



tie Limited

Notes of the tie/Transport Scotland/KPMG Meeting

Date: Monday 27th November 2006

Time: 14:00am

Venue: TEL Offices - CityPoint

In attendance	Stewart McGarrity – tie	SMG
	Alasdair Sim – tie	AS
	Miriam Thorne – tie	MT
	Geoff Gilbert – tie	GG
	John Ramsay – TS	JR
	Julian Ware – KPMG	JW
	Ian Barlex – KPMG	IB
	Nick Ruane – KPMG	NR
Circulation	Above	

		ACTION BY
1.	<p>Purpose of the Meeting</p> <p>The meeting was set up to discuss with Transport Scotland and their Financial Advisors (KPMG) issues arising from the Draft Final Business Case (DFBC) documentation.</p> <p>The purpose of the meeting was to clarify points raised by TS and their advisors and to agree any additional information that would be required in order to address any outstanding issues.</p>	
2.	<p>Issues Discussed & Agreed Actions</p> <p>JW noted that the Draft Final Business Case is generally a comprehensive and well constructed document. The document builds upon the issues that that have previously been raised between tie and Transport Scotland.</p> <p>The following themes in relation to the DFBC were discussed :</p> <ul style="list-style-type: none"> • Risk and Level of Contingency Adopted • Affordability • Procurement • Payment Mechanism 	



	<ul style="list-style-type: none"> • Timetable & Programme <p>A number of points of clarification were discussed during the meeting; the principle issues for each topic summarised as follows:</p> <p>Risk & Contingency:</p> <p>SMG confirmed that the level of contingency adopted in the DFBC to cover risk is currently 12%. This figure being adopted on the basis of bottom up cost estimates, taking into account tender prices received to date, known rates, benchmarking costs and increase levels of confidence in the estimate process as the design progresses. This is a P90 figure.</p> <p>GG indicated that all costs have been broken down and are available. GG to provide JR with a copy of these estimates to pass onto KPMG.</p> <p>Affordability</p> <p>JW confirmed that he is comfortable with the affordability of Phase 1a only, and that there will need to additional funding required to cover the full cost (including appropriate contingency) for Phase 1a + 1b.</p> <p>JW noted that with only two bidders involved in the Infracore tender process, the ability of the promoter to negotiate the best price may be limited.</p> <p>GG confirmed that it would be highly desirable for a certain amount of work to be undertaken on the Phase 1b section of the network, in tandem with the Phase 1a. This sum amounts to £9.3m of which £2m would be design fees, and the balance, Utilities diversion works. JW stated that this sum is unlikely to cause an affordability issues and should be acceptable on that basis</p> <p>tie have an action to recalculate the capital cost estimates based upon indexation factors provided by the Transport Scotland consultants (Cyril Sweet) .</p> <p>SMG noted that tie do not have access to calculations to determine the level of Grant available based upon a similar indexation exercise. The DFBC assumes that up to £500m would be available from TS.</p> <p>JW asked how developer contributions are to be included within the CEC contribution to the scheme. SMG noted that it is the intention to negotiate with developers (particularly in the Granton area) for capital contributions to the scheme which may go beyond what is already agreed / anticipated by CEC. The negotiations would be particularly relevant to Phase 1b and the proposed phasing of 1b could maximise the potential contributions from the private sector. It was recognised by all parties that the timing of the</p>	<p>GG</p> <p>tie</p>
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<p>developers contribution could cause cashflow issues within CEC, thus TS will continue to discuss with CEC the detailed phasing of CEC's contribution to the scheme.</p> <p>The anticipated breakdown of the CEC contribution is detailed within the January 2006 report to the Council. JR to make this available to KPMG.</p> <p>There may be a number of mechanisms available to the promoter and TEL in relation to affordability/funding including vehicle leasing.</p> <p>GG noted that the current expectation is that construction on Phase 1b will commence before Phase 1a is fully operational but there is scope/flexibility within the Infraco negotiations to secure the most effective timing and delivery for Phase 1b within funding constraints.</p> <p>Procurement/Payment Mechanisms</p> <p>GG confirmed that the Tramco bids (4 No.) are currently under review. This process is currently ahead of Infraco, but the expectation is that as the tender processes continue, these two streams will become concurrent. GG presented the process in a flowchart format to the meeting.</p> <p>GG confirmed that at present, neither the Infraco nor Tramco bidders have indicated that they are unhappy with the proposed novation arrangements.</p> <p>GG confirmed that the Tramco bids allow for a range of options to secure tram vehicles to allow for the full Phase 1a+1b, Phase 1a only and a number of service frequency alternatives.</p> <p>Procurement Timetable</p> <p>JW asked that tie prepare an estimate of cancellation fees should the project be terminated/suspended in May 2007. GG/SMG to action.</p> <p>SMG explained the MUDFA/Infraco construction programmes. The MUDFA works are expected to last 12 months, and there could be some overlap between these works and Infraco. Any significant delay to commencement of the MUDFA works could result in slippage of the Infraco programme.</p> <p>JW asked what level of delay to the project timetable would be expected if one of the Infraco bidders removed themselves from the bidding process. It was suggested that a delay of between 4 to 6 months may a likely impact.</p> <p>JR agreed that Transport Scotland would provide comments on the DFBC documentation back to tie by Friday 1st December 2006.</p>	<p style="text-align: right;">tie</p> <p style="text-align: right;">JR</p>
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