

Phoenix – Summary (Costs for Airport to SAS Based on BSC to HYM) Edinburgh

Options Considered	the Phoenix Position (m)	BSC/HYM/Carlisle offer (m)	Final BSC Carlisle Offer (m)
Non-BSC Costs to Date (a)	236.5	236.5	-
SDS (Post Novation Design) Costs to Date (b)	9.0	9.0*	9.0
CAF (b)	47.5	47.5*	47.5
BB+S Spend to Date ('Premium' £33m included) (b)	113.0	113.0*	113.0
Sub-total Spend to Date (P11 2010/11)	406.0	406.0	169.5
Non BSC Project Costs 'to Go' (c)	29.9	29.9	-
Non BSC Construction Costs 'to Go' (HYM to SAS) (d)	19.2	19.2	-
Non BSC 'Other Costs 'to Go' (e)	2.5	2.5	-
Sub-total-Non BSC Costs 'to Go'	51.6	51.6	-
BB+S 'to Go' Infrastructure to Haymarket (d)	123.8	209.9*	209.9
Further Risk 'to Go' (d)	21.0	40.0	-
BB+S COWD accounting adjustment 'to go' (f)	11.0	11.0*	11.0
CAF, SDS Cost 'to Go' (f)	16.0	19.5*	19.5
Other highly variable costs (g)	13.0	13.0	-
Total	642.4	751.0	409.9

- *BB+S view of £333.9m includes +£12.8m Princes St & £8.05m contamination. '£33m Premium'
- Carlisle offer by BSC is to HYM with numerous caveats. Further risk allowance for lack of GMP (behavioural)
- BSC offer for CAF (£60.0m) and SDS (£16.0m) less cost to date of £56.5m
- BSC Carlisle final offer **£409.9m* (or £405.5m+Euro 5.8m)** + items in red are tie figures

Separation - Summary



Category	IP Separation Position Am	Final IP Separation Costs
Non-BSC Costs to Date (a)	236.5	
SDS (Post Novation Design) Costs to Date (b)	9.0	
CAF (b)	47.5	
BB+S Spend to Date (b)	113.0	
Sub-total Spend to Date (P11 2010/11)	406.0	
Non BSC Project Costs 'to Go' (c)	34.9	
Non BSC Construction Costs to Haymarket (d)	144.8	
Non BSC Construction Costs 'to Go' (HYM to SAS) (d)	19.2	
Non BSC 'Other Costs 'to Go' (e)	14.4	
Sub-total-Non BSC Costs 'to Go'	213.3	
BB+S COWD accounting adjustment 'to go' (f)	11.0	
CAF, SDS Cost 'to Go' (f)	16.0	
Other highly variable costs (g)	13.0	
Total	659.3	

- Assumes the total BSC payment is £124m (Certificate figure end Feb). Leave Immediately.
- Infraco premium of £33m vs. evaluation of works
- Cyril Sweett evaluation of works to confirm Non-BSC construction allowances (18/02/11)
- Phoenix and Separation prices same for **tie**. Split of pricing is the difference.

2

(a) Phoenix Update – Spend – Non-Infraco



Non-Infraco Cost Category	Cost to Date £M 2010/11-13/14
Phase 1b Payment to BSC	3.2
SDS (pre-novation design)	28.7
Utilities & Other Infrastructure Costs	95.2
Project Costs to Date	74.2
Other Costs – including land	35.2
Total Non-Infraco Spend to Date	236.5

- Ph1b BSC payment not part of Infraco Certification (separate issue for mediation)
- SDS pre-novation design costs before Infraco novation to BSC. Will not change
- U & Other Inf. Costs: £62.5m (CUS); SUC's £9.6m; Clancy £5.5m; S1a £3.4m
- Project Costs (Breakdown per TPB presentation). Base £580k pcm + (£0k-£500k)
- Major items include CEC land, Insurance & JRC. Insurance only variable

8

(b) Phoenix Update – Spend - Infraco

Infraco Cost Category	Cost to Date £M 2010/11-13/14
Preliminaries & Initial Milestone Payments	80.1
Construction Milestones	21.1
Changes Certified	22.8
Certified to Date BB+S	124.0
Accounting adjustments* (reversed on slide no.4)	-11.0
COWD recognised against BB+S	113.0
CAF	47.5
SDS Post Novation Design	9.0
Total Infraco Cost to Date	169.5

- Our latest Commercial evaluation shows 'value' to be £90.8m vs. £124m certified
- This is a shortfall of -£33.2m of evaluation versus Certified.
- Costs recognised in accounts included 'Advanced Purchases' -£14.3m*
- CAF certified is £47m and Cost of Work Done £47.5m
- SDS Certified £8.4m post novation with £9.0m costs recognised to date

(c) Phoenix Update – Other



Project Costs 'to Go'

Incremental Delivery Options Major Items Cost Category	Project Costs £m	Further Costs £m
Utilities & Other Infrastructure		4.9
Staff PM Costs	10.9	
DPOF	5.0	
Other Resource (TEL, TSS, CEC, other legal)	2.3	
Overheads, Rent, Rates & ICT	4.3	
Communications	0.7	
Project Costs		23.2
Other Costs – Including land		1.8
Other Project Costs 'to go'		29.9
Further Project Costs for Separation (time)		5.0

- Utilities & Other majors include Baltic Street (£1.2m) + further utilities risk (£3.0m)
- Project costs – assumes Staff PM savings (zero-base cost exercise required. Largest risk)
- Overheads run rates to be challenged and reduced to achieve Project Costs forecast
- All Project Costs require a baseline programme link for bottom-up costing

5

(d) Phoenix Update – Construction ‘to Go’
New Procurement



Incremental Delivery Options Non-Infra Cost Category	Further Costs Forecast Lowest	Further Costs Forecast QS View	Further Costs Forecast High
Infrastructure – to Haymarket	140.8	144.8	169.2
Infrastructure – to St. Andrews Square	17.4	19.2	20.2
Sub-total to St. Andrews Square	158.2	164.0	189.4
Infrastructure – to Foot of the Walk	30.7	35.1	36.6
Infrastructure – to Newhaven	40.3	45.9	56.0

- ‘To Go’: Calculated Total Construction Cost *less* BSC evaluation of works PTD
- QS view are the figures referred to in documents, although ranges are available
- Allowance for 9 months delay cost included in the Haymarket figures
- Off Street assumes CWP + Changes and a contamination allowance (range £4m-8m)
- Prelims allowances (L 22.5%; M 27.5%; H 35%) of Direct Costs
- On Street allowances are based upon BOQ’s for latest IFC’s (includes 15% risk allowance)
- Cyril Sweett pricing assessment due by close on Friday 18th February

6

(e) Phoenix Update – Other Costs ‘to Go’
 - Separation Costs Only (Phoenix – carry-on)



Incremental Delivery Options (Non-Interim Cost Category)	Further Costs Forecast to 10/15	Further Costs Forecast to 05/16/17/18	Further Costs Forecast to 2019/20
Interim works & Reinstatement	11.4	12.4	14.9
Securing Sites	2.0	2.0	2.0
Separation related costs	13.4	14.4	16.9
Phoenix (Costs for reinstatement only)	1.5	2.5	5.0
3 rd Party Funded items (note only)	-4.3	-4.3	-4.3

- Items included in BOQ's but should be 3rd Party funded.
- Outside ETP Ph1a scope (FP, RBS, Public Realm). 3P funding benefit a risk. Therefore excluded
- Interim works (£9.9m). CEC Roads/ **tie** have agreed the scope & priced by **tie** Commercial.
- Reinstatement (£1.5m-5m). Range due to specification differences i.e. Remedial works whether by stone setts or tar surfacing
- Securing sites – assumed 12-14mth delay to Infrastructure build at £150k pcm

(f) Phoenix Update – Costs to Go - Infraco



Infraco Cost Category	Further Costs Percentage - £m
Vehicles - CAF	15.0
SDS design risk	1.0
Accounting adjustment COWD aligned with Cert.*	11.0
Total Infraco Costs – 'to Go'	27.0

- Immediate separation – the majority of costs 'to go' delivered by a new Contractor
- No additional spend with BB+S
- CAF further spend relating to taking remaining Trams (lease/sale of additional trams)
- CAF base contract plus an allowance of £4m risk
- SDS further £1m payment anticipated to SDS - allowance made for full redesign
- Accounts adjustment* – assumed Certified Value to be final Cost position

⋮

(g) Phoenix Update – Highly Variable Costs



Incremental Delivery Option Highly Variable Costs Category	Variable Costs Forecast Low £m	Variable Costs Forecast OS View £m	Variable Costs Forecast High £m
Redesign (risk of SDS non completion)	5.0	10.0	15.0
Mediation & Professional Costs	2.0	3.0	4.0
Sub-total Highly Variable elements	7.0	13.0	19.0
Vehicles – Lease/ Sale recoveries (not inc)	-10.5	-10.5	0.0

- Premium: BB+S Certified and paid +£33.2m over our evaluation of the works value
- In doing any deal at mediation we have taken a prudent view and offset a -£10m Bond Call opportunity for defective Princes Street works against premium
- Lease 7 trams for 7 years at circa 150k per annum at 7.5% yield
- Redesign allowances felt to be prudent, but at the moment our only view available
- Leasing assumption taken out of Phoenix and Separation (risk – upside to Capital allowance)

8

Phoenix Update - Options



Options considered	Haymarket	St. Andrew's Square	Foot of The Wall	Newhaven
Win litigation				
Lose litigation				
Settle out of Court	X	X	X	X
Terminate & Postpone (after winning litigation)				
Cancel (after losing litigation)				

- Scenarios were considered with Low, Medium and High Outcomes (13 options)
- Options were then split by terminal points for base pricing comparison
- Major variable factors split and identified on each option
- Presentation covers the Settle out of Court Option
- Scenarios and assumptions have been shared with CEC senior officers

10

Phoenix Update – Summary



Int. General Delivery Options Summary	Further Costs Forecast - 10/1/11	Further Costs Forecast - 05/1/10	Further Costs Forecast - 11/1/09
Airport – to Haymarket	611.2	623.1	661.1
Airport – to St. Andrews Square	629.0	642.4	681.3
Airport – to Foot of the Walk	659.3	677.4	717.9
Airport – to Newhaven	695.3	719.1	769.5

- Current funding available is £545m with CEC contingency to £600m
- Assumption of £33m premium to BSC included in for settlement (over our QS evaluation)
- Decision required on Tram ownership. Lease or Sale could generate significant capital (TS buy-in)
- New procurement costs evaluation and market appetite for risk on the project is a big factor
- Design completion and guarantee decision. SDS are reason for many of the projects difficulties.
- All Project costs require a fully re-based plan
- Delay will continue to push this cost up if no action on project costs
- Only option which assumes -£4.3m back for 3P funded items is to Newhaven

11