right, that risk can be taken to a low level. We expect TIE to demonstrate that the

contractual structure that is put forward for our approval achieves that aim.

**Kate Maclean:** On the contractual structure, the preliminary financial case recommends that "further detailed analysis" should be undertaken with the Scottish Executive on the preferred funding structure. Has that happened or is it in the process of happening?

**Damian Sharp:** The process has started but not concluded.

**Alasdair Morgan (South of Scotland) (SNP):** The minister talked about answering hypothetical questions. It strikes me that everything that we are dealing with—such as projections on congestion and traffic numbers—is hypothetical. At the end of the day, if the whole project goes belly up, with half of Princes Street dug up and the other half not dug up, we know what will have to happen.

On that basis, given that we are considering two schemes going out to the west of Edinburgh—the Edinburgh airport rail link and the tram link—with a significant degree of overlap, is the £375 million that has been referred to totally committed, or do things depend on what we decide or on the other business cases that come before the Executive? Could that money potentially be decommitted if the whole thing does not stack up and you find that the two schemes together do not add up and make sense?

**Nicol Stephen:** The best way in which to explain things is to say that the Scottish Executive is totally committed to that funding, but there are issues that the promoter must still resolve, which are partly legislative issues. It is clear that the consent of the committee and the Parliament for the project is required, but there are also financial issues relating to the final business case that we must be satisfied with. We wanted to give the promoter security and confidence so that it could state fairly and honestly to all interested parties—whether to the proposed operator, Transdev, a construction company or a funder—that there is Scottish Executive funding of up to £375 million for a trams network in the city of Edinburgh.

**Alasdair Morgan:** Would you expect that final business case to take full cognisance of the potential effects of building the Edinburgh airport rail link?

11:45

**Nicol Stephen:** Absolutely. I hope that I made that clear earlier. Likewise, I expect the proposals for the Edinburgh airport rail link that will come before the Parliament in due course to be thorough in their assessment of the impact of the tramlines.

**Alasdair Morgan:** I know that we can always wait for something else to happen, but given the overlap between the two schemes, would it not have been more sensible if the whole thing had been introduced as a package?

**Nicol Stephen:** You will see the advice that the promoter has taken on the tram network. I assume that all committee members are aware that there was discussion of whether the tramline bills could have been merged into a single bill covering at least the first two tramlines. The view that was taken was that, because of the issues surrounding land acquisition and to ensure that the rights of objectors were properly protected and that there was appropriate parliamentary scrutiny, the lines should be kept separate in different bills. That is why we have proposed separate bills for the Edinburgh airport rail link and for each of the public transport proposals. In due course, bills will be required for tramlines 3, 4 or 5, because the advice of the parliamentary counsel for those preparing the schemes is that, given our legislative structure, they are best handled separately.

**Alasdair Morgan:** The different tramlines are one thing, because they have a potential to help each other and, apart from when they run into each other, they are separate. However, the airport rail link and tramline 2 are of a different nature, because they potentially compete with each other and one is following close on the heels of the other. We need to know the potential interaction between the two during their construction and operation. As BAA said in its evidence, why on earth did we not just delay the bill for tramline 2 by six or nine months and introduce it and the bill for the airport rail link at the same time?

**Nicol Stephen:** There is an element of competition, because some passengers will have the choice of getting the tram or using the rail link, but the schemes are different and there are significant differences in the market that they will target and the passengers that they will expect to attract. I agree that it is important to understand not only the separate, individual schemes, but their interaction. As I said, because of the investment that we are making, we are determined to ensure that that interaction is properly studied and understood, and the committee will want to do the same in its scrutiny of the bill.

I accept that there are difficulties in the situation that the committee faces, but it could have been even more difficult if the two projects had been separate schemes with different promoters and completely different timescales. It could have been the case that the Edinburgh airport rail link bill was not due to be introduced for 18 months or two years; however, I understand that it is due to be submitted to the Parliament after the current

period of public consultation concludes in the spring next year. It is quite a well-developed project, and TIE is also promoting it with the City of Edinburgh Council, so we have a good chance of getting answers that we rightly want to the questions on the potential overlap.

**The Convener:** Alasdair Morgan mentioned what BAA said, which is clearly a material consideration. In the circumstances, would it not have been better to delay the tramline 2 project until we could have seen the potential impact of EARL?

**Nicol Stephen:** That brings us back to my serious concern about the fact that the temptation is always to delay big new public transport projects. There are always good reasons to hold back, but a delay now is also a delay at the end of the process, because it is difficult to catch up with a delay once it has happened.

It is important for Scotland to proceed with our major new public transport projects, which have pretty wide cross-party support. Of course the detail and any objections need to be examined carefully. Getting the detail right is important. One of my responsibilities is to give people confidence that Scotland can deliver those major projects, will drive them forward and is bold enough to proceed with some complex projects. The projects are not without risk, but if we deliver them, they could benefit Scotland.

**The Convener:** We require to find out whether the projects will be viable.

**Nicol Stephen:** I understand that completely. That is an important responsibility of the committee.

**Jeremy Purvis:** The promoter has two schemes that will have an element of competition. The figures that the promoter gave us last week show that patronage levels could vary by nearly 1 million by 2011, from the base case—that is, with no EARL—to EARL with a cheap fare, which we have been told is standard. Is it fair to say that the promoter has an incentive not to put the two schemes together if one business case undermines the other when both are the subject of bids for Scottish Executive funding? That does not help strategic transport for the area, but it helps the promoter to seek funding from the Executive.

**Nicol Stephen:** I have already committed to ensuring careful financial scrutiny. The Executive is determined to ensure that we have a full response on such issues from the promoter, that people understand it and that it makes sense to people in understanding which passengers are most likely to use the tram route and the rail route.

As Alasdair Morgan said, we are dealing with predictions and can never be absolutely certain.

However, based on the best transport and financial advice that we can obtain, we should understand who those passengers are and ensure no double counting of them, so that we ensure that the value-for-money case—the business case that TIE and the City of Edinburgh Council present—is professional and has a reasonable assessment, given that two projects that should not be considered in isolation are proceeding. We need to understand fully and be clear about the interaction between the two.

**Jeremy Purvis:** You outlined four main reasons why the Executive supports tramline 2, although question marks hang over congestion and other matters that we have discussed. I understand that the main net present value of the forecast revenue could differ by more than £1 million by 2026, based on the promoter's figures. That is the difference by 2026 between having no EARL, when revenue will be £8.31 million, and EARL with a cheap fare, when revenue will be £7.13 million. We simply do not know about that. The promoter has no incentive to produce the business case for EARL while uncertainty exists at the moment. We cannot make comparisons, although a revenue difference of £1 million per annum could exist.

**Nicol Stephen:** Without prejudging or pre-empting the parliamentary process for the EARL project—which another committee will scrutinise closely—I give the absolute guarantee that we will scrutinise from financial and transport perspectives the Edinburgh tram project on the basis that the Edinburgh airport rail link will be built and that reasonable assumptions and predictions will be built in about that link and its likely fare levels. Those assumptions will be factored into our assessment of the business case and the net present value of the current project.

**Jeremy Purvis:** I accept that entirely. You are asking for information that the promoter has not given us. It is good that that question is being asked, because in its evidence to the committee the promoter has said that it has no idea what the EARL fares will be.

**Nicol Stephen:** Reasonable assumptions must be made and we will ensure that that happens in respect of our assessment of the business case. We have still to receive the final business case from the trams project team.

**Marilyn Livingstone (Kirkcaldy) (Lab):** My questions follow on from Alasdair Morgan's comments on interaction. Do you agree that the viability of tramline 2 depends in part on there being minimum competition from buses and maximisation of passenger numbers? With that in mind, would you look favourably on any proposal by the City of Edinburgh Council to introduce a bus quality contract to coincide with the introduction of the trams so as to minimise wasteful bus-tram competition?

**Nicol Stephen:** I agree that there is a strong need for integrated delivery of Edinburgh's public transport. We have spoken about the interaction between rail and the trams project, but the interaction between trams and buses is equally important. That point has been emphasised to the council and to TIE. Everyone understands the importance of avoiding a situation in which the tram project gets under way and the bus companies make a competitive response.

It is important that, as part of the progress that is being made, we now have a proposed operator for the tram project—Transdev. Another important development is the recent announcement that a joint operational management company, Transport Edinburgh Ltd, has been formed by the City of Edinburgh Council. The company will incorporate both trams and buses. That is clearly a step in the right direction, but more work needs to be done. It would be far better if the work could be done on an agreed, partnership basis but clearly if there were difficulties a quality contract would be one possible solution. Other solutions would require to be considered. We must avoid a situation in which the competition between tram and bus worsens congestion problems or leads to the sort of problems that I am sure everyone around the table can imagine and which are the exact opposite of what we want to achieve through our investment.

**Marilyn Livingstone:** We would like to be kept up to date on such details, as progress is made. As you said, the interaction between bus and tram is as important as that between tram and rail.

**Nicol Stephen:** A number of cities throughout the United Kingdom and the world have introduced, or reintroduced, trams. Some of those cities have poor bus networks, but others have historically had very strong bus networks. It is clear that Edinburgh comes into the second category. Most people believe that Edinburgh has a very good bus network and there is strong growth in passenger numbers. We want to ensure that the network remains strong and that Lothian Buses and other operators get the opportunity to continue to grow their market. However, when you invest £375 million into a tram network, you want to ensure that it has a fair opportunity to perform effectively and to tackle some of the speed-of-journey and congestion problems that we have discussed in this morning's evidence session.

12:00

**Marilyn Livingstone:** Will tram journeys be covered by the proposed national concessionary fares scheme for the disabled and elderly?

**Nicol Stephen:** No. That is intended to be a scheme for bus travel, so tram journeys would fall outside it. I will make an announcement to the

Parliament on the concessionary fares scheme that we have negotiated very soon—before Christmas, I hope. I have no doubt that, by the time the tram network is up and running, people will have lobbied us on the issue and I or a future Minister for Transport will have considered it carefully. The partnership agreement commits us to providing a free national off-peak bus scheme for the elderly and disabled. At the moment, there are no trams in the Scottish public transport network, but I would be surprised if the issue were not raised between now and opening date of the tramline, if the committee gives it its consent.

**The Convener:** So your statement will be next week.

**Nicol Stephen:** If that has been made public, I defer to your better knowledge.

**Marilyn Livingstone:** That is quite important. We asked City of Edinburgh Council if its concessionary fares scheme would apply to tram travel and it said that it would. However, I take on board the fact that the issue will be examined.

**Nicol Stephen:** Any national scheme can be supplemented by individual local authorities' schemes. If the City of Edinburgh Council said that its concessionary fares scheme would apply to tram travel, we are probably haggling about money—it is a question of who will fund that. I am simply describing the situation as I understand it from the partnership agreement and the agreement that we have struck with bus operators. I am starting to stray into the territory of my statement to Parliament, so I should not go too far. The discussions that we have had have been with bus operators; they have not been with Transdev or TIE about the funding of the trams project. As we are some years away from the opening of the tramlines and having passengers—elderly, disabled or otherwise—travelling on the trams, I am sure that there is time to resolve the issue and to have further discussions on it.

**Marilyn Livingstone:** You might have heard that, in evidence to the Public Accounts Committee at Westminster, the permanent secretary to the Secretary of State for Transport stated:

“there is now a grouping called UK Tram which brings together Transport for London, the PTEs, the Federation for Passenger Transport and the private sector suppliers, and the intention is that it will produce best practice and standards and we will require them as a condition of grant for future schemes.”

What consideration will you give this group's best practice and standards recommendations when deciding to guarantee funding to Transdev Edinburgh Tram Ltd?

**Damian Sharp:** We have encouraged TIE and City of Edinburgh Council to become involved with

the UK tram group and to be fully aware of emerging best practice. In their business case, we would expect them to show that they were following best practice and if they wanted to diverge from the UK tram group's thinking, they would have to justify why that was the case. We would expect all those issues to be considered fully when the business case is dealt with.

**The Convener:** We will have one final question.

**Jeremy Purvis:** I want to return to buses and the potential revenue that the present outline financial case anticipates. Comparable tram schemes have fares that are between 0 per cent and 35 per cent higher than bus fares. The revenue forecasts for tramline 2 are based on fares that are 33 per cent higher than bus fares, which is at the extreme end of the price differential for comparable schemes. Is that wise?

**Damian Sharp:** It is for the promoter to justify the precise forecasts. We expect there to be a variety of sensitivity testing that asks whether the forecasts stack up only in those circumstances or whether they stack up in a wider range of circumstances around the core assumption. That is a crucial part of understanding where the risk lies and whether the anticipated revenues can be achieved.

If the promoter assumes higher fares, that will have an impact on the total patronage. The issue is about striking the right balance between fares and patronage. We would expect Transdev to bring its practical experience to bear on such matters when it develops the business case further.

**The Convener:** Do you want to say anything in conclusion, minister?

**Nicol Stephen:** No. I think that I answered all the questions and dealt in considerable detail with all the issues that I hoped would be raised.

**The Convener:** I am sure that you did your best.

**Nicol Stephen:** I would be happy to assist the committee further, if it so wishes. At this stage, I have nothing further to add.

**The Convener:** Thank you very much; that was a very useful session.

12:06

*Meeting suspended.*

12:10

*On resuming—*

**The Convener:** I welcome our next panel of witnesses, who will speak on behalf of the promoter. Graeme Bissett and Mark Bourke are

from TIE, John Watt is from Grant Thornton UK LLP and Simon Temple is from FaberMaunsell.

Who is going to make the lead case?

**Graeme Bissett (Transport Initiatives Edinburgh Ltd):** I will.

**The Convener:** Do you want to make a brief opening statement?

**Graeme Bissett:** No, we will let you proceed straight to questions.

**The Convener:** You have heard what the minister had to say earlier and you have been able to assess the committee's level of concern in relation to various aspects of the case. What would be the effect on the economic case for tramline 2 if, during the early years of operation, there were a shortfall in patronage similar to that experienced by tram systems elsewhere in the United Kingdom? You will be aware that the recent National Audit Office report showed that the patronage of transport systems in Croydon, Sheffield and elsewhere was not at the expected levels. What would happen in Edinburgh if there were a similar shortfall?

**Graeme Bissett:** It is important to state at the outset that the preliminary financial case is based on a middle case. We have done contingency or sensitivity testing around that, and you can see examples of that in the STAG document in particular. However, in order to keep the document to a manageable scale, we presented one median case for the committee's appraisal. That amounts to a work in progress for the full business case that was discussed earlier this morning, which will contain a wider range of sensitivities. Within that, I think that we would all agree that the most significant sensitivity is around the revenue projection, which is, essentially, driven by the patronage, although the fare assumptions are significant.

The benefit that Edinburgh has is that we can learn from the experience of the other schemes. The NAO report was a useful document for us in that it worked almost like a checklist of problems that have been encountered elsewhere. We hope that we have learned from those lessons and are applying some solutions to those problems.

Simon Temple can comment on the patronage assumptions in the light of what has been experienced elsewhere.

**Simon Temple (FaberMaunsell):** To put the matter into context, it is not the case that all UK schemes have had lower patronage and revenue than was expected. Patronage of the system in Manchester and of the London docklands light railway has exceeded initial expectations. However, in other cases, patronage has clearly fallen short of expectations. Often, the problems

have been to do not so much with the techniques of forecasting demand as with some of the input assumptions. For example, there may have been optimistic assumptions about the system's run times, about the level of competition from buses and about economic development and regeneration in corridors that, in many cases—particularly in Sheffield—were extremely economically depressed. Those lessons have been learned and the forecasts that have been prepared for the Edinburgh projects are on the conservative side. We can therefore have a lot of confidence that those problems will not be experienced here in Edinburgh.

12:15

**The Convener:** Could you perhaps outline how the modelling that you adopted differs from that adopted in Sheffield and Croydon?

**Simon Temple:** The main difference in the modelling itself is that we have used a more comprehensive modelling system in Edinburgh. The conventional way in which demand for such schemes has been forecast has involved taking the total existing travel between the various places along the corridor served by the tram, adding a factor for future growth in demand—from economic growth, growth in car travel and potential growth in employment and population—and then modelling a proportion of that demand transferring to the tram.

That is a relatively transparent process, but it misses some of the key effects that you may get. You may get some additional economic growth in the area, but it is more likely that what you will get is a substantial redistribution of activity to that corridor from other corridors in the city. You may also get time-of-day effects as well as modal transfer. The Edinburgh model has been designed to capture all those effects so that we can understand the full impact of the tram on the transport and economic functioning of the city. The disadvantage of that is that it is slightly less easy to identify exactly who the users of the tram are—whether they are people who were previously making exactly the same journey by car, or people who have moved house and moved job into the corridor and have changed their mode of travel as well.

**The Convener:** One of our principal concerns, as you will have heard from the earlier evidence, is about the impact that EARL would have on tramline 2's viability. Have you carried out an economic appraisal to ascertain exactly what its impact would be?

**Simon Temple:** We need to be clear that the EARL project has not yet reached the stage at which it can be submitted to the Parliament and

that there are a number of issues associated with it—such as the precise access arrangements at the airport station and the precise fares to be charged—that have yet to be decided. It is not possible to be absolutely definitive as to what the impact is, but we have done a number of sensitivity tests based on the best information available at present about the specification of the scheme.

In relation to the overall economic case for the scheme, taking account of the benefits to transport users and the wider benefits in terms of traffic congestion, there is a robust case for the scheme. Assuming that only Edinburgh tramline 2 goes ahead, ignoring the synergy benefits with line 1, the economic benefit-cost ratio is reduced from 1.4 to 1.29 with a high EARL fare and from 1.4 to 1.24 with an EARL fare that is the same as that which currently applies on the air link bus.

In terms of the financial results, comparing the operator revenue with the operating costs, the effect is to reduce the ratio from 1.15 without EARL to 1.09 with EARL with a high fare, and from 1.15 to 0.94 with EARL with a fare that is the same as the bus fare. That means that, over the life of the scheme, there would be a need in the worst case—with only tramline 2, no integration with buses and EARL charging a low fare—for a limited amount of operating subsidy over the life of the scheme.

Although there would be subsidy in the early years, by about 2021 the need for it would disappear and an operating surplus would emerge. I emphasise that that is on the basis of only line 2 going ahead. If line 1 went ahead as well, the position would improve and the two lines together would have a combined operating surplus of 13 per cent over the life of the scheme as a whole.

**The Convener:** You appreciate that we have to operate—

**Simon Temple:** I am sorry that I am quoting a lot of numbers.

**The Convener:** Not at all. It is useful, but you must appreciate that although I acknowledge your caveat, we have to assume that EARL will be operative. We are interested to note what might happen if a premium pricing structure is not adopted.

**Simon Temple:** Yes.

**Kate Maclean:** Could we have all the figures in writing, convener?

**The Convener:** Yes. Could you give us the figures in writing at an early stage? We will have more to say about that later.

**Graeme Bissett:** We in TIE share the difficulty.

We are responsible for the delivery of both schemes and are sensitive to that fact. Although the parliamentary timetables for the two projects have been moving at different speeds, there is a period in the spring next year when we will be producing an outline business case for lines 1 and 2 simultaneously, which is about the time that the EARL bill is due to be introduced, which will carry with it a preliminary financial case that is similar in form, but with more detail, to that for the trams. At that stage in both processes it will be incumbent on us to ensure that the assumptions on both sides of the house are consistent and that the sensitivity testing takes account of both projects proceeding as at least one of the scenarios. The information will be available then.

**Kate Maclean:** You said that it was unfortunate that the parliamentary process is different. Why has the EARL bill not been introduced? Surely it is to do with the promoters rather than the Parliament.

**Graeme Bissett:** My point was that, whatever the reasons, the processes for the tram bills and the EARL bill are operating to different timescales.

**Kate Maclean:** I am sorry. It is just that you made it sound like there was a problem with the parliamentary process, when it is the choice of the promoters not to introduce the EARL bill.

**Graeme Bissett:** That is right. The line 2 bill is ahead of the EARL bill.

**Kate Maclean:** But that is not because of the parliamentary process.

**Graeme Bissett:** We are trying to create a point in the spring when we bring the background work together to allow us to compare and contrast the effect of the two schemes.

**Jeremy Purvis:** So it would be fair to say that the general principles should not be approved until all the figures are together and the processes are neatly in line, at the same time.

**Graeme Bissett:** That is clearly your call, not TIE's.

**Jeremy Purvis:** But you are asking us to approve general principles of something for which you said the business case is not complete and on which the full impact of EARL is not known.

**Graeme Bissett:** The point that I am trying to make is that the information that we have for line 2 is as far advanced as we can make it at the moment. What we did earlier this year and will continue to do through to the process of detailed evaluation next year is consider all the additional factors. The evaluation that we have at the moment is that EARL will have an effect on line 2. There are a range of possible effects, but taking into account the credible scenarios as we see

them at the moment without presupposing what the conclusions will be on the EARL project, the business case for line 2 is still robust. The case is developing and the outline case will be available in the spring.

**Jeremy Purvis:** That is my point. This committee is considering line 2. You are saying that the line is likely to be affected negatively by another project. We have to consider line 2 on the basis of the most conservative view. As the promoters have said, STAG 2 offers the most conservative approach. If, for the moment, we leave aside the bill for line 1, which is being considered by another committee, we could say, because you have just told us that a subsidy could be needed over the operating period of the scheme, that the case is not robust: at the point when you are asking the committee to approve the general principles of the bill—not in the spring, but now—the business case for it is not robust.

**Graeme Bissett:** No. One scenario might lead you to that conclusion, but that is only one, particularly prudent, scenario. We must evaluate a credible scenario, which must be a best estimate. We should bear it in mind that the teams from EARL and line 2 work together in our organisation when it makes sense for them to do so and are aware of the assumptions that are made on each side. We must evaluate a credible proposition, particularly in relation to EARL pricing, because the train fare is the most sensitive assumption. A credible proposition has a slightly negative effect on the case that is currently on the table, but that does not mean that the business case for line 2 is not robust.

**Jeremy Purvis:** It is not unreasonable of our constituents to ask us to be prudent with their money.

**Simon Temple:** Even in the situation that you describe, which as Graeme Bissett said is very conservative, the scheme represents good value for money when we balance the benefits to society against the costs. The scheme provides an economic benefit-to-cost ratio of 1.24, compared with 1.4 without EARL. The difference is that there needs to be some operating subsidy in the early years of the scheme, which affects the financial operating ratio. However, the economic business case remains robust when we weigh the benefits to society against the costs.

**The Convener:** Let us consider the worst-case scenario in Mr Temple's figures, in which we end up with a figure of 0.94 and a shortfall. In the event of such a shortfall, who would pay the subsidy?

**Graeme Bissett:** Should such a shortfall crystallise, it would need to be considered in the context of the total funding of line 2. In a sense, we need to consider lines 1 and 2 together,

because the Executive grant of £375 million across the network is one of the key funding mechanisms. Perhaps I may give you an answer in principle rather than a numerical answer: the Executive has given no view on whether more than £375 million is available—I think that the committee heard that this morning. We regard the £375 million as a fixed sum of money, so any financial risk would be borne by the promoter—the City of Edinburgh Council—unless any accommodation between the council and the Executive were reached in due course. There has been no such agreement up to now.

**The Convener:** Kate Maclean has questions on park and ride usage.

**Kate Maclean:** Ove Arup and Partners Scotland Ltd suggested that the provision of park-and-ride facilities might be inadequate or in unsuitable locations. The promoter responded that no well-established UK light rail system is served by a park-and-ride site that has access to the motorway network. Arup replied that other park-and-ride schemes are served by the motorway network. Arup said that it would be reasonable to expect Glasgow to be an important trip origin for users of the park-and-ride scheme at Ingliston, but that congestion on the M8 might force people to reroute and use different park-and-ride facilities. You have dismissed Arup's concerns, but have you considered the matter further and carried out sensitivity tests for the park-and-ride site at Ingliston?

**Graeme Bissett:** I am not sure that I know the detail about that. Simon Temple might comment.

**Simon Temple:** We have not carried out specific sensitivity tests but we have looked further into the matter in the light of Arup's original and further comments. It is important to recognise that the Ingliston park-and-ride site serves trips from not only Glasgow and the communities between Edinburgh and Glasgow but all the other major centres of population in Scotland, including Aberdeen, Dundee and Perth.

It is a potentially important site that is in the right place to serve that market. Given that no other park-and-ride sites are proposed for the west of the city, there is no question of competition between park-and-ride sites. Arup makes the point that there could be a reduction in park and ride use between 2011 and 2026 and rising congestion. We agree with Arup's concern on that issue. Our forecasts show a slight reduction of about 3 per cent in park and ride usage between those two dates, against the background of increasing traffic on the highway network generally.



12:30

Ingliston park and ride will be unique: it is a large site that is right on the motorway network. Other sites have been mentioned as examples, but some of them, such as Halfway and Wednesbury—in Sheffield and Birmingham respectively—are not just off the motorway. Other sites in Sheffield are perhaps more relevant. Meadowhall is just off the motorway, but it is much smaller—it has only about 250 spaces, which are full before 8 o'clock every morning. Several hundred more vehicles park in another site nearby, called Valley Centertainment, despite the fact that that site is not promoted as a strategic park-and-ride site because of capacity problems with junction 34 on the M1, which is the junction at which people leave the motorway to go to those sites. Evidence exists to support the idea that the Ingliston park-and-ride site will be successful, although there are no directly comparable sites.

**Kate Maclean:** You say that no current park-and-ride sites serve the area, but one is scheduled to open at Hermiston in 2005. It is not outwith the bounds of possibility that people who travel from Glasgow on the M8 might decide to reroute there because of congestion, rather than go to Ingliston.

**Simon Temple:** Because the tram will give the Ingliston site the benefit of much better links into Edinburgh, people will wish to use it.

**Kate Maclean:** In evidence, Lothian Buses estimated that 1,800 spaces will be required at the park-and-ride site at Ingliston, but the proposals are for 1,000 spaces. Do you have any comments on that?

**Simon Temple:** A park-and-ride site with 1,000 spaces may well prove to be inadequate. Our demand forecasts are based on 1,000 spaces, which is consistent with the site's capacity. However, I understand that land is available and could be utilised to expand the park-and-ride site if necessary.

**Kate Maclean:** So your patronage forecast is based on 1,000 spaces at Ingliston.

**Simon Temple:** Yes.

**Jeremy Purvis:** In calculating the journey-time benefits, you broke Edinburgh down into 13 sectors. Table 8.15 in the STAG 2 report shows a big difference between the highway-time benefits for east Edinburgh and those for west Edinburgh. Given that the lower benefit arises where the tramline will be, will you expand on that and explain what methodology was used?

**Simon Temple:** That takes us back to the point that I made at the outset about the model's comprehensiveness. The scheme will have three basic effects: the transfer of people from car to tram; a limited amount of new development, as the

committee noted in its questioning of the minister; and relocation of development and economic activity.

Introducing the tram will mean more development in west Edinburgh and less elsewhere in Edinburgh. That will reduce congestion in other parts of the city and increase it in west Edinburgh, before we take account of the effect of the tram in reducing traffic flows and congestion. We have to look at the whole picture of the city. What happens in any particular sector is the result of a relatively complex interaction of several effects.

**Jeremy Purvis:** It will have to be a substantial interaction. I accept that there is a difference between east and west Edinburgh. I understand the theory and rationale behind what you are saying, but STAG 2 is not convincing on the impact of the tram, given that it does not forecast how many people it will move from one part of Edinburgh to another. It shows that the trams will bring a limited amount of development. It does not forecast a huge increase in public transport or a substantial decrease in congestion. It does not provide any incentive for someone to move: it does not indicate that there will be a substantial increase in the use of public transport and it says that the change in the level of congestion will be negligible.

**Simon Temple:** The scheme provides improved accessibility between the city centre and west Edinburgh. That will lead to a transfer of people from cars and buses to trams.

Reduced congestion in east Edinburgh will improve the competitiveness of the bus, because the bus is often snarled up in congestion with cars. That would mean additional passengers would be attracted to the bus elsewhere in the city.

**Jeremy Purvis:** You will have seen the evidence of 24 November. Alasdair Morgan asked a question of Barry Cross, who said that the tram will attract passengers and cause a modal shift from cars to trams. Alasdair Morgan asked for a bit more detailed information, and Barry Cross responded:

"It is quite difficult to put one's finger precisely on what differentiates people's propensity to use the bus from people's propensity to use the tram, but there is something."—[*Official Report, Edinburgh Tram (Line Two) Bill Committee*, 24 November 2004; c 123.]

I might not be quoting you directly, but I think your document says that you used state-of-the-art modelling.

**Simon Temple:** I cannot speak for Mr Cross, but research was done before tram schemes were implemented and, more important, after they were implemented. My company was responsible for the post-opening monitoring of Manchester

metrolink, Midland metro and Croydon tramlink. The research shows that, relative to the bus, the tram has an element of attractiveness that cannot be explained by the relative times and costs involved in using the two modes of transport.

Typically, we found that there is a saving of about 10 minutes of journey time—that was the result of the work done on Manchester metrolink and Midland metro. We have allowed for such a saving in this modelling, but only to a conservative extent. In fact, even for a 30-minute journey—which is more or less the end-to-end journey on the tram—we have allowed only six minutes.

**Jeremy Purvis:** That explains table 8.14, which shows the travel time savings and compares the generalised time benefits of public transport relative to the car. The journey from the city centre to Newbridge, which is effectively over the length—

**Simon Temple:** I am sorry, which table are we referring to?

**Jeremy Purvis:** It is in the STAG 2 report. I am sorry; I am getting my tables and figures mixed up. I am referring to the figures in table 8.14, in which you detail sectoral differences. You make a comparison in the journey times between the city centre and various locations. There does not seem to be a considerable difference between the tram and the car. I now understand that that is because your estimates are conservative.

**Simon Temple:** We seem to be talking slightly at cross-purposes. I was talking about the relationship between car and—I am getting confused now as well—between bus and tram. The table compares all public transport relative to the car; the figures are a composite of all public transport use. The figures in table 8.14—and in several other tables in the report—show the difference in journey times from a number of locations between all public transport modes and the car. It is clear that the competitiveness of public transport relative to the car is a key issue. The figures show that, on the whole, there are benefits and that they are found where they would be expected to be found in relation to the location of the tram scheme.

**Jeremy Purvis:** I have a question about forecasts with regard to journeys to and from the airport. The evidence that we heard from BAA, in the session about which we talked earlier, included discussion of the forecasts that are contained in the UK Government white paper on air travel. Why did you not adopt its forecasts for Edinburgh airport in your modelling?

**Simon Temple:** The short answer is that the modelling was undertaken and largely complete before the forecasts were published, which I think was in December last year. The slightly longer

answer is that the BAA forecasts are somewhat lower than those of the Department for Transport. As we were keen to adopt a conservative approach, we chose to stay with the BAA forecasts. Perhaps it is interesting to note that the forecasts are different partly as a result of different assumptions about competition between Edinburgh and Glasgow airports. The BAA forecasts are lower than the DFT forecasts for Edinburgh, but the figures are the other way round for Glasgow, for which the BAA forecasts are somewhat higher than those of the DFT.

**Kate Maclean:** Arup, which has raised the low usage at the Royal Bank of Scotland tram stop at Gogarburn, estimates that fewer than 25 passengers per time period will use the stop. You may have commented on that in your response to the Arup document, but I cannot find it. Will you comment on the boarding patterns?

**Simon Temple:** Put into annual figures, which Arup was not able to do, we are talking about 46,000 people using the Royal Bank of Scotland tram stop in 2011. The figure will rise to 65,000 by 2026. I agree that the figures are relatively low.

**Kate Maclean:** I thought that the figure was 80,000 trips.

12:45

**Simon Temple:** I have checked the modelling output and the figures that I have just given are correct. I think that I know where the figure of 80,000 comes from, and I will try to explain it. In seeking planning approval for its development of the Gogarburn hospital site, the Royal Bank of Scotland submitted a detailed green travel plan that focused on the use of shuttle buses to pick up employees from their homes and take them directly to the site. Clearly, that will be attractive to employees and will limit the extent to which they use the tram. In addition, the tram will provide a service in only one corridor from the RBS site, whereas employees live over a wide area, some of which will not be served by the tram.

One can make several assumptions about how RBS will include the tram in updating its green travel plan once the tram goes ahead. We have made a relatively conservative assumption. We could have made a more optimistic one, which would have led to the figure of 80,000 that you referred to, but our more conservative assumption leads to the forecasts that are before you.

There might have been a slight misunderstanding. I emphasise the fact that this is not an output of the overall modelling process; we input something to the modelling to take specific account of the green travel plan and the RBS proposals. Sophisticated though our model is, it cannot take account of the details of individual

companies'—even large companies'—green travel plans. It should not, therefore, be seen as throwing doubt on other elements of the forecast.

**Kate Maclean:** That is fine. My other question has been answered.

**Alasdair Morgan:** In paragraph 43 of your response, you talk about the benefits and increased revenue that the greater frequency of trams would bring, although you also talk about the increased costs that would be offset. You say that you could put a more positive financial case, but that that would require the costs, the environmental assessment and the economic assessment to be revisited. If you did that, would any negatives come out of the revised assessments?

**Simon Temple:** Perhaps some of that is for Graeme Bissett to talk about in relation to the overall case. There would clearly be an increase in revenue and more people would obtain the benefits of using the tram, although there would be counterbalancing costs.

**Alasdair Morgan:** But would you expect the environmental assessment to throw up any negatives as a result of the greater frequency of trams?

**Simon Temple:** Not of any great significance. We are talking about changing from a tram every 10 minutes to a tram every seven and a half minutes. I do not think that that would be of great significance in the context of the scheme as a whole, although that is not my area of professional expertise.

**Alasdair Morgan:** Unless you lived in Baird Drive, perhaps.

In paragraph 53, you talk about the various options for funding the scheme, whether by private finance initiative or some other method. You say that, in the preliminary financial case, you have not really reflected the various costs that might be associated with the different schemes and that that is to be done as part of the outline business case. Do you not think that we need a slightly more robust indication, at this stage, of what impacts the different methods of funding the projects might have?

**John Watt (Grant Thornton UK LLP):** In the preliminary financial case, we have modelled three scenarios: a fully up-front, grant-funded model; a hybrid, which adopts milestone payments and an element of PFI; and a full PFI scenario. In the hybrid and the PFI models, we take account of the equity costs and debt costs that would be tied to PFI funding. Similarly, we take account of the costs that would be related to the administration of a special-purpose vehicle. Arup queried why an extra £400,000 was included in the hybrid and PFI

models. That represents the on-going administration costs of those models. We have reflected in some detail on the costs of those two funding mechanisms.

**The Convener:** Jeremy Robson has a question.

**Jeremy Purvis:** My name is Purvis.

**The Convener:** I am sorry—it has been a long session.

**Jeremy Purvis:** The Borders representatives Euan Robson and Jeremy Purvis have been combined.

I return to the funding package. The Scottish Executive has announced one grant for the two lines. How is it envisaged that you will divide that funding? What would you allot to tramline 2?

**Graeme Bissett:** Neither the Executive nor any other party has mandated the way in which the PFC is set out. We have allocated £165 million to line 2. The balance of £210 million is in the equivalent document for line 1. That allocation is based roundly on the capital costs, but it is not cast in stone. It is still a variable that needs to be talked through. We proceeded in that way because, although there are two committees, two bills and two separate processes, TIE did not think that anyone would thank us if we implied that there were two pots of £375 million. There is only one pot and there will need to be an allocation, although that remains to be debated.

The table towards the back of the PFC identifies a gap of £65 million between the £165 million that we have allocated and the costs of line 2. Are you asking what the next stage will be?

**Jeremy Purvis:** Indeed.

**Graeme Bissett:** It is difficult to talk about line 2 in a vacuum and without reference to line 1, as bringing the two together has important effects. I will speak in round terms and follow up the issue in writing, if the committee wishes. If we apply the same logic to line 1, we find that, broadly speaking, there is a break-even position on that line. Once we factor in the operating surplus, less the costs of refurbishment and life-cycle expenditure requirements on the line, we find that the gap for line 2 is of broadly the same order of magnitude as that for the totality of the network.

This morning the minister referred a number of times to the importance of seeking additional funding from other sources, predominantly from the private sector. We have examined that issue in detail and I will outline to members the four or five strands of additional funding, not necessarily in order of importance. Again, we can provide the detail in writing. A contribution has already been agreed in principle with certain property developers. I refer to section 75 agreements under

the Town and Country Planning (Scotland) Act 1997, which are a common part of the planning process. Although those agreements are not contractually binding, they have been discussed and negotiated to a reasonable extent.

In April this year, the City of Edinburgh Council announced that it would apply a policy to new development in a 750m corridor around the tramlines. Under the proposed formula, developers would make a contribution based on the type and scale of the development and its proximity to the tramline. We have had our property advisers examine both lines, to identify the areas in which development may take place over the next 30 years. That is very difficult for the later years, but there are strong indications for the earlier years. We have asked our advisers to work through what the development may accrue under the policy. That is another source of income for the council. It is important to record that such income would not be used entirely to fund the tramlines. The council wants 16 per cent of it to flow to public realm development beyond the area that is occupied by the tramlines. However, the lion's share of the income would flow to the tram project, through the council.

We have identified a number of smaller-scale sites that are owned by the council, and we have entered into a joint venture arrangement with one of the council's other arm's-length companies—a company called the EDI Group Ltd, which is a property developer—to develop those sites. Some of that work will apply to line 2.

We have also been working with Transdev, since it was appointed as operator, to find ways of enhancing the revenue that the tram can drive as part of an integrated public transport system. The modelling, erudite and sophisticated as it is, basically takes into account only the transport and land use dynamics of the city; it does not allow for the specific marketing effort, good ideas, initiatives, and so on that can do better than the basic modelling would drive. One specific area of that is advertising. We believe that there is scope within the bounds of the design manual, good taste, and all the other things that are appropriate to Edinburgh, especially the world heritage site, for advertising income to be generated both from within the tram system and, to a more limited extent, from tasteful external advertising on the tram vehicles and at the tram stops. With Transdev, we have estimated the income that that might produce.

Last but not least, some work has been done on estimating the income that could flow from special events or special promotions using the tram around the city. The estimate is made over a long period, but it is based on Transdev's experience in other cities. That is a good example of how

Transdev will bring real value in the early period of designing the tram.

I can provide the committee with the estimates that we have at this stage. When they are rolled up over 30 years, they make quite a significant contribution to the funding for the tram project from the private sector through the council.

**The Convener:** So, you have hard figures that you can provide in writing.

**Graeme Bissett:** They are estimates, but they have been calculated properly and advice has been taken from outside professionals.

**The Convener:** It would be useful for us to have those estimates.

**Jeremy Purvis:** Are the estimates based on both lines going ahead?

**Graeme Bissett:** No. I think that, in each of those five strands, they would be independent. There is clearly a bit of bias in some of them towards one line or the other but, in essence, the totality splits 50:50, although the components might vary from one line to the other.

**Jeremy Purvis:** So, for example, your estimated revenue for advertising is not predicated on the total number of passengers for both tramlines and the exposure that the advertising would get from that. The two have been separated—is that correct?

**Graeme Bissett:** Yes, the patronage of line 2 would be the basis of the calculation for line 2, and likewise for line 1.

**Jeremy Purvis:** The financial document that you have presented on Newbridge indicates that there is still work to be done and that further analysis of that area is necessary. Where are you with regard to the financing of the potential Ingliston-Newbridge section, which seems to be a weak part of the case?

**Graeme Bissett:** As you have heard in detail, there are some good strategic planning, economic and social inclusion reasons for proceeding with the Newbridge link. However, there is no question but that it is financially challenging. That is unfortunate, as it is the extremity of a branch line and, if truncation were necessary to stay within the funding parameters, it would be the obvious section, in principle, to go. The aggregate cost of the Newbridge link, together with—on present projections—the loss that it will make, is significant to the totality of line 2 and to the network.

The area that is likely to be most significant is that of property development and the potential contributions from the developers of the main sites, of which there are two at the Newbridge end of the route. There are also thoughts of property development at Ratho Station and in the Ingliston

area. We have not engaged with the developers in any detail with regard to contributions, but we will do that fairly soon. In one or two other schemes, such contributions have made the difference. Contributions from developers at the extremities of routes in Dublin and recently in Leeds made the difference between funding being within the range and funding not being within the range. At the margins of tram routes, such contributions are an important swing factor.

13:00

**Jeremy Purvis:** Where is the breakdown with regard to the difference between running costs and construction? I presume that the grant from the Scottish Executive will be completely absorbed in the capital costs of construction, including contributions from the section 75 agreements that you have identified or will identify before construction, and that advertising revenue and so on will be used for running costs—obviously, you will not have advertising revenue at the beginning. Is part of the model that you are presenting to investors that there will be private investment in construction on the basis of revenue returns?

**Graeme Bissett:** We look at the project as a totality. We have to see that the cash flows during the life of the project, including the grant, add up to no less than zero. In other words, the project must be cash neutral or, better still, cash positive over 30 years. The way in which the various pieces of funding match up with expenditure is quite complex, but in principle contributions from developers go against capital costs, as they have done under the section 75 agreements that have been made, whereas the developer contributions that accrue from the policy that the council has applied, which accrue over the 30-year period as a rolling programme of development takes place, support revenues during that period.

I pick up a question that was asked earlier about funding over 30 years: if the Executive were to determine that a PFI or hybrid model was appropriate, that would require a payment stream over 30 years, with the grant reconfigured and spread at least partly over 30 years to match the annual payments to the contracting consortium. The project is a parcel of cash flows, capital and revenue costs and revenue inflows, with some capital contributions at the front end.

**Jeremy Purvis:** We heard from the minister that the revenue risk will not be absorbed in the public sector, but your submission states that it will not be given to the consortium that is running the operation.

**Graeme Bissett:** I think that the revenue risk to which you refer is to do with revenues that flow from patronage of the trams. That is a serious

issue in almost every tram scheme that has been developed in the UK. Attempts to pass to private sector consortia the risk that revenues will fall short have worked only in the sense that the consortia have accepted the risk but increased their bid price, in some cases by enormous margins, to accommodate it.

In the Edinburgh project, the decision was taken at quite an early stage that that would not lead to optimum risk transfer. In essence, if the risk goes to a private sector consortium with, for the sake of argument, £500 million of capital, most of which comes from large banking institutions, they would see a seriously magnified risk on their returns because of a potential shortfall in patronage or revenues. That would lead to enormous increases in the capital bids from consortia, so an early decision was taken to package the procurement differently and to retain the risk, to be shared between the promoter, the City of Edinburgh Council and Transdev as the operator of the scheme. The risk will not transfer to the construction consortium. When the consortia bid in due course, they will not have to account for that risk and we should get much cleaner, construction-based bids rather than the magnified bids that have been received in other schemes.

**The Convener:** This morning, you heard the minister say that requests for bail-outs would not be considered particularly sympathetically—I think that that is an underestimation of the force of his statement. What is your reaction to that? Do you think that the Scottish Executive will assist if revenues do not turn out as you hope?

**Graeme Bissett:** It would be inappropriate for me to comment. The word “hypothetical” was used earlier, but I will bring the discussion back to a domain for which we are responsible. In TIE, we are trying to set out reasonable estimates of the costs, contingencies and potential sources of income. There will need to be a risk evaluation at the end of all that to determine whether the income projections are robust enough to cover the risks of revenue shortfall or cost overruns. At the moment, the aggregate of the numbers seems to make sense but, as I said earlier, there is still work to be done to get more detail on some of those figures before a commitment can be made.

I am not for a moment presupposing the outcome of the parliamentary process, but if the bill is passed, we will still be two years away from a financial commitment to build either of the two tramlines. It is only at that point that anybody will need to take financial decisions on the relative risks and whether they are comfortable with the revenue projections and the schemes’ other financial aspects. That is quite a long period, which should allow increasingly better risk evaluation. At this stage, we are saying that there

is enough on the table that has been properly prepared with appropriate professional input to make it well worth while pursuing the project further.

**The Convener:** I accept your argument that what we are talking about is a considerable number of years down the road, but once such a project has started, the boats have been thoroughly burned.

**Graeme Bissett:** I suppose that that is the case in the sense that momentum builds up and money has been spent that people are unwilling to throw away. However, we are trying to approach the project in a staged, intelligent way so that we deal with the biggest risks at an early stage, and an important part of that approach has been to get Transdev involved early to make the quality of the decisions as good as it can be. Transdev was appointed in June, which is more or less five and a half years before the first tram will run, which is probably five and a half years before any other tram scheme brought in its operator.

**Marilyn Livingstone:** Will you elaborate on how Transport Edinburgh Ltd will work financially? Will it be possible for Lothian Buses to contribute financially to the tram project?

**Graeme Bissett:** I will answer that in a couple of stages. There will be a period of preparation and development prior to the tram running and, when the tram system starts to operate, there will be a different financial picture. We are at a relatively early stage, but Transport Edinburgh Ltd has been set up as a company and we have taken some informal decisions about who should be on the board and, perhaps even more important, the management and who will be involved in the dialogue on executing service integration. Those are teams of people from Lothian Buses and Transdev which, as you will appreciate, are both high-quality operators. The idea is that they will work together and develop the optimum integrated system for the city and that that system will operate when the tram begins to run.

We are about five years away from that point and, in the interim, there will be no effect on the finances of Lothian Buses, which will continue to operate as a self-contained bus operator. The idea at the moment is that, once the tram is operational, the financial position will essentially be consolidated. Bear it in mind that the City of Edinburgh Council owns 91 per cent, which is practically all, of Lothian Buses and would be the 100 per cent participator with Transdev in the tram revenues. The consolidation of all those revenues and costs into one pot provides the overall picture of the operation of the finances of the integrated system. However, the objective is not to lose sight of the performance of the bus or tram operations, so the management reporting of the financial

performance of all aspects of even the integrated system will aim to keep that firmly in focus.

**Marilyn Livingstone:** Will you elaborate on the financial relationship between the City of Edinburgh Council and TEL?

**Graeme Bissett:** At the moment, TEL has been established as an off-the-shelf £100 shell company. There is no financial relationship between City of Edinburgh Council and TEL other than £100 of share capital. On current thinking, the objective is that TEL will become the contracting partner for most of the important contractual relationships with the constructors and operators of the tramline. Therefore, the funding from the Executive will find its way through the council to TEL, which will pass it to the third-party contractors with which we have reached agreement. TEL will not be in a position to make a loss per se, as it will be funded on an agreed basis by the council, which will in turn receive funding from the Executive.

**Marilyn Livingstone:** I know that this is another hypothetical question, but what would happen if TEL were to run into financial difficulties?

**Graeme Bissett:** Like any other subsidiary of City of Edinburgh Council, TEL should be regarded as the repository for the financial cash flows of the system. That is the same as saying that the responsibility for TEL lies with the City of Edinburgh Council. Although the two organisations are different legal entities, that will be the reality of the situation, nonetheless. As we said earlier, that assumes a commitment from the Executive of £375 million in grant, or an equivalent spread over time.

**Marilyn Livingstone:** I think that that answers my question.

In oral evidence to the committee on 1 December, the operator of the tram, Transdev, said that it was close to agreeing an operational change to the tram network to establish an east-west through route from Ocean Terminal to the airport that would use both lines 1 and 2. Have the impacts of that route, including revenue and patronage, been included in any of the figures that have been provided to the committee, including those in the updated preliminary financial case?

**Graeme Bissett:** I think that the short answer is no, but Simon Temple will comment.

**Simon Temple:** We are very conscious of the fact that the committee is considering only tramline 2, so we have provided figures on that basis. However, from work that we have done, we believe that there would be fairly significant synergy benefits from building both lines together: lines 1 and 2 together are better than lines 1 and 2 individually. Clearly, further work must be done on

how the two lines would work together once the final configuration has been settled. To date, we have considered only preliminary ideas on how they might work together as a network.

**The Convener:** Are there any other questions?

**Jeremy Purvis:** We hear that it is likely that the statement on concessionary fares will apply the concessions to bus journeys only. In your revenue forecasts, do the estimated losses due to ticket type include an assumption that the concessionary fares schemes will apply to trams?

**Simon Temple:** The revenue forecasts that have been prepared allow for a concessionary fares scheme.

**Jeremy Purvis:** Now that we know that a concessionary fares scheme will not apply to trams, is some remodelling required?

**Kate Maclean:** Well, we know only that such a scheme will not be funded by the Executive.

**Jeremy Purvis:** Yes. If the witnesses do not know just now what the impact will be, perhaps they can come back to us later.

The loss due to ticket type will be a fairly substantial amount—£1.15 million by 2026—which, one way or another, will have a big impact. The lack of a concessionary fares scheme might result in more revenue or it might mean less revenue because passengers might prefer to use a bus that is free rather than a tram that is already forecast to be 33 per cent more expensive than the current alternative.

13:15

**Simon Temple:** As with all such schemes, the assumption behind the concessionary fares scheme is that the operator would be compensated on the basis of no net gain and no net loss. Operators are compensated, so they are financially no better or worse off than they would be in the absence of the scheme.

The fares that go into the model are based on single fares. We know that a significant number of people in Edinburgh use prepaid passes and other reduced fares, excluding concessionary fares, which we have taken account of by applying a reduction to the single fares—I think 8 per cent in the peak and 13 per cent in the off-peak. There is no net gain or loss from concessionary fares, so they should not affect the financial situation of the operator.

**Jeremy Purvis:** With the national concessionary fares scheme there will be no net gain or loss for buses, because the Scottish Executive will pay through the council or the operator, but the scheme does not apply to trams, because they are rail. One would think that that would have an

impact on passengers, especially during peak times, because the tram will be not just 33 per cent more expensive than the equivalent bus—as it will be, according to your figures—but a damned lot more expensive, because the bus will be free and the tram will not.

**Simon Temple:** I agree with you that concessionary fares may have an impact, but it probably should not be overstated. There is an issue as to whether trams should be part of a local scheme if they are not part of the national scheme, but I cannot comment on that. Can you comment, Graeme?

**Graeme Bissett:** I am not sure that we can help you on what the policy might be.

**Jeremy Purvis:** Can you not put that into your model to determine the potential impact on passenger numbers?

**Simon Temple:** We can take account of a concessionary fares scheme from one source or another. Clearly, it does not matter whether the City of Edinburgh Council or the Executive is that source.

**Jeremy Purvis:** The crucial figure is the effect on passenger numbers, because that potentially makes the tram considerably less competitive than the bus in off-peak times.

**Simon Temple:** I understand the point.

**Jeremy Purvis:** Can you work on remodelling and write to us?

**Graeme Bissett:** Yes.

**Marilyn Livingstone:** Could you keep the committee informed on the work that you are doing on the east-west through route?

**Simon Temple:** Certainly.

**The Convener:** I have a final question. In your study on the introduction of lines 1 and 2, did you consider a scenario that included EARL? If so, what were the results?

**Simon Temple:** Yes, we did. We looked at a large number of sensitivity tests. It is a matter of the assumptions that are made. One can only make the best available assumptions on the configuration of the combined tram network and the configuration of EARL.

It is a developing process, but on the basis of the work that we have done to date, if we do not have EARL and we combine lines 1 and 2, the economic benefit to cost ratio goes up from 1.4 to 1.61, and revenue against operational expenditure goes up from 1.15 to 1.25. If EARL is introduced with a high fare, the effect is to increase the economic case from 1.29, which I mentioned earlier, to 1.56, and to increase the revenue

against opex from 1.09 to 1.22. If we take what I consider to be the worst case, which is EARL at the existing bus fare, the economic case moves from 1.24 to 1.53, and the revenue against opex moves from 0.94 to 1.13, so it moves into surplus over the life of the scheme, which will bring forward the break-even day considerably, probably to the opening day.

**The Convener:** Could you give us that information in writing, and also the analysis?

**Simon Temple:** Certainly.

**The Convener:** Gentlemen, this meeting has gone on longer than is good for the digestion, and I appreciate your co-operation. We require further information under four headings relating to the impact of EARL, additional revenues, concessionary fares, as raised by Jeremy Purvis and others, and my final question to Mr Temple. Thank you for your attendance.

Do you wish to say anything in conclusion, Mr Bissett?

**Graeme Bissett:** No. I hope that we have been helpful.

**The Convener:** You have indeed.

That concludes the public part of the meeting. I thank all witnesses and members of the public for their attendance.

13:21

*Meeting continued in private until 13:45.*



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