
From: Stewart McGarrity
Sent: 10 March 2008 18:11
To: Rebecca Andrew
Cc: Duncan Fraser - CEC; 'alan.coyle@edinburgh.gov.uk'; Colin MacKenzie; Susan Clark; Mark Hamill
Subject: RE: Risk Briefing - PRIVATE & CONFIDENTIAL

PRIVATE & CONFIDENTIAL

Rebecca,

See my answers to the follow up matters below. Give me a call with any questions.

Regards

Stewart

Stewart McGarrity
Finance Director

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From: Rebecca Andrew [mailto:Rebecca.Andrew@edinburgh.gov.uk]
Sent: 04 March 2008 17:43
To: Stewart McGarrity; Mark Hamill
Cc: Duncan Fraser - CEC; Alan Coyle; Colin MacKenzie; Susan Clark
Subject: Risk Briefing

Stewart/Mark,

Thank you for spending the time to go over the updated QRA with us today. In view of pressure you are under to conclude the negotiations, we are very grateful for your time on this one.

From my notes, you agreed to undertake the following actions, which should give us all the information we need and close off this item in the CEC approvals matrix.

1) Black Flag risks - A note of the cost to close down the project either (i) pre close and (ii) post close. We are not expecting you to go to too much effort here - just your best estimate based on your knowledge of the project. We appreciate that black flag risks are meaningless in terms of the QRA calculation, but are important in assessing potential cost to the Council.

I've consulted with colleagues and a best estimate of close out would be as follows:

	Pre-close	Post-close
Phase 1a	101,685,320	129,720,313
Phase 1b	3,010,293	3,010,293
Advance Material Purchases	0	24,200,000
Spent/certified	104,695,613	156,930,606

Close out in addition to spent and certified

Closing MUDFA (including reinstatement)	10,000,000	10,000,000
Closing Infraco/Tramco/SDS	10,000,000	
3 mths tie Running Costs + 3mths to close out	10,000,000	10,000,000
Resale of land	-5,000,000	-5,000,000
	<hr/>	<hr/>
Total spend and outstanding commitments	129,695,613	171,930,606

Pre-award we have spent £105m so far and we might expect that it would cost a further £30m to close out if we closed the project (and tie) tomorrow less some credit for the resale of land.

In the period soon after close (say April) we would have spent or certified £157m including the initial milestone payments under Infraco and Tramco totalling £45m. I have assumed the loss on closing out Infraco would be broadly equivalent to the amounts or the initial milestone payments (i.e. that we would get nothing back on the £45m or so which becomes certifiable at award).

Closing down Infraco when they are fully mobilised (e.g. in June) would be another step up again by that stage our spent/certified to date will be over the £170m mark and the cost to close outstanding commitments at that date could well be in excess of £30m and a huge court case to boot.

2) A note on the risks of delaying contract signature versus the risks of signing the contracts if any of the items in the matrix are not resolved (I appreciate that tie is aiming to close out most of these over the next week, but we need to deal with the eventuality that some may not be resolved in full). This can be included in the close report, if necessary.

We believe that assuming the SDS novation gets agreed this week and the NR agreements are signed up then the only significant additional public sector risk compared to December is the delay in post close SDS design delivery. This would only go away if we waited for the design to complete which would in say September. Six months inflation on the programme would cost £15m to £20m alone. More likely is that either BBS or the TS funding or both would walk away and we'd have no project.

3) Re-run the QRA at contract award

Finally, we were reassured by your statement that the current level of the risk allowance (approximately £30m) as determined by QRA was sufficient, based on your knowledge of the project and considerable experience of other major projects. Could a similar statement be added to the the close report when the final QRA is run?

The QRA we showed you last week (totalling £28m) still stands in light of the final risk allocation position - as you would expect as we prepared that QRA anticipating the risk allocation position at close and which is being confirmed by the matrices and DLA letter. We have added some other items to the QRA to arrive at a final Risk Allowance of £32m - will share those numbers with you tomorrow.

Thanks again for your help. Please do not hesitate to contact us if you need further clarification of these requirements.

Kind regards,

Rebecca

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