

## Colin Smith

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**From:** Anthony Rush [rush\_aj@██████████]  
**Sent:** 06 March 2011 16:26  
**To:** Brandon Nolan; Nigel Robson; Colin Smith  
**Subject:** Valuing Preliminaries - Legally Privileged and FOI(S)A Exempt  
**Attachments:** INF CORR 2773.pdf; tie2785.pdf

All,

There is no single schedule which shows clearly the make-up of the Infraco's Preliminaries although it is adduced in tie's Contract Price Analysis that the Preliminaries amounted to some £74 million (33% of the Contract Price). From Schedule part 4 and other analysis in can be adduced to be £90 million (41% of the Contract Price). By reference to Schedule Part 5 we can deduce that the total Mobilisation & Preliminaries Allowance amounts to £96.307 million including £45.2 million paid as Mobilisation. The balance is split:

	£ million
Bilfinger Berger	30.774
Siemens	13.533
Network Rail Immunisation	3.000
SDS Interface.	3.800
Balance	51.107

There is synergy between Schedule Part 4 and 5 taking account of the additional £6.8 million additional payments for Network Rail Immunisation and Mobilisation.

If the Infraco had been required to value the Preliminaries they would have had to be clear as to what Mobilisation meant and covered.

In valuing allowances for Preliminaries account is taken of Recurring Preliminaries and Non-recurring Preliminaries.

"Recurring Preliminaries" mean those which relate to the value of work done and will include site overheads, head office overheads and profit and escalation (inflation)

"Non-recurring Preliminaries" mean those which relate to site establishment, method related charges, insurance and bonds and which I would argue are included in the Mobilisation Payment

In Schedule Part 4 Appendix A2 and Appendix F there is a detailed analysis of Preliminaries amounting to £52.755 million, which is split down in Appendix F to:

	£ million
Recurring (referred to as time related)	26.943
Non-recurring(referred to as fixed)	7.983
Escalation on Recurring	13.762
Escalation on Non-recurring	4.066

Both Schedule Part 4 and 5 state that the Contract Works Price after deductions for Value Engineering amounts to £219.162 million less £96.307 million for Mobilisation & Preliminaries leaves a balance of 122.855. The Value Certified against that amounts to £19.5 million that is 15.8%.

	£ million
The value of Recurring Preliminaries is therefore 15.8% of £26.943 million	4.26
Add for Escalation – 15.8% of £13.762 million	2.17

Add for Network Rail Immunisation. There is a method of calculating included 0.477 in Appendix I of Schedule Part 4 which tie calculate at:

SDS Interface – tie have valued the allowance in full:	3.800
Total	10.707

At this juncture I would also expect to pay the additional costs agreed in relation to EOT 1 of £3.524 million.

Bringing the total to £14.3 million compared with previously certified by tie:

	£ million	
Bilfinger Berger	21.741	
Siemens	9.348	
Network Rail Immunisation	0.477	
SDS Interface	3.800	
Total against Schedule 5 - £51.107	35.366	69%
Total Mobilisation and Preliminaries Certified against £96.307 m	80.566	84%

It should be noted that they have also recovered £5.3 million in Preliminaries through Changes Certified.

By my method of valuation the Infraco have been over- certified by >£21 million subject to them being awarded additional costs for delay. It may be argued that there should be some allowance for what Infraco refer to as "Fixed".

The Infraco have claimed £10.5 million more than tie have certified. Either way the generous method of valuing Preliminaries has taken the pressure from them to give detailed particulars of additional cost.

I also refer to the attached letter INF CORR 2773 (5 November 2009) which inter alia refers to using Appendix F and how future additional costs of delay will be valued.

By the attached letter 2785 (13 November 2009) tie offered 9 months extension of time with six months of additional costs (assumed to be based on the principles of the earlier letter). The offer for additional costs was later withdrawn and BSC always refused to accept the offer.

A valuable exercise would be for tie to carry out a demonstration calculation for additional costs entitlement arising from letter 2773.

Tony

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