



tie Board

11 December 2007

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Financial Close Programme

- The workstreams leading to financial close are :
 - Governance & management processes
 - Procurement process leading to selection of Infracore / Tramco bidders and novation of SDS contract
 - Control over spend forecasts
 - Design / conclusion of funding arrangements
 - Approval processes including OGC Gate 3
 - Monitor risk transfer from Council perspective
 - Communications
- Utility diversion / MUDFA management a continuing process

ALL COVERED IN BODY OF THIS PRESENTATION

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Overview

- Design still behind programme but consistent over last 2 months
- Prioritisation within key streams to help BBS programme is underway with SDS and CEC regarding approvals
- Programme is still challenging, especially from Picardy Place to Newhaven
- Increasing certainty of pricing in Infracore is proving slower than planned.
- Provisional areas will remain at end December
- Contract issues making good progress but CEC linkage needs timely close out.

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Design Programme and Bidder Due Diligence

- Utilities Design not as good in November but sufficient work available for AMIS. SUC issues rather than pure SDS.
- Detailed design 64%, approx 20% down from V17 baseline. Some due to client/ 3rd Party issues but SDS also underperforming and providing inadequate management information, actions plans and forecasting. We are project managing very closely.
- Prior approvals being unblocked for submission and CEC have approved 42% of those submitted to date.
- Technical approvals now commencing for first 5 structures. Roads are the main concern and being targeted by CEC, **tie** and SDS for particular focus
- Change control being closely controlled but significant changes like Picardy Place have not had best design impact estimates from SDS.
- No new due diligence issues.

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Infraco Contract Negotiations

11/12

17/12

10/01

28/01

Financial Close

Near Term

1. Close all significant issues
2. Plan for closing all issues
3. Agree principle Tramco/ Infraco alignment issues
4. Agree SDS Novation Plan with tie/ BBS/ SDS
5. Updated DLA Risk matrix and DLA letter

No major issue

Issues

- Consents
- Halcrow CW

- Bonds/ PCG's package
- Infraco/ Tramco LD's and liability caps
- Consents
- Maintenance and period liability cap
- Charge of ownership PCG position
- Insurance deductibles
- Collateral warranties
- Change in law in maintenance period
- Third party agreements
- Employers Requirements

Medium Term

1. Finalise core terms drafting
2. Formalise legal schedule
3. Finalise TSA/ TMA drafting
4. Network Rail APA
5. SDS direct contract
6. Prepare SDS Novation Agreement
7. Checking integrity of contract suite
8. Non legal X check

To Financial Close

- Collate contract package
- Formalise SDS and Tramco Novation Agreements
- Final check
- Contract award notice

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Tramco Negotiations

- Facilitated Negotiation Progressing
 - Contractual – see contract slide
 - Technical – no significant issue, close by 14/12
 - Advance Works Agreement settled
- CAF to bring forward hedge for exchange rate risk

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Update on Programme

- Detailed work ongoing and including stakeholder engagement (CEC, TEL, police etc) as well as BBS, **tie**, SDS and MUDFA interface
- Impacts currently considered include:
 - MUDFA Rev 06 Programme
 - Design/ Consents
 - Traffic Management Arrangements
 - BBS Resource Constraints / limits
 - Embargos
- 1a Airport – Haymarket Feb 2011 Revenue service
- 1a Haymarket – Newhaven Sept 2011 or Mar 2011 Revenue service
- Being reworked again with possibility for Feb 2011

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Update on Capital Cost

Upward Pressures - Base Costs (£20m)

- Infraco - VE (£8m), Other Uncertainties (£5m)
- Tramco – Currency fluctuation & maintenance mobilisation (£4.5m)
- Project Mgt & Other (£2.5m)

Downward Opportunities - Base Costs (£10m)

- Infraco – Continuing VE and final offer (£5m)
- MUDFA / Utilities– Design certainty/VE (£3m)
- Project Mgt & Other (£2m)

Net Upward Pressure on Base Costs (£10m)

- Base costs could rise from £449m to £459m

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FBC Ph1a had base cost £449m + £49m risk = £498m

“Upward pressures” and “downward opportunities” exist – suggest this would not be unusual in the course of a complex negotiation and in the context of a complex project

VE – £8m not yet secured (£19m v £27m) compared to Pref Bidder stage. Still successful as £10m already banked in the bids.

Spot Euro gone from 0.675 at Tramco preferred bidder to 0.69 in mid October and now at 0.71 – specific exposure on Tramco



Update on Capital Cost – Upward Pressures

- Value Engineering outcomes secured pre Financial Close
- Currency exchange pressures – Euro v Sterling
- Conversion of provisional amounts (structures and highways) into firm costs
- Project Management costs associated with extended design approvals process
- Final offer not yet on the table

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Update on Capital Cost – Downward Opportunities

- Value Engineering outcomes secured post Financial Close
- Negotiation of final offer
- Design outputs / value engineering on utilities work – firming up provisional sums on MUDFA and direct utilities work
- Budget challenge on other elements of Project Management costs

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Update on Capital Cost – Risk profile reduces post Fin Close

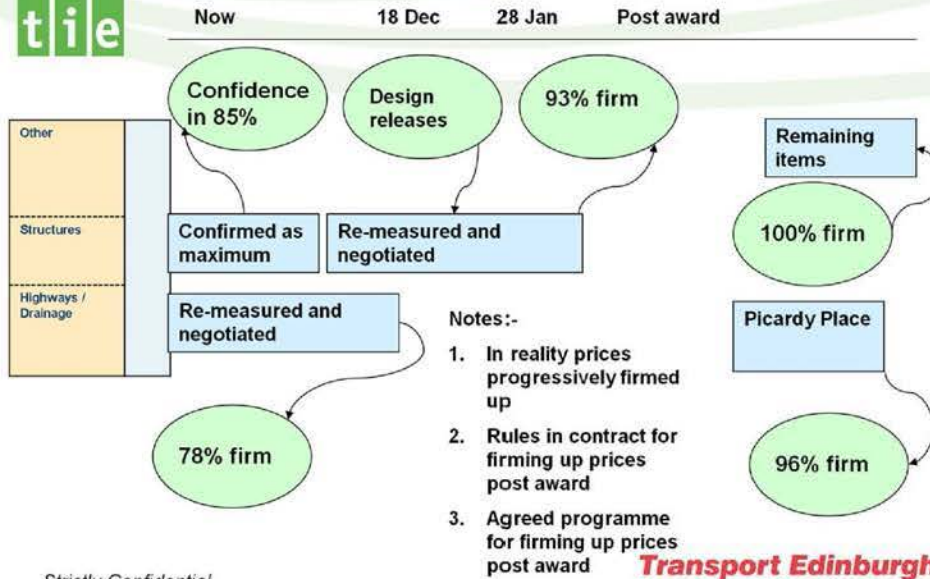
- Significant risk allowances for pre Financial Close uncertainties are closed out at the end of January
- Utilities risk being effectively managed
- At financial close - Net upward pressure on Base Costs lower than reduced specific risk allowance – balance becomes a contingency
- Cost estimate of £498m remains valid - funding envelope of £545m provides very comfortable headroom

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Timescale For Resolution Of Provisional Sums



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Prioritisation Plan and Key Milestones to Financial Close

- Main areas are:
 - Pricing certainty
 - Programme agreement
 - Risk Allocation confirmation
 - Technical alignment of Offer / Employer's Requirements / SDS design
- 3 Phases to address with each covering the following areas:
 1. Contract
 2. Employers Requirements
 3. InfraCo Proposals
 4. Technical
 5. Price
 6. Value Engineering
- Phase 1 11/12/07 (Cleared with BBS 11/12/07)
- Phase 2 20/12/07 (Cleared with BBS 17/12/07)
- Phase 3 10/01/08 (Cleared with BBS 20/12/07)

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Contingency

- Provides an additional couple of weeks to finalise negotiations if required.
- Contract notification changes from 11/01 to end of January 2008.
- No impact on cost or programme.
- Contract signature early February 2008.
- Mobilisation agreements with Infracore and Tramco mitigate effects of date change.

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Progress with Development of Project Delivery Team

- Shape, roles & size of team established and included in project estimate
- Recruitment underway with % in post or committed before Contract Award
- Interim Management support in place
- Transition plans from Procurement phase team
- Contract and commercial management staff are (or will be) in place to ensure a fast start
- Reporting and controls finalised and being briefed out to all key staff
- Peer Review challenge proposed
- Facilitation mobilised to increase likelihood of success with BBS and **tie** teams

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Grant Award Letter

Stewart McGarrity

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Grant Award Letter – Terms

- Up to £500m for the “Edinburgh Tram Project”
- TS/CEC contribute as we go in 92%/8% proportions
- TS funding for FY0809 currently fixed at £120m - temporary CEC borrowing is the escape valve but we can revisit the limit later
- No provision of working capital buffer – the drawdown procedure needs to work !
- Reporting requirements to comply with

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Grant Award Letter – Practical Considerations

- Advance material purchases to be treated separately
- TS considering funding of interest costs incurred on CEC borrowings
- Bidders don't get spooked by default provisions
- Accurate cash flow forecasting by tie will be key
- Infraco cost profile still under negotiation

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Governance Arrangements

- Update on overall model
- Operating Agreements
- Matters requiring information / approval
- Practical execution

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