

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

Paper to : Transport Scotland
Subject : Infraco Project Estimate Update
Date : 25th May 2007

1.0 Introduction

- 1.1 This paper summarises the position in respect of the level of cost certainty within the current Project Estimate based on the bids received from infrastructure (Infraco) and tram vehicle (Tramco) bidders.
- 1.2 The Current status of the project is that:
- The project management team is established.
 - Detailed design of the scheme is underway.
 - The utilities diversion contractor has been mobilised and is poised to commence works.
 - Land acquisition is well advanced for Phase 1a.
 - The Tramco bidding process is at an advanced stage and nearing final negotiation.
 - Bids for Infraco were received in January and are currently being progressively updated for a series of more detailed design information releases. This will culminate in a final negotiation phase later this summer.
- 1.3 Initial bids for Infraco were received in January 07 based on preliminary designs. These bids were analysed and normalised to include adjustments to ensure consistency with the broad scope of the scheme. Further design information was provided to bidders as part of the progressive update process and revised bids were returned in May.
- 1.4 Bids for the tram vehicle (Tramco) were returned last autumn and since that time there have been releases of further design information to bidders to enable them to refine their bids.

2.0 Summary

- 2.1 The headline conclusions are:
- Our analysis of the prices returned in January gives us confidence that we can deliver a deal within the Project Estimate total for **Phase 1a within a range of between £477.5m and £517.5m**, based on the current programme. The latter figure is based on a cautious approach and includes a total headroom against funding of some £76m (15%) for risk 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 initial bids received by tie in 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.

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- Early indications from the analysis of the updated Infraco bids received in May show that prices submitted remain close and are consistent with the bids returned in January.
- The value engineering process to reduce costs initiated in December 2006 is running to schedule and savings are being achieved.

2.2 Figures for the Updated Project Estimate range are shown in the table below. They are based on a cautious view of the level of negotiated and value engineered savings.

	Phase 1a £m		Phase 1b £m		Total 1a + 1b £m
Available Funding	545.0		0.0		545.0
Updated Project Estimate (cautious view)	517.5		92.8		610.3
Headroom	27.5 5%		n/a		n/a
Risk included within Project Estimate	48.6 10%		8.0 9%		56.6
Total Headroom + Risk in Updated Project Estimate	76.1 15%		8.0 9%		84.1

2.3 These reductions are 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.
- The prices are above the earlier Preliminary Design Stage Project Estimate, figures which were benchmarked against and found to be comparable to the 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 proposed opportunities to value engineer the scheme to reduce costs.

We are confident that we can achieve the level of savings required given the number of value engineering ideas generated and the proportion implemented to date together with the experience of the team in delivering negotiated cost reductions.

2.4 The Updated Project Estimate has a high level of confidence for the current stage as it is based on the prices returned by bidders with some 80% now in the high confidence band. The confidence profile is shown in the following table and is explained in more detail in Appendix A.

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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%

APPENDIX A

UPDATED PROJECT ESTIMATE SUMMARY

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	PHASE 1a			PHASE 1b			TOTAL PHASE 1a + 1b			Certainty Level	Comment
	Base £m	Inflation on base £m	Total £m	Base £m	Inflation on base £m	Total £m	Base £m	Inflation on base £m	Total £m		
Utilities incl MUDFA	49,111,089	1,084,685	50,195,774	7,343,910	59,508	7,403,419	56,454,999	1,144,194	57,599,193	7%	Based on MUDFA utilities diversion contract
										3%	Predominantly the utilities diversions outside the MUDFA contract e.g. diversion of the high pressure gas main at Gogar
Tram Vehicles (Tramco)	55,902,261		55,902,261	8,518,926		8,518,926	64,421,187	0	64,421,187	12%	Based on the fixed and firm price bids received from the four Tramco bidders
Infrastructure (Infraco)	241,654,352		241,654,352	54,636,237		54,636,237	296,290,589	0	296,290,589	41%	Based on the tenders received from Infraco bidders
										12%	This represents the adjustments made by tie to normalise bids to ensure comparability with the scope of the scheme
Other Third Party Works	1,820,511	177,773	1,998,284	499,128	111,941	611,069	2,319,639	289,714	2,609,353	0.5%	Based the Project's estimate
Land & Property	21,647,875	383,331	22,031,206	3,872,918	238,841	4,111,759	25,520,793	622,172	26,142,965	5%	Based on district Valuers estimates for land acquisition
Design	22,146,679		22,146,679	1,858,548		1,858,548	24,005,227	0	24,005,227	4%	Based on SDS fixed and firm lump sum design contract
tie Project Management	34,019,998	3,216,760	37,236,759	5,834,918	123,814	5,958,732	39,854,917	3,340,574	43,195,491		
Other Reosurces	20,325,550	1,749,131	22,074,681	1,262,453	233,736	1,496,189	21,588,002	1,982,867	23,570,870		
Advisors / Prof. Fees	15,003,296	633,556	15,636,852	230,563	23,116	253,679	15,233,859	656,672	15,890,531		
Project Management Sub Total	69,348,844	5,599,447	74,948,291	7,327,934	380,666	7,708,600	76,676,778	5,980,113	82,656,891	15%	Based on actual rates paid for project personnel and prices included in TSS and Transdev contracts
RISK	43,300,000	5,336,520	48,636,520	7,200,000	821,801	8,021,801	50,500,000	6,158,321	56,658,321		Risk equates to 9% of Total Estimate
Total Estimate	504,931,610	12,581,756	517,513,367	91,257,602	1,612,757	92,870,359	596,189,212	14,194,514	610,383,726	100%	

Notes

	79%	Estimate based on firm bids or known rates applied to known durations
	20%	Estimate based on quantities derived from designs
	0.5%	Lump sum estimate allowance