

Edinburgh Tram Procurement of Tramco and Infraco

The City of Edinburgh Council

25 October 2007

1. Purpose of report

- 1.1 To explain the evaluation methodology adopted by **tie** considering the Tramco and Infraco tenders during the invitation to negotiate tender process (ITN) and demonstrate how value for money is being achieved within a competitive tender environment.
- 1.2 To present to Council the current position of **tie**'s tender evaluation, for the supply and maintenance of the infrastructure works (Infraco) and tram vehicles (Tramco), and seek the Council's endorsement of **tie**'s selection of preferred bidders on receipt of the Supplementary Paper containing details of the Infraco Preferred and Reserve Bidders.

2 Summary

- 2.1 **tie** has successfully negotiated costs and process with the various bidders. The procurement strategy has been assessed and endorsed by the Office of Government Commerce (OGC). The outcome of this assessment is that **tie** have conducted a robust and comprehensive procurement process for Tramco and Infraco respectively. The contractual negotiations are still ongoing. A report will be made to the December Council meeting on final tender acceptance and full details of respective tenders.

3 Main Report

Procurement Strategy

- 3.1 The strategy followed by **tie** to procure the Infraco and Tramco contracts has been developed to address the common challenges faced by all light rail procurements and the specific issues associated with Edinburgh. The procedures adopted follow EU procurement regulations and are aimed at ensuring that best value can be achieved in the negotiations over price, and contract terms and conditions.

- 3.2 The strategy was designed to ensure that Edinburgh Tram matched the City's needs and provided value for money. By procuring tram vehicles and tram infrastructure separately **tie** has been able to select the best combination. This contrasts with other light rail procurements, where vehicle suppliers and infrastructure contractors have bid as consortia resulting in a compromise solution. The strategy also involved advanced design and advanced utility diversions. This has reduced risk to the project and has assisted in negotiating competitive prices with bidders.
- 3.3 The Office of Government Commerce (OGC) Gateway 3 review concluded on the 4th October 2007 that the project was given the green light:
- **tie** has conducted a robust competitive procurement in a difficult market within the agreed procurement strategy.
 - The project faces a challenging period over the next three months with the requirement to appoint preferred bidders. Due diligence and contract novations are to be finalised by Infraco.

Tramco

- 3.4 Bids to supply vehicles have been evaluated based on the whole-life price, including maintenance, as well as the vehicles' qualitative features. Therefore, the cost of spare parts, special tools and specific maintenance programmes, both annual and periodic, has been considered, in addition to the upfront vehicle supply costs.
- 3.5 Two separate, but related agreements have been negotiated with preferred bidder: the Vehicle Supply Contract and the Vehicle Maintenance Contract. These contracts will be executed simultaneously. The Vehicle Supply Contract covers the design, manufacture and supply of vehicles, capital spares, special tools and associated equipment. It also includes, as necessary, option prices for additional rolling stock should the anticipated further phases of the system take place, and to facilitate the proposed phased approach to the procurement.
- 3.6 The maintenance element of the contract has been subject to variant bids similar to the Infraco maintenance contract. The reference case was to provide tram vehicle maintenance for an initial 30-year operating period. Shorter maintenance periods with the option to extend in three yearly increments up to a maximum of 30 years were also considered. This approach tested the value for money of the reference case. The negotiated contract provides for the vehicle supplier and vehicle maintainer, for at least the initial five years, being the same company. However, this policy remains the subject of further discussion and development within **tie** and TEL and the performance of the vehicle supplier.
- 3.7 It is intended that both the Vehicle Supply Contract and the Vehicle Maintenance Contract will each be novated to Infraco at the signing of contracts. The Vehicle Supply Contract has a warranty / defects liability period post full service commencement matched to the Vehicle Maintenance Contract duration. On expiry or termination of the Infraco contract, the Infraco is contractually obliged to assign the Vehicle Maintenance Contract (and also the Infrastructure Maintenance contract, assuming that neither have expired) to TEL or another suitable party.

3.8 Tramco procurement process

Steps taken in Tramco procurement:

- Four bidders were prequalified;
- Four bids were returned on the 9th October 2006;
- Bids were evaluated and two bidders were selected for further negotiation; and
- Negotiations have been concluded, evaluation updated and a preferred bidder selected.

3.9 The two final tenderers were CAF and Alstom who both provided competent and competitive submissions, within the available budget. The evaluation team considered that CAF should proceed to preferred bidder stage.

tie's procurement sub-committee concluded that the prices were demonstrably lower than the current market benchmark.

Infraco

3.10 The Infraco contract covers the construction and maintenance of all tram infrastructure. The Infraco contractor will also be responsible for integrating the outputs of System Design Services (SDS) and Tramco under the novated contracts, together with its own subcontracts. Under this arrangement the Infraco will be required to carry out and / or manage a comprehensive turnkey contract, including the design (effectively only any remaining detailed design and installation / fabrication design), construction, installation, commissioning, vehicle procurement, system integration, infrastructure maintenance, vehicle maintenance and supply of related equipment and materials in respect of the tram system, the tram vehicles and related infrastructure. Certain of the system performance obligations will persist for the duration of the maintenance contract period.

3.11 The evaluation of bids to construct the infrastructure have been undertaken based on the price for the delivery of the infrastructure, together with maintenance and lifecycle costs, as well as qualitative features. Unlike the vehicles contracts, **tie** proposes to procure the initial construction and the ongoing maintenance under a single contract with the successful bidder.

3.12 The maintenance element of the contract has been subject to variant bids with the reference case to provide infrastructure maintenance for an initial 15-year operating period. Shorter maintenance periods with the option to extend in three-yearly increments, up to a maximum of 15 years have also been considered. This approach both maintains flexibility in terms of future maintenance provisions, and tested the value for money of the reference case. However, the terms of the maintenance agreement remain the subject of further discussion and development within **tie** and TEL prior to completion of the construction phase.

3.13 Infraco procurement progress to date

The current status of the Infraco procurement is:

- The Infraco bid document was issued on 3rd October 2006;
- Initial bids and subsequent further rounds of bidding culminated in negotiation with both bidders to obtain Best and Final Offers (BaFO) from both.

October 2007

On 15th October 2007 the board of **tie** considered Preferred Bidder and Reserve Bidder for recommendation to the Council. Both bids met the performance criteria and could be delivered within the available budget. The conclusion of preferred bidder was established based on a combination of factors.

Due to remaining issues around commercial confidentiality and to preserve the Council's interests the names of bidders and figures relating to the appointment cannot be given at the time of writing, but will be available in advance of the Council meeting. Full details will be presented at the time of recommending acceptance.

Next Steps

3.14 Following appointment of preferred bidders for Tramco and Infraco, further negotiations will take place with the preferred bidders in advance of final offers being made and presented to Council on 20th December 2007. Final approval will be sought from Transport Scotland prior to contract award in January 2008.

3.15 Negotiations will address the following issues:

- Resolving outstanding design issues
- Assessing Value Engineering proposals for additional cost savings
- Novation of SDS and Tramco Contracts to the Infraco
- Finalising contract terms and conditions, including risk allocation

3.16 The bids from the reserve bidders will be kept on hold until contract close to maintain competitiveness and to provide a contingency in the unlikely case of bidder withdrawal.

4 Financial Implications

4.1 The ITNs' for both Tramco and Infraco are consistent with the Final Business Case version 1 (FBCv1) and are within affordable limits.

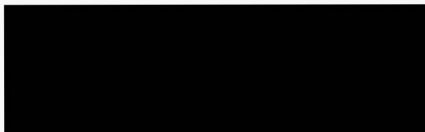
4.2 Final costs and prices will be reported to Full Council on the 20 December 2007 following the final negotiation with the preferred bidder and tie.

5 Conclusions

- 5.1 The Tramco and Infraco tender offers have been successfully negotiated within a competitive environment. The preferred bidder submissions offer value for money and have been scrutinised by tie and confirmed as being competent bids. Both bids are within budget.
- 5.2 Subject to the approval of the Full Council the next stage is the final negotiations with the bidders, the outcome of which will be the final offers that will be reported to Full Council on the 20 December 2007.

6 Recommendations

- 6.1 To endorse tie's procurement process and selection of preferred bidders through to the next stage of final negotiation with Infraco and Tramco.
- 6.2 To note that a supplementary paper will be provided advising of the names of the preferred and reserved Infraco bidders.
- 6.3 To note that a report will be made to the December Council meeting on final tender acceptance.



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Donald McGougan
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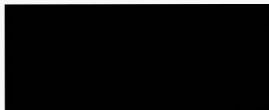


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17.10.07

Appendices None

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Wards affected All

Background
Papers