

# Tram Project Board

12<sup>th</sup> March 2008

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## Introduction

- In this presentation, we will summarise the current position and the approvals process which supports it.
- We will then describe a range of key points important for an understanding of the contract terms.

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## Overview

- Since the last TPB the effort has focussed on supporting Notification of Award before the Council meeting on 13th March.
- This recognised the importance of that meeting but also created a deadline in a world of limited leverage.
- Corraling BBS, SDS and (to a lesser extent) CAF has continued to be very difficult, background factors well-known.
- Position today is that we believe we have a robust basis on which Notification can be executed.

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## Support for Notification

- The process is that we must reach agreement with the counter-parties on all material issues, have the key documents in materially agreed form (or in some cases signed off) and a risk assessment of all residual areas.
- All material issues are resolved.
- The key documents:
  - Infraco contract + key schedules
  - SDS Novation agreement
  - TMA / TSA + Novation
  - key NR agreements
  - a number of third party agreements
  - tie / TEL Operating Agreements
- Evidence of counter policy continuation.

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## Risk Relating to Notification

- No legal prevention against bad behaviour – but aiming to have no known risk areas left unagreed.
- Full-scale quality control on all documents will be executed before financial close.

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## tie/ CEC Approval Process

- Rolling process of joint working and communication over many months.
- Close Report draft issued in January summarised position on all key areas.
- Close Report updated to current position and discussed with CEC officials, augmented by Report from DLA and risk matrix analysis.
- Notification can be formally supported by combination of :
  - Advice to CEC Chief Executive leading to letter to tie Chairman
  - “Approvals Committee” of messrs Gallagher, Mackay and Renilson conclusion

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## Review of Principal Issues

- Infraco contract terms
- TMA / TSA contract terms
- SDS Novation Agreement
- Network Rail agreements
- Third Party agreements
- Operating Agreements
- Project budget including Infraco / Tramco prices
- Comparison to FBC
- Analysis of risk of procurement challenge
- Readiness for construction period

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## Infraco Contract Terms

- Programme including MUDFA.
- Risk profile.
- Alignment of main defining documents (SDS Design, Infraco Proposal and Employer's Requirements) and risk assessment.
- Performance security.
- Council guarantee.

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## TMA/ TSA Contract Terms

- Alignment with SDS / Infraco and risk assessment.
- Main novation terms agreed.
- Payment security agreed.
- Areas where care is needed in finalising terms include:
  - Equivalent project Relief
  - CAF UK subsidiary to deliver the maintenance
  - Deletion of main items of depot equipment from CAF scope.
- Full-scale quality control of all documents will be executed before financial close.

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## SDS Novation Agreement

- Main novation terms.
- Consents status and risk assessment.
- Alignment with Proposal / ERs.

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## Network Rail Agreements

- APA
- Framework Agreement
- Execution of remaining agreements and risk assessment

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## Third Party Agreements

- SRU
  - On track to be signed by end of week.
- Forth Ports
  - Amendment to existing agreement.
  - Issue to be resolved in respect of baseline costs against which Forth Ports contribution will be measured.
  - This issue may delay signature but not critical to contract close.
- BAA
  - Lease and license both signed.

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## Operating Agreements

- **tie**
- TEL

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# Price, Budget and Risk

Stewart McGarrity

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## Control Budget at Financial Close

£m	FBC Estimate	Infraco Award	Tramco Award	Other Costs	Inc in Est	Control Budget	Cost from Apr-08
Project Management	65.4			0.8		66.1	32.0
Other Resources	6.4			0.5		6.9	0.9
Design	23.7			0.7		24.4	2.4
Traffic management/modelling	2.3			0.3		2.6	0.7
3rd party interfaces	0.3					0.3	
Land and other compensation	20.6			-0.1		20.5	3.2
Insurance	4.5					4.5	4.0
MUDFA / Utilities	51.5	-3.0				48.5	30.2
Infrastructure & Maintenance	223.0	20.8				243.8	202.0
Tram Supply & Maintenance	51.4		5.6			57.0	33.3
Base Costs	449.1	17.8	5.6	2.2	0.0	474.7	308.7
Risk Allowance	49.0	-17.8	-5.6	-2.2	10.0	33.4	33.4
<b>Total Phase 1a Costs</b>	<b>498.1</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.0</b>	<b>10.0</b>	<b>508.0</b>	<b>342.1</b>

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## Infraco Budget at Financial Close

	£m	Weisbaden	Changes	Final Budget
Firm Prices	221.9		6.6	228.5
VE taken into price- with conditions		-13.8	0.1	-13.7
	208.1		6.7	214.8
Provisional Sums	10.2		3.7	13.9
Negotiated Infraco Contract Price	218.3		10.4	228.7
<b>Other Items / adjustments to Contract Price:</b>				
EAL - Burnside Road	1.0		0.0	1.0
Maintenance Mobilisation & Spare Parts	2.4		0.0	2.4
Other Items			1.4	1.4
Contingency against conditions on VE	4.0		-2.0	2.0
Budget Allowance for Infraco (BBS) contract	225.6		9.8	235.5
Non Infraco (BBS) items	7.4		0.9	8.3
Total £ included in Infraco Budget Line	233.0		10.7	243.8
<b>Increase on Infraco line in the FBC Budget:</b>				
Less: Utilities (MUDFA) scope included in Infraco		-3.0		-3.0
Transfer from Risk Allowance Required		7.1	10.7	17.8

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## Infraco Budget at Financial Close

	£m
<b>Infraco Budget after Weisbaden</b>	<b>233.0</b>
Engineering support not in SDS scope	2.5
Management of Tramco interface	1.3
Management of SDS interface	2.8
ERs/Proposals/Design alignment	1.4
Change of programme from April to Jul 2011	3.5
Quality assurance during construction	1.0
Other items	0.3
Allocate part of VE provision to Risk Allowance	(2.0)
<b>Infraco Budget at Financial Close</b>	<b><u>243.8</u></b>

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## Risk Allowance at Financial Close

	£m
Infraco/Tramco Delivery	6.9
Design & Consents	3.3
MUDFA	8.6
General Programme Delay	6.7
Land compensation	1.1
TROs	0.9
Network Rail	0.3
Other	0.1
QRA Total	<u>27.9</u>
VE Conditions	2.0
Road Reinstatement	2.0
Unspecified Risks (Contingency)	1.5
Total Risk Allowance	<u>33.4</u>

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## Cost / Price Certainty

- **95%** of the combined Infraco/Tramco price is firm – the remainder being provisional sums which have been reviewed by **tie** and BBS for adequacy.
- Risk Allowance of **£33.4m** is **10.8%** of **£308.7m** Base Costs to go beyond Financial Close.
- Costs to go at Financial Close comprise:
  - **£219m (71%)** Infraco, Tramco and other firm contracted costs
  - **£23m (7%)** Infraco provisional sums and sundry works
  - **£31m (10%)** MUDFA & utilities costs with firm rates
  - **£36m (12%)** Project mgt & other costs at mostly known rates

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## Overview of Deal relative to FBC

- Cost
- Programme Risk Profile
- Scope unchanged

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## Risk of Procurement Challenge

- Reviewed full process from tender, selection of preferred bidder to end January.
- Changes in price/ programme are substantially aligned to known risks at time of selection and we believe we can demonstrate trail.
- Do not regard relative qualifications as materially different.
- DLA will provide independent view.

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## Readiness for Construction Period

- Management team and resources
- Commercial management
- Health & Safety
- Insurance
- Risk management

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## Conclusion and Next Steps

- Overall process has been difficult and intensive.
- Documents moving to in acceptable form.
- Changes to programme and budget are within acceptable tolerances and compare sufficiently closely to Final Business Case.
- Need a rigorous quality control process now, but we don't anticipate any major changes.
- Conclusion is that we should issue the Notification of Award and drive process to Financial Close around March 24th subject to:
  - SDS Novation Agreement
  - APA

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