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Sent: 28 February 2008 20:47
To: Steven Bell; Jim McEwan; Susan Clark; Geoff Gilbert; Andrew Fitchie; Dennis Murray
Cc: Willie Gallagher; Stewart McGarrity
Subject: Update for CEC

We had a meeting tonight with Gill, Donald McGougan, Andrew Holmes and Alan Coyle to bring them up to date. We discussed the current state of play and our planned way forward, all in line with our discussions this week.

The main areas of work are the SDS Novation Agreement ; Infraco contract ; Proposal / Design / ERs alignment and linkage to the Price schedule ; and the Programme. We explained the status of each area and what was underway to manage the process and issues. In summary, the message was that the momentum was building, issues were being resolved and an intensive process is planned for next week to maintain progress and get as close as possible to a conclusion. However, it continues to be difficult to have confidence in BBS / SDS engagement and there remain outstanding both specific issues and a high volume of lower-order issues.

We talked through the short term programme and how the Council report and Council meeting could be handled in different scenarios. We will revisit these on Monday evening.

On budget, I explained that :

- we expect BBS to table cost increases (justified or more likely not) and that we would probably need to trade some money for closure, as a ballpark this might be up to £10m but with no specific menu as yet
- there are areas which are not capable of fixity, but we would know where these were and would have a good view of the risk level and how to manage the subsequent process
- we are reviewing the risk contingency on a rolling basis to support the need for the negotiating team to have some cost headroom ; the current signs are that we have a reducing need for contingency, offsetting any negotiated cost increase
- overall we believe that the existing £498m budget remains within reach if it is accepted that the balance between calculated cost and risk contingency will change and that some areas will be controlled post-Close rather than negotiated into the ground now

The Council officials understand the difficulties we are encountering and also that the elongation of the process is partly due to our team's unwillingness to accept a sub-optimal deal. However, there is no doubt about their underlying concern that we have not completed the process many months after preferred bidder selection, heightened by the need to explain the situation publicly to the Council. Transport Scotland have also now asked for an update on the schedule to reach Financial Close and we can expect their interest to grow rather than recede.

None of this changes the planning which we have put in place for the next ten days. It is important that we keep the communication channels open to the Council officials and the LAC on Monday is the next opportunity for a tangible update.

Regards

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