

Alignment of QRA and Risk Allowance to DLA Letter and Risk Matrices

This note confirms that **tie** has considered the letter from DLA to the Council Solicitor dated 12th March and appended risk allocation matrices and considers that the Risk Allowance of £33.2m contained in the projected Control Budget at Financial Close and associated QRA adequately reflects the risks identified and the change in such risks retained by the public sector since approval of the FBC in December 2007.

The following references are to specific paragraphs/sections in the DLA letter:

5.1 Employers Requirements (ERs) – Alignment issues

There is a well understood and limited level of uncertainty with regard to the alignment of the ERs, the SDS design and the Infraco proposals (on which their price is based). In terms of the possible impact on costs:

- Commercial alignment of the ERs and the Infraco proposals has already been reached and an additional sum of money included in the final price negotiated with Infraco
- SDS have already undertaken a review of the draft ERs against their designs and instructions issued in respect of how the identified mis-alignments are to be resolved. This has not resulted in any material change to price or programme. SDS have been instructed to undertake a review of the final ERs against their designs which will be concluded prior to Financial Close and is not expected to identify any significant issues. Any additional design costs will not be significant in the context of the overall capital costs
- An exercise is underway to precisely document the areas where there is misalignment between the BBS proposals and the SDS design – alteration of the design to fit the proposals will be the preferred outcome. However **tie** management has already identified the extent of full road reinstatement as the most significant area of difference. Accordingly possible additional construction costs of £2m have been assessed as a sensible provision and included the Risk Allowance over and above the QRA total.

5.2 Project Master Programme

The Project Master Programme which will form part of the Infraco contract is now agreed in all material respects.

As above – the consideration of alignment issues is being conducted with a very careful eye on the possible consequences on the Project Master Programme, particularly in areas where there may be a consequential change to design which impacts upon consents or approvals which are on the critical path.

The QRA provides an amount of £6.6m (equivalent to 2-3 months complete delay in the programme for general delay risk which has been assessed by tie management as adequate for the management of the programme but will not provide for any significant stakeholder initiated change beyond the point of Financial Close.

6.4 EAL – Option to shift tramway post 1/1/13

The capital cost of any shift in the Tramway at the airport beyond 1/1/13 would be at the expense of BAA and is not therefore a risk which should be provided for in the Phase 1a budget.

7.1 Consents – Delay on post-close consents

This is the one significant change in the risk profile retained by the public sector since December. The exact nature of tie/CEC's continuing risks have been well rehearsed and are detailed in Appendix 1 to the close report as are the mitigating actions and processes tie has in place to manage these risks. A risk assessment in relation to the QRA is provided at section 8.4 of the close report.

The total risk allowance provided in the QRA in respect of continuing Consents and Approvals Risk is £3.3m. This equates to the cost of some 3 months of BBS standing time and is considered adequate by tie management in the context of the number and criticality of consents still to be delivered, the liquidated damages available to BBS from SDS in the event the delay is caused by SDS, the responsibility of BBS to mitigate the costs of any delay and the close management of the process beyond Financial Close by tie.

tie Limited 13/3/07