

Julie Smith

From: Geoff Gilbert
Sent: 13 December 2007 10:12
To: Matthew Crosse
Cc: Stewart McGarrity; Steven Bell
Subject: Infraco Deal Parameters 131207
Attachments: BBS Infraco Contract Cost Report 131207.xls; Infraco Deal Parameters 131207.doc

Matthew

Updated deal paper and current Infraco cost report

Regards

Geoff

BBS INFRACO CONTRACT COST REPORT

DATE:- 13/12/07

	At Preferred Bidder		Current Position		Variance	Comment
INFRACO				%		
Firm Elements of bid	159,120,890	70.25%	193,806,387	84.67%	34,685,497	Current position is that 85% of the price is firm
Provisional	49,579,452	21.89%	14,893,955	6.51%	(34,685,497)	
Confirmed normalisations	0	0.00%		0.00%	0	
	<u>208,700,000</u>		<u>208,700,342</u>		(342)	
Infraco Normalisation	<u>17,803,222</u>	7.86%	<u>17,803,222</u>	7.78%	0	
Other Changes (See appended Sheet)			2,397,089	1.05%	2,397,089	
Deal premium			0			
Infraco Bids normalised	226,503,564	100.00%	228,900,653	100.00%	2,397,089	
Value Engineering						Based on 26/11/07 Report
Infraco items - Identified						
Banked (category 2)	(3,077,480)		(2,906,995)		170,485	
To go (category 3 & 4)	<u>(16,588,567)</u>		<u>(10,628,037)</u>		5,960,530	Now includes £2.5m NR Immunisation saving
	(19,666,047)		(13,535,032)		6,131,015	
Infraco items - To Find	0		<u>(8,631,015)</u>		(8,631,015)	£8.6m of further VE savings to find to maintain £498m
Anticipated Infraco contract sum (Final Deal)	206,837,517		206,734,606			
Non-Infraco items - Identified						
Banked (category 5)	(2,755,600)		(3,278,600)		(523,000)	
To go (category 6)	<u>(7,530,500)</u>		<u>(4,428,250)</u>		3,102,250	Now excludes £2.5m NR Immunisation saving
	(10,286,100)		(7,706,850)		2,579,250	
Non-Infraco items - To find	0		<u>(79,250)</u>		(79,250)	
	196,551,417		198,948,506			
VE included in Project Estimate	(29,952,147)					
Non-Infraco items						
Non-Infrastructure works	16,502,332		16,502,332		0	
Advance works by others					0	
Depot excavation	4,754,041		4,754,041		0	
Minor contracts	<u>332,000</u>		<u>332,000</u>		0	
	21,588,373		21,588,373			
Non Infraco Changes						
Contingency	4,442,000		2,044,911		(2,397,089)	
Total £ included in Infraco Budget Line	<u>222,581,790</u>		<u>222,581,790</u>		0	
Risk Allowance for Procurement Phase	14,470,390		14,470,390		0	
Total	<u>237,052,180</u>		<u>237,052,180</u>		0	

EDINBURGH TRAM NETWORK
PROVISIONAL ELEMENTS BASELINE

PHASE 1A	NOTES	BBS					Provisional - of Total
		BASE	NORM	PROV SUMS/QIAU NTS	TOTAL PROV	TOTAL	
PRELIMS		72,437,757	53,700	3,000,000	3,053,700	75,491,457	1.17%
TRACK FORM - System		43,918,161	1,455,755	0	1,455,755	45,373,916	0.56%
TRACK FORM - Earthworks	3.				0	0	0.00%
DEPOT		18,686,351	100,000	0	100,000	18,786,351	0.04%
STRUCTURES - Superstructure	1.		1,778,375	31,415,121	33,193,496	64,608,617	12.71%
STRUCTURES - Substructure	3.						0.00%
HIGHWAYS		0	12,675,531	11,893,955	24,569,486	24,569,486	9.41%
TRAMSTOPS	2.		-184,900	3,270,376	3,085,476	6,355,852	1.18%
BUILDINGS		3,275,180	0	0	0	3,275,180	0.00%
SUPERVISORY & COMMS		5,296,482	1,000,000	0	1,000,000	6,296,482	0.38%
OLE		14,974,462	924,762	0	924,762	15,899,224	0.35%
TRAMSTOP EQUIPMENT		1,513,587	0	0	0	1,513,587	0.00%
TRAMS		1,018,910	0	0	0	1,018,910	0.00%
		0	0	0	0	0	0.00%
ADJUSTMENTS						0	0.00%
Reduction as BBS letter 11/10/07		-1,000,000				-1,000,000	0.00%
Reduction for taking CAF into BBS Consortia	4.	-1,000,000				-1,000,000	0.00%
					0	0	0.00%
		159,120,890	17,803,222	49,579,452	67,382,674	261,189,061	25.80%

NOTES

1. Structures allowance considered a reliable maximum figure
2. Tramstops allowance considered a reliable maximum figure although final designs not yet provided
3. Earthworks dependent on ground investigation works or confirmation of sections
4. Unconditional as advised by BBS

EDINBURGH TRAM NETWORK
PROVISIONAL ELEMENTS STATUS
DATE:- 13/12/07

PHASE 1A	NOTES	BBS					
		BASE	NORM	PROV SUMS/QIAU NTS	TOTAL PROV	TOTAL	Provisional - of Total
PRELIMS		72,437,757	53,700	3,000,000	3,053,700	75,491,457	1.35%
TRACK FORM - System		43,918,161	1,455,755	0	1,455,755	45,373,916	0.64%
TRACK FORM - Earthworks	3.				0	0	0.00%
DEPOT		18,686,351	100,000	0	100,000	18,786,351	0.04%
STRUCTURES - Superstructure	1.	31,415,121	1,778,375		1,778,375	33,193,496	0.79%
STRUCTURES - Substructure	3.						0.00%
HIGHWAYS		0	12,675,531	11,893,955	24,569,486	24,569,486	10.85%
TRAMSTOPS	2.	3,270,376	-184,900		-184,900	3,085,476	-0.08%
BUILDINGS		3,275,180	0	0	0	3,275,180	0.00%
SUPERVISORY & COMMS		5,296,482	1,000,000	0	1,000,000	6,296,482	0.44%
OLE		14,974,462	924,762	0	924,762	15,899,224	0.41%
TRAMSTOP EQUIPMENT		1,513,587	0	0	0	1,513,587	0.00%
TRAMS		1,018,910	0	0	0	1,018,910	0.00%
		0	0	0	0	0	0.00%
ADJUSTMENTS						0	0.00%
Reduction as BBS letter 11/10/07		-1,000,000				-1,000,000	0.00%
Reduction for taking CAF into BBS Consortia	4.	-1,000,000				-1,000,000	0.00%
					0	0	0.00%
		193,806,387	17,803,222	14,893,955	32,697,177	226,503,564	14.44%

NOTES

1. Structures allowance considered a reliable maximum figure
2. Tramstops allowance considered a reliable maximum figure although final designs not yet provided
3. Earthworks dependent on ground investigation works or confirmation of sections
4. Unconditional as advised by BBS

BBS INFRACO CONTRACT COST REPORT

DATE:- 13/12/07

Description	Add £	Omit £	Implemented Anticipated
1 Inclusion of Maintenance Mobilisation	1,397,089		A
2 Revised work at EAL	1,000,000		A
Total	2,397,089	0	
Net Change	2,397,089		

BBS INFRACO CONTRACT COST REPORT

DATE:- 13/12/07

<u>Description</u>	<u>Add £</u>	<u>Omit £</u>	<u>Implemented Anticipated</u>
1			
2			
Total	0	0	
Net Change	0		

NFRACO RISK ALLOWANCE STATUS REPORT

DATE:- 13/12/07

ID	Risk Description	Baseline £	Current £
48	Two stage tender pricing does not achieve price certainty for works at first stage.	5,344,000	5,344,000
870	SDS Designs are late and do not provide detail Infraco requires	3,790,890	3,790,890
952	Scope of works relating to Wide Area Modelling (WAM) have not been agreed with SDS because they consider this to be out with the scope of their contract.	1,906,540	1,906,540
47	Poor design and review processes; cumbersome approvals process; reiterative design/approvals process.	1,356,510	1,356,510
70	SDS does not provide its defined deliverables (technical specs) in accordance with the SDS contract. Infraco Proposals not fully considered.	1,203,690	1,203,690
178	Procurement Strategy novates SDS to InfraCo after Detailed Design; Limited input on bidability from Infraco.	401,050	401,050
132	Realignment of existing road geometry required	213,710	213,710
172	Area of possible contamination and unstable ground (unlicensed tip) has been highlighted during desk study immediately to east of Gogar Burn - investigation for CERT project indicates that this consists of building rubble and domestic waste.	254,000	254,000
			0
			0
			0
			0
			0
			0
			0
			0
			0
			0
			0
			0
			0
			0
			0
			0
			0
			0
Total		14,470,390	14,470,390

INFRACO DEAL

1 Financial Negotiating Parameters

The current Project Estimate Budget for Infraco as the latest cost report is £206.8m

Built up of:-

	£m
BBS Core Bid	208.7
Infraco normalisations	17.8
Changes	2.4
Sub Total (Core contract sum)	228.9
Less Identified VE	(13.5)
<hr/>	
Sub Total	215.4
Less VE to find	(8.6)
<hr/>	
Total	206.8
<hr/>	

Available to negotiate deal

	£m
Contingency	2.0
Pre Financial Close risk allowances	14.5
<hr/>	
Total	16.5
<hr/>	

We need to reserve a proportion of the contingency and risk to uncertainties in the things that are outside the deal. Reserve £6.5m for this. This leaves up to £10m for BBS to take pricing risk for the scope and risks that are included in the deal.

2 Proposition

The proposition is that:-

- BBS agree a core contract sum of £228.9m for delivering the Scope (including EAL changes and maintenance mobilisation)
- Agree to deliver a minimum VE saving of £19.2m (£13.5m Identified VE + £5.7m VE to Find)
- Plus £3m to £10m for pricing risk

INFRACO DEAL

	Min £m	Max £m
Core contract sum	228.9	228.9
Less Identified VE	13.5 ¹	22.8 ²
Less VE to find (2/3rds £8.6m)	5.7	5.7
Sub total	209.7	200.4
Add Deal Premium	3.0	10.0
Final Deal Contract Sum	212.7	210.4
Current Budget for Infraco	206.7	206.7
Increase on Budget (excl risk and cont)	6.0	3.7
Risk and contingency	16.5	16.5
Adjusted risk and cont	10.5	12.8

Notes:-

1. tie's pessimistic forecast of potential VE savings
2. Target VE saving given to Infraco

From Infraco perspective the issues are:-

1. The level of risk in the areas where designs are uncertain or they have not priced – highways, structures, earthworks and Infraco normalisations
2. Deliverability of the Identified VE - £13.5m
3. Swallowing their share of the VE to find - £5.7m

In respect of structures there is little risk

In respect of Highways there is £5m in normalisation available to cover pricing risk (excluding the £6.3m assigned to Picardy Place)

For earthworks the real risk is in the unknowns which are not their risk (subject to agreeing GBR, assumptions and confirmation of earthworks quantities)

The £13.5m for identified VE is our assessment of the likely VE saving achievable (including £2.5m in respect of NR Immunisation risk).

The acceptability of the level of pricing risk premium therefore depends on

- a) The level of further reductions BBS are prepared to offer off their margins and risk allowances – say £1m to £2m
- b) Taking a hit on £5.7m of VE to find
- c) Their confidence in being able to deliver £13.5m Identified VE

INFRACO DEAL

The likely settlement range is therefore £4.7m (£5.7m - £1m further reductions and 100% confidence in being able to deliver £13.5m) and £10m (£4.7m + 1/3 of £13.5m i.e. a 66% confidence in delivering £13.5m)

To sweeten the proposal and reduce BBS pricing risk exposure the following are included in the contract price as provisional to be firmed up once designs are available:-

- Piccardy Place (provisional £6.3m including utilities)
- Minor utilities diversions
- Scottish Power connections at Depot and IPR
- Extra over cost of the revised design at EAL
- Finalisation of GBR and the agreed assumptions for groundworks

3 Scope

The Scope to be delivered for the negotiated price is:-

- Programme
 - delivery into revenue service by 11 Feb 2011
 - delivery in accordance with the currently negotiated On Street Construction Works Methodology
- Technical scope
 - To V3 ERs and agreed compliance matrix
 - Civils to SDS designs (subject to Exclusions from the deal)
 - Systems, including track to BBS technical proposals (agreed as compliant with ERs)
 - Excluding structure S33
 - To current outline design for Depot (excluding water main diversions – budget in MUDFA)
 - BBS take design development risk
- Terms and Conditions – as current draft subject to resolution of remaining issues to agreed programme as the Issues List (as at 12/12/07), no revisiting of closed issues, and in accordance with SDS Novation Plan.
- All other qualifications withdrawn

4. Exclusions From the Deal

- Utilities diversions (other than minor services diversions)
- Forth Ports area – the extra over cost of the design for finishes and structures, including Lyndsay Road