

## Infraco Contract – Initial Milestones Accounting Treatment

### Purpose

Initial payments were agreed with CAF and the Infraco in return for early mobilisation and a reduction in the Contract award price. The purpose of this short note is to inform the Commercial and mediation teams as to the logic behind the initial milestones accountancy treatments of payments made to BB+S.

### Background

Initial milestones were paid to cover 5 key areas. These included a Contract Award Milestone; Infraco Procurement of Materials; CAF Initial Payments; Infraco Procurement of Plant & equipment and further payments for the Infraco Mobilisation of staff, supply chain and planning and logistical activities.

### Accounting Treatment

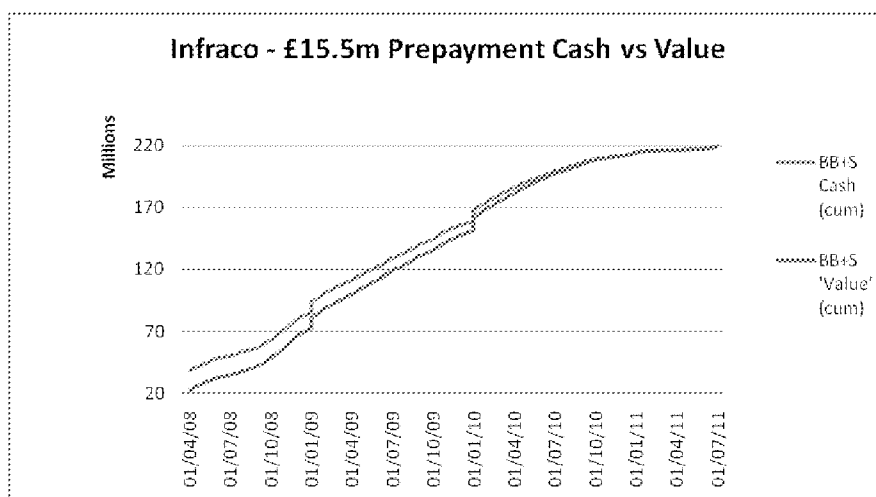
**tie** treated £24.2m of the total Initial payments as a prepayment (in respect of advance material purchases and mobilisation) and the remaining values counted as expenditure in the current year (2007/08). The £24.2m is matched to Payments made for the Procurement of materials (£15.5m), and an element of the CAF (£8.7m) initial payment relating to Supply Chain Mobilisation. These prepayments are reclassified as expenditure against funding in the periods in future years when the related materials are delivered to site and incorporated in the works.

In effect, the payments made at the start of the contract have been recognised as Cost of Work done in **tie**'s books when the materials for those payments are deemed to have been certified as being completed against Infraco (or Tramco) milestones.

### Impact of Cash vs. Cost of Work Done

If we assume that the Value of work matches the Infraco Construction Milestones, then the impact of payments in advance should mean that **tie** will have recognised less Value (COWD) than Cash expended until the contract has been completed. **tie** have recognised just £1.2m of the £15.5m Advanced Materials Purchased (-£14.3m prepayment P11-2010/11) as most of the value relates to Rail, Copper Cable for OLE's, Switches and Crossings & Joints, and Transformers. Very little track work has been laid or OLE poles put up, so there has been a minimal recognition of the material costs included in the advanced payments. All £8.7m of CAF prepayments have been released and recognised as COWD which is aligned with good Tram construction progress.

### Graph: Infraco Cash vs. COWD forecast – Original Construction Milestones



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