

A150 – MUDFA Contractor Incentivisation Proposal

Section 1 Introduction

Following the Commercial Meeting held on the 29th August 2007 at the MUDFA offices at Western Harbour, Leith Docks, Edinburgh it was agreed a review and reappraisal of the Contract Incentivisation Proposals prepared by **tie** Limited was appropriate.

The parties wish to maintain the principle of MUDFA Contractor Incentivisation throughout the life cycle of the project, as opposed to the current arrangements which were determined and measured against a baseline established in March 2007.

Therefore there is a requirement for the parties to agree a suitable and sustainable replacement for the existing Value Engineering Incentive, as set out in Clause 1, Definitions and Interpretation and Clause 48.

The parties agree that an equal proportion (ie 50% / 50%) of any benefit determined under this Proposal shall be shared equally between the parties.

Additionally the parties agree that the maximum cap previously contemplated should be removed, together with confirmation the Incentive Scheme is a full entitlement under the Contract, measured and valued under a bespoke agreement, with interim payment every three months, under Clause 49, on the basis of a reconciled and agreed cumulative values.

The process will be subject to appropriate measurement and evaluation, in accordance with agreed protocols to determine entitlement under the Proposal.

The intention is also for the existing provisions of the MUDFA terms and conditions, including Clause 46 to remain in force, without alteration, amendment or refinement.

Section 2 Objectives

The parties wish the revised arrangements to reflect the objectives of the MUDFA Contract by;

- Proposing and agreeing design solutions, innovations and 'smart' applications involving value engineering;
- Proposing and agreeing methods for maximising construction productivity;
- Proposing and agreeing the manner in which any disruption caused during the MUDFA Works is minimised;
- Achieving savings in the General and Work Sector Preliminaries and General costs through mitigation of delay prevailing at September 2007 and proactive management of emerging delays at source, i.e. the root cause of the event;
- Proposing alternative materials and components which meet the requirements of the MUDFA terms and conditions;
- Achieve savings in respect of Temporary Works;
- Achieve savings associated with risk mitigation.
- Ensuring decisions are made promptly, by the Joint Project team, to ensure opportunities to achieve these objectives are not lost or impaired.
- Preparing and presenting business case justification for all incentivisation proposals which identifies the potential benefits and any associated detrimental impacts involved. The net benefits being formally agreed by the nominated representatives of both parties (Graeme Barclay and Andy Malkin, ie tie Construction Director and AMIS Project Director) prior to instigation of proposal.

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~~*Adopt a pragmatic business case approach to Risk and Trade Off Proposals whereby the benefits to out-turn cost and schedule adherence to tie Limited is reviewed against any additional cost incurred by AMIS through acceleration, increased working hours, revised technique and the like; and~~

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~~*Adopt the MUDFA Contract Programme as a platform to manage the deliverable and inputs, upon which the Incentive Scheme is predicated, i.e. IFC designs and design related information et al.~~

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It is acknowledged by both parties that the incentive mechanism, once agreed and executed, is intended to derive benefit for both parties and promote collaborative working.

~~The parties also confirm that in the event a consensus is not achieved in respect of any proposal the proposed solution will not be instructed by tie Limited.~~

Section 3 Integrated Programme – Clause 35 and Schedule One, Clause 2.7

The parties acknowledge that a critical and pivotal element in the success of any revised Incentive arrangements is the detailed and comprehensive Construction Services Programme.

The MUDFA Works, at Revision 06 will be based on the best information that is available or current at that time, with a agreed Change measured and valued in accordance with under Clause 46 will be adjusted in accordance with the MUDFA terms and conditions.

Section 4 Outline Incentive Arrangements

The replacement Incentivisation arrangements will be measured and valued under two seven levels, with a share of the benefits as set out under Section 1 above, summarised below:-

4.1 **Level 1;** Pre-Construction Services, Stage 2 (Pre-SUC Approval / Pre-Work Order), i.e. the parties to the Contract shall seek to replicate, insofar as is reasonable and practical the conditions and requirements contemplated by the original Pre-Construction CServices.

This Level will apply for each Work Section upon receipt by AMIS of issued for SUC Approval multiple IFC and non-IFC drawings prior to the issue of Work Order Confirmation Notices. The resource levels required being incorporated in AMIS Preliminaries contained within the agreed Revision 06 Programme, i.e. greater than those required for two Work Orders necessitating the introduction of additional/short term resources.

~~Where appropriate the costs associated with the allocation of any additional resources instructed by tie Limited will be recovered by AMIS under the Commercial Agreement; admeasured and paid on Schedule 4 or appropriate Star Rates.~~

These design drawings will be measured and valued (a.) upon receipt and (b.) upon completion of the value engineering / buildability process, with any net reduction in the equivalent admeasure value shared equally between the parties.

This level will necessitate an more integrated approach to working with the SDS Provider, with a variety of interventions and reviews, than previously facilitated by tie Limited.

4.2 **Level 2;** On site changes, post Work Order Confirmation Notice, that any reduction in admeasured value to both parties by reduction in workscope, technical specification, Work Order programme duration and/or Work Sector Preliminaries, common trenching, temporary reinstatement etc; 50% / 50%. Reduction in admeasure value as a result of common trenching was envisaged in the award of MUDFA Agreement and any resultant benefit is therefore excluded from any incentivisation proposals.

4.3 **Level 23.1;** Contract Preliminaries. The reduction in admeasured value of AMIS resources shall be measured and valued in accordance with the agreed baselinetarget, incorporating agreed Clause 46 Changes, updating the baselinetarget as appropriate; 50% / 50%.

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4.4 **Level 23.2;** Where integrated working and improved operational efficiencies eliminate the requirement for 'man-marking' any associated reduction in the Preliminaries and General cost of **tie Limited**, as established based upon the Revision 06 Programme, shall be measured and valued in accordance with the agreed baseline target, with any savings shared on a 50%:50% basis.

4.5 **Level 4;** AMIS and tie Limited agree to develop proposals where AMIS would be incentivised for the positive contribution, through schedule adherence, cost and risk mitigation and the like, associated with the INFRACO contract; the nature of this incentivisation shall be reviewed and agreed by the parties upon award of the INFRACO contract and subsequent visibility of programme, construction strategy and the like; basis 33.33% / 33.33% / 33.33%.

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Section 5 Worked Examples; Levels One to TwoFour

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Working on the basis of the above noted mechanisms and based on Anticipated Final Account, Revision 05, the proposals, based on 'top down' only assessments of the reductions in outturn costs, an indicative incentive fund of £1.5M would be generated, with the parties sharing £1,576,000 in equal shares

| Level | Description | £ x000 | | | | |
|-------|---|----------------|---------------|--------------|------------|---------------|
| | | BaselineTarget | Actual | Delta | AMIS Share | tie Ltd Share |
| 1 | PCS Stage 2 (Pre SUC Approval / Pre Work Order) | 27,726 | 26,882 | 844 | 422 | 422 |
| 2 | Post Work Order | 17,726 | 17,407 | 319 | 160 | 160 |
| 23.1 | AMIS Preliminaries | 9,794 | 9,471 | 323 | 162 | 162 |
| 23.2 | tie Limited preliminaries | 910 | 820 | 90 | 45 | 45 |
| 4 | INFRACO; not valued | 0 | 0 | 0 | 0 | 0 |
| | | 56,156 | 54,580 | 1,576 | 788 | 788 |

Note; No provision has been made for Pre-Construction Services Stage 1, Change Control, and Gogar Depot Advance Works in baselinetarget figures, or increased risk and/or expenditure against the projected risk profile contemplated in Anticipated Final Account Revision 05.

Section 6 Notes, Assumptions and Additional Considerations

All agreed Change is measured under Clause 46, with the baselinetarget or 'target' moved, as appropriate, by a corresponding value to ensure the Incentive is determined on a 'like for like' basis. This is considered reasonable given the control of the issues contributing to Change rests with others.