

# Project Carlisle counter offer

High level summary for CEC officials

20<sup>th</sup> August

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on even the most exceptional circumstances

# Structure of Carlisle

- Project split into 2 phases
- Phase 1
  - Tram operating to St Andrew Square
  - Some infrastructure enabling works to Newhaven
  - Almost all utilities
  - All trams
  - Complete assured design airport to Newhaven
- Phase 2 – St Andrew Square to Newhaven, (can be split into sub-sections and executed at tie's absolute discretion)
- Edinburgh Gateway Project would be an addition to Phase 1

# Phase 1 consists of

- Infraco Scope included in GMP
  - All works airport to Waverley Bridge, excluding
    - On street Civil works Haymarket to Princes Street (see appendix A)
  - All 27 trams
- On street civil works Haymarket to Princes Street procured directly by tie
- On street civil works Waverley bridge to St Andrew Square procured directly by tie
- Siemens work Waverley bridge to St Andrew Square
- Any additional payment to SDS (see appendix B)
- Settlement of the PSSA Costs
- All 'other' costs (e.g. Land, utilities, design, project)
- New additional risk allowance

# Revised Completion Dates

- Airport to Waverley bridge June 2012 (trams running to Shandwick place)
- Airport to St Andrew Square December 2012 onwards? Not guaranteed
  - Depends on if we choose to work Haymarket to Princes Street simultaneous with Waverley bridge to St Andrew Square

# Phase 1 price

- GMP (anticipated) £270m- 290m
- On street Civil works and Siemens works to St Andrew Square £14m
- SDS £0 - £14m
- PSSA £5m-£10m
- 'other costs' £230m-£240m
- Risk £20m
- Total range (from above) £539m- 588m
- Note part A price includes some part B 'sunk' costs
  - e.g. 10 trams, utilities, design, enabling works, land etc., circa £55m+

# Phase 2 price

- 5.2km of on street
  - Civil works at £9m-£14m/km £45m-£70m
  - System £16m
  - 'other' £4m-£9m
  - Risk £10m
  - Range from above £75m- £105m
- Combined phase1 and 2 range £614m- £693m
- A reconciliation to the original approved budget is given in appendix C

# What is in the GMP at c£270m?

- All trams at (close to) contract price
- Contract price for all works in scope
- Extra cost associated with design changes £40m (some £20m+ of which are undisputed and allowed for in the £512m)
- £3.5m for EOT1, nothing for any other delays
- No allowance for client changes

# Other important Conditions

- Infraco responsible for completing an approved integrated design for both Phases 1 and 2
- The design for On-street track will be acceptable to tie at its absolute discretion
- Acceptable remediation strategy for remedial work to PSSA works
- tie will be able to vary the Scope only for the satisfactory completion of the Infraco Works. e.g. No 'betterment'
- Infraco will have the benefits and burdens arising from value engineering.
- Leaves open the option to pursue Infraco/SDS for design issues
- Infraco will be responsible for:
  - Ground conditions
  - Unforeseen utilities up to £50k
  - Landfill Tax
  - Obtaining approvals



# Risks to GMP

- Client instructed changes, including 3<sup>rd</sup> party changes, will be extra
- Delays to tie managed on-street works
- Unforeseen utilities greater than £50k

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# Carlisle upsides

- Delivers a tram in the shortest possible time
- Utilises money already spent
- Alternative is termination (worse than Carlisle)?
- Incorporates all delays and changes (whether 'justified' or not)
- Keeps open the option to pursue SDS
- Certainty
- Agreed timetable

# Carlisle downsides

- Is termination a 'better' option?
- Trust
- Any BSC 'pricing errors' are lost
- Best value design lost
- Opportunity to prove liability for changes/delays is lost
- Affordability/ value for money
- Reconciliation with original expectations

# Legal

- Project Carlisle is entirely without prejudice
- A Counter Offer will not be legally binding
- Any deal subject to board/shareholder approval on both sides
- Counter Offer takes account of EU Rules – but not fool proof answer

# Outline deal timetable

Activity	By whom	When 2010
Explain Scope	Joint PC Team	17 August
Finalise and issue Counter-Offer	tie PC Team	23 August
Meet and discuss Counter-offer	Joint PC Team	25-28 August
Revise counter offer if required	Joint PC Team	29 August
Meet to finalise price and any outstanding terms	Principals and advisors	By 3 September
Agree HOT's	Companies	8 September
Finalisation	Companies	15 September

ajrexplanation 17/8/10

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# Factors affecting tactics

- Likely outcome of GMP negotiations
- Sharing of pain versus 'burying the dead'
- What is 'fair value', depends on your view
  - Best value design
  - Delays
  - Who is liable for 'Changes'
- Affordability
- Blame?
- Pitch too low they walk?
- What does it look like to them?

# What does Carlisle look like to them

- The revised Scope is advantageous to BB(UK) - it gives them a clear exit and removes substantial risk.
- The revised Scope leaves Siemens with an uncertain exit and removes no risk.
- CAF have possession of 27 Trams for which they have been paid – they may attempt to hold tie to ransom (EK thinks they will).
- SDS are between a “rock and a hard place” and will be controlled by their PI Insurers.

# Appendix A – omitted civil engineering works

- site clearance ;
- traffic management;
- planing road carriageways;
- taking out and relaying kerbs and kerb logs;
- dealing with any obstructions/soft spots/utilities/voids;
- constructing track drainage;
- installing cable duct banks;
- OLE pole foundations;
- reinstating/renewing paving ;
- all civils works for new traffic signalling at junctions/pedestrian crossings;
- pavement reconstruction;
- constructing central reservations;
- re-installing street furniture;
- completing landscaping/street-scaping works ;
- all associated stakeholder management and liaison functions.



# Appendix B -Design Failures

- SDS are claiming an additional £14.5m
- Our GMP offer excludes any payment to SDS
- We will reserve the right to pursue Infracore Parties for negligent design
- The issues
  - why has the design changed so much?
  - is it best value?
  - Why is it late

# Appendix C - Reconciliation of project Carlisle to original contract price

- Project Carlisle range of possible outcomes £614m-£693m
- Original price £512
- Best case delta is £100m
- Worst case delta £180m
- Minimum extras(£100m)
  - Additional new risk allowance £30m
  - Changes included in GMP £44m (some client, some allowed for in original £512m)
  - PSSA £5m
  - Other costs £55m (phase 1b, utilities, project costs, other infrastructure, included in original risk allowance)
  - Less £30m original risk allowance
- Possible extra swing factors (£80m)
  - Agreeing GMP £20m (delays)
  - On-street costs £25m
  - Other costs £15m
  - PSSA £5m
  - SDS £14m