

EDINBURGH TRAM (LINE TWO) BILL COMMITTEE

Wednesday 23 November 2005

Session 2

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EDINBURGH TRAM (LINE TWO) BILL COMMITTEE 17th Meeting 2005, 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:

Barry Cross (Transport Initiatives Edinburgh Ltd)

Jeff Knight (Halcrow)

Stewart McGarrity (Transport Initiatives Edinburgh Ltd)

CLERK TO THE COMMITTEE

Terry Shevlin

LOCATION

Committee Room 3

Scottish Parliament

Edinburgh Tram (Line Two) Bill Committee

Wednesday 23 November 2005

[THE CONVENER *opened the meeting at 10:12*]

Edinburgh Tram (Line Two) Bill (Preliminary Stage Report)

The Convener (Bill Aitken): Good morning, ladies and gentlemen and welcome to this meeting of the committee. I ask everyone present to switch off their mobile phones and pagers.

Under item 1, the committee will take evidence on issues arising from its preliminary stage report and responses provided by the promoter. I welcome the witnesses to the table. We have with us Barry Cross, the deputy tram project director of Transport Initiatives Edinburgh; Stewart McGarrity, TIE's project finance director; Geoff Duke, TIE's project manager; and Jeff Knight, associate at Halcrow.

Despite the fact that the committee is still at the consideration stage of the bill, the evidence that we hear from these witnesses will not be taken under oath or affirmation, as we have been doing throughout the consideration stage. Instead, today is an opportunity for the committee to question the witnesses on several issues that were raised in the committee's preliminary stage report and on which the promoter has provided further information. Those combined responses are all contained in paper ED2/S2/05/17/1. I thank the promoter for the detailed information that has been provided.

Before we begin our questioning, it is worth reminding everyone present that our preliminary stage report recommended that the general principles of the bill be agreed to and stated that the committee was content for the bill to proceed as a private bill. However, the committee had some specific concerns, which the paper details in full. In essence, the committee sought further assurances from the promoter on the funding of the tramline 2 project; on whether the section of the route from the airport to Newbridge is likely to be delayed; and on the expected impact of the Edinburgh airport railway link on tramline 2 patronage. We also raised some rather technical points about model validation and the impact of journey time benefits. The bulk of the committee's questioning will focus on funding, so I propose to deal quickly with the technical matters first. Mr Knight, my understanding is that those questions should be addressed to you. Is that correct?

Jeff Knight (Halcrow): Yes.

The Convener: Thank you.

On model validation, the committee was concerned that the results for bus passengers appeared poor. We requested that the promoter undertake further work to improve model validation. On journey time benefits, the committee sought further explanation of why there was a disparity in journey time benefits between certain sectors in east Edinburgh and west Edinburgh. You have provided detailed replies to the issues that the committee raised. Rather than go over the technical aspects of your reply, it would be useful if you could summarise briefly what your findings mean in practical terms for line 2. For example, you could detail any changes to patronage or revenue forecasts.

10:15

Jeff Knight: We took up the issues that you raised and reviewed the modelling aspects and the development of the model to provide more confidence that the forecasts were robust. The model consists of two levels: a higher level and a detailed lower level that includes the public transport model that you had concerns about.

The model was developed from the central Scotland traffic model in 1997. That was calibrated and validated for the Scottish Executive based on a large body of observed data, technical papers and national statistics. It was also audited for the Scottish Executive. The detailed assignment model was an area of that model that was cordoned out to cover Edinburgh, Fife and the Lothians.

To test the robustness of the model, we reviewed the data and checked the validation. For 1997, the validation indicated that the model was robust. For the 2001 base model, we checked the validation against independent traffic counts. That indicated that the forecasts were lower than was observed in practice by about 10 per cent.

There are a number of reasons for that variation. First, observed traffic data can vary by up to 20 per cent a day and, secondly, between 1997 and 2001, growth in the Edinburgh area was greater than was forecast in the model.

The conclusion was that the validation was consistent with similar models—we had benchmarked it against 20 highway models and nine public transport models—and was within the acceptable range. It was also found to be within the standards that are set out in the Scottish transport appraisal guidance and the "Design Manual for Roads and Bridges", which are the texts that set out the standards for model development.

It was concluded that, because our forecasts were slightly low, our forecasts of public transport and highways traffic were conservative.

We extended our benchmarking and examined observed patronage on systems in Britain, including the Croydon and Manchester systems. We compared the patronage of those systems with our forecasts and found that the forecasts that were derived from our model were mid-range. That added to our confidence about the robustness of the model forecasts.

Because of your concerns on the public transport side, we conducted a second exercise involving a modelling technique called matrix estimation, which we could use to adjust the model so that it was not too low by an order of 10 per cent. That exercise showed that the model calibration was much closer to the observed flows. The impact on the scheme would be an increase in patronage in 2011 of 19 per cent and in 2026 of 6 per cent. That further reinforced our belief that the technique in the model gave conservative forecasts.

The Convener: I note that two of your comparators—for want of a better word—were the systems in Croydon and Manchester. Undoubtedly, the Manchester tram project has been a success but, as you will be aware, other projects in the United Kingdom have not been quite as successful. What were the other comparators? I am particularly interested in the less successful projects.

Jeff Knight: We reviewed the Nottingham, midland metro, Sheffield supertram, Croydon and Manchester systems, and figure 1 in paper ED2/S2/05/17/1, on patronage benchmarking, sets out a number of comparators—boardings per stop, boardings per route kilometre and passenger kilometres per route kilometre. Members will see that the line 2 forecasts are mid-range. There are comparable forecasts for the midland metro and Nottingham systems, lower forecasts for the Sheffield supertram and higher forecasts for the Manchester metrolink and the Croydon tramlink, which you mentioned.

The Convener: As members have no other questions for Mr Knight, we will turn to the funding of the tramline.

We made it clear throughout the preliminary stage—and I state again—that the committee takes its scrutiny of the funding of the project very seriously. We appreciate that the estimate of expenses and the funding statement that the promoter provided at the preliminary stage were in accordance with the Parliament's requirements under standing orders and understand that further detailed decisions on funding will be taken by the Scottish Executive and the City of Edinburgh Council if or when the bill is passed. We cannot

realistically seek to revisit today all the evidence that we took on funding at the preliminary stage, but we do not want to see members of the public, businesses or other organisations being blighted by having their land compulsorily purchased or having the threat of compulsory purchase hanging over them only to find that the project has little prospect of proceeding.

Will Mr McGarrity or Mr Cross deal with questions on finance?

Barry Cross (Transport Initiatives Edinburgh Ltd): I will deal with the questions generally, although Mr McGarrity will fill in details.

The Convener: I will ask you the questions then. You should feel free to invoke the assistance of—rather than pass the buck to—Mr McGarrity if you think that doing so is necessary.

The preliminary stage report warned of a significant funding gap for tramline 2; asked whether construction of the Newbridge to Ingliston part of the line could be postponed; and sought more detail on private sources of funding. From the information that you have provided—for which we thank you—we have found that the cost estimate for line 2, including inflation, has risen in the intervening period by £25 million to £364 million, that there are further possible costs of £46 million, that the assumed contribution from the Scottish Executive and the City of Edinburgh Council would fall £99 million short of the total cost of both tram schemes, and that the Newbridge section will not be built in the foreseeable future.

In the light of what I have said, do you understand why the committee and the Parliament might be reluctant to approve the bill?

Barry Cross: I do, although it would probably be best to counter the quite gloomy perspective that you have given with information that the committee might find helpful. We have moved forward on a number of fronts, and the November briefing paper that we have provided—which is included as an annex to paper ED2/S2/05/17/1—attempts to bring the committee up to speed on the changes.

First and foremost, members will no doubt have noticed that the paper includes probably the first indication of where discussions are between the Scottish Executive and the City of Edinburgh Council on the indexation of the initially committed £375 million and the partnering contribution from the City of Edinburgh Council. The committee will understand that those discussions are at a fairly sensitive stage; the fact that both parties—the Scottish Executive and the City of Edinburgh Council—were comfortable enough with the target figures being included in the briefing note is a measure of their commitment to addressing the issues. In particular, both parties seek a mutually

acceptable financial solution in the relatively near future. The figures go a long way towards addressing what might on paper have appeared to be a substantial funding gap.

That is the first degree of comfort that can be taken from recent progress. The second is that most of the other funding sources that we mentioned in the paper in August are now more firmly in the frame. I am thinking, for example, of the section 75 contributions of land. In negotiating with objectors as part of the parliamentary process, we have secured the major proportion of the land contributions through agreements that have been associated with objector withdrawals. Similarly, we have recently undertaken work alongside the EDI Group on the likely funding that will be generated from the development of development sites. We are now much more confident about that issue; indeed, we think that the figures are reasonably conservative. Finally, the developer contribution strand is now much more clearly in the frame, as the council's policy has been successfully defended through a local plan inquiry and is now generating real money for the project.

Those points should give the committee confidence that, although we do not have firm commitments in relation to all the question marks with which we started off, we can now see clearly that what appeared to be a large funding gap is being closed apace.

The Convener: Have the vehicle tender prices been agreed?

Barry Cross: No. The tenders for the infrastructure and the vehicles are not on programme to go out until about a quarter of the way through next year.

The Convener: Is it fair to say that the decision on whether the project proceeds is down to how much funding the Scottish Executive is prepared to put into it and that the Executive could pull the plug on the project at any time?

Barry Cross: That is probably an over-gloomy view. Whether the project as a totality goes ahead is undoubtedly a function of the Scottish Executive's and the council's commitment in relation to the funding gap. From the beginning of the process, we have been at pains to stress at some length that our procurement strategy ensures that if, at the point of receipt of tender prices, we are still in the unfortunate position of having a funding gap, the project will be scalable. We do not expect to be in that situation, but the project is unusual in that it is not an all-or-nothing one; in extremis, we have the ability to scale the project, even though that is not what we think will happen and not what the promoter intends to happen.

The Convener: Will the Executive pick up the inflation costs?

Barry Cross: The indexation process that the Executive is considering at the highest level will address the inflation issue.

The Convener: It is surely standard practice with such contracts for it to be agreed from the outset that inflation costs will be picked up.

Barry Cross: It probably goes outwith the interest of the committee, but this project is unusual in that the £375 million commitment from the Executive was initially couched in no-inflation terms.

10:30

The Convener: What about the incremental optimism bias that is to be included in the funding projections? Will the Executive pick that up, too?

Barry Cross: I am sorry to bore you with repetition, but our view on optimism bias—a view in which the Executive has significant confidence—is that our procurement strategy deals rigorously with the issues that optimism bias was developed to deal with. Optimism bias was developed by the United Kingdom Treasury to address the fact that project promoters were over-optimistic in estimating the costs of their projects and the benefits that would be derived from them. We have given the committee confidence that our staged procurement process deals with those issues as they arise; nevertheless, we and the Executive are obliged to include optimism bias.

Optimism bias is reduced as the process unfolds—as the risks are dealt with. Our view is that we will not have to use the funding that is enshrined in 14 per cent of the optimism bias; the other 10 per cent has always been included in our figures, anyway.

The Convener: This may be a difficult question for you to answer, but can you give us an indication of when the final negotiations with the Executive will be complete?

Barry Cross: Executive officials told us at a meeting yesterday that they expect closure of the discussions within the next months and that that will be significantly before the point at which we finalise tender prices. I do not know whether that is linked to their understanding of where we are in the parliamentary process, but they are certainly actively addressing the issue with some vigour.

The Convener: Did you say within the next month or within the next months?

Barry Cross: My guess—it is a guess—is that it will be a month, rather than months.

The Convener: Thank you.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Even considering the information that you have just given on the funding package, the timescale will be extremely tight. Do you expect to use the whole of the 10 per cent contingency fund?

Barry Cross: I ask Stewart McGarrity to deal with that because of his understanding and experience of other major capital projects of this type. He can perhaps give the committee an insight into the use of the contingency component.

Stewart McGarrity (Transport Initiatives Edinburgh Ltd): The 10 per cent contingency component was arrived at by our technical consultants in 2003 and has, subsequently, been revisited and found to be a proper assessment of the cost of risk associated with the various elements of the project. In an ideal situation, we would not spend the contingency fund, but the experience of our engineers on previous projects suggests that, over the life of the project, one can expect the 10 per cent contingency fund to be spent.

Jeremy Purvis: How many of the comparable projects that were used for the baseline figures did not use all the contingency funds that had been put aside?

Stewart McGarrity: I really do not know. The major elements of our base cost estimate before contingency were based on actual outturn costs on other similar light rail projects in the UK.

Jeremy Purvis: Forgive me, but I see that you are the project finance director. Did you not ask your technical advisers whether they used all the contingency on other schemes that they have worked on? That would be fairly fundamental in finding out whether they have been using proper comparisons.

Stewart McGarrity: I believe that they will have covered that, but—forgive me—I have not seen the information myself.

Barry Cross: It is crucial to note that the contingency aspect of many of those other projects triggered the Treasury to produce its optimism bias rules. The outturn costs take on board the fact that contingency may or not have been used in the other projects. We have benchmarked against real costs and then applied contingency, so the costs against which we are benchmarking are what the job actually cost—not the cost net of contingency, but the cost including contingency.

Jeremy Purvis: Yes, but I assume that all those projects had contingencies for things that were not anticipated at the outset of the project. I understand that the final cost will have been the total cost of the project. My question is whether,

notwithstanding the fact that the Treasury guidance will have been put together because other projects were not managed effectively, you have learned the lessons from previous projects? Did you examine what went right or wrong in them and then revisit your assumptions, as you did for patronage levels, for example? Have you adopted the same level of scrutiny of your financial management as you have of other assumptions?

Barry Cross: Yes. I am merely indicating that the introduction of the optimism bias leads one to conclude that those projects probably had optimistic capital estimates and so were probably more likely to use the contingency. The optimism bias deals with the underlying assumptions. I can understand the issue that you are raising, but whether other projects used the contingency is not really material, because the optimism bias mechanism deals with that.

Jeremy Purvis: I disagree; I think it is relevant.

Alasdair Morgan (South of Scotland) (SNP): Are you saying that there is a fair chance that you will not need a large part of your contingency on this project?

Barry Cross: That would be imprudent. No; our experience is that 10 per cent is an appropriate contingency.

Alasdair Morgan: Are you saying that these projects by and large go 10 per cent over budget and that contingency is something not that might happen but that is pretty certain to happen?

Barry Cross: Except that contingency is part of the budget. Projects do not go over budget because in effect the budget includes a prudent allowance to cover things that happen even in the best planned situations. If we had no contingency and did not allow for that risk, experience shows that one would overspend.

Jeremy Purvis: Do you have an agreement with the Executive to return that money on the same pro-rata basis as relates to the balance between the Scottish Executive grant and the funding from the City of Edinburgh Council?

Barry Cross: It will not be a matter of the money going back to the Executive, because it will pay out on what is spent.

Jeremy Purvis: But the question is whether you have added 10 per cent to the budget, knowing that you will spend it, and whether any money that is needed to address anything else that happens—for example, if, as you have stated in your evidence, the committee takes other decisions that could increase the costs associated with the optimism bias—will be over and above the 10 per cent that you have already added to the budget.

Barry Cross: Yes. The contingency is based on the project's current configuration.

Jeremy Purvis: Is the Treasury's advice that the contingency on capital costs should be applied when a project is approved rather than when it is introduced?

Barry Cross: Your previous question was on contingency. I think that you are now asking about optimism bias.

Jeremy Purvis: Yes.

Barry Cross: The figure for optimism bias decreases as one proceeds through development and implementation.

Jeremy Purvis: But, at the moment, you expect to spend the 10 per cent contingency. If the process incurs other costs, that money will be over and above the current budget.

Barry Cross: That is correct.

Jeremy Purvis: In your evidence, you say that further costs associated with optimism bias will arise because further mitigation measures might need to be taken or because the committee might make decisions with regard to, for example, timetabling. However, after the committee finishes its work, the operator will be able to make decisions on timetabling, fare structures and so on that would have a considerable impact.

Barry Cross: That is correct. However, the changes that the committee could introduce are legion and would include physical changes and changes of the type that you have mentioned. The promoter would be constrained from making such changes because of the powers in the bill. However, it could make certain changes on matters that are not covered in the bill, which could have an impact on costs.

Jeremy Purvis: How can you assure us that you will not make such decisions?

Barry Cross: The most obvious assurance is that, if certain fundamental assumptions that form part of the committee's consideration and colour its decision-making process are not covered by the bill powers, it needs to decide whether it should make them so or whether they have been covered sufficiently in the documentation, in the submissions and in what has been said.

In certain respects, frequency is a good example to use. One hopes that if the bill's powers are granted, the tramway will have a very long life. The fact that its circumstances will change over its lifetime to match changing external circumstances is presumably why legislation does not generally cover matters such as frequency, which would be seen to constrain operation a long way into the future. After all, frequency should of necessity follow demand.

Jeremy Purvis: I understand your point that the costs associated with optimism bias narrow as the

process continues. However, although you might still want to construct the project, if the decisions that we have been discussing increase the costs that are associated with optimism bias, if there is still a funding gap, and if the other sources of funding are not in place, you might seek to reduce the services that you provide. That would reduce costs, but you would be offering a worse service than was suggested in your proposals when the committee considered the general principles of making a tram scheme part of an integrated transport network.

10:45

Barry Cross: We must be careful not to confuse the capital expenditure that is required to deliver the project with the on-going balance between costs and revenue. Clearly, there is a relationship between those two elements, but the optimism bias and what I have talked about until now—apart from in response to that final question—relate to the capital expenditure.

In answer to the last question, I had thought that you were referring to the link between bill powers and the level of service, but I had not sussed out why. You are, in a way, right on that issue, but the most crucial issue regarding service frequency is the balance between running costs and patronage income. All the work that we have done—which the committee has been taken through on previous occasions—shows that there is a positive balance between those costs and revenues.

Although reducing the level of service would bring an initial capital benefit—for example, we might need to buy fewer trams—such a move would have a relatively small impact on the capital funding shortfall but a much bigger impact on the month-by-month and year-by-year balance between costs and revenue.

Jeremy Purvis: I understand that the situation today is that, unless you get bridging funding, you do not have enough money to build the tramline.

Barry Cross: No. What I said—

Jeremy Purvis: Does not that provide you with an incentive to buy fewer trams?

Barry Cross: If we had to save between £1 million and £2 million per tram unit we could, given today's balance sheet, meet the shortfall only by having no trams, which would leave us in a ludicrous position.

Today, I have attempted to set out that, whereas we had a funding gap and many questions at the beginning of the process, we now have many fewer questions. We are confident that we will have no questions when we sign the contracts. We have every expectation that we will deliver the entire project.

The Convener: Given the importance of this area of questioning, do members have any other issues that they wish to raise? I see that they have not, so let us move on.

Finally, Mr Cross, the committee notes that the project has received a fairly substantial number of objections, of which quite a few have been settled without the committee's being required to make a determination. Obviously, those objections must have been settled on the basis of compensation. May I take it that you have sufficient funds in the kitty, so to speak, to ensure that such compensation will be paid?

Barry Cross: Yes—but very few of the objections were settled on the basis of a trade-off against compensation. The vast majority have been resolved by working through objectors' worries and fears in a way that incurs no additional costs. For example, the recent withdrawal of objections at the Gyle followed a mutually acceptable solution that will not import additional costs. We have resolved those issues by talking with people, understanding their problems and responding to them rather than by paying out.

The Convener: Is there enough money to pay out where it is necessary to do so?

Barry Cross: Yes.

The Convener: That is fine. We turn to Newbridge.

Kate Maclean (Dundee West) (Lab): Mr Cross may have answered this question following the convener's mention of the issue in his preamble—I also see the response to question 13 in the promoter's November progress report—but, for the record, I want to ask whether the Newbridge section will go ahead, given the funding shortfall. When I asked a similar question at the preliminary stage—which seems to have been a very long time ago—I got the impression that everything would be sorted out by now. However, there seems still to be a funding shortfall, with no guarantee that it can be made up. The response to question 13 in your briefing note states that there are still "aspirations" for that section to go ahead. Would not it be more logical at this stage to admit that there is a possibility that that section will not go ahead, in spite of the benefits that were flagged up at stage 1, if there is no guarantee that the funding shortfall can be made up?

Barry Cross: From the beginning, we have attempted to assist the committee in dealing with this difficult issue. As I said in answer to previous questions, on paper there is still a gap in respect of absolute commitments: that is, pounds in the bank. If at the beginning of the process we had required not just a funding statement but pound notes in the bank, we would never have got away from first base. We have given the committee our

view of how the project will be funded. We think that now, through the parliamentary process, we are giving the committee a clearer and more substantial view of how the gap is actively being closed. You are right to say that it is a long time since the Scottish Executive agreed to put a six-figure number on its enhanced contribution. That was a huge step forward for us, simply because it made it harder for the Executive to back off.

We cannot give absolute guarantees on the tramline to Newbridge. We are saying that the funding gap is closing substantially and we have given all the measures on which we have moved forward. We are confident that the gap will be closed. The recent local plan inquiry in the area operated on the basis of the gap's being closed to the extent that the tram is delivered, so we are working towards that. However, at the heart of the matter is whether we can guarantee absolutely that that will happen. We cannot. That is why we have been honest with the committee and said that, at the extreme, if we have not closed the gap when we reach the tender-signing process, it may be necessary for us to phase the Newbridge section of the line. However, all the indications from the development plan process are that the anticipated developments in the sector—both at the airport and beyond—are happening timeously. That gives us confidence that the tramline is an integral part of the transport policy for that part of the city.

The Convener: We now come to the ancillary funding that will come from the City of Edinburgh Council. I know that Mr Cross dealt with some of the issues in his response to previous questioning, but we would like to proceed further with one or two points. I ask Marilyn Livingstone to do so.

Marilyn Livingstone (Kirkcaldy) (Lab): Paragraph 3.2.2 on page 48 of the September progress report states:

"CEC will bear substantially all the risk that farebox revenues and other income ... are lower than expected and/or are not sufficient to cover operating costs."

The paragraph also sets out how that risk could eventually be mitigated. If such measures do not cover the shortfall, what will be the impact on the council?

Barry Cross: I will deal first with the base question and then with the hypothesis. It is precisely because of the serious consequences of revenue not meeting costs that so much effort is being put into understanding how revenues and costs are built up.

Earlier we referred to the on-going task in which Transport Edinburgh Ltd, Lothian Buses and the tram operator are engaged. Part of that is the on-going refinement of the modelling process and the feeding into it of real day-to-day experience from

the bus operator and the tram operator. The first part of the answer is to ensure that the potential risk is managed through the development process. I am absolutely certain that the questions that will be uppermost in the promoter's mind when it comes to address its commitment—or otherwise—to its capital contribution will be how all that stacks up, whether it is about to take on board on-going risk and how that risk will be managed.

It is right to say that if we end up getting everything wrong, do not manage the risk and end up with costs that exceed revenues we will face a set of difficult decisions. Those decisions will be about whether to address the shortfall through the fares structure on public transport across the piece—tram and bus—which is probably the most obvious way to address it. If for some reason that is not sufficient or is not an option—it is difficult to see why it would not be an option—there would be a potential revenue drain on the council, which would become a cost on council tax. In short, the answer to the question is that if one does not get there in the first place one puts in place a series of mechanisms to manage the risk. If for some reason that is not good enough, there is the fare box and, ultimately, the doomsday scenario that is being hinted at. The real answer is not to get to that point.

Marilyn Livingstone: How far down the road are you with discussions to ensure that that does not happen? You have listed the mitigation measures and you have gone over them again today. How confident are you that you are far enough down that road?

Barry Cross: We are absolutely confident that we are at the right point at this stage in the process. We now have a rigorous process set up. The most important thing is that this is not just a TIE process or a promoter process but a triangular process involving Lothian Buses, Transdev, ourselves and the promoter—although that is not a triangle, because there are four organisations involved. They are considering the shape of the unified network and the external risks because, ultimately, the promoter will need to be absolutely convinced that the worries that Marilyn Livingstone has expressed are not going to come home to roost. We are confident about where we are in the process. We are adding to that confidence month by month with additional modelling work and rigorous inputs from the operators.

Jeremy Purvis: I refer to paragraph 3.3 on page 68 of the latest paper that you provided to the committee. You say that the discussions with Lothian Buses are now receiving “detailed attention”, as you have just told the committee. Further on in that paragraph you state:

“The design of an integrated service pattern, with all the benefits it will bring, will undoubtedly result in a different

(and possibly materially different) pattern of tram revenues and operating costs.”

Some 91 per cent of Lothian Buses is owned by the City of Edinburgh Council, which is the promoter. If there could be a materially different pattern of tram revenues and operating costs, why is that not being sorted out now?

11:00

Barry Cross: You will be aware that the bus network in any city, not least in Edinburgh, is a flexible beast. Operators introduce new services, remove services and modify services and timetables according to demand.

Jeremy Purvis: Yes, but you are the operator.

Barry Cross: No, we are not the operator. You will be aware of the Transport Act 1985, which prevents me from being the operator.

Jeremy Purvis: Okay. The City of Edinburgh Council has a 91 per cent shareholding in Lothian Buses and wholly owns TIE. Given that, if those two organisations cannot sort out the operator's flexible working, I do not know which model, other than an illegal one, would be able to.

Barry Cross: No. There are two issues in your question. I do not want to bore you with Transport Edinburgh Ltd and all the rest, but we are generating integration through that structure. Given the 91 per cent shareholding, the Transport Act 1985 precludes the promoter becoming involved in managing or controlling the day-to-day operations of the operator. In that respect, the operator is independent. The question is this: Why on earth would a bus operator or transport operator today freeze its bus network—on which 90 per cent of people will still travel—when the world changes? A series of bus service changes are being introduced next Monday, and are being brought about not by shareholder changes, but by changes in the way we live, work and shop.

Increasing confidence will be gained as we go along, but it will not be until a month or two prior to the trams' operating that the absolutely firm bus timetable that integrates with the tram timetable will be finalised. We know in general terms the substantial issues and we are committed, as is the operator, to unified and integrated ticketing. However, you simply do not freeze the timetable for the number 3 bus today when we are five years away from operating an integrated network. That is integral to the revenue projections for the entity as a whole.

Jeremy Purvis: So, up until about a month beforehand there could be materially different patterns of tram revenues and operating costs.

Barry Cross: No. There will be convergence.

Jeremy Purvis: You state in your response to the committee that secondary legislation will be required to bring the tram system into the national concessionary travel scheme. What discussions have you had with the Scottish Executive about that since last we took evidence from you?

Barry Cross: Months ago, the Minister for Transport was asked a similar question, and most people took his answer as an amber light—it was not a green light, but it certainly was not a red light. My feeling is that the Scottish Executive is waiting to see whether we end up with a tram project before it engages meaningfully with the concessionary scheme changes.

Jeremy Purvis: But it is paying for the tram.

Barry Cross: Indeed.

Jeremy Purvis: I will have to take time to think about that.

Barry Cross: Going back all that time ago, everybody—including the minister—agreed that there was an issue, but sympathy was detected on the part of the minister. The Executive is not saying no. Clearly, it needs to weigh up precedents from around the country. Those issues are causing the Executive not to rush.

Jeremy Purvis: We may need to seek clarification from the minister. However, as far as you are concerned, you are still working on that premise.

Barry Cross: Yes.

The Convener: We now turn to our questions on other funding and I ask Alasdair Morgan to—

Marilyn Livingstone: I had not finished, convener. Jeremy Purvis came in on my question.

The Convener: I am sorry—please carry on.

Marilyn Livingstone: An answer was given to the convener on the financial safety net, but I would like further clarification. Paragraph 2.4 of the progress report of November, which is on page 66 of the papers in front of us, mentions

“a financial safety net whereby”

the Scottish Executive

“provides either temporary or permanent underwriting of some of the risks”

that the City of Edinburgh Council

“is bearing in relation to future operations and other income.”

The paragraph goes on to say that detailed consideration of such arrangements

“is yet to take place.”

Will you follow up your earlier answer to the convener with some clarification on the safety net?

Barry Cross: There is really not a lot more I can say.

The Convener: Would you like Mr McGarrity to answer?

Barry Cross: I am not sure that he will be able to say any more.

Stewart McGarrity: Discussions continue between the Scottish Executive and the City of Edinburgh Council. They are engaging at high level and could consider a number of options for balancing the CEC’s risks with a funding package. We are working through the process and are timetabled to have reached a decision by autumn 2006.

Marilyn Livingstone: I was confused by the line in paragraph 2.4 that says that detailed consideration of such arrangements

“is yet to take place.”

Stewart McGarrity: Discussions have started and are in progress.

The Convener: So what is stated in our papers is historical and some movement has taken place since paragraph 2.4 was written.

Stewart McGarrity: That is right.

Alasdair Morgan: I want to follow up on a couple of issues that Jeremy Purvis raised. It is clear that patronage is key to some of TIE’s projections. You talk about your relationship with Lothian Buses and say how important effective integration of the networks will be in achieving your revenue projections. The September progress report says:

“This market structure offers an exceptional opportunity to achieve effective integration, subject always to full compliance with competition law.”

Is there any danger that competition law will cause you problems? In effect, the tram system and Lothian Buses will have the same person at the top. Will FirstBus be happy with this carve-up of the network?

Barry Cross: I can give the committee an update on that. The largest part of the justification for setting up Transport Edinburgh Ltd is that tram operations and Lothian Buses can be part of a single company structure. In the parlance, they will become a single economic entity. A single economic entity can contain parties that can operate together to provide an integrated network—similar to how subsidiaries of a company can work together.

If the only linkage was via shareholders and the promoter, that type of attempted integration would be contrary to competition law and would fall foul of the Office of Fair Trading. The single economic entity has been discussed with OFT, which has

been briefed periodically throughout the process. We are reasonably confident that the structure will deliver integration within the law.

As regards FirstBus, Stagecoach and, to a lesser extent, the heavy rail system, TEL's obligation is to generate integration across the piece, not just in the services of Lothian Buses and the tram. However, it must be extremely careful not to step over the line and to fall foul of what the OFT refers to as collusion, which we would refer to as integration and co-operation.

We continue to meet the other major players that I have listed. They are willing to talk about integration of services and ticketing within the law and I have no doubt that that process will proceed from now through to implementation and beyond. The issue is highly sensitive and, in some sectors of the city, quite significant. In particular, one thinks of the area from Newbridge and Ingliston into the city. We are confident that we have covered integration within the city and are encouraged that for the relatively small sector that requires the involvement of other parties we have a process that appears to be generating partnership but not collusion.

Alasdair Morgan: I understand that the links and arrangements between the different entities are strong without their being so strong that they will result in a cartel being formed, but is not there a danger of going the other way and of forming an entity that has too high a market share from the point of view of competition law?

Barry Cross: No. That does not appear to be an issue given that, in effect, market share has been achieved through free-market mechanisms rather than through particular policies or actions. The OFT has certainly not signalled that as being an issue that concerns it.

Alasdair Morgan: I turn to another matter that Mr Purvis raised. You said that the integrated service pattern—which has yet to be designed—might produce

“a different (and possibly materially different) pattern of tram revenues and operating costs.”

That means that the income and expenditure figures that we are considering are based on a pattern that may turn out not to be accurate. The pattern may be different, as may the costs; in fact, they may be “materially different”.

Barry Cross: The way that we have put that is slightly confusing. By far the greatest variability relates to what the balancing bus network will look like. There is a significant set of questions about that and the issue has been mentioned once or twice in meetings of the Edinburgh Tram (Line One) Bill Committee. Virtually all the variability lies in what the bus feeder and bus partner network

will look like, what the frequency of services on that network will be, how we can ensure that bus services feed into tram services rather than conflict with them, and how we can create a total network that both addresses transport need and is economically sensible. The bulk of the work is going on in that area, rather than on tram patronage and costs.

Let us take the example of a bus service that mirrors the service that the tram will provide, such as service 22. Most of the discussions are focusing on what service 22 will look like when the tram is up and running. I am conscious that what I say might end up on the front page of the *Edinburgh Evening News* as “Trams mean bus cuts”. How can we modify the bus network to make the most of the tram network while ensuring that there is still a good bus network for people who continue to rely on the bus? The answer revolves around our getting to grips with the initial broad-brush figures that were cited way back in the Scottish transport appraisal guidance proposals for bus reductions, and making some sense of them. It is not all or nothing; it is a much more dynamic process.

11:15

Alasdair Morgan: Although the figures that you have given us for income for the tram network from patronage may be robust, some of that income will be gained through cutting the income of Lothian Buses, as some people who used to use the number 22 bus will use tram 2.

Barry Cross: Yes. There has always been a clear recognition of the fact that the introduction of the tram will result in a modification of the bus network along its corridors, which is code for a reduction in some bus services along those corridors.

Alasdair Morgan: I have a final question on a different matter. Many objectors have been concerned about the noise and disruption to their lives during construction of the tramway. In paragraph 8.3 of your September progress report, you talk about a “36 month construction programme”, and say that that “is a challenging timescale”. Most of us would understand that to be a coded way of saying that there is not a hope in hell of its taking only 36 months. How long will it take? What is your best estimate?

Barry Cross: And I thought I was cynical.

Alasdair Morgan: We are paid to be cynical.

Barry Cross: We would not have said that it would take 36 months if we thought that it would take 42 months. The timetable is for 36 months; it is not a timetable in which a contractor can sit around doing nothing for six months before he

starts, and the project will be well managed, as we have told you in the past. The target of completing construction in 36 months is challenging, but we will do it.

The Convener: We turn to questions on your network reply. Table 4, in paragraph 20 of your reply on the two tramlines running as a network, seems to show poorer revenue figures and an operating surplus that would be the same if the two tramlines were operating separately. That appears to be illogical, given that one possible means by which the Newbridge section could be built is by first constructing more profitable sections of the line. Do the figures to some extent undermine the approach?

Barry Cross: I am sorry, convener. Could you point me in the direction of the appropriate page?

The Convener: I refer to table 4 in paragraph 20 of your response on pages 13 to 20 of your responses.

Barry Cross: I ask Jeff Knight to answer that question.

Jeff Knight: In modelling the network, two issues arose. First, there needed to be consistency in the fares structures for lines 1 and 2. As they will operate separately, there will be a premium on one route; however, within the network, that premium will be removed. Consequently, revenue drops as a result of the removal of that premium from one of the lines. The flipside of that is enhanced travel opportunities and an increase in the number of trips on the route. There will be a reduction in revenue but an increase in patronage. The figures for 2011 and 2026 show an increase of 6 million trips per annum; however, the net effect on the revenue is a slight reduction.

The Convener: Yes; however, there is still inconsistency in the figures. Could some adjustment be made to improve profitability by reconsidering how it is proposed the lines will operate and perhaps by constructing first the sections that might be more popular and more heavily patronised?

Jeff Knight: In the paper on the integration of the two services, there is a figure that shows the results of design work on line 1 and line 2, which shows that line 2 would have through running through Picardy Place to Ocean Terminal at three trams per hour and that the rest of the line 2 network would have seven trams per hour. Optimisation work has been carried out to increase patronage and revenue from the combined network and through running.

The Convener: Once that has happened—successfully, one hopes—would it be possible to proceed with the Newbridge section? I am trying

not to put words in your mouth, but is that what you are saying? If you are in some doubt, please say so.

Barry Cross: We are in danger of confusing the issues. The committee has asked whether sufficient capital funding will be available to construct the Newbridge extension. However, we are now talking about service refinements and optimisations that will have an impact on the day-to-day running, the fare box and, therefore, the balance between expenditure and costs. In a way, the two matters are best kept separate at this stage.

The Convener: Right. Will you remind me whether it is your intention to have one depot for both tramlines?

Barry Cross: If both bills were passed, the objective would be to have a single depot.

The Convener: What would be the financial implications of that?

Stewart McGarrity: The financial implications would be reduced costs. The depot at Gogar would be constructed and the cost of the depot at Leith would be eliminated.

The Convener: So that would reduce revenue costs, but what would be the capital implications? Would they be fairly minimal?

Stewart McGarrity: Sorry; I was talking about the capital costs.

The Convener: Can you quantify the saving?

Stewart McGarrity: Off the top of my head, the figure is about £10 million. That saving has already been taken into account as part of the capital cost estimate for the network.

Jeremy Purvis: I have a brief question, which again is on tables and figures, I am afraid. There is probably a good explanation for the matter—I just do not understand it. Tables 1 and 2 in the paper on the network show the estimated number of passengers and revenue. For 2026, for line 2 only, the estimated patronage figure is 6.9 million. However, in the paper on the impacts of the Edinburgh airport rail link, the patronage forecast for line 2, with EARL with a fare of £7.50, is 7.5 million. Similarly, in table 2 in the network paper, the estimated revenue for 2026 for line 2 is £8.3 million, but the revenue, with EARL with a fare of £7.50, is £9.57 million. I do not understand that.

Barry Cross: If you give Mr Knight a second, he will attempt to answer that.

Jeremy Purvis: There are differences. We just want to know which figures we are going on.

Jeff Knight: I have the network figures, but I have not found the figures that relate to EARL.

Jeremy Purvis: It is in response 3, which provides

“Updated information on the expected impact of EARL on tram patronage.”

Jeff Knight: The table for the network effects looks at the situation with regard to line 1 and line 2. Table 2, which has a total cost for the system in 2026 of around £9.56 million, includes EARL. There is, therefore, inconsistency between the two comparisons. One has line 2 and the other has line 2 with EARL included.

Jeremy Purvis: Right. Table 1 shows the position without EARL. Its figures are even more different.

Jeff Knight: The first column of table 1, which is labelled “ETL2 STAG 2003” says that, in 2026, the patronage will be about 6.9 million and revenue will be about £8.3 million, which is consistent with the figures in the table for the network effects. The second column relates to the model as updated with the modelling that is associated with EARL. It is a composite model for the EARL response, which takes into account more robust demand forecasts for trips to and from the airport.

Jeremy Purvis: So, with regards to the network, you are still proceeding on the basis that there is no EARL.

Jeff Knight: Yes.

Jeremy Purvis: Until now, the information that the committee has received has been based on there being six trams an hour on line 2. However, now, the indications are that there will be seven trams an hour. Does not that invalidate earlier evidence, particularly that which relates to the impact on road congestion?

Jeff Knight: The network-effect model looked at optimising a system that had both tramlines. The composite will have a different service operation pattern compared to the individual lines. On line 2, seven trams an hour will go as far as Picardy Place but four trams an hour will continue to Ocean Terminal, which is not part of the service that is proposed for line 2 in its own right; that is the number for it combined with line 1.

Jeremy Purvis: Yes, but much of the evidence on road congestion has been to do with the stretch between Haymarket and the airport, particularly in relation to the impact on the A8. Are you saying that there is no change with regard to that area?

Jeff Knight: In terms of the operation of the network, we are talking about seven trams an hour.

Jeremy Purvis: We asked questions at length on the impact on congestion on the basis of the earlier information that we received, which said that there would be six trams an hour. We were

told that the key areas of congestion would be at the start of line 2 at St Andrew Square, with the loop there, and on the A8 towards the airport. If there is to be an additional tram every hour, is the evidence that we have received about the impact on road congestion invalid?

11:30

Jeff Knight: The network-effect model sought to optimise service patterns and frequencies between the two routes. There would be a different impact on the network, but the evaluation in the model would have taken such impacts into account, so the model will reflect the change in the level of congestion in the network as a result of demand for public transport services and the impact of congestion on the highway network. You are correct to say that there would be a difference, but that has been taken into account in the paper on network effects.

Jeremy Purvis: Have we received the revised information on the impact on road congestion?

Barry Cross: The information is summarised on page 18 of ED2/S2/05/17/1. Paragraph 17, which is in the environmental appraisal section, gives a thumbnail indication of the impact of the network's effects on congestion.

Jeff Knight: There would be an additional six million passengers on the network system if the lines were not operated individually.

Jeremy Purvis: Can you provide us with more information about that?

The Convener: Yes—in written form.

Jeremy Purvis: You know about the particular road congestion areas on the route in which the committee has taken an interest in previous evidence-taking sessions, and we would be grateful if you could tailor your information so that it dealt with the areas on the A8000, the A8 and at the start of the route, from St Andrew Square. I understand what you have said about increased patronage and cars being taken off the road, but I remember the evidence on taking cars off the road that was given at the preliminary stage. We questioned people closely about that matter and we would be grateful if you could provide more information about it.

Jeff Knight indicated agreement.

Jeremy Purvis: I have a second question on the system operating as a network. The forecast revenues do not seem to increase at such a steep rate as the patronage levels, which increase considerably. Are those figures the final figures that you are working to for a final pricing strategy? Given that you have not incorporated EARL into the figures for the system operating as a network,

will you have a model that will include the impact of EARL?

Barry Cross: The ever more refined modelling tools as we move towards implementation mean that there can be increased confidence about patronage and fare levels, although that is not to say that we are not as confident as we should be at this point. However, I say clearly that we will not rest on the current data for setting fare levels or for designing the bus network and frequencies. We will continue to refine the data. Even post-implementation, what happens will colour decisions on the shape of the integrated network and fare levels. Any operator would take that approach.

Jeremy Purvis: I want to be fair and ask a final brief question. Do all the indications from the latest evidence show a better picture than the initial forecasts showed?

Barry Cross: Absolutely.

The Convener: I will ask a final question, as other members have no further questions. For the *Official Report*, will you make it clear that you have, in your view, provided the committee with all the required information on funding and expenses and that final decisions on funding will hinge on the Scottish Executive, which is the principal funder? Is that a fair encapsulation of the situation?

Barry Cross: Yes.

The Convener: Thank you very much, gentlemen.

Correspondence

11:34

The Convener: As members will recall, we met jointly with the Edinburgh Tram (Line One) Committee to hear evidence on the objection from Norwich Union Linked Life Assurance Ltd on Tuesday 1 November. At that meeting, the promoter expressed concern that, as NULLA had transferred its assets, including Rosebery House at Haymarket, to Norwich Union Life and Pensions Ltd, it was no longer adversely affected. The promoter also argued that, as NULAP could have objected late but did not do so, it should not give evidence on behalf of NULLA.

After hearing oral statements from the promoter and NULAP, the committees agreed that it was unclear whether NULLA would continue to be adversely affected. The committees agreed to seek written evidence from the promoter and NULAP on whether NULAP could maintain the objections in NULLA's name. The written evidence that we received is contained in the annexes that are before us.

Before we consider the evidence, it would be worth our while to reflect on the events of 1 November. In doing so, I state my complete agreement with the Edinburgh Tram (Line One) Committee, which considered the matter yesterday. The Edinburgh Tram (Line One) Committee 1 said that the promoter should have raised the matter long before the actual day of the meeting, but pointed out that NULAP could have formally notified the committee of the transfer rather than simply adopting NULLA's objection, as it did. I agree and am certain that the promoter, the objector and both committees could have been spared unnecessary expense and effort if the matter had been handled differently.

I return to the written evidence that is before us, which I summarise as follows. As a result of company restructuring, NULAP has received all the assets, rights and liabilities of the original objector—NULLA—including the rights that are connected with NULLA's objection. On that basis, I am content for NULAP to adopt and lead evidence on the objection that was lodged in NULLA's name. I note that the Edinburgh Tram (Line One) Committee made a similar decision yesterday. Does the committee agree?

Members indicated agreement.

The Convener: The committee must now decide when it wishes to take, from the promoter and NULAP, oral evidence on the objection. Given our tight timetable, we cannot now do that jointly with the Edinburgh (Line One) Committee.

Instead, I propose that we take oral evidence at our meeting of 28 November. Is that agreed?

Members *indicated agreement.*

The Convener: That concludes agenda item 2 and the public part of the meeting. I thank the witnesses who attended.

We now move into private session to consider item 3.

11:37

Meeting continued in private until 11:50.

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