



Dr Malcolm Reed
Chief Executive
Transport Scotland
8th Floor
Buchanan House
58 Port Dundas Road
Glasgow
G4 0HF



Our Ref: WG/JPT

26th September 2007

Dear Malcolm,

Edinburgh Tram Network Phase 1 – Phase 1a, Phase 1b

I refer to our discussion this afternoon concerning the commitment by Ministers to fund £500m to Phase 1 of the Tram Project as opposed to Phase 1(a) only.

It has long been recognised by **tie** Limited, Transport Edinburgh Limited and The City of Edinburgh Council that the priority for the Edinburgh Tram Network was to construct Phase 1a from the Airport to Newhaven. The tram line from Roseburn to Granton (Phase 1b) has been a firm feature of our planning for the wider tram network in Edinburgh but this phase has always been seen as second in priority to Phase 1a.

We also fully recognise that the terms of the Grant Award to be completed at financial close in January 2008 must reflect this prioritisation.

We received the draft of the Grant Award Letter in August 2007 and provided a marked-up response to Transport Scotland on 4th September 2007. The mark-up reflects this prioritisation. The essence of the marked-up draft is:

- That the Grant Award of up to £500m would be made available to The City of Edinburgh Council to construct Phase 1a;
- The Grant Award from Transport Scotland would be provided on a pro-rata basis with the Council's own contribution of £45m;
- In the event that any surplus of grant award was available after fully accommodating Phase 1a then that surplus could be deployed towards Phase 1b, but on the strict prescribed basis that Phase 1a must be fully completed and that the maximum grant in any circumstances would be capped at £500m.

tie limited

Citypoint 65 Haymarket Terrace Edinburgh EH12 5HD

tel +44 (0) [REDACTED]

Registered in Scotland No: 230949 at City Chambers, High Street, Edinburgh EH1 1YJ

web www.tie.ltd.uk

Direct dial: [REDACTED]

e-mail: willie.gallagher@tie.ltd.uk

web: www.tie.ltd.uk

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The purpose of this arrangement is to ensure that funding is directed to Phase 1a to ensure that it is completed.

As you are aware, we have negotiated an arrangement whereby the Council has an option to proceed or not with Phase 1b.

It would be made explicit in the Grant Award Letter that any surplus grant not applied to Phase 1a will be repaid (or more likely never drawn down) in the event that Phase 1b does not proceed.

The wording in the Award Letter should ensure that the priority for Phase 1a is clear. It is also clear to **tie**, TEL and the City of Edinburgh Council that any funding beyond £500m is to the account of the Council.

I hope that makes the intentions on our side both unambiguous and in line with the draft we have suggested for the Grant Award Letter.

We are obviously happy to discuss the details of the drafting but these principles should remain intact.

Yours sincerely



Willie Gallagher
Executive Chairman