



Your ref:
Our ref: TFL086514

Mr Phil Bale
EQRA
By email

TRANSPORT FOR LONDON
Major Projects

2nd Floor Parnell House
25 Wilton Road
London SW1V 1LW

13 October 2008

Dear Phil

Freedom of Information Act Request: Estimated construction costs

Thank you for your request for information which was received by Transport for London (TfL) on 21 September 2008.

In your email you requested the current estimated costs of construction for each of the five sections of the Cross River Tram scheme using the five section division from the CRT route options public consultation. These were:

- Section 1 – Euston to Waterloo
- Section 2 – Euston to King's Cross
- Section 3 – Euston to Camden Town
- Section 4 – Waterloo to Brixton
- Section 5 – Waterloo to Peckham

Your request has been considered under the appropriate legislation.

I should start by saying that the project cost estimates are not produced in a way which provides a complete division of the costs by the route sections used in the public consultation. The main reason for this is that a number of the key system and cost components are not specific to any one section but are applicable to the scheme as a whole. The depot and rolling stock costs in particular are shown within the 'system wide' costs. It is also the case that there is some minor overlap in the sections shown in the public consultation drawings.

The following table (table 1) provides a cost summary:-

	Camden Town to Euston	Kings Cross to Euston	Euston to Waterloo	Peckham to Waterloo	Brixton to Waterloo	System wide costs	Total
TOTAL PROJECT CONSTRUCTION COST	£13,904,126	£15,906,438	£64,666,546	£52,120,975	£51,267,341	£46,084,197	£243,949,623
TOTAL CAPITAL COSTS	£22,926,126	£23,248,438	£86,129,704	£62,346,975	£60,209,340	£248,898,034	£503,713,618

As you can see the calculation produces what appear to be very precise numbers. This is of course potentially misleading at this stage of project development when it is clear that any individual cost item could vary quite considerably as the scheme development progresses.

It might be helpful if I provide a brief explanation of 'Optimism Bias'. Appraisal best practice requires the addition to the cost estimates of a percentage uplift to reflect the observed tendency of initial project appraisals to underestimate the eventual cost of the scheme.

There are a number of different methods for applying Optimism Bias. One approach approved by the Department for Transport is to undertake a Quantified Risk Analysis (QRA) then add an allowance for additional cost based on that assessment of risk, and also add a further allowance for Optimism Bias. We have undertaken a QRA and the effect of making these additions is to take the cost figure from £503.5m to £722.6m. I have not shown this in Table 1 because the QRA is not undertaken on a route section basis.

These sums are in current expenditure terms (third Quarter 2007). In order to understand the actual expenditure in the years when the money is planned to be spent, these current sums are inflated to produce a total in those terms, which is termed the outturn cost. This would be a little under £1.3bn, which is the sum we explained in our presentation to the GLA Transport Committee Seminar in September.

I should also add that there are issues with attempting to isolate the total cost of any section of the route by apportioning the system wide costs. For example, the provision of a depot and its associated facilities is required in order to operate any length of system so this substantial cost attaches to any section system configuration. Similarly, the scale of the depot facilities is related to the size of the system it serves, but the relationship is not a simple linear one.

I hope that this answer provides information that will be satisfactory for you. If there are aspects of the information on which you are not clear, or you have questions about the presentation of the information, I encourage you to get in touch.

Finally, I should say that if you are dissatisfied with the way in which TfL has handled your information access request, you can ask us to carry out an internal review. This review will be conducted by an independent panel, in accordance with the procedure published on our website at www.tfl.gov.uk/foi. Requests for an internal review should be sent to:

Head of Information Access and Compliance
Floor 6, Windsor House
42–50 Victoria Street
London SW1H 0TL
Email: foi@tfl.gov.uk

If you remain dissatisfied after the completion of the internal review, you are entitled to take your complaint to the Information Commissioner's Office. They can be contacted at the following address: Wycliffe House, Water Lane, Wilmslow, Cheshire SK9 5AF.

In the meantime, my contact details are as below.

Yours sincerely

Luke Albanese
Project Director
Tel No: 020 70279453
Email: lukealbanese@tfl.gov.uk