Sandra Elgin

From: Alan Coyle
Sent: 27 April 2011 15:52
To: Sue Bruce (Chief Executive); Alastair Maclean; Donald McGougan; Dave Anderson
Cc: csmith@hg-group.co.uk
Subject: Hg Cert 1 COMMERCIALLY SENSITIVE - FOISA EXEMPT
Attachments: Payment Application 1 Paper 2.doc

Commercially Sensitive - FOISA Exempt

Dear All,

Following yesterday's meeting on the valuation of Hg Certificate 1, I thought it would be useful to set out a separate note (attached) prior to tomorrow's meeting ~~in Glasgow~~ with my observations.

5.30pm (here)

Alan

Hg Certificate 1

Paper 2

April 2011

Overview
This note follows a meeting at City Point on the 26th April 2011 to discuss the make up of the valuation of Hg Certificate 1. The meeting was attended by Colin Smith (Hg), Alan Coyle (CEC), Steven Bell (tie), Dennis Murray (tie).

The objective of the meeting was to come to a common understanding in the quantum of Hg Certificate 1. I was subsequently asked to spend a further hour with Steven Bell to go over tie's points again.

From my own accounting perspective, the valuation must be able to stand up to independent scrutiny (Audit Scotland and Transport Scotland primarily).

The areas that I saw as requiring further evidence to back up a particular element of the overall valuation of £27m related to the following;

- Design £1.8m
- Depot Works £5.5m
- Siemens Supply Chain and Other Costs £5.4m

Colin is seeking the further information to support these numbers and I have no reason to doubt that it will be provided; assuming the evidence will be of the required quality I see no problem in being able to demonstrate CEC has derived an asset(s) from these payments.

The remaining element of the valuation relates primarily to Siemens Materials (c£14m). The full schedule of materials has been provided by Infraco (which has been verified by tie site visits and acknowledged as being materially accurate). I see no reason to doubt the validity of the materials payment.

Hg/tie Positions
Whilst I cannot comment from a QS perspective it would seem that the respective positions will never agree. What is important is that the Hg Certificate provides a fair and professional valuation of the issues. I believe, following the meeting yesterday, that the valuation is fair and professional, whilst, importantly, ensuring that CEC acquire something tangible for the payment, whether asset in the ground or intellectual property through design. The important issue is that the Hg position is arrived at without being clouded by detailed knowledge of the Infraco contract and the original Construction Works Price (which has clearly moved on). The Hg position is also based on MOV4 and the Heads of Terms from Mar Hall.

The respective position can be summarised as follows;

	Infraco Application £m	**Hg Certificate £m**	**tie Position £m**
BBUK	9.057	7.5	c5.55
Siemens (Materials)	14.596	14.596	?
Siemens (Other)	5.407	4.907	0
Siemens Total	20.003	19.5	?
Overall Total	**29.060**	**27.00**	**?**

Taking each of the items, my observations from the meeting were as follows;

BBUK
tie acknowledge the £1.8m design element is acceptable.

tie acknowledge that of the £5.5m depot works, they could arrive at c£3m. I think that within the global number, the tolerance level of the differing positions is acceptable on this point. tie will argue that this payment for BB is effectively a catch up of historical items such as prelims.

Siemens
tie will argue that the £5.4m item for Siemens is a catch up on historical items and cannot be justified by any other means.

With regard to materials, tie are arguing the point from the original contract works price which was c£25m against the current number of £39m. Siemens have already acknowledged the £14m of the original pre-payment from May 2008 applies to materials and have deducted this from the £39m. The tie position on this item cannot be demonstrated as they have no visibility to the make up of the Siemens numbers and therefore cannot say whether the Siemens number is correct or not, other than to say it is greater than the original contract price. tie's argument takes no account of scope change since the original price.

Overall, tie will argue that, in part, the application from Infraco for Cert 1 has elements of historical delay costs included. They will also argue that Infraco are including changes that were in dispute (not formal DRP) either for areas of principle or value.

None of tie's arguments are relevant at the point MOV5 is signed. They will argue that by agreeing to pay Cert 1 at the point of MOV4, that CEC increases it's risk of cash exposure if MOV5 is not signed.

It is my view that this is a commercial call from CEC's perspective to make payment. However, the payment secures title to assets that we will use on the project and pays the consortium for work they have physically done. There is no point in continuing to argue historical commercial points when the issues have moved on as we seek to move the project forward for the good of the city.