

EDINBURGH TRAM (LINE TWO) BILL COMMITTEE

Wednesday 15 December 2004

Session 2

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CONTENTS

Wednesday 15 December 2004

ITEM IN PRIVATE	215
EDINBURGH TRAM (LINE TWO) BILL: PRELIMINARY STAGE.....	216
SUBORDINATE LEGISLATION COMMITTEE REPORT	237

EDINBURGH TRAM (LINE TWO) BILL COMMITTEE

12th 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)

Mark Bourke (Transport Initiatives Edinburgh Ltd)

Barry Cross (City of Edinburgh Council)

Simon Temple (FaberMaunsell Ltd)

John Watt (Grant Thornton UK LLP)

CLERK TO THE COMMITTEE

Graeme Elliott

LOCATION

Committee Room 1

Scottish Parliament

Edinburgh Tram (Line Two) Bill Committee

Wednesday 15 December 2004

[THE CONVENER *opened the meeting at 10:03*]

Item in Private

The Convener (Bill Aitken): Good morning, ladies and gentlemen. We start the meeting in public session and I remind members to switch off mobile phones and pagers. No apologies have been received, for the simple reason that, once again, we have a 100 per cent turnout.

Agenda item 1 is to seek the committee's agreement to take item 4 in private. The thinking behind taking that item in private is to allow the committee to consider all the supplementary written evidence that has been received at the preliminary stage, which may include reference to topics that the committee may wish to pursue and further options for the preliminary stage. Do members agree to take item 4 in private?

Members *indicated agreement.*

Edinburgh Tram (Line Two) Bill: Preliminary Stage

10:04

The Convener: Item 2 is oral evidence on the general principles of the Edinburgh Tram (Line Two) Bill; paper ED2/S2/04/12/1 refers. Once again, we will take oral evidence from the promoter. Members have had an opportunity to consider the additional submissions from the promoter, and the intention behind this session is for the committee to revisit any areas on which it wishes to get further information or clarification.

I welcome the witnesses back to the committee—it seems hardly a day since we met them. They are Graeme Bissett and Mark Bourke from Transport Initiatives Edinburgh Ltd; John Watt from Grant Thornton UK LLP; Simon Temple from FaberMaunsell Ltd; and Barry Cross from the City of Edinburgh Council.

As you will appreciate, this is an important stage in the committee's deliberations as it is the last opportunity that we will have to take evidence from you on matters that we regard as outstanding. I hope that we will be able to clarify some of those matters today. I understand that Mr Cross and Mr Temple would like to make short opening statements. I invite Mr Cross to give his statement first, followed by Mr Temple, and we will then move on to questions.

Barry Cross (City of Edinburgh Council): It is in view of the import of today that I make an opening statement, which is designed to tie up a number of loose ends and address a number of questions with which we have not dealt completely in past evidence sessions.

First, why trams? Trams are an integral part of the integrated transport initiative and although it is tramline 2 that is under consideration today we should not lose sight of the fact that it is part of an integrated whole that encompasses bus, heavy rail and much more besides. We have been asked why we do not simply improve buses. We have demonstrated to some extent that the City of Edinburgh Council has improved buses and that it continues to do so. A consequence of that improvement is the 24 per cent increase in patronage in the capital over six years, which is a significant improvement. In our view, we have reached the point at which corridor difficulties on the west side of the city have led to saturation at Gogar, Maybury and the A8, Barnton and the A90, and Hermiston Gait. Tramline 2 will allow what has been referred to as a step change in quality, divorced from the general road network and the congestion that results. I stress that trams must be seen in that context.

Another issue that has been touched on, and to which I return, is the relationship with the heavy rail link to Edinburgh airport, which will provide a much needed link from throughout Scotland to the capital's airport without the current torture of people having to travel by train to Haymarket and then by bus back out to the airport, which is particularly annoying for people who passed the end of the runway on the train from Fife minutes earlier. However, the Edinburgh airport rail link does not provide exchanges with the key development areas with which the city council is keen to link: the Exchange and the forthcoming Fountainbridge and Haymarket areas; Hermiston Gait; Edinburgh Park, where the tram will run up the spine of the park with three stops; the Gyle centre, the Royal Bank of Scotland at Gogarburn; and the park and ride. All those locations are addressed by tramline 2 but not by EARL, as is the core development area at Newbridge, Kirkliston and Ratho, which is being considered by the local planning inquiry as we speak.

Tramline 2 will provide a step change in the city's transport infrastructure in a way that bus solutions cannot and the airport rail link does not. That is not to suggest that there is a conflict between tramline 2 and EARL. Indeed, Government policy in the west Edinburgh planning framework makes it clear that we need not one or the other but both. That is not an unusual situation to be in; relatively close to home, Heathrow has both the Piccadilly line and the Heathrow express, and Paris Charles de Gaulle airport is linked to the French network by TGV as well as to the local rail network. Düsseldorf, Frankfurt and a number of other European cities have both a local rail-based airport link and a national link to the wider hinterland. Indeed, Manchester is working towards that solution, with heavy rail at the moment and metrolink expansion in the wings.

The next question that we need to address is why we do not wait until matters become clearer and we have every piece of the jigsaw turned up the right way on the table. Many citizens of west Edinburgh, Edinburgh as a whole and beyond would say that we have waited long enough. Half of Edinburgh Park is built and occupied and the Royal Bank of Scotland building is under construction; developments at Newbridge have been consented to; and applications for developments throughout the west of the city, at Hermiston Gait, Fountainbridge and Morrison Street, are under discussion. Few people would argue that transport improvements in Edinburgh are premature; most would suggest that we have waited long enough.

The final question is whether our proposals for tramline 2 are aspirational. They are—our aspirations have been woven through the structure plan, which was recently approved, local plans,

the local transport strategy and the national transport objectives. However, our aspirations are based on prudent, conservative assumptions, not on foolish optimism.

Simon Temple (FaberMaunsell Ltd): Barry Cross has referred to some of the wider benefits to Edinburgh and Scotland that will result from the implementation of the tramline 2 scheme, some of which go beyond what the Scottish transport appraisal guidance process is capable of measuring. There are strategic opportunities to attract major new investment, such as major new financial institutions, to Scotland. The STAG report does not include the investment market's perception of Edinburgh as an accessible or inaccessible city. Further, because we are considering only line 2, the report does not really consider line 2's place in the overall integrated transport initiative, which is fundamental to the city's future.

The STAG process has strengths. It is a mechanism that allows a balanced appraisal that weighs the environment, safety, economic, accessibility and social inclusion elements. I have worked with the Scottish and English systems and I believe that, in some respects, the STAG system is better than the equivalent English system. It ensures a rigorous appraisal of projects, it is excellent for comparing proposed schemes on a level playing field and it is an important aid to decision making. However, it is an aid to decision making, not a way of making decisions without policy input from people such as the committee members. As an aid, the STAG process can miss some of the key issues. I understand that when the minister spoke to the Edinburgh Tram (Line One) Bill Committee yesterday, he mentioned that concerns exist that the STAG process does not capture the full range of benefits and that it is under on-going review.

Even if we take the perhaps rather narrow STAG appraisal, a strong case can be made for the tramline 2 scheme. It will attract 5.4 million passengers to the tram in 2011, and the figure will rise to nearly 7 million by 2026. The scheme will initially take 1 million people out of their cars—the figure will rise to 1.25 million over the scheme's life—and it will deliver time-saving benefits to public transport users with a value over the life of the scheme of £168 million, as well as £75 million of benefits to car users. The tramline will deliver improved accessibility to communities right along the corridor, including places such as Stenhouse and Sighthill which, although not deeply deprived in the context of Scotland as a whole, do not share fully in Edinburgh's success.

A positive economic case can be made for the scheme, with £1.40 in benefits for every £1 in costs, and it will operate without the need for on-

going subsidy. As Barry Cross said, those figures are based on an assessment that has learned the lessons from the problems that were experienced on schemes in England. We had already adopted much of the best practice that was recommended in the recent National Audit Office report even before that report was prepared. We consider that the case for the tramline 2 scheme is very robust in terms of the STAG process. The wider issues that Barry Cross mentioned serve only to make that case even stronger.

10:15

The Convener: We turn now to questions.

As Mr Cross clearly anticipated, the committee is concerned about the impact of the Edinburgh airport rail link on the viability of the tramline 2 scheme. We are aware that the EARL project must now be in a fairly advanced state of preparation ahead of the introduction of the private bill for that. The committee is also aware that a couple of other documents for that project are currently in the course of preparation. It would be helpful to know whether those documents will contain information on EARL that would be pertinent to the decision-making process on the general principles of the Edinburgh Tram (Line Two) Bill.

I will encapsulate those issues with two questions. First, what additional work is being done or is expected to be done to meet the Minister for Transport's requirement that an outline business case for line 2 be produced by early next year or, at the latest, by the middle of next year? Secondly, should the committee and the Parliament make a decision on the general principles of the Edinburgh Tram (Line Two) Bill prior to that document being made available? If the answer is yes, please explain why.

Graeme Bissett (Transport Initiatives Edinburgh Ltd): As you mentioned, the timetable for delivering the line 2 outline business case is—as it is for line 1—that the document should be delivered to the Executive by spring or summer of next year.

As far as I can tell, EARL is progressing well. As happened for both tramlines, the first document that will be produced for the EARL project will be the preliminary financial case. That is tied to the release of the bill, which will take place in, I think, the middle of May 2005. As we discussed at a previous meeting, the connection between tramline 2 and EARL that is most relevant in a financial sense is patronage, which will be driven primarily by the pricing structure of EARL. Given that the proposal on line 2 is already on the table, the issue is how EARL will be structured and how that will affect line 2.

As I said last time, the groups within TIE that are responsible for both processes are working closely together on the issues that matter, but a degree of independence between the two teams is required because of the different considerations that must be taken into account. At this stage of the game, the best evidence that we have on how the business case for EARL is shaping up is that a premium fare policy is most likely to be adopted. I caveat that immediately by saying that such a policy would be subject to a consultation process—the results of which I do not for a minute want to pre-empt. From our discussions with the EARL team, we believe that that is the basis on which the project is currently proceeding. However, such a policy will be subject to further work and subject to the consultation process.

The Convener: Should we proceed with tramline 2 without that information?

Graeme Bissett: There is a range of assumptions. The tramline 2 project needs to be considered in the context of a number of variables, of which its relationship with the EARL project is only one. In the case of a premium pricing policy being adopted for EARL, there would be a relatively marginal impact on the financial case for line 2. However, as we have demonstrated on several occasions, the patronage assumptions in the line 2 model are rather conservative in tone. Therefore, if we were to rerun the entirety of the line 2 model with somewhat more ambitious assumptions, that would almost certainly overtake and exceed the impact of any assumption about EARL using a premium fare policy.

The impact of EARL and particularly its fare policy must be considered in the context of the fact that we are dealing with a model. Our preliminary financial case involves several variables, of which EARL is only one and is possibly not the most significant. TIE is comfortable with telling the committee that it does not expect a severely adverse impact on the line 2 case from the work on the preliminary financial case for EARL. From that point of view, there is no reason to delay a decision on the bill.

The Convener: Someone who looked in from the outside might take the view that it would be prudent to defer a decision until we have the EARL STAG appraisal. How would you convince such a person that that would be inappropriate?

Graeme Bissett: I can sensibly comment only on financial aspects and I have probably exhausted that line. I do not know whether Simon Temple or Barry Cross wishes to speak about wider aspects of the STAG process.

Simon Temple: The fundamental point that the convener's question concerns is whether we are confident that there would be a robust case for

tramline 2 if the order was reversed—if EARL had been considered and tramline 2 was being proposed. If we are confident, there is no reason to delay. If not, I very much understand your concerns and the reason for suggesting a delay.

We showed in the evidence that we gave last week that the economic case in terms of the scheme's benefits against its costs remains robust with EARL, with or without a premium fare. EARL will have some impact on the operating ratio—the relationship between fare-box revenue and operating costs—especially if a premium fare is not charged, although not having such a fare is unlikely, as Mr Bissett said.

A robust case remains economically and for the other matters that STAG deals with, such as accessibility, the environment and safety. EARL will affect that little, because the roles of the two schemes are different. Both link the city centre and the airport, but tramline 2 offers much more by way of intermediate journeys, journeys from the airport to Edinburgh Park, journeys from Edinburgh Park to the city and so on. Even if EARL had been proposed first, the STAG appraisal and the economic case for line 2 would stack up. The sensitivity tests that we have performed suggest that that is the case.

The Convener: What additional work will you do before submitting the final business case to the minister? Will you consider other models?

Graeme Bissett: The draft or outline business case that will be prepared in the spring will be largely a forward iteration of what we have now. I am thinking aloud, but I cannot think of any significant new and tangible information that will flow. The case will represent a refinement of what is on the table.

John Watt (Grant Thornton UK LLP): As the financial case that is in front of members migrates to the business case, the key matters will be the procurement strategy that needs to develop for the infrastructure contract and risk allocation in relation to that; the development of funding packages—whether they involve a fully upfront grant-funded option, a hybrid or a private finance initiative; and the additional funding that Mr Bissett talked about last week. Those elements will be progressed in some detail.

Mark Bourke (Transport Initiatives Edinburgh Ltd): It is also worth noting that we will continue to develop the transport models—we do not switch them off at this stage. We have a number of iterations to go through in our process of further refinement and we will continue to liaise with Transdev and bring to bear the issues from Lothian Buses and so forth. Essentially, we have to construct a more robust model that is suitable

for the financial case that has to get the approval of the minister.

We view the transport model as a tool that we have used to date and to which we have applied various quality controls. We recognise the value of third-party review, which was one of the issues that the committee adviser identified and raised. We will continue to develop the models and invest in them to ensure that we can demonstrate not only that our case is conservative but that the overall strength of the revenue income and so forth can increase.

Graeme Bissett: If I may, I will add one footnote. The process will not cease at the point at which we submit the outline business case; it is a process of refinement that will continue—probably over the next two years—right up until the point of financial close and the final business case.

The Convener: There has been some discussion on the issue of premium fares. The discussion has focused on the figures that you have produced, which show that if premium fares are not introduced on the route from the city centre to the airport, a small operating subsidy will be required to meet the shortfall in revenue. How would that subsidy be funded? I am thinking also of the possible capital shortfall.

Graeme Bissett: I appreciate that we have to take line 2 in isolation, but we have to start with the presumption that £375 million is available. As we discussed last week, if we move to the presumption that two lines—in other words, the network—will be built, the grant has to cover the construction of both lines. In that case, we have to look at the totality of the network revenues and operating costs and also the refurbishment costs.

That is the point at which we get into some difficulty. It was pointed out clearly last week that this committee is a line 2 bill committee and not a network bill committee. If the question is one of what the funding for line 2 looks like, we have to start from the presumption that £375 million will be made available for line 2. If we want to look at the issue as a network with two lines, we have to take account of the totality of the cash flows from both lines. The discussion last week focused on the subject of the incremental sources of income, on which we have since provided some detail.

Barry Cross: If I may, I will add something on the premium fare issue. It is worth noting that the sensitivity test to which the convener referred is the test that has led to the conclusion that there is the potential for an operating deficit. Although the sensitivity test has a £2.50 fare on EARL, that is less than people pay at the moment for the airlink bus service.

Alasdair Morgan (South of Scotland) (SNP): I appreciate that it is difficult to know how an

operator of a train service that does not exist will price its fares. That said, the train service already exists. Capacity constraints mean that the trains will not be new trains—or they may be new trains, but they will be put into service as replacements for old rolling stock. Given that the airport stop will be between South Gyle and Dalmeny stations, which already exist, how reasonable is it to expect that someone who gets off the train at a stop that is halfway between those two stations will pay a significantly higher fare than someone else who is travelling on the same train but going further down the line? Has your assessment of the likely airport fare come to any conclusion as yet?

Barry Cross: You are quite right. You have hit on the real, practical issue of how an operator can generate a premium fare for a service to the airport when the airport stop is set in the national rail network. After all, we are not talking about an entirely self-contained Heathrow express-type train. The issue is one that will require a considerable amount of work with the train operating companies and the Scottish Executive. However, the type of anomalous situation in which, perversely, someone pays more to go a shorter distance already exists in the national rail network. The issue is to do with effective management of the process, gating, controls and so on.

You have hit on something that is a real issue, not only in terms of the revenue but in terms of ensuring that passengers travelling very short distances do not take away capacity that is better used for long-distance travellers. That is where the relationship between the tram fare to the airport and the rail link fare to the airport has an impact on people who want to get on at Waverley and travel to Dundee.

10:30

Alasdair Morgan: It is not just a matter of the fare management; it is a matter of the product that you are selling. If someone gets on the Heathrow express, they can reasonably expect to get a seat. However, if someone gets on a train at Edinburgh airport that has originated at Dunfermline, I can tell you now that they will not get a seat, which means that your ability to charge a premium fare for that service might not be as certain as you might hope.

Simon Temple: There is another side to that coin, which is that one of the reasons for charging a premium fare is to stop the trains between the airport and the city being completely swamped. That is perhaps not too much of a problem for the people who get on at the airport and have to stand for 10 minutes to get to Haymarket, but it is more of a problem for the people who want to go to Dundee but who cannot get a seat at Waverley or Haymarket. One of the reasons for having a

premium fare is to control demand to ensure that it relates to something like the capacity that is available.

Barry Cross: It also explains, in numerical terms, why our view is that the two projects are complementary. Providing that additional capacity in the national rail network for some journeys that are extremely short would not be cost effective.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): I want to ask about the highway time benefits by sector and the forecasts of people moving into areas in which line 2 will operate. I think that it is fair to say that, in calculating patronage numbers, you have assumed that people will move into the corridor area. However, I see that you have used the population figures for 2000. Is not that quite a long time ago to use as a base for upward projections? Quite a high number of people might have moved into the area in the four years since 2000.

Simon Temple: The forecasting model that was developed for the assessment of this and other schemes starts from a base year of 2001, which is when the model was developed. It is important to recognise that developing such sophisticated models is not an overnight job. One needs to have them ready at a reasonably early stage in the development of a project so that they can help in the specification of the project as well as in the creation of a final set of benefits. That lets one know that one has the right scheme to serve the right sources of demand, not only for line 2 but consistently. The concept was to start with a model that would help with all schemes—lines 1 and 3, congestion charging and other initiatives in Edinburgh. That is why the base year is some years before today. Clearly, when the model was being developed in 2001, data from 2000 were the latest that were available. The model is capable of assessing changes that take place over time.

It is certainly true that, between 2000 and 2004, there could have been changes in the population of certain corridor areas but, when one is looking forward to 2026, those changes are not of huge significance. Many changes will occur in the next 20 years regardless of whether the tramline is built.

Jeremy Purvis: Can you see my argument? You are projecting that in 13 years' time there will be a £10 million difference in highway time benefits by sector, but that does not take into account actual development or people who are moving in at the moment. There are another four years of figures since your modelling and it will be a further two or three years before construction begins. Seven years is quite a lot, given the movement that has taken place in the property market. I question the robustness of your forecasts. At the moment, you have at least four

years of direct experience. You should be able to update your models quite quickly.

Simon Temple: I agree that it would be possible to check what has occurred and to revalidate and recalibrate the model, using the latest data, to confirm that the case is robust and remains as we set out in the STAG appraisal and the evidence that we submitted to the committee. However, to do so would not be a quick job. Doing it properly would probably involve six months' work and considerable expense. If we restart the process for those years, there will still be a number of years before the scheme is built. One could get into the situation of never making a decision because one is constantly seeking the latest information. In the context of strategic modelling of the long-term future, I am not sure that such an approach would take us a great deal further forward, although I accept that it would be nice to have the latest information.

Jeremy Purvis: Your comments could be said to support the argument that if we do not do that work constantly, we will not get an accurate picture, based on hard figures. Can the model ever be accurate? A key component of the business case—patronage forecasts—is based on the number of people moving into the area. The site visit indicated that there were not many areas of potential growth in the number of domestic residences along the route to the airport. You are basing your hard financial model on a situation of which you may never have an accurate picture.

Simon Temple: I will make two points in response to that suggestion. First, any model is a simplification of reality. If it were not, it would be reality. Inevitably, simplifications are involved in any modelling process. The test is whether those simplifications undermine the fundamental validity and robustness of the results or whether they take out peripheral and relatively insignificant effects. In our view, we are getting at the key drivers that affect people's location and travel choices.

The land-use component of the model is controlled by the amount of developable land identified in the structure plan and in the other planning documents for the area, so it is not the case that we are assuming that land will be developed that is not available for development within the timeframe of the project. You can be reassured on that point.

I emphasise that, despite what I just said about models, this is a state-of-the-art model that takes into account many more dimensions of choice than is usual in the models that are used to assess transport schemes. To be honest, I think that it is as good as you will get for any scheme.

Mark Bourke: The member's perception is that the model has a number of weaknesses that

would lead one to question its overall robustness. Models undoubtedly do have weaknesses, and those are the areas that we seek to improve on and develop through time. The comfort to the committee is that the company that has been involved in developing the model is the company that was also involved in one of the most successful tram schemes in the UK, in Manchester, where the model was accurate in its prediction that the true patronage of the scheme was underestimated. We must recognise that our organisation has employed the industry experts—companies that have suitable experience.

Throughout the process, we have tried to build in the necessary quality controls to ensure that our results are conservative and robust. There will always be minor glitches, but we seek to reassure the committee that, after several hundred thousand pounds of investment in modelling, we are really only at a starting point in the process and will have to refine our model continually.

Jeremy Purvis: The model might be fine in respect of trip distributions and people moving from one part of Edinburgh to another, but I am concerned about your assumptions of an upwards curve to indicate people moving into the line 2 corridor. Would not it have been better if you had had a straight line? If I am correct, you are proposing that there will be an upward curve of people moving into the line 2 area over the lifetime of the project. Is that correct?

Simon Temple: That is correct, although the extent of the trend can be exaggerated. It is controlled by the amount of developable land that is available and by the change in accessibility. There is a cap, which is the amount of land of particular types that is available and how the model controls how land use is redistributed on the basis of changes in accessibility. If west Edinburgh becomes more accessible as a result of the tram, more people and businesses will move there. Another scheme that improves accessibility elsewhere would tend to counterbalance that. If there is worsening congestion in a particular corridor, that will push development into other corridors. The process is balanced.

Jeremy Purvis: A balance would tend more towards a straight line than towards an upward curve.

Simon Temple: I think that it tends to be a curve that is more that shaped than this shaped—I am not sure how that gets written into the *Official Report*.

Jeremy Purvis: A curve that tends to plateau?

Simon Temple: Yes, thank you for your help. There will be a step change in accessibility when the tram opens, which, over a period of years, will

lead to trip redistribution, but that effect will work itself out through the system.

10:45

Alasdair Morgan: Do we have figures for the number of people who you estimate might move house or job as a result of the redistribution, or could we get those?

Simon Temple: We could get that information for the committee. We have information on the change in the number of trips that will be made by car and we could get the information on trips that will be made by public transport. The figures give a scale to the process.

Alasdair Morgan: It would be helpful if we could have those figures.

Jeremy Purvis: Can you supply figures for the number of people who you forecast will move into the area rather than the number of trips?

Simon Temple: That will take a little longer, but the figures can be provided.

Jeremy Purvis: That would be useful.

Does not the fact that there is a curve, even if it tends to plateau, increase the chance that a bus operator will see a long-term benefit in having a competitive bus service along the route?

Barry Cross: If bus operators thought about it logically, that would perhaps drive such a development. We cannot add much evidence to what we have said and to what Lothian Buses plc has said about our respective views on the stability of the market. Our view has been arrived at over many years. There have been a number of false starts by potential entrants.

The issues that you raise do not determine whether bus companies decide to enter a marketplace. The current position of Lothian Buses vis-à-vis FirstGroup plc has nothing to do with perceived patronage growth; it has a lot more to do with company aspirations and the perceived risk to the fundamentals of the companies.

Jeremy Purvis: You will have seen the most recent submission from Lothian Buses. It refers to table 8.16 in the STAG 2 document and states that it indicates that

"In the AM peak hour Line 2 would stimulate an extra 62 passengers to travel".

The submission continues:

"Unfortunately the information in the table is insufficient to assess whether Tram Line 2 represents a worthwhile investment. Taken in isolation it suggests that the tram will have only a very marginal impact which given the risks and uncertainties, not to mention the substantial sunk costs of a tram scheme would not seem a wise investment."

Do you have anything further to add?

Barry Cross: I have two comments to make. First, there is the base assumption that leads us to the view that we have taken a prudent approach, which is that there is no assessment within the process that there will be a substantial reduction in bus flows. Secondly, I go back to the oral evidence given to the committee by representatives of Lothian Buses, who made it clear that their judgments are consistently based on their view as a bus operator in the marketplace as they currently find it. They said clearly that they do not have the skills to offer views on the relationship of tram and transport investment to structure planning or the spatial planning of the city or on the consequences of spatial planning for transport linkages. I do not say that to denigrate the comments that are made in the recent submission from Lothian Buses. However, the submission points out a matter that is part of the prudent approach.

Jeremy Purvis: You have indicated openly the impact of a competitive scenario for buses and the potential fall in your revenue. Have you modelled that into the net present value?

Simon Temple: No, I do not believe that we have. I would have to check whether we have done.

Mark Bourke: Although the scenario of a competitive market is remotely possible, it is not the one that we are working towards. We have taken steps to manage the risk by introducing into the process an early operator, who is helping to advise us and to work together with Lothian Buses and other bus companies to devise an integrated service plan that will allow everyone to have a future. Indeed, any extreme example of competition would move in the opposite direction from our current plans to introduce an integrated service.

Simon Temple: During the early days of some of the English tram schemes—of which Sheffield is the best-known example—bus operators sought to compete actively with the tram. However, that competition has ceased in more or less every case and bus operators are now trying to live with the tram, if not necessarily to co-operate with it.

As the minister suggested in his evidence last week, there are now powers to enforce integration through the quality contract mechanism. However, his preference—which I believe is shared by TIE and the City of Edinburgh Council—is to work together voluntarily to achieve integration of fares and service levels between bus and tram where such an approach is sensible. The quality contract mechanism is a long stop that could be used in the very unlikely circumstance of a bus versus tram war.

Alasdair Morgan: Has the minister given you an assurance that that will happen?

Barry Cross: No. We have the minister's assurance that he will consider the position, which given the process that would be required is as much as we can expect at this stage. He did not rule out the use of quality contracts in that context, which fits with the messages that we have received from the Scottish Executive over the past few years. That said, he did not give a categorical assurance that, notwithstanding the statutory process that would be required, he would guarantee a quality contract.

Marilyn Livingstone (Kirkcaldy) (Lab): You have already answered many of my points in your response to Jeremy Purvis's previous question. However, I seek some clarification about concessionary fares. Last week, the minister told us that a national concessionary fares scheme would apply only to bus transport. Will that have any impact on your financial assumptions?

Barry Cross: It is worth pointing out that when different people hear comments from ministers they take different things away.

The Convener: Do you have that problem as well?

Barry Cross: We were encouraged by the fact that the minister's response was not simply to say, "Go away and don't trouble me". Our interpretation of his response on the concessionary travel scheme was that it did not contain a tram element because, at the moment, there is no tram, but he is looking forward to considering applications along those lines in due course. As far as I am concerned, that is as close to an amber light as we are likely to get at this stage. My colleagues will talk about the impact on modelling.

Simon Temple: Subsequent to last week's meeting, we provided you with the potential maximum effect that the lack of a concessionary fares scheme would have. We understand that about 15 per cent of existing bus travel in Edinburgh makes use of concessionary fares. In the early years, about 80 per cent of the users of the tram would be transfers from the bus; therefore, clearly we are talking about 80 per cent of 15 per cent being the worst possible case. There are people who are entitled to concessionary travel who would use the tram but who do not use the bus because they are not attracted to bus travel, so only existing bus users who are forecast to switch to tram would be at risk. Some people would still choose to use the tram because of its other benefits, such as accessibility and predictability, which are particularly important for elderly and disabled people.

The maximum downturn would be 12 to 13 per cent, which would be if none of the people who

currently use concessionary fares on the buses switched to the tram. In practice, it will be less than that even if there are no concessionary fares on the tram and there is a national scheme on the bus. As Barry Cross has just said, that is very much a worst-case assumption.

Marilyn Livingstone: Thank you for that. However, the point that I was making is that we took evidence from Barry Cross that the council would implement a concessionary scheme. I was looking for clarification. Is the council still considering concessionary fares for the tram? If there was a concessionary scheme, your assumptions would be more accurate. I do not believe that people who can get free travel will pay to use the tram and I think that there is a risk there. I am looking for clarification of the difference between the evidence that Barry Cross gave us and the evidence that we took from the Minister for Transport, which was a yes that became a maybe. If there is to be no national scheme, what are the City of Edinburgh Council's plans?

Barry Cross: There are two issues. On your proposition that it is unlikely that people who have a concession for the bus and no concession for the tram will travel by tram, you are right in general, but, with the equalisation of ages, there is an issue around what people who are entitled to concessionary travel but who are in full-time employment would choose.

If we leave that issue aside, the council's aspiration is clear. We spotted the ministerial amber light. I have no doubt at all that there will be some lengthy and tortured discussions over what precisely that amber light means for national and local support for the delivery of a concessionary scheme on the tram. No doubt the minister has been advised by his officials and he will have in view all sorts of issues such as the precedent for the Glasgow underground and the Strathclyde rail network.

The Executive will come to the table with a set of issues. We will come to the table with the rational argument that says that if people secure a concession on the bus, and those same people make the trip on the tram instead, it is entirely logical that that concessionary trip should be paid for from the national pot. I suspect that we will end up with a scheme that is funded somewhere in the middle, but we are not at that point yet.

11:00

Kate Maclean (Dundee West) (Lab): I did not take it that there was a ministerial light flashing amber. You are obviously a more optimistic person than I am, as amber can come before red as well as before green.

If the national concessionary scheme did not apply to the tram, but subsidised bus travel, would the Lothian councils come in and subsidise free, off-peak fares for tram travel in the same way that off-peak buses would be free? Would the City of Edinburgh Council do that?

Barry Cross: It is clear that I cannot give a categorical answer to that question. The City of Edinburgh Council's aspiration is an across-the-board concessionary scheme. I point to the situation prior to the national scheme. In concert with its partners across the area, the council funded a concessionary scheme from the local budget. That merely indicates the importance that the council places on concessionary travel, whether by bus, local train or tram.

Kate Maclean: So is that a maybe? Is it an amber light?

Barry Cross: That is what we aspire to and what we will work jolly hard to achieve. The trick is to ensure that, in working jolly hard, we secure the maximum amount of funding from the national pot, rather than the local pot.

The Convener: That sounds to me like a definite maybe.

Alasdair Morgan: I want to return to the airport—although not the rail link—and the growth in passengers that you project beyond 2011. I think that you have considered up to 2026 and that your numbers show 10 per cent patronage. That seems to be a bit low, given the airport traffic growth projections, the presumed increasing congestion on the roads by that time and economic development in the area. Why are the projections as low as they are?

Simon Temple: I agree that they may be on the low side, but I can point to a couple of factors that suggest why that may be the case. One is that, as the airport grows, it is likely to draw more of its patronage from outside Edinburgh. It will widen its catchment area as it plays a bigger role as one of Scotland's two core airports. People coming in from Fife, Falkirk or elsewhere outside Edinburgh will not naturally want to use the tram as a means of access to the airport. Therefore, the proportion of the market that is open to the tram, as opposed to the absolute size of the market, will tend to fall over time.

Secondly, we have used BAA's forecasts for growth in airport usage, which are some 20 per cent below the Civil Aviation Authority forecasts for 2011 and getting on for 40 per cent below them by 2026. As I said earlier, all forecasts have a degree of uncertainty and air traffic forecasts probably have as much uncertainty as any, as they are very dependent on economic growth and competition between airports. The assumption has been made that improved access will be provided to

Edinburgh and Glasgow. If Glasgow gets improved access and Edinburgh does not, it is clear that Edinburgh could not grow as much. Things could also go the other way. I acknowledge the fact that we have probably been conservative, but the changes in the catchments of the airport and the fact that we have used the lower growth forecasts are at least part of the explanation for that.

Alasdair Morgan: My other question is about the airport. Mr Cross, in your opening remarks you talked about the core development areas. One of those areas includes Newbridge, Ratho and Kirkliston; yet, we have heard that the extension of the line from the airport to Newbridge is unlikely to proceed. On the one hand, we have documents stating that the principal purpose of tramline 2 is to implement investment in the core development areas; on the other hand, we hear that the line is unlikely to be extended into one of those core development areas. It seems that you are not going to achieve one of your principal objectives.

Barry Cross: All that I can do is suggest that the hypothesis that the Newbridge leg from Ingliston might not take place is based on a particular view of the financial and business case. The council's view—which is clearly expressed through its decision to lodge the bill including the Newbridge extension; through its recently approved structure plan and local plans; and through the arguments that it is putting forward over these weeks at the local plan inquiry—is that, in order to deliver structure plan aspirations for land use and development, population growth and economic well-being, development in those core areas is necessary. The council's view is and remains that the Newbridge extension is an integral part of the project. The hypothesis that it may not happen is based on a prudent view of the project's finances.

Alasdair Morgan: I do not have the quotation to hand, but I think that somebody said that it is unlikely to proceed at this time. It would give a whole new meaning to the word integral if that section of the line is an integral part of the project.

Barry Cross: I accept entirely what you are saying. I have read the evidence and spoken to the person who said that, and I am confident that that view was taken purely on the basis of the current prudent view of the financial case, not on the basis of the council's and the national perspective on the Newbridge extension.

Alasdair Morgan: So, if we asked whoever it was back again, would we get a different answer?

Barry Cross: I am sure that you would get an answer that was probably slightly more measured.

Jeremy Purvis: That suggestion is in the preliminary financial case.

The Convener: It came from you.

Barry Cross: I am not arguing. I am saying that that is exactly the case. It is a financial position; it does not take into account the broader issues that I have raised. I would not begin to deny that position—it is there in the financial case. It may well be that, viewed from a financial perspective, given the nature of tramline 2, if one needed to trim its budget, it is difficult to see—on a long line—what other part of the route one could trim to contain the cost of the project.

Jeremy Purvis: I hope that you do not become a surgeon. Whatever part of the body was integral, you could just trim it depending on the scope. On page 14 of the preliminary financial case, you state:

“In these circumstances, a clearer view of the economic development assumptions in the Newbridge area would be valuable and the work required to develop a robust business case for the extension to Newbridge should continue”.

You add that

“the procurement of the system should be continued according to the programme timetable”

and that the procurement should be done “on a phased basis”. At the moment, there appears to be no clear estimate of funding for that element at all. I do not know whether Mr Bissett is able to say whether that is the case.

Graeme Bissett: The phrase “unlikely to proceed” surprised me a little. I am not sure that it is in the preliminary financial case, although I stand to be corrected. I am not trying to bandy words around, but I think that our statement was more measured. As Barry Cross said, it was to do with the fact that if we consider the totality of the available funding and the totality of the funding that would be required to finance the entire network—I emphasise that we must consider the overall picture—we are at the optimistic end of the spectrum in relation to the additional income that is needed to match the totality of the spend that is required. That does not mean that there is not enough money on the table; it means that one has to be canny when one proposes a substantial project such as this one. At this stage of development, we use somewhat optimistic assumptions, rather than more prudent ones. The basis for proceeding is that we are continuing to work on the various sources of income to bring them much more into what you might call a prudent or at least a mainstream level of assessment, rather than one that remains at the optimistic end of the spectrum. It is really a question of the state of play, rather than a more fundamental statement.

We tend to focus unfairly on Newbridge because it is the end of the line, but it is not axiomatic that if

there were to be a fundamental affordability problem Newbridge is the only part of the network that would be examined to ascertain whether there was a viable network within the affordability envelope. Given the current situation, Newbridge is one of the options that would be considered.

Alasdair Morgan: It is difficult to conceive how you might chop out other parts of the line without being left with some interesting engineering challenges.

I do not have the bill in front of me, so could you remind me how long the powers to construct the line would last if they were not exercised?

Graeme Bissett: We think that the answer is five years.

The Convener: Section 38 states that the time limit is five years.

Alasdair Morgan: The witnesses have indicated that there is a possibility that the line might not be constructed as far as Newbridge, which would mean that the project would have failed to achieve one of its principal purposes. What is the likelihood of that part of the line being constructed within five years of the legislation’s coming into force?

Barry Cross: That would be a guess on top of a hypothesis.

Alasdair Morgan: The whole thing is hypothesis.

Barry Cross: We have a range of development sites at Newbridge and Kirkliston, some of which are very substantial. We have a fairly good track record of negotiating financial contributions with developers through planning agreements. If we were unable to afford the Newbridge extension from the word go, whether we could afford it within five years would depend on the profile of the developments that come on stream—it sounds as if I am fudging the answer, but the situation really would depend on the profile of those developments. A strong point in the negotiation of those developer contributions is that congestion on the road network is particularly acute in the Newbridge area, so the process of negotiating contributions would be easier there than it would be elsewhere, particularly given the planning support that we have for our position. If we could not afford the Newbridge extension from day 1, there would at least be a reasonable prospect of our securing substantial contributions during the five-year period, on the basis that failure to do so would be likely to lead to recommendations for refusal.

Alasdair Morgan: Does that bargain work both ways? Having got the obligation to give a contribution, if the tram link is then not constructed, is the contribution then not payable? Is that how it works?

11:15

Barry Cross: Yes. All our contributions are based on a time expiry. We do not actually get the money; effectively we get the agreement and the money comes at the point of royal assent.

The Convener: It is perhaps fair to point out that in addition to the five-year period, the bill contains powers for ministers to extend that period.

Mark Bourke: To add to Barry Cross's point, it is worth looking at the scheme in terms of the overall required capital expenditure. We have been fortunate with the timing of the NAO report and the reported costs of the schemes that have been built. In essence, we come before the committee with a prudent and conservative case. That is reflected in the cost per kilometre that we have allowed for constructing line 2.

I emphasise this through the issues that the NAO reported on. The NAO reported on seven schemes that have been constructed to date. We should always consider the sector in which we are working rather than draw conclusions about the risk of cost overruns based on recent projects such as the Millennium dome or even the Thames barrier.

Alasdair Morgan: I am glad that you picked projects in London.

Mark Bourke: I did not want to mention that.

The NAO found that, in those seven schemes, there was no history of cost overrun. On average, they were being built for £10 million per kilometre. The three currently planned schemes that the NAO studied are being predicted at £13 million per kilometre. There are reasons for that difference in price, but it is primarily due to the risk transfer that is being pushed to the private sector, which is pricing for that.

Excluding contingencies and optimism bias, the scheme that we have laid before the committee today has a value of £16 million per kilometre. The committee should be confident that the case is conservative, but it should recognise that we are very much at the start of the process and developing a procurement strategy that moves away from the previous approaches of pushing risk to inappropriate consortia to draw additional pricing. We are looking to separate out utility diversions from the main construction works, which will allow much faster construction. We are drawing lessons from all our advisers who have been involved in the majority of the schemes in the UK and we will continue to learn those lessons.

Essentially, we want to offer to the market a de-risked project. We want it to be attractive enough to drive to the lowest value the bids that we will receive over the coming years, so that they more than beat the allowances that we have. The

comfort that I would therefore try to give to the committee is that the allowances that we are making for capital are very high at present because of the prudent steps that we are taking. Our challenge is to draw out of the market a more effective, value-for-money solution.

Jeremy Purvis: How long will it take to get a revised operating benefit to cost ratio with a midway competitive bus service assumption, a midway competitive EARL impact and a midway concessionary fare scheme impact?

Simon Temple: Not tomorrow, is the answer. I guess that it would take a few weeks.

Jeremy Purvis: I realise that Christmas is approaching too.

Simon Temple: And some of us would really rather not have turkey sandwiches in the office this year.

Jeremy Purvis: But it will be possible to get revised figures?

Simon Temple: Yes.

The Convener: Gentlemen, I thank you very much indeed for your evidence. As reference has already been made to the festive season, I confirm that it is likely to interrupt the committee's considerations of the bill, but we will get back to work in early January. I thank you once again; and best wishes for Christmas and the new year.

Subordinate Legislation Committee Report

11:20

The Convener: That brings us to agenda item 3. I refer members to paper ED/2/S2/04/12/1 relating to the report from the Subordinate Legislation Committee. As part of our consideration of the bill, it is incumbent on us to consider the delegated powers provisions and satisfy ourselves that they are appropriate.

The Subordinate Legislation Committee report and the paper suggest that, overall, those provisions are in order. Nevertheless, the Subordinate Legislation Committee raised concerns about three sections in the bill and it is worth noting the exchange between the committee and the promoter, the outcome of which is the recommendation for amendments at the consideration stage.

Rather than go into the details and the technicalities at the preliminary stage, it would be appropriate for the committee to thank the Subordinate Legislation Committee for its work and for highlighting areas of concern, and give the undertaking to give substantive consideration to the issues and amendments at the consideration stage of the bill. Is that agreed?

Members *indicated agreement.*

The Convener: Thank you. That concludes the public session of the committee. We now move into private. I thank members of the public for their attendance.

11:22

Meeting continued in private until 11:38.

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