

Chief Executive's Office

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Mr Tom Aitchison
Chief Executive
Waverley Court
4 East Market Street
Edinburgh
EH8 8BG

22 August 2007

Dear Tom

I can confirm that the proposals summarised in my letter of 2 August 2007 regarding the Edinburgh Tram project were ratified at the Transport Scotland meeting of Directors on 8 August 2007.

I also stated in that letter that Transport Scotland was undertaking a final update of the indexation calculation based on the latest programme information presented at the Tram Project Board in July. I am happy to confirm the revised calculation produced a figure of £497.3m.

We will now forward a variation to our grant letter of 19 March 2007 to reflect the revised position for your formal consideration. Can I also take this opportunity to confirm that there is no requirement from Transport Scotland for the Edinburgh Tram project to make any provisions (passive or active) for the EARL scheme.

I trust that this is helpful.

Yours sincerely



MALCOLM REED

Chief Executive's Office

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Mr Tom Aitchison
Chief Executive
City of Edinburgh Council
Waverley Court
4 East Market Street
Edinburgh
EH8 8BG

Date:
2 August 2007

Dear Tom

Further to the position reached in Parliament on Wednesday, 27 June 2007 as a result of the Transport Debate I thought it would be helpful to advise you of the key aspects that will inform the role of Transport Scotland with respect to the Edinburgh Tram project. I intend to have these proposals ratified at a Transport Scotland meeting of Directors on 8 August 2007.

The key aspects can be summarised as follows:

- Transport Scotland to provide up to £500m towards construction of Phase 1a of the project (i.e. the airport to Newhaven waterfront via Haymarket, Princes Street and Leith Walk). This funding is to be provided against an expectation that Phase 1a will be operational during the first quarter of 2011.
- Any funding that is to be provided would be on the basis that the scheme will not require any subsidy from the Executive once commissioned. We acknowledge your expectation the network will be able to participate in the National Concessionary Travel Scheme, however, you will appreciate that we cannot commit to inclusion in the scheme at this stage.
- The funding will be provided to City of Edinburgh Council via standard Section 70 grant conditions (drawn down against a profile agreed under those conditions and actual expenditure by the Council).
- Transport Scotland will relinquish its seat on the Tram Project Board and will not attend Tram Project Board meetings in any capacity.
- We will meet with you on a four-weekly basis in order to receive a progress report on the project with this report being produced in accordance with standard Transport Scotland reporting template.
- You to provide confirmation, on a quarterly basis, those grant conditions are being complied with.

It is useful to note that the proposed level of grant is still based on the indexation of £375m at 2003 (first quarter of the calendar year) prices which, as previously notified, would have resulted in a total contribution of £492m based on the programme contained in the draft final business case. We are currently undertaking a final update of the indexation calculation based on the latest programme information presented at the Tram Project Board in July and hope to be able to share the results of this process with you by 6 August.

You will also be aware that the project is currently being supported by an interim grant from Transport Scotland up to a value of £60m essentially to allow the project to reach a position of 'financial close' (i.e.

completion of the final business case) whilst progressing utility diversions. We do not intend to offer any further grant until this milestone has been reached although we do, in the short term, intend to update some terms and conditions of this existing grant in line with this letter. It is our intention that grant offers subsequent to the 'financial close' milestone will only be made on the basis of the Council also contributing in proportion to their commitments to date (i.e. broadly in the ratio of 9:1).

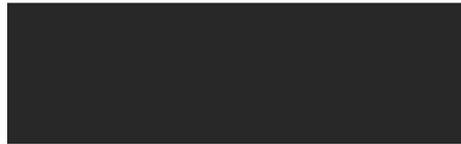
It is also useful to confirm the criteria we will employ to assess whether the 'financial close' milestone has been reached as follows: -

- Having received a copy of the final business case as endorsed by the Council.
- Having received confirmation that a standard Office of Government Commerce Gateway 3 review has been successfully completed.
- Any relevant ongoing information received via your 4-weekly report.

I trust you will find the above useful and, naturally, would be willing to discuss further or arrange discussions between officials as appropriate.

I will update you, as appropriate, on any variation to these proposals as soon as possible after 8 August 2007 thus allowing officials to finalise arrangements in association with a revised grant letter.

Jan Sweeney



MALCOLM REED