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Edinburgh Tram Project

Project Pitchfork

CEC Directors Briefing 04/03/2010

Financials

There has been a series of meetings over the last three weeks leading up to the March TPB between tie's Finance and Commercial Directors and CEC Finance with a view to evaluating the Financial impacts of the various options being appraised to bring matters to a head with the Infraco contractor.

A summary of the financial impact of each of the options is captured on the next page.

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**Pitchfork Options
Tabulation**

Opening Date

	Option 1A		Option 2B2		Option 3A		Option 3B		Option 3C		
	Termination / Cancellation		Civils tie step-in On-street		Carry-on No OSSA		Carry-on w/ OSSA		Carry-on w/O2		
	N/A		Dec-12		Oct-13		Oct-13		Oct-12		
	Spend to 30 Jan 10	Cost to Go	Outturn	Cost to Go	Outturn	Cost to Go	Outturn	Cost to Go	Outturn	Cost to Go	Outturn
Infrastructure - BSC Contract											
Total BSC Contract	90.4	(10.4)	80.0	105.7	196.1	154.6	245.0	154.6	245.0	154.6	245.0
New Civils Procurement				58.9	58.9						
Vehicles (CAF)	37.8	20.7	58.5	20.7	58.5	20.7	58.5	20.7	58.5	20.7	58.5
Design (SDS)	31.1	0.9	32.0	2.6	33.7	2.6	33.7	2.6	33.7	2.6	33.7
Other Infrastructure	15.3	0.7	16.0	3.8	19.1	3.8	19.1	3.8	19.1	3.8	19.1
Utilities (incl MUDFA)	62.2	(2.6)	59.6	(2.6)	59.6	(2.6)	59.6	(2.6)	59.6	(2.6)	59.6
Project Costs ("tie prelims")	61.6	8.4	70.0	33.4	95.0	35.9	97.5	35.9	97.5	29.9	91.5
Other Costs	30.2	1.8	32.0	3.6	33.8	3.6	33.8	3.6	33.8	3.6	33.8
Base Costs	328.6	19.5	348.1	226.1	554.7	218.6	547.2	218.6	547.2	212.6	541.2
Existing BSC Risks/Uncertainties:				91.6	91.6	118.4	118.4	126.5	126.5	102.8	102.8
Civils Reprocurement Risk/Uncertainties				25.0	25.0						
Cancellation and Reinstatement		40.0	40.0								
Total outturn including Ph1b w/off	328.6	59.5	388.1	342.7	671.3	337.0	665.6	345.1	673.7	315.4	644.0

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There has undoubtedly been a lot of thought given to the numbers produced especially in relation to work undertaken by Dennis Murray on the risks related to Prolongation and Design Development issues.

Option 3A (Carry on with no OSSA) £665.6m

This option remains an important anchor as a comparison to the Dec 09 estimates. This is effectively the grind it out option. BSC are not constructing the tram project under the current contractual terms. It is hard to see how this behaviour will change. tie would continue to pursue DRP on this option on a case by case basis. This is unattractive from the point of view of the amount of funding being spent on lawyers and QC's fees. There may come a point under this scenario where BSC continue to "sit on their hands" until the grant funding is spent and could potentially bring about tie default.

The swing factor between the No OSSA – With OSSA is that it is assumed that with No OSSA there will be a further exposure to adverse behaviour and prolongation but the actual costs under the agreement would be less but at a greater risk. Under the With OSSA the actual costs of the agreement are greater offset by better behaviour from the contractor.

Option 3B (Carry on with OSSA) £673.7m

This option is pretty much off the agenda. The terms proposed by BSC are effectively a blank cheque and do not represent value to the project. The OSSA will not be agreed on the terms in BSC's current proposal. There is still a large delta between the tie and BSC view on the credit tie would receive from the original contract, the delta has reduced however from £11m to £8m, the overall exposure on an OSSA is substantially more.

It should also be noted that this option has been reviewed and updated from the Dec 09 estimate. The total forecast for this option has risen from £655.7m to £673.7m. This increase can in the main be attributed to two factors;

- i) The estimated final cost for Princes Street (PSSA) has risen by £4m with inefficient use of plant, machinery and overtime costs being the main factor. The final account of the PSSA has yet to be agreed and Dennis Murray has said tie will work hard to ensure BSC are not paid for anything they are not entitled to.
- ii) The estimated risk of prolongation associated with this option has increased from £21m to £38.9m. This is partly due to the opening date being moved back from Oct 2012 to Oct 2013. tie's core view is that they should currently account for £21m (9 mths EOT) but have also added an additional £17.9m for further prolongation of prelims, delay, disruption and future adverse behaviour by the contractor.

Option 3C (Alternative SA) £644m

This is a new option being considered by tie. Essentially this option is where tie effectively second project management staff to the consortium to manage the civils

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contractors. The core works price would remain the same; however the thinking is that tie would not be exposed to the premium costs under the With OSSA proposal and as a result the OSSA cost line in this options is £22m compared with £39.1m under the with OSSA option. The £22m change tie has recognised would be to their account. The real saving on this option is time related to BB prelims and the Oct 2012 opening date.

The issue I have with this option is that tie PM costs would increase and effectively tie would take on more risk in terms of interface and programme. It should also be noted that this option has not been discussed with BSC and therefore there is a risk that this option may not actually come to fruition.

Risk

Design - tie have reviewed a number of existing risks and uncertainties. Design development risk has been reduced based on the outcome of the BDDI related DRP's where the initial BSC estimate has been settled at a significantly smaller value. In addition the trend would indicate that BSC change estimates are settled at around 60% of the initial value.

Client Changes – These numbers have been increased by £2.3m from the Dec 09 estimate. This takes account of the latest view on the A8 sewer, South Gyle access road and consent changes.

Prolongation – This risk has been increased substantially from the £21m indicated in Dec 09. The £21m covers 9 months Extension of Time. This allowance has been increased to take account of further adverse behaviour from BSC and has taken into account further delays to the programme including Siemens costs and CAF costs. This allowance also includes an amount for delay of design change attributable to tie. The dominant factor in this item is Utilities delay.

Optimism Bias and Confidence Factors

Stewart McGarrity has committed to including optimism bias in the presentation of the numbers. The factors that will be applied will be done on an item by item basis. Different views must be taken on the varying scenarios and numbers. For example the confidence factors based around further adverse behaviour from the contractor will differ from the factors associated with BDDI changes due to the greater uncertainty. Stewart has been asked when he will be able to provide this information.

Overall Impressions

During the course of the meetings I have asked Stewart and Dennis what they think the recommendation to the board will be. Stewart's current view is that tie continues to grind it out with the aim of reaching Option 3C. This provides no further certainty and does not give us a direction of travel that will bring issues to a head.

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It seems, based on the information coming from tie, that we have very little contractual levers to make BSC get on with the work or to force them off the job.

Stewart also indicated, following a meeting with the consortium on Tuesday the 2nd of March, that Richard Walker of BB said they would still not build any of the tram until changes were agreed in advance.

Also Siemens have said they would like to consider phasing, starting with the Airport to Edinburgh Park section on the condition tie agree to £13m of changes. It is Stewart's impression that Siemens are now running out of work.

All the above seems to indicate we are no nearer a suggested solution than we were in January when the TPB asked Richard to bring matters to a head.

tie have continually resisted CEC meeting with the contractor. Perhaps, given where we are in the project, the time has come for the Council to get the contractors side, perhaps even involving Transport Scotland as the stand off between tie and the contractor does not seem to be getting any smaller.