
From: Stewart McGarrity
Sent: 04 August 2005 13:53
To: Trudi.Craggs@dundas-wilson.com
Subject: FW: Where did the "£100m gap" come from

Trudi,

This is a copy of a reconciliation and related notes I did back in June for Michael Howell. Give me a call if there is anything here that does not make sense.

Stewart

From: Stewart McGarrity
Sent: 15 June 2005 12:09
To: Barry Cross; Suzanne Waugh; Michael Howell; Ian Kendall; Alex Macaulay
Cc: Willie Fraser
Subject: Where did the "£100m gap" come from

In relation to today's Scotsman article, I've been asked where the "£100m gap" came from. It's derived from the Preliminary Financial Cases (PFC's) and therefore goes as far back as the original PFC's in December 2003 and then the updated PFC's in September 2004. The figures in the table below are for a complete network of Lines 1&2 to sunny Newbridge.

£m	<u>PFC's</u>	<u>IOBC</u> May 05
<u>Capital expenditure:</u>		
Line 1 alone	243.0	292.4
Line 2 alone	278.5	336.0
Adj for common running section and (in IOBC) "Network Enhancement Option"	(48.1)	(47.2)
Total Capital Expenditure (see notes below)	473.4	581.2
SE Grant	375.0	375.0
Required "Other funding"	98.4	206.1

Notes:

- The big difference is that the IOBC reflects **inflated** capital costs whereas the PFC's used capex in **2003 prices**. However the underlying capital cost estimates have not changed. The IOBC reflects the Network Enhancement Option in the Faber's report (which more than paid for itself in terms of additional revenue). The capital cost estimates include specified contingency advised by our technical consultants (c. 10%) and not full optimism bias which would add another c. 14% to the cost estimates according to our calculations.
- The Sept 04 PFC's were already acknowledging an assumption that the SE grant would not be indexed – a reasonable person would have been able to conclude from that assumption that the required "Other funding" was going to be a whole lot more than £100m. The December 2003 PFC's don't appear to mention indexing.
- "Other funding" was identified in the PFC as being likely to come from the anticipated operating surpluses, developers' contributions, advertising and other receipts. What was not well understood (in my opinion) is that these receipts were during operations (i.e. not available up-front for capital costs unless you borrow against them).
- The IOBC also reflects a network option excluding Newbridge for which the required "Other funding" is £152m.

Stewart

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