



tie Board / TPB

15 October 2007

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- General update including MUDFA – Willie Gallagher
- Feedback from OGC – Susan Clark
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- Endorsements required from **tie** Board

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General update including MUDFA

Willie Gallagher

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Feedback from OGC

Susan Clark

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OGC Gateway Review

- Review concluded on 3rd October
- Presentation to CEC & Draft final report delivered on 4th October
- Comments back to review team on 5th October
- Final report delivered on 8th October
- Review team assessed the overall status of the project as **GREEN**
- 8 recommendations were made with timeframes of urgent, as soon as possible and ongoing
- Recommendations being turned into an action plan for completion

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OGC Gateway Review

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	Recommendation	Status
1	That the preferred bidder is appointed as soon as possible	As soon as possible
2	That the programme during the preferred bidder period is monitored closely at a senior level	Urgent
3	That the tie team should actively consider: i) The levels of certainty required to meet CEC approval and how this will be achieved ii) The implications of contract signature not being achieved by the target date of 28 th January iii) The necessary consequences of any areas which cannot be finalised by contract signature and novation and how (and when) full certainty will be established	Urgent

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OGC Gateway Review

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	Recommendation	Status
4	That the formalisation of the Scottish Government support in the Grant Letter from Transport Scotland is agreed as soon possible to underpin the funding for the project and eliminate existing uncertainties that have been expressed by bidders	As soon as possible
5	That the process of managing funding and contingencies should be agreed between tie and CEC and regularly reported.	Ongoing
6	That there is continuing high level focus on the management and mitigation of key risks and that the very good work that is done by the risk manager is effectively used and acted upon by senior management.	Ongoing

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OGC Gateway Review

	Recommendation	Status
7	That all risks that are related to the tram project that are borne or shared by tie, TEL and CEC are incorporated into the reports that are given to the Tram Project Board.	Ongoing
8	That the Benefit Cost Ratio for the project is tested for a sensitivity whereby concessionary fares are not available for bus passengers and tram passengers on the same basis.	Urgent

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Tram Project Board

Infraco Procurement Summary

15 OCTOBER 2007

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Contents & Purpose

Summary

Process overview

Evaluation results

- Programme & project execution
- Technical
- Operations & Maintenance
- Insurance
- Legal & contractual
- Financial

Conclusions

To review evaluations and make recommendation for Infracore preferred bidder selection

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Process Overview

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Evaluation hierarchy

1. Candidates' capability to meet *minimum criteria (gateway)*



2. Most economically advantageous tender

- NPV of 6 year life costs (Capex and maintenance)
- Discount rate based on DFBC
- Fully normalised between bids



3. *If necessary*, combined incremental differential of proposals in respect of non financial aspects of bids

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Minimum criteria

- Deliver ETN in compliance with requirements of ITN and Employers Requirements
- Confidence in project team proposed
- Deliverable programme and project execution proposals
- Technical proposals that meet tram system Functional Requirements
- Acceptable legal and commercial terms
- Acceptable insurance proposals

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Evaluation steps

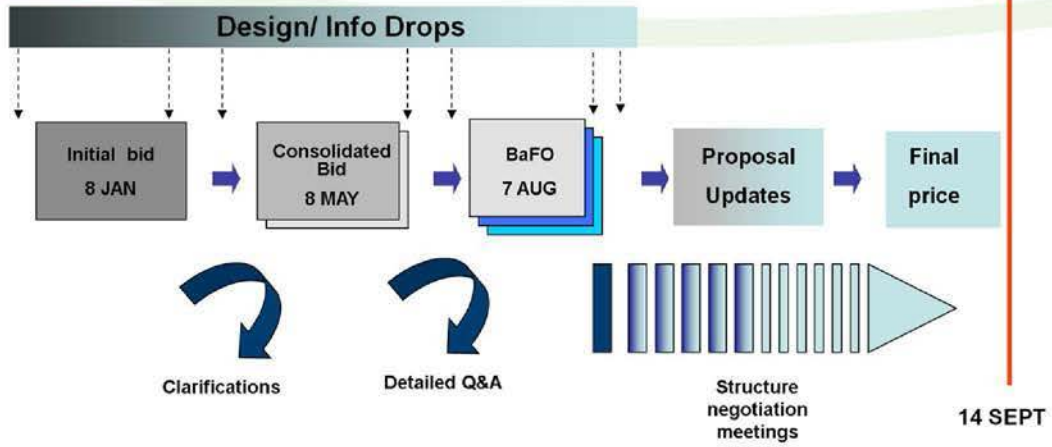
- Initial review, to identify :
 - missing elements
 - exclusions and qualifications,
 - items for normalisation
- Obtain clarifications/ Q&A and confirmations
- Evaluation teams undertake qualitative scoring
 - Scoring matrices colour coded
 - Exceptional; Compliant; Deficient; Unacceptable
- Teams confront bidders with 'deficient' or 'unacceptable' responses
- Assess financial proposals
- Teams also assess
 - The incremental financial benefit of one bidder's non financial proposals against the others
 - Must be tangible and material

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Infraco Procurement Summary



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Programme & Project Execution

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Programme & Project Execution Schedule

	Wallace			Bruce		
	Start	Finish	Duration (months)	Start	Finish	Duration (months)
Phase 1a	29/02/08	05/11/10	33	21/12/07	27/08/10	33
Phase 1b	06/07/09	04/05/11	22	07/09/09	27/01/12	29
Assumes	Advance Works and Mobilisation Agreement in early November Contract award by end of January 08			Advance Works and Mobilisation Agreement in early November Contract award by end of January 08		

Both bidders can achieve our programme schedule

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Programme & Project Execution Approach

Project Execution

- Both bidders provided evidence of tried and tested corporate and project-level procedures and project controls.
- Sub-contracting:
 - Wallace will sub-contract more civils works, including trackform
 - Bruce will sub contract more E&M
- Both bidders provided organisation charts and CV's showing how the project would be managed and by whom

Both bidders are closely matched

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Technical

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Summary Technical

Workstream	Wallace	Bruce	Key differentiator/ note
Trackform	+	=	Wallace trackform offers advantages in performance
Civils	=	=	Both are acceptable and subject to VE
OLE	=	=	Both are acceptable, Wallace has planning details to sort
Signalling, comms	=	=	Both have similar, acceptable proposals
Depot	=	=	Both have acceptable proposals
Systems integration	=	=	Both have strong SI partners

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Summary Technical

- Both have submitted compliance matrices and generally comply with ITN & Employers Requirements
- Both are based on SDS Prelim design
- Both are subject to due diligence on SDS designs
- Both have offered acceptable trackform solutions (subject to remaining minor clarifications from each bidder), but Wallace preferred
- Both have submitted acceptable proposals for systems.

Both bidders have competent, competitive solutions – with positives and negatives across the asset base

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Technical Trackform

- Most vital element of fixed infrastructure - depends on
 - good sub-grade, effective utilities diversions, effective drainage, roll resistant security
- Good trackform type will ensure:
 - Shallower depth – saving costs
 - Easier construction
 - Long term maintainability
- Trackform also impacts
 - Electrical insulation, EMC and stray currents
 - Noise and vibration

Many trade-offs – with varying experiences across systems

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Technical Bruce Trackform

- Offered single type: 2 pour system
 - Low profile, coated rail
- **Positives**
 - Directly contracted to consortium partner
 - Inherently shallower depth – MUDFA VE savings
- **Negatives**
 - Limited application experience
 - Not as structurally stable
 - Poorer conductivity, potentially affects EMC
 - Noise and vibration flexibility
 - Maintainability

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Technical Wallace Trackform

- Offered 2 types, both standard height rail
- **Positives**
 - Preferred is SEDRA system well proven in Europe
 - Very stable trackform
 - Noise abatement tuning
 - EMC inherently more beneficial
 - Maintainability
- **Negatives**
 - Sub-contracted through consortium partner
 - Trackform depth

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Technical Systems Integration

- Both consortia's E&M partners will drive SI
- Wallace: Strong global record
 - Some issues of integration civils to be resolved (trackwork interface)
 - E&M partner has a higher work package content in consortium – greater incentives
 - Most of E&M interfaces internal (lower risk)
- Bruce: Good experience record
 - Consistent consortium approach throughout
 - E&M partner has a lower work package content – poorer incentives
 - Most of interfaces are external (higher risk)

Systems integration can be covered well by both consortia

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Network Rail Immunisation

Wallace

- Agree budget is too high
- Have analysed propagation distance
- Are prepared to cut budget to £3m
- Agree to undertake all works to programme and budget
- Subject to:
 - Strategy being agreed with NR
 - In house contracting
- Will carry out further VE and share benefits 33% each

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Bruce

- Agree budget is too high
- Have not analysed propagation distances
- Are only prepared to discuss carrying out works during preferred bidder
- Have not offered a budget reduction

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Operations & Maintenance

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Maintenance

- Wallace:
 - Comprehensive set of proposals, logical scope split
 - UK company taking the lead, fully supported by parent for tram specifics.
- Bruce:
 - Demonstration of good understanding, but proposals are more generic
 - Conservatively controlled by overseas parent.
- Both are capable of being managed to deliver a satisfactory outcome for Edinburgh

Financially Wallace proposal also offers advantages over Bruce

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Legal & Contractual

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Legal – Evaluation process

- Evaluation Methodology requires
 - Negotiation of acceptable terms that do not undermine the Procurement Strategy
- Evaluation by means of detailed Compliance matrix
 - Reasoning behind proposed revisions to the draft Contract
 - legal , commercial, financial, technical
 - Acceptable risk retention and risk transfer
 - market alignment, precedent, balance
 - Pragmatism and forthrightness of the Bidder's approach
 - indication for the future
 - Assessment of Performance Securities and Warranties
 - type, surety, terms, duration, assignation provisions
- Negotiated the substantive terms with both bidders
- Prepared detailed Risk Allocation Matrices for each bidder based on final draft contract submission
- Clarity of reservations into Preferred Bidder stage

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Legal – Headline Differences

	Wallace	Bruce
Generally	Specific in their issues	More generalised positions taken
Liability Caps (See next slide)	Capped	Capped (with Sub Caps)
Third Party Interfaces	Wish to review Third Party Agreements in depth	Generally more risk averse position
Due Diligence	More specific in what require to be 'subject to due diligence' at Preferred Bidder	Mark up contains many general references to being 'subject to due diligence' at Preferred Bidder
Latent Defects	20 years	15 years plus further 5 years to bring an action from date of discovery

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Legal – Liability Caps

	Wallace	Bruce
1. Overall Cap - Insurances - Bonds	30% (approx £66m) (3) Insurable events capped at OCIP (£155m) Proceeds of bonds outside cap	25% (approx £55m) (3) Insurable events outside cap Proceeds of bonds outside cap
2. Sub Cap For LDs	10% (£20m = 81wks delay)	10% (£20m = 81wks delay)
3. Consequential Loss (third party)	Accepted	Accepted but sub capped at £5m
Notes	1. Subject to review of OCIP 2. Caps for maintenance to be finalised 3. Caps based on PCGs in place of Bonds	1. Percentages apply to construction cost element and maintenance element 3. Caps based on PCGs in place of Bonds

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Legal – PCGs Rather Than Bonds

Considerations

- Joint and several liability between consortia members
- Large established international contractors
- UHCs with strong credit rating
- Performance Bonds offered are not on demand

Advantages

- Underwrite delivery
- Increased liability cap from Wallace (£10m)
- Saving in cost from Bruce - £2.5m

Disadvantages

- Perceived loss of comfort
- Corporate credit (PCG) as opposed to cash instrument (Bond)

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Financial

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Financial Evaluation Process

- Team included QS and external reviews (B Hanaby & Associates)
- Comparison at elemental and selectively work items
- Bidders required to disclose detailed break downs
- Technical teams reviewed
 - Identified missing scope
 - Technical compliance
 - Key risks
- Two stage normalisation process then rigorously applied
 - Scope, programme, omissions, interpretation
 - Provisional work scope adjustments (structures, highways etc.)
- Bidders agreed to normalisation sums (1st stage)
- Incremental benefits assessed – financial benefit of one bidders non financial proposals against the other
- Final fully normalised comparison focussed on 1A

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Financial Negotiation Success

- Single committed commercial team:
 - Crosse/Gilbert/Clarke/Richards
- Structured negotiation strategy through August & September
 - Elemental targets
 - Competing against the budget
 - Rapid turnaround and deadlines for re-pricing
 - High level messages to encourage
- Meeting plans & roles for team members

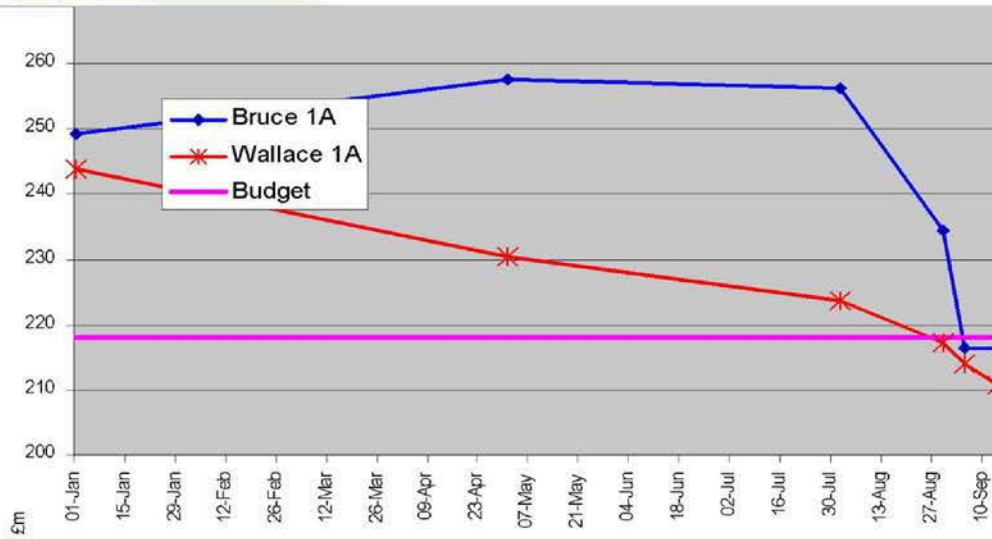
Negotiations resulted in 16% (£42m) fall against original Jan 07 negotiation target of 5% (£14m)

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Financial Negotiation Success 1A



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Financial 1A Sensitivities & PV Analysis

Sensitivities

How sensitive is it to variations in quantities?

- Sensitivities carried out:
 - Rates for provisional scope
 - OH& Profit margins
- Wallace generally has better figures for above
- 1A result improves further still for Wallace

PV Analysis 6 years

	Phase 1A
Bruce	£216,860,564
Wallace	£206,902,246
Variance	£9,958,318
% Variance	4.8%

On PV basis Wallace is ~ £10m lower than Bruce

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Financial Maintenance

- Wallace originally far higher than Bruce
 - Error in staffing numbers
 - Negotiated large reductions
- For 1A: Wallace lower over 6 years by 16.5% (£2.76m)
- For 1A+1B: differential opens – Wallace are some 35% (£4.95m) cheaper than Bruce over 6 years

Maintenance prices have developed, but Bruce would need to make big cuts to achieve 1A+1B Wallace price

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Summary Financial

Basis	Wallace	Bruce	Key differentiator/ note
Headline 1A	=	=	Close, Wallace lower by £3m; normalisations for exclusions only.
Headline 1B	++	-	Includes normalisations for scope exclusions only.
1A Firm Element	=	=	Largely equivalent
1A Variable Element	=	=	Largely equivalent
Rates	=	=	Wallace marginally lower
Overhead and Profit	+	-	Civils element makes Wallace lower
1A fully normalised	+	=	Wallace position is £7.6m (4%) lower
PV position	+	=	Wallace is £10m (5%) lower
Maintenance	++	-	Wallace 16% lower 1A; & 22% lower 1A+1B

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Conclusions

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Conclusions

- Technical proposals from both bidders are acceptable – but Wallace offers a more robust trackform
- Prices are relatively close but
 - For 1A Wallace is ahead on a fully normalised basis
 - For 1A + 1B Wallace (partially normalised) is substantially ahead
- No attempt to fully normalise 1A+1B (though Wallace would still lead)
- Where practicable, the incremental benefit (differential pricing) of non-financial elements has been applied e.g.
 - NR Immunisation scope
 - Programme risk at the interface with MUDFA

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Recommendation

- Wallace are the recommended Preferred Bidder as offer
 - Meets all criteria and are lowest in headline price
 - Preferred trackform proposals
 - Have lowest fully normalised price for 1A
 - 1B price is also lower
 - Acceptable draft terms and conditions
- Next steps
 - Confirm draft deal with both parties
 - Finalise draft contract terms
 - Notify successful Preferred Bidder and unsuccessful bidder (Reserve Preferred Bidder)
 - Announce name of Preferred Bidder

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Funding and Governance

Jim McEwan

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Progress (1)

Governance

- Consensus is that the paper circulated last week is a good basis on which to control the project in the period pre-Close and to establish an effective model for the construction period.
- The body of the paper is reflected in the FBCv1 circulated last week, simply now requires approval by the board.

Funding

- The position on the quantum (£500m) and the application (Phase 1, with 1a the priority and any balance available for Phase 1b) has been verbally agreed by TS officials, but the detailed reciprocal protections against default (and some other important detailed areas) remain unconfirmed until a response is received to the award letter mark-up issued to TS on 4.9.07.
- It is essential that this is clarified prior to publication of the FBC on Thursday 18th October. CEC is making representations at the highest level to achieve this.

Final Business Case v1

- FBCv1 was circulated in draft to TEL, **tie** and CEC representatives and comments requested by 12th October, all comments received have been clarified and incorporated.
- Only major outstanding area relates to funding

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Progress (2)

Other matters

- Pre-Close additional funding – anticipated spend versus funding committed is monitored closely, no change from last month, indications are that there is sufficient funding in place to cover requirements until the projected Financial Close date of January 2008.
- Tax / corporate structure – lawyers and tax advisors concurring, no issues expected and signs are good that significant tax sheltering can be achieved, improving TEL net cash flow and regular cash flows to Council.
- Risk profile assessment – OGC team review completed with favourable report.

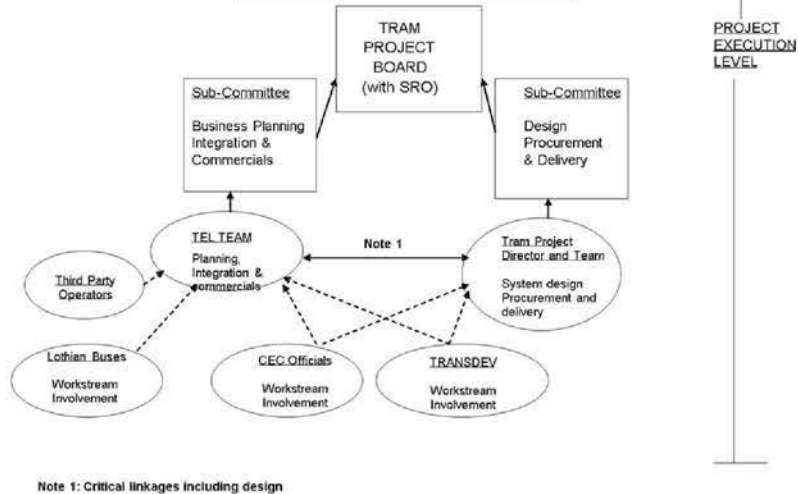
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Governance to Financial Close

EDINBURGH'S INTEGRATED TRANSPORT SYSTEM Governance to Financial Close



Note 1: Critical linkages including design

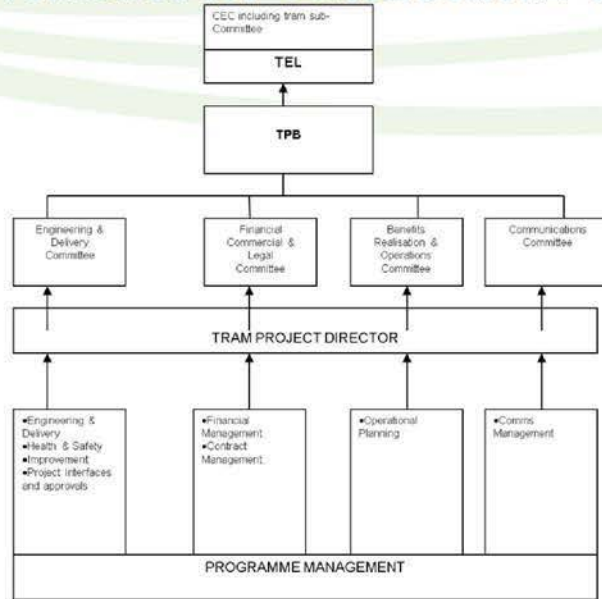
PROJECT EXECUTION LEVEL

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Governance for Construction Period



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Final Business Case

Miriam Thorne

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Business case - Highlights

	Phase 1a*
Capital cost	£498m
Revenue service	Q1 2011
BCR	1.77
Maintenance bids in line with expectations in the TEL business plan	

- Draft issued on 3 Oct 2007
- FBC (v1) re-confirms economic and financial viability of the scheme
- Based on firm prices and rates from Infraco and Tramco bids
- Decision on Phase 1b by March 2009
- FBCv1 Reviewed by tie, TEL, Transdev and CEC

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Business case - capital costs

	Current Estimate	Draft Final Business Case 2006
Phase 1a	£498m	£500m
Phase 1b	£87m*	£92m
Budget Costs:	£585m	£592m

- 15% Risk and Contingency within cost to complete – similar for each Phase
- Firm prices for Design, MUDFA and Project Management
- Firm bids for infrastructure and trams for Phase 1a – subject to due diligence
- In total, 99% of costs now firm – fixed or based on agreed rates
- Phased commitments on construction – Phase 1b option to be finalised

* Further £5m discount if Phase 1b is constructed at the same time

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Business case – Risk and contingency



* Risk as percentage of "to go" cost

- Based on no major delays / cost over-runs between October 07 and Financial Close
- If programme and scope are adhered to by Council & tie, very limited exposure to cost overrun

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Business case - funding

Transport Scotland	£500m
CEC	£45m
TOTAL	£545m
Headroom above Phase 1a cost	£47m
Headroom & Risk allowance	£96m
<i>As % of all Phase 1a costs post Financial Close</i>	<i>29%</i>

Phase 1 (a)

- £498m (inc contingency)

Phase 1(b)

- £87m (inc contingency)
- Important to the delivery of the wider benefits
- Potential opportunity to reduce costs in final negotiations
- Review decision on 1(b) by March 09, when final prices and extent & pace of Granton Development are known

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Key event and communication programme

Colin McLauchlan

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Key event and communication programme

Communication activity	Date
Procurement sub-committee Joint Tram Project Board and tie Board	15 October 2007
tie employee briefing on Final Business Case and Infraco	18 October 2007 Citypoint 15.00 MUDFA 16.00
CEC Leadership Group and Councillor Group briefings on the Final Business Case from tie / TEL and CEC executives	16 and 18 October 2007 22 and 23 October 2007
Media briefing on Final Business Case	19 October 2007
CEC Final Business Case paper published	19 October 2007
Council Member briefings	22 and 23 October 2007
CEC full meeting	25 October 2007
tie employee briefing Delivery Organisation	30 October 2007
Infraco award mobilisation	1 November 2007
Phase 1b negotiations	27 November 2007
Final deal to full CEC meeting	20 December 2007
Notification of Infraco award	11 January 2008
Infraco and Tramco contracts awarded	28 January 2008

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Programme to Financial Close

Susan Clark

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Critical Milestones – to October

• TPB to approve "September" documents	-	15/10
• tie Board	-	15/10
• Councillor briefings start	-	16/10
• CEC paper published	-	19/10
• CEC full meeting	-	25/10
• Award mobilisation	-	1/11
• Phase 1b negotiations	-	27/11
• TPB	-	07/12
• tie board	-	12/12
• Final deal to full CEC meeting	-	20/12
• Notification of award	-	11/01
• Contract award	-	28/01

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Endorsements

Tram Project Board

- Endorse recommendation of preferred Infraco bidder by Evaluation Panel
- Endorse content and conclusions in the Final Business Case (FBCv1)
- Note that terms of funding agreement are outstanding from Transport Scotland – clarity required before FBCv1 is published

tie Board

- Endorse procurement recommendation of preferred Infraco bidder
- Endorse content and conclusion in FBCv1
- Note final update of FBC required prior to contract award
- Confirm tie is prepared to enter into recommended Infraco and Tramco contracts subject to the finalisation of FBC and funding agreement

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