

COST OUTTURN RANGE

INDICATIVE UPDATE FOR CEC – 13/04/09

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Note: For management and CEC officers information only - not to be released publicly and strictly exempt from FOISA on the grounds of commercial confidentiality.

Background

tie has defined the workstreams which will improve the level of confidence with regard to programme and outturn costs over the next 3 months. In the meantime CEC have requested a “heads-up” on the possible range of outturn costs predicated on the current commercial uncertainties. This is provided below in advance of the scheduled review at end Period 1 0910 on 27th April 2009.

Outturn Costs

The following table presents a range of outcomes as explained in the notes below.

£m	March Report A	Updated QRA B	New Civils Ptn'r C	New Infraco D
Approved Base Costs	487.8	488.7	488.7	488.7
Additional PM Costs	-	5.0	9.7	12.5
Current Base Cost Estimate	487.8	493.7	498.4	501.2
Risk Allowance required:				
Utilities still to be drawn down	3.6	4.5	4.5	4.5
Infraco risk allowances	35.7	55.4	24.6	24.6
Premia and time costs of:				
New Civils P'tnr	-	-	50.0	-
New Infraco	-	-	-	80.0
Ph 1a Outturn	527.1	553.6	577.5	610.3
Ph1b Postponement	6.2	6.2	6.2	6.2
Total Outturn Costs	533.3	559.8	583.7	616.5
Funding Approved	545.0	545.0	545.0	545.0
Potential headroom/(deficit)	11.7	(14.8)	(38.7)	(71.5)

A March Report - As per the P13 TS report and as reported to the Board in March

B Updated QRA - Reflecting the draft outputs from a more conservative Quantitative Risk Assessment (QRA) taking into account the range of possible outcomes on the key commercial uncertainties **which will be closed down by the Strategic Options workstreams**. Also reflects the emerging reality of additional resource costs both due to a revised Contract Management regime and an extended Re-baseline programme to 23/02/12.

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C New Civils Partner
D New Infraco

Reflecting tie’s order of magnitude estimates for the costs of replacing Bilfinger as Civils partner (including 6 months delay) and re-procurement of Infraco (including 12 months delay). In both cases the required premia are inclusive of close out of risks so the required Infraco risk allowance reduces.

QRA Outputs

The more conservative risk allowance of **£55.4m** is driven by the core commercial uncertainties regarding liability for delays to date, design changes and ground conditions which are being addressed through the strategic options workstreams. The table below reflects the currently assessed aggregate Maximum Impact of these uncertainties to be £52.2m compared to the £39.5m aggregate outputs from our more conservative QRA – in a nutshell if we lost all the commercial disagreements hands down we could add a further **£12.7m** to the outturn in column B above and it would total **£572.5m** (a funding deficit of £27.5m) – this is a control scenario only and not an assessed likely outcome.

£m	March Report	Updated QRA	Max Impact
Allowance for delay	10.0	14.1	15.5
Design changes	6.1	14.3	23.3
Ground conditions	5.1	11.1	13.4
	21.2	39.5	52.2
Other	14.5	15.9	
Infraco Risk Allowance	35.7	55.4	

NB - The updated QRA make the assumption that the cost of implementing acceleration measures required to achieve the 23/02/12 would be broadly the same as the BSC and tie PM costs of prolongation to a later date ie the current unmitigated date of 17th Oct 2012

Costs of Project Cancellation

NB – the “New Infraco” column in the table on Page 1 assumes no additional cost as a result of litigation with the outgoing Infraco – this is not a likely outcome at present as a control scenario only. Despite the considerable evidence we can present with respect to Infraco breaches, nothing they have done so far would constitute the material breach which would provide just cause for termination. In the absence of such just cause the amount that would become payable to BSC in compensation is almost impossible to quantify but a guideline of 10% of the contract sum for civils and systems (**£24m**) plus the unrecovered fixed costs and profits of CAF (**£10m**) is not unreasonable and there would be risk of considerable time, expense and reputational damage to CEC and Scotland in pursuing this option.

As of the end of March 2009 we have spent £234m and are forecast to spend an additional £22m till the end of June 2009. Prima facie this puts the total potential costs up to the point of termination at **£268m** now increasing to **£290m** by the end of June.

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