

Mr. Keith Main,
The Scottish Executive,
Roads Policy and Group Finance Division,
Area 2D, Victoria Quay,
EDINBURGH,
EH6 6QQ.

IK234(1)/AG

12th October, 2006

Dear Keith,

GRANT OFFER FOR CAPITAL EXPENDITURE 2006/07

I refer to the letter dated 26th September regarding the acceptance of the offer of grant and enclose a copy of the Forth Estuary Transport Authority's long term capital plan to 2021/22; a quarterly profile of the 2006/07 capital plan and a copy of the Authority's long term financial plan for your information.

The financial plan provides for borrowing in 2007/08 and 2008/09 of £15 million in total in respect of the construction costs for the M9 Spur Extension/A90 Upgrading. In addition, the capital plan makes provision for the Suspended Span Painting, a major project programmed to start in 2014/15 which at this stage is estimated to cost £65 million in total. The financial plan provides for borrowing of £15 million in 2016/17 to support this project.

Provision of an appropriate level of reserves is a fundamental part of prudent financial management. Guidance issued by CIPFA advises that local authorities, on the advice of their Finance Directors/Treasurers, should make their own judgements regarding an appropriate level of reserves. A level of balances would need to be maintained to allow the Authority to manage cash flow on capital expenditure, meet any emergency expenditure and allow the Authority to respond to changes in circumstances.

A detailed risk analysis undertaken as part of the 2006/07 budget process identified a number of potential risks:

- (i) It is difficult to predict future bridge maintenance requirements. Changes to codes of practice and standards have resulted in unforeseen strengthening work to the towers totalling £12.74 million. Consideration of a Ship Impact Risk Evaluation required the provision of pier defences costing £9.91 million and, as has been common in other suspension bridges, the hangers were replaced at a cost of £9.71 million.

At this stage, it should be noted that £11 million has been included in the capital plan for the dehumidification of the main cables. In addition, a feasibility study on the replacement or augmentation of the main cables is being carried out and the sum of £1.5 million has been included in the capital plan for this work. An investigation into the condition of the anchorages forms part of the study.

Testing of the suspended span parapets is currently being undertaken. It should be noted that no provision is made for the results of these tests in the capital plan.

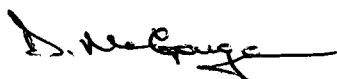
- (ii) Estimation of contract costs - much of the work on the Bridge is unique, therefore, there may be differences between the estimated and actual cost for contracts. Examples in the past include: strengthening works to towers estimated to costs £9.7 million, actual cost £12.7m; provision of defences to the main tower piers estimated cost £7.4 million actual costs £9.9 million. The painting of the suspended span truss is estimated to cost £65 million and is programmed to start in 2014/15.

In addition, the structural assessment of the suspended span truss has shown that a number of members and connections are over stressed. This assessment is being independently checked. However, a sum of £8 million has been included in the capital plan for this strengthening work.

- (iii) Current tolling period expires at the end of March 2010.
- (iv) Adverse weather conditions and unplanned works would have a detrimental affect on toll income.

The financial plan shows a projected reserve by the year 2022 of £12.4 million. Subject to any works emerging from the feasibility study on the replacement or augmentation of the main cables, and the testing of the suspended span parapets, this level of reserves is considered to be adequate taking into account the Authority's overall financial resources, the risks identified above and the arrangements in place to manage these risks.

Yours sincerely,



D. McGOUGAN,
Treasurer.