

VERIFICATION REVIEW

Transport Scotland and TIE

31st January 2007

Attendees

Nadia Savage
Geoff Gilbert
Damian Sharp

@ Citypoint offices / Edinburgh

Matthew Crosse, Lorna Davis and Matthew Spence (part)

Documents Used: tie submission to TS
TS email questions on submission to tie

Document used at meeting (as presented by tie). TS confirm sight of Infraco ITN Analysis Summary. tie to confirm the document used with date ref No and Version No.

NORMALISATION PROCESS:

Process (Ref Page 1 of tie submission) discussion around flow chart. TS agree process is logical and robust, but require certainty that it has been applied. Adjustments made during normalisation were a mixture of tie rates and the bidders rates were appropriate – all adjustments increased the bids.

(Ref Page 2 of tie submission) List of items that were ‘normalised’

Specific questions:

NWR possession support: What is included in the £755k for NWR possession support: Interface, management, compensation, manpower and correspondingly how does this relate to risk items?

Noted that Infraco bids have been normalised to include NWR Immunisation but that it is known that it will not be undertaken by Infraco. tie/NWR/TS yet to decide how it will be undertaken but in the interest of consistency i.e. previous estimate compared to revised estimate, it has been left in the Infraco estimate.

Charrette changes: minor adjustment under Infraco – Not amended in Mudfa but risk allocation related to Mudfa anticipated will cover this element.

Road Resurfacing: both adjusted upwards using the rates to reflect full width resurfacing.

Minor Utility diversions: Neither Mudfa nor Infraco requested to price - tie inserted adjustment to provide.

Substation: 1 bidder adjusted with their rate to reflect required quantity

UTC Signalling Work: TS request specific response to demonstrate tie adjustment is sufficient with reference to quantity and benchmark exercise (2.5m)

Balgreen Road Bridge: Change since tender to new structure. Tie have inserted their price to each bidder for a new structure (500k). tie to respond with detail.

Tram on board signalling: Bidders own estimate (as advised by bidders assumption)

Murray field Pitches: tie adjusted both but this may be an opportunity.

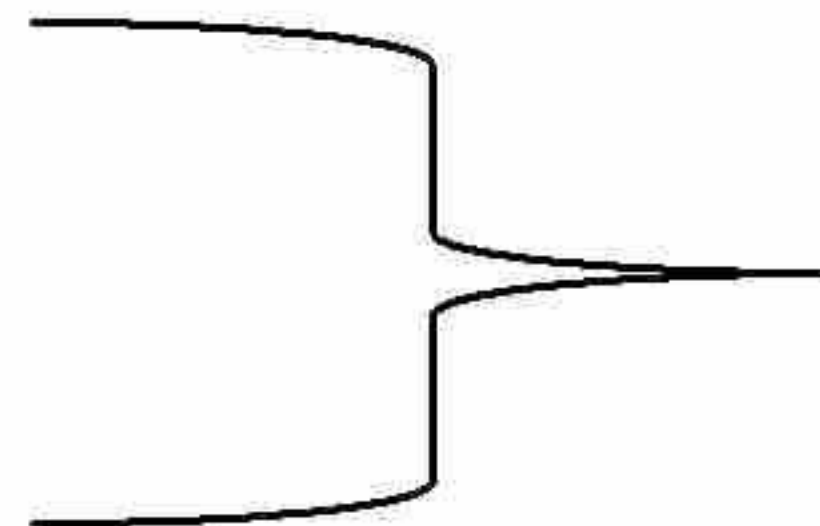
Accommodation Works: £1m provisional sum added. Question asked whether this was linked to a risk register item? Suggestion made by TS that £1m be capped and Council have to pay anything over for what they promise residents. CEC will be responsible for scope creep. TS to consider this in Grant Terms.

Electrical Power for Commissioning: Post T&C running costs are down to TEL.

Road Fund: Methodology and pricing flow were connected by tie for one bidder.

Areas where adjustment is not apparent?

Interchanges – Leith Walk
St. Andrews Sq
Haymarket
Etc.



How did the bidders deal with this?

tie think this is covered under charrette adjustment. TS require specific detail to substantiate that adjusted price covers what will end up being delivered.

Contract Terms and Conditions : Bespoke Contracts have led to aggressive exclusions or amendments being returned.

Are the bidders protecting their position or seeking to change the strategy?

Bidders concerns are related to lack of design , lack of approvals (prior consents) etc.

TS do not accept that T & C exclusions or amendments will not lead to cost increases (potential) during negotiations of deal.

TS require a response describing why there has been no adjustment for normalisation for T & C exclusions/amendments. And therefore how these items are being treated in terms of action plans and Risk Register.

TS have a concern over the negotiation process itself up to final deal in July 2007. What is the process, how is delay going to be mitigated ? This is going to sit alongside the process of tie submitting a final business case. Again how are tie going to improve this process so that there is not a programme impact. Tie respond covering all of this .

TS to confirm to confirm TS requirements for the delivery of FBC including timescales, comments, etc to reach decision in October 2007.

Track bed design requires no normalisation it is not considered to be in similar situation to structures.

Maintenance and Renewal of TRAM , INFRACO etc, tie to respond specifically on Revised Capital estimate, related to maintenance, part renewal ongoing costs for design life (assumed 30 years). It is accepted the Scottish Executive will then pay for expired life renewal i.e. plus 30 years. Bid, TEL Business Case and FBC must all link together. Tie to specify response.

Question 3 - Noted (Page 3 Notes)

Question 4 – Programme (Page 3 Notes)

Tie confirmed that bidders response selected into revised estimate is the price that included inflation and had a Nov 2010 end date.

TS question the programme. Tie confirm that the programme has no float. TS consider this unrealistic. Where does the risk of programme delay reflect in the price. Tie confirm this is reflected in the Risk Register. TS require this detailed assessment to judge accuracy.

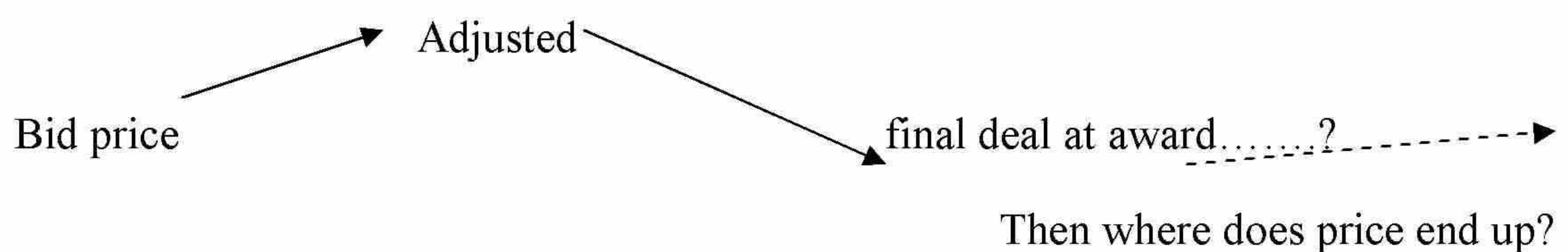
Probability of Programme end date- confidence level to be communicated by tie to TS.

Tie to specifically reference programme numbers and version /dates for traceability in response to TS

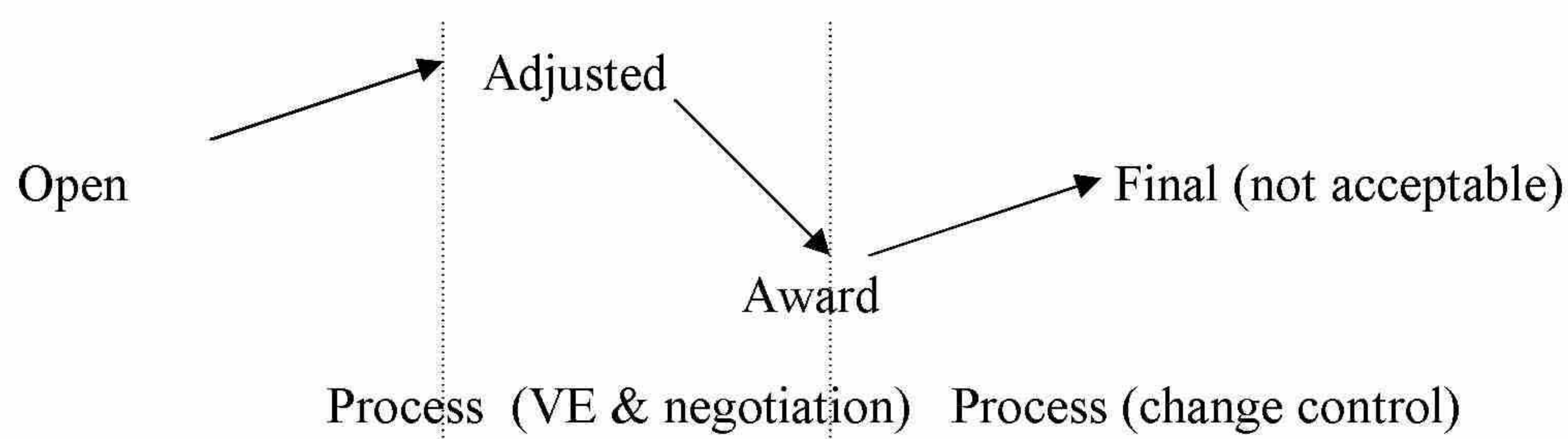
Specific question from TS : Street works based on conventional construction . Noted. But have the bidders used standard dates. Bidders have not requested any works outwith the Construction Code of Practice. TS see this as an area of opportunity to improve programme and possibly reduce cost.

There must be an action plan from tie that details how programme risks and oppprtunitoes will be realised/mitigated. TS confirm that if require Gerry McQuade may require to be involved to help achieve assurance.

Negotiations (x reference this note with question 6) : the picture being painted at present is



TS require evidence from previous projects of the price at award being less than the adjusted price. Essentially require evidence that the savings are possible. Lastly require evidence that in the examples quoted the final delivery price stayed at award level and did not creep back up.



SDS Question 5

Novation : (Page 3) Noted. TS ask why should TS believe that the issues on novation will be dealt with. The real crux of this is SDS performance. What are tie doing about this ? How does this link to negotiation of award ? The plan for SDS must address actions on both sides (tie page 6).

If TS provide money to keep the project going then there will be a condition that TS have more visibility of the success or otherwise of the remedial plan to treat the SDS problem.

To note : If TS state yes to some money to continue then there may be a specific condition about the 5 year lease or otherwise on tie premises. There must be a contingency to transfer the lease to another body or project – tie must take responsible steps to minimise the loss.

Related to novation and the point at which novation happens : Design development between ITT design and design at award/novation. Tie confirm that both bidders have included “risk” money to cover for this - one through a provisional sum (24m) one through spread of preliminaries. Tie to confirm they consider this sufficient and that there is no other risk allocation to cover this. Tie recognise scope creep risk during this period is a risk held by them (but as they state the funds for it are included in the infraco bids).

Tramco Novation. (Page 4) Question 5

One bidder has essentially offered £1m reduction if bidder proposed tram is used. But will still be happy to use any tram provider but no saving. Other bidder has not stated anything in relation to tramco.

Tie reinforce that the principle of the procurement strategy is to de-risk the deals. They need to make it a happy marriage which is where facilitated negotiation comes in.

TS note that “ synergy savings” of a Infraco / Tramco have not really materialised – compared to previous intimations from bidders.

Tie to respond to TS formally with existing position and future strategies to mitigate impact of Infraco/Tramco difficulties (if any).

Question 6 – Savings and how to achieve

see later in notes where this is addressed

Question 7- Escalation

Tie confirm that TS Model has been/will be applied to both cost & funding .Tie to communicate detailed workings of escalation calc for costs and funding to TS.

TS to review and confirm compliance model and suitability. If this information is exchanged and agreed it means both parties concur at this stage that cost and fund values are at outturn.

Note on indexation : TS confirm funding is indexed - CEC funding may not

TS to confirm /clarify to tie what happens to payment of actual cost related to actual inflation/lower inflation. Such that tie can understand if the infraco price is fixed including inflation but actual inflation is less – will TS pay current cost and actual inflation or will they pay fixed price. Tie to check that fixed price is not an overly great premium for inflation.

Question 7 – Savings (Page 5)

Tie confirm two prong approach –Margins
- Base cost

base cost – bidders proposed savings
tie proposed savings across total estimate
common to both

Note that the negotiation strategy should not depend on a commitment to 1b.
0M/14M/28Mm range.

Negotiated Savings: tie will provide an outline negotiation strategy. This needs to provide guidance on the areas of margin being targeted , demonstration that is similar has been achieved before, sell tie's strengths of the existing team but bear in mind guarantee is required that these people will be [resent throughout negotiation as negotiation is a people based skill not a tangible engineering experience exercise. Proposal will have to reflect that. Proposal will also have to close the loop post award to final account – what processes are in place to prevent creep and successful bidder then maximising revenue.

Value Engineered Savings (Page 5 & 6 & 7)

Process reviewed and discussed. Recommendations for alterations proposed by TS incl.
- visibility to TS over next 4 weeks
- x check with SDS prog. for deliverability
- resource commitment from tie to lead and secure
- WLC assessment to feed business case

Geoff in lead initially then Mike Jeffrey's will lead.

Needs to achieve confidence that £14m will be 80 % category.

Need to close the loop again regards price at final account and securing this change preventing scope creep. Approver buy in i.e. CEC for any of the proposed VE options.

Question 8 – answered – need formal tie response .

Question 9 Risk

Tie confirmed that 1a is separate out now = £48.6 through Montecarlo (43 base + 5 inflation)

Tie to respond confirming value is 48.6 post inflation, confirm split across estimate headers, confirm why apportionment is like it is. Note that some risks are not included on risk register, list them and state value and where it is included.

Also to review content of the Risk Register and lists to ascertain suitability.

Nina and Gerry to work to apportion cost cover TS WBS/lifecycle to understand when risks occur in time frame.

Risks without cost quantified such as TRO showstoppers should also be listed and treatment plans/examples provided e.g. QC advice backing approach to TROs. Also new risks not yet in P90 figure of 48.6 must assume to be in headroom – tie to state what these are.

Question 10 – Divergence (Page 7)

Response noted and discussed . TS request a comparison also be provided on the bidders returns related to T& Cs exclusions and assumptions.

Question 11 – Traffic Lights

Are all areas of cost marked green really green i.e. £24m infraco allowance for emerging design – is this not amber or even red ?

Substantiate/ensure green is green before we use otherwise this, if disagreed with , would undermine confidence.