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**From:** Rebecca Andrew  
**Sent:** 23 July 2007 18:30  
**To:** John Burns  
**Subject:** FW: Tram tax planning

John,

Can you assist here?

For operational reasons, Graeme thinks it is desirable to transfer LB to TEL in the near future (this could well be to keep Neil R in order as he and the Chairman of TEL have a few differences).

When we last looked at it, we decided to hold off as transferring LB early could expose the Council to capital gains tax, should the Council need to sell LB. However, if bus and tram are integrated under TEL, it would be TEL that the Council would sell which should be CGT exempt.

I'll reread the Henderson Logie report, but would be grateful for any recollections you have of these discussions.

Thanks

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 [REDACTED]  
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**From:** Graeme Bissett [mailto:graeme.bissett@[REDACTED]]  
**Sent:** 23 July 2007 16:12  
**To:** tracy.oconnor@uk.pwc.com  
**Cc:** 'Miriam Thorne'; Rebecca Andrew; martin.mcewen@uk.pwc.com  
**Subject:** RE: Tram tax planning

Thanks Tracy. The issues to pick up are those we discussed last year but in a new funding environment and now with all systems go for financial close in January 2008.

The note below is an extract from an internal note but is self-explanatory. As you'll probably know, the funding position is now the reverse of the previous approach, with a capped grant of £500m coming from the Government and CEC required to finance all further capex. CEC is also fully responsible for operating cash flows with no subsidy from the Government, except on concessionary fare schemes. This creates the opportunity, indeed necessity, that alternative funding sources are examined if the system is to progress beyond the Airport / Newhaven phase 1a.

**The Final Business Case will be based on the presumption that Phase 1a will be contractually committed at financial close and Phase 1b will be left as an option to CEC. It is assumed also that the capital cost of Phase 1a will comfortably fall within the £545m envelope with adequate headroom to support approval by the Council.**

**The funding for Phase 1a will be primarily Government grant of £500m plus CEC contribution. Note that the terms of the grant have still to be negotiated and it is possible that the grant will be limited to previous assumed proportions if only Phase 1a is constructed.**

CEC's contribution is implicitly supported by S75 contributions and all aspects of the £45m require to be firmed up. Alternative sources of funding will be explored, but it is important to avoid Phase 1a becoming dependent upon third party funding arrangements given the lack of time. Accordingly, alternative funding will be pursued to support Phase 1b (and other extensions), with the arrangements for Phase 1a (funding and contractual) future-proofed against a deal on alternative funding which could be (partially) retro-fitted against Phase 1a.

Alternative sources to be examined :

- a. Leasing – vehicles, equipment
- b. CEC Prudential Borrowing
- c. Securitisation of TEL net cash flows or other use of TEL resources
- d. Third party private sector involvement (Transdev, others)
- e. Incremental developer contributions
- f. Third party grants
- g. Tax structuring – all aspects

I would particularly like to discuss the means of getting optimum cost into the tax-paying companies, perhaps through some form of leasing arrangement. The integrated tram and bus business plan projections are for profitability and the tax payments measured at 30% are a material drain on the operational cash flow in what is effectively a public service business.

I'd also like to discuss the implications of "future-proofing" – a retrospective change to funding adjustments for Phase 1a after financial close which could arise from the finalisation next year of one or more of the alternative sources.

Lastly, there are good operational reasons to pursue the establishment of the "TEL Group" by transferring ownership of LB in the near-term. This is a somewhat sensitive issue for historical reasons, but needs tackled. So we should also discuss the right approach to restructuring.

Regards  
Graeme

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Graeme Bissett

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**From:** tracy.oconnor@uk.pwc.com [mailto:tracy.oconnor@uk.pwc.com]  
**Sent:** 23 July 2007 14:41  
**To:** graeme.bissett@[REDACTED]  
**Cc:** 'Miriam Thorne'; 'Rebecca Andrew'; martin.mcewen@uk.pwc.com  
**Subject:** Re: Tram tax planning

Graeme,

10am this Friday is fine. My colleague, Martin McEwen and myself will come along to Verity House.

Kind regards

Tracy

**Tracy O'Connor | Senior Manager, Tax | PwC**

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✉ "Graeme Bissett" <graeme.bissett@[redacted]>

"Graeme Bissett"  
<graeme.bissett@[redacted]> Action (To)Tracy O'Connor/UK/TLS/PwC@EMEA-UK

23/07/2007 12:12 Information (cc)"Miriam Thorne"  
<Miriam.Thorne@tie.ltd.uk>, "Rebecca Andrew"  
<Rebecca.Andrew@edinburgh.gov.uk>

SubjectTram tax planning

Tracy, can we go for Friday 27<sup>th</sup> at 10.00am at Verity House ?

Regards  
Graeme

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Graeme Bissett

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----- End of message text -----

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