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**From:** Fitchie, Andrew  
**Sent:** 18 October 2007 18:42  
**To:** 'Graeme Bissett'  
**Subject:** RE: Update on Grant Letter

On the £375m being ex parliamentary funds, I definitely remember discussion way back at beginning of 2003 regarding the funding source for our appointment (regarded as supporting Bill process )as being pre project expenditure. I will look for this. GT should have this as well.

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**From:** Graeme Bissett [mailto:graeme.bissett@[REDACTED]]  
**Sent:** 18 October 2007 11:31  
**To:** 'Willie Gallagher'; Fitchie, Andrew  
**Cc:** 'Pat Diamond'; 'Julie Thompson'; 'David Mackay'; 'Neil Renilson'  
**Subject:** FW: Update on Grant Letter

The output below from the TS / CEC meeting on the funding letter yesterday has ups and downs :

- + Major opportunity on front-loaded expenditure which should help reduce bidder costs / generate interest income
- Threat to include the parliamentary funding in the grant.

Andrew, I'd leave the detail on the award letter until we get a revised doc from TS, those issues don't seem life-threatening.

Miriam and Matthew / Geoff need to get after the spend pattern quickly to capitalize on the opportunity and ensure the rest of the proposed profile fits.

I'd be grateful if Pat would action a search in our records for whatever we have to support the separateness of the parliamentary funding. Damian will have useful insight here, can Muriel (in Julie's absence) let Pat and I have his new email / mobile contacts.

Regards  
Graeme

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Graeme Bissett  
m : [REDACTED]

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**From:** Graeme Bissett [mailto:graeme.bissett@[REDACTED]]  
**Sent:** 18 October 2007 11:22  
**To:** 'Miriam Thorne'  
**Cc:** 'Pat Diamond'; 'Matthew Crosse'; 'Geoff Gilbert'  
**Subject:** FW: Update on Grant Letter

Miriam, can you now work with Matthew / Geoff to produce an aligned expenditure plan which fits the proposals below, at point 5. This is a major opportunity to gain real upfront cash flow advantage for the project and potentially to lower bid costs or accrue interest income for the project. Give me a call when you have thought about this, but Matthew or Geoff may have a view about implications for the finalization of the legals early next week.


The expenditure plan will also need to respond to the subsequent year proposals, which may or may not be workable.

Can you also summarise for all of us what we believe are the accounting rules which will govern what spend scores in what period. The biggest issue might be acquisition of materials immediately post-close, but there are others.

The issue of scoring the parliamentary spend against the £500m is most likely because TS have not made clear arrangements internally. I'll pick this up, but thoughts welcome.

Regards  
Graeme

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Graeme Bissett

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**From:** Rebecca Andrew [mailto:Rebecca.Andrew@edinburgh.gov.uk]

**Sent:** 18 October 2007 11:02

**To:** Andrew Holmes; Donald McGougan; Miriam Thorne; Graeme Bissett; Gill Lindsay; Duncan Fraser; Colin MacKenzie; Alan Squair

**Cc:** Alan Coyle; Colleen Jennings

**Subject:** Update on Grant Letter

@page Section1 {size: 612.0pt 792.0pt; margin: 72.0pt 90.0pt 72.0pt 90.0pt; } P.MsoNormal { FONT-SIZE: 12pt; MARGIN: 0cm 0cm 0pt; FONT-FAMILY: "Times New Roman" } LI.MsoNormal { FONT-SIZE: 12pt; MARGIN: 0cm 0cm 0pt; FONT-FAMILY: "Times New Roman" } DIV.MsoNormal { FONT-SIZE: 12pt; MARGIN: 0cm 0cm 0pt; FONT-FAMILY: "Times New Roman" } A:link { COLOR: blue; TEXT-DECORATION: underline } SPAN.MsoHyperlink { COLOR: blue; TEXT-DECORATION: underline } A:visited { COLOR: purple; TEXT-DECORATION: underline } SPAN.MsoHyperlinkFollowed { COLOR: purple; TEXT-DECORATION: underline } SPAN.EmailStyle17 { COLOR: windowtext; FONT-FAMILY: Arial; mso-style-type: personal-compose } DIV.Section1 { page: Section1 } OL { MARGIN-BOTTOM: 0cm } UL { MARGIN-BOTTOM: 0cm }

We met with Lorna Davis and Nadia Savage at TS yesterday on the grant letter. A revised draft is likely to be issued next week. We have been advised that the letter is likely to be kept short, but with detail being included in attached schedules. The following issues were made clear:

- 1) Funding is now to be for phase 1 (as confirmed by Malcolm Reid's letter). There is likely to be a restriction on when/if we can start spending on 1b, as affordability will have to be demonstrated. TS have to work on the

wording of this, but it is unlikely to cause a problem as the Council will not commit to 1b until affordability can be demonstrated. **Action Required: TS to provide new draft letter**

- 2) TS accept our concerns re: dispute resolution and their lawyers are working on drafting to address this. **Action Required: TS to provide new draft letter**
  
- 3) Modifications over asset disposal were rejected. TS were understanding of our desire to explore leasing solutions, etc to provide additional funding and/or tax efficiency. However, they do not want to address this at this point. They advised that we should put a marker down on this in our formal response to the grant offer and then raise it again at a later date when plans for asset transfer are more fully developed. **Action Required: CEC to state that the issue of asset disposal may need to be revisited in response to the Grant Letter.**
  
- 4) TS put forward a grant payment proposal based on four week actual, four week forecast, which will provide advanced funding to ease cash flow for CEC. The proposal looks workable, but will require cash flow information provided by tie to be of greater detail and accuracy. In addition CEC grant claims need to be better matched to four-weekly reports currently prepared for TS by tie. **Action Required: CEC and tie finance teams to work together to ensure TS proposal is workable**

(the final two points are potentially financially damaging for the project)

- 5) TS informed us that as the spending round is tight for the next two years, there is limited possibility of any carry over of grant into future financial years. Any unspent amount will be paid at the end of the project (2010/2011) to honour the £500m commitment, but this could have severe cash flow implications on CEC if interim funding has to be found. Based on the cost of work done figures in FBCv1, TS are prepared to commit to £120m for 08/09 and £140m for 09/10 with no carry forward assumed. In addition a further £80m may be awarded for the current year (post financial close), if we can provide assurance that it will be spent by the end of the year and detailing what it is. This £80m cannot be carried forward into 08/09 if it is not spent. Concern was also raised over the current level of accruals and it was stated that an £80m accrual as at 31<sup>st</sup> March 2008 would not be acceptable. **Actions required: 1) tie to work with bidders to align programme with available funding 2) tie/CEC to provide TS with breakdown of £80m 3) TS to detail any further information required to ensure the funding can be put in place 4) tie/CEC to work to minimise accruals**
  
- 6) TS informed us that the grant paid for the Parliamentary Process has been accounted for under Edinburgh Tram Network (which has a £500m cap). CEC/tie have been working under the assumption that the Parliamentary grant was accounted for separately. This could potentially mean that there is £17m less grant than we are currently assuming. Given the sensitivity of this issue the number in the draft grant letter will not be confirmed. TS are currently going through their files to attempt to find documentary evidence that the parliamentary monies should not count against the £375m (which became £500m) and have asked us to assist them by looking through our own records. This is required to satisfy their auditors and to allow them to answer any PQs on tram and state that funding is no more than £500m. As the offer of grant for the parliamentary process was in advance of the £375m announcement, I am not optimistic that any documentary evidence exists, but we should make every effort to look for it. It was made clear that escalation of this issue at this stage would be counter productive, as TS were trying to resolve the matter in favour of CEC and an approach to the minister would cause them problems. **Action required: CEC/tie to search records for any documentary evidence saying that the funding for the Parliamentary Stage was separate (our working assumption)**

I'll update you on developments as they progress. In the meantime, we'll be working with Miriam and Elliot at tie to address reporting concerns. Please get in touch if you have any further questions.

Kind regards,

Rebecca

Rebecca Andrew | (Acting) Principal Finance Manager | Financial Services | The City of Edinburgh Council | Waverley Court, Level 2:5, 4 East Market Street, Edinburgh, EH8 8BG | Tel 0131 4[REDACTED] | [rebecca.andrew@edinburgh.gov.uk](mailto:rebecca.andrew@edinburgh.gov.uk) | [www.edinburgh.gov.uk](http://www.edinburgh.gov.uk)

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