

Appendix B – 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 & Clause 48.

The parties agree that an equal proportion (i.e. 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, i.e. **tie** Construction Director and AMIS Project Director) prior to instigation of proposal.

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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.

Section 3 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. All agreed Change 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 levels, with a share of the benefits as set out under Section 1 above, summarised below:-

- 4.1 **Level 1;** 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 Services.

This Level will apply for each Work Section upon receipt by AMIS of issued for SUC Approval 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

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 integrated approach to working with the SDS Provider, with a variety of interventions and reviews.

- 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, temporary reinstatement etc.
- 4.3 **Level 2.1;** Contract Preliminaries. The reduction in admeasured value of AMIS resources shall be measured and valued in accordance with the agreed target, incorporating agreed Clause 46 Changes, updating the target as appropriate.
- 4.4 **Level 2.2;** 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 target.

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Section 5 Worked Examples; Levels One to Two

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 £1.58M could be generated, with the parties sharing £1,576,000 in equal shares

Level	Description	£ x000				
		Target	Actual	Delta	AMIS Share	tie Ltd Share
1	Pre SUC Approval / Pre Work Order	27,726	26,882	844	422	422
2	Post Work Order	17,726	17,407	319	160	160
2.1	AMIS Preliminaries	9,794	9,471	323	162	162
2.2	tie Limited preliminaries	910	820	90	45	45
		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 target figures.

Section 6 Notes, Assumptions and Additional Considerations

All agreed Change is measured under Clause 46, with the 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.