

**Edinburgh TRAM Project
(Commercial In Confidence)**

Paper to : Transport Scotland
Subject : Infraco Initial Tender Return Project Estimate Update
Date : 26th January 2007

1.0 Introduction

- 1.1 This report summarises the Updated Project Estimate (January 2007) based on the initial proposals received from both Infraco bidders on 12th January 2007.
- 1.2 The financial information contained in this document is commercially sensitive as the Tram Project is in the middle of a tender competition for both Tramco and Infraco.
- 1.3 For the purposes of the analysis and evaluation process, the two bidders have been assigned the code names Scoop and Roley.

2.0 Summary

2.1 The headline conclusions of our report are:

- Our analysis of the prices gives us confidence that we can deliver a deal within the Updated Project Estimate total for **Phase 1a within a range of between £477.5m and £517.5m**. The latter figure is based on a cautious approach and includes a total headroom of some £76m (15%) for risk (at P90) and contingency. The table in 2.2 below summarises the figures.
- Further, in respect of **Phase 1a plus 1b** we have confidence that we can deliver a deal within the Updated Project Estimate total within a range of between **£561.3m and £610.3m**.
- The updated project estimate now has **99%** of costs backed up by market tested prices or market rates applied to quantities derived from the project preliminary designs.
- The bids received by tie on 12th January were robust and both bidders are keen to win this contract. The offers are consistent with the benchmarking carried out using Merseytram contracts and the prices received from the two bidders were within **2%** of each other.
- The bids have been thoroughly analysed and normalised¹ for objective comparison. An adjustment has been made reflecting the anticipated final position taking into account price movements likely to be made as the bids go through the negotiating process.
- For the upper end of the range, £517m for 1a, (and £610.3m for 1a plus 1b) the judgments made are cautious and based on market experience (of similar projects) and specific value engineering (VE) savings already expressed by the bidders.
- The team also believe that a lower figure of £477m for 1a (£561m 1a plus 1b) is achievable if a more aggressive view is taken in respect of negotiation outcomes and value engineering initiatives. Likewise, experience suggests that

¹ The process of making adjustments to the bids in respect of scope differences, exclusions, provisional sums etc

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these figures are readily achievable by applying a systematic and concerted strategy. This process is already underway.

- The build ups of the two bids are generally consistent with each other and the Project Estimate, other than in two areas:
 - Preliminaries – Scoop are significantly higher than Roley and the Project Estimate in this area due to their differing commercial approach in allocating risk and negotiating margin.
 - Structures – Both bidders are higher than our estimate based on the limited information available from the emerging design. Bidders believe that they can make significant savings on their prices in this area.

2.2 Figures for the Updated Project Estimate range are shown in the table below. They are based on the two scenarios, one adopting a cautious view of the level of negotiated and value engineered savings and the other at the upper end of the opportunity level:

	Phase 1a £m	Phase 1b £m	Total 1a + 1b £m
Normalised Bid Cost	545.5	98.8	644.3
Adjust for anticipated savings - Cautious View This assumes a cautious estimate of a 5% reduction bidders' and their supply chains margins and 5% reduction in underlying prices achieved by generating savings from value engineering e.g. contractor led efficiencies in the structures designs.	-28.0	-6.0	-34.0
Updated Project Estimate total (Cautious)	517.5	92.8	610.3
Adjust for further anticipated savings – possible anticipated final outcome. This assumes a more aggressive negotiated reduction of 10% and 15% through further value engineering e.g. reconfiguring the design of the depot and its expensive retaining walls.	-40.00	-9.0	-49.0
Anticipated final outcome (upper end opportunity)	477.5	83.8	561.3

2.3 These reductions are, at this stage, sustainable as:

- These are the opening prices in what is essentially an ongoing negotiation, a fact which the bidders are conscious of. Bidders generally do not enter negotiations without a negotiation margin built into their figures. This is illustrated in Scoop's case by the fact that they have such a significantly higher value for preliminaries than either Roley or our Project Estimate. Roley's negotiating margin is likely to be included within the risk allowances that they have stated are in their rates.
- The prices are above the Preliminary Design Stage Project Estimate, figures which were benchmarked against and found to be comparable to the

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Merseytram contracts. This reinforces the view that there is latitude to negotiate reductions and achieve value engineering savings.

- Both bids are sufficiently robust to form the basis of a strong competition.
- Bidders are not only competing with each other but competing with the Project Estimate to win the work. This will assist in leveraging reductions in margins.
- Both bidders have stated that they see opportunities to value engineer the scheme to reduce costs and both have to a greater or lesser extent put ideas to us.

We are confident that we can achieve the level of savings required given the number of value engineering ideas generated to date, the experience of the team in delivering negotiated cost reductions and value engineering savings and given that we already have a value engineering programme underway led by Mike Jeffreyes, an experienced value engineer from the infrastructure sector.

2.4 The risk and headroom position in respect of the Updated Project Estimate (at the Cautious level) for Phase 1a is as follows:

	£m	
Available Funding	545.0	
Updated Project Estimate (cautious)	517.5	
Headroom	27.5	5%
Risk included within Project Estimate	48.6	10%
Total Headroom + Risk in Updated Project Estimate	76.1	15%

This shows that there remains significant Headroom against the available funding and risk allowance within the Updated Project Estimate appropriate for this stage of the Project.

3.0 Estimate Update Process

- 3.1 The team who have undertaken this analysis over the past 2 weeks have extensive experience in evaluation of bids of this nature and have been involved in capital projects and concessions such as London Underground (PPP contractors), Network Rail procurement, Merseytram, Nottingham Tram and earlier tram projects such as the Midland Metro and Croydon schemes.
- 3.2 In their experience the returns are robust and are typical of what would be expected of a project of such a size. The close nature of the costs from the two bids gives confidence in the figures. Additionally, the treatment of risk by both, whilst different to each other, is not unusual. Finally, it is to be expected that both bidders will have entered into the negotiation with margin built into their bids.
- 3.3 The initial tender returns were received on 12th January 2007. They have been analysed as to whether they meet the prescribed scope and requirements of the Edinburgh Tram Project, as contained in the Employer’s Requirements, Functional Specification and Preliminary Design.

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- 3.4 The analysis considered the proposals for the following areas:
- Contractual
 - Scope
 - Engineering proposal
 - Programme
 - Price
- 3.5 For each of these areas, the key assumptions, qualifications and omissions were identified and their impact on the cost and deliverability of the scheme and integrity of the procurement strategy. The analysis also considered opportunities for improvements and cost reduction.
- 3.6 Based on this analysis, the prices from each bidder were adjusted to allow comparison between bidders and to the current project estimate.
- 3.7 The allowance for infrastructure works included in the current project estimate was then updated with the lowest Adjusted Price that the project team is confident is deliverable. Related project overheads, risks and contingencies were adjusted accordingly where necessary, ultimately resulting in the Updated Project Estimate range.
- 3.8 Details of the process applied for the analysis of the initial proposals are contained in Appendix A.
- 3.9 The Updated Project Estimate has an increased level of confidence compared with the previous Estimate as it is based on the prices returned by bidders with some 80% now in the high confidence band. The updated confidence profile is shown in the following table and in more detail in Appendix B.

Confidence Category	Confidence basis	% of Project Estimate Total
Green – High Confidence	Estimate based on rates and prices derived from firm bids received or on known rates applied to work/resource quantities	79%
Amber – Medium Confidence	Estimate based on market rates applied to quantities derived from the Project preliminary designs.	20%
Red – Low Confidence	Lump sum allowances based on professional judgement in absence of designs.	1%

Proposed Geoff Gilbert Date:- 26/01/07
Project Commercial Director

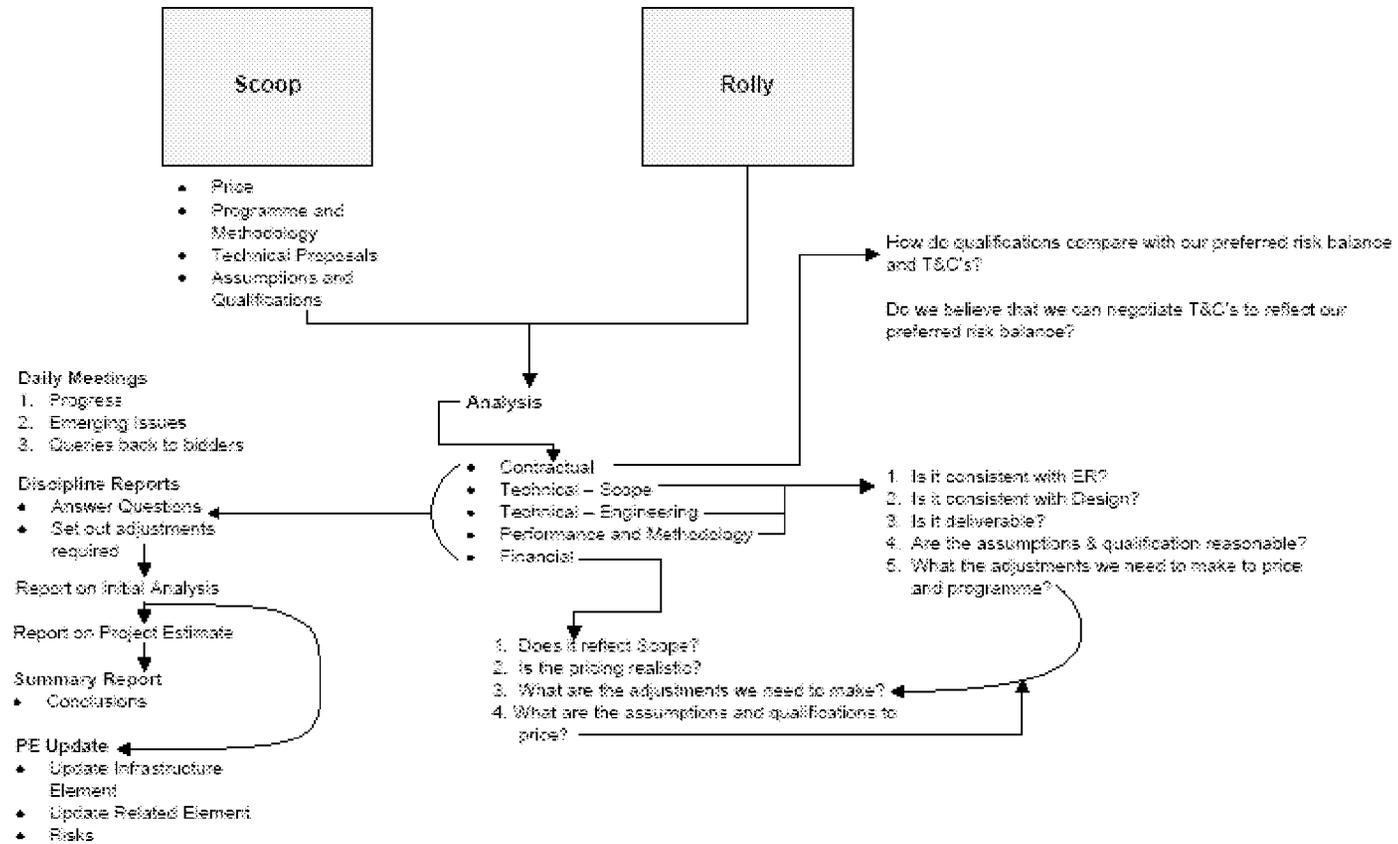
Proposed Matthew Crosse Date:- 26/01/07
Project Director

APPENDIX A

INITIAL PROPOSAL ANALYSIS PROCESS

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Initial Proposal Analysis Process



APPENDIX B

UPDATED PROJECT ESTIMATE SUMMARY

(See separate Excel file)