

Stroud District Council

VALUE FOR MONEY PROTOCOL

BRIMSCOMBE PORT

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1. VALUE FOR MONEY PROTOCOL

This Value for Money Protocol (“the Protocol”) sets out how the Partnership will demonstrate value for money to Stroud District Council throughout the duration of the Partnership and having regard to all activities undertaken however delivered. Specifically, this Protocol is intended to apply to the following cost headings:

- Construction costs – all types (groundworks, house building and other construction works;
- Professional services – whether connected with the general operations of the Partnership and delivery of the project;
- Funding – general banking, development/project finance, etc.

In all cases, this Protocol applies whether any of the above is sourced from within the organisations within the Partnership (including subsidiaries thereof) or whether they are procured in the wider market place.

2. DEFINITION OF VALUE FOR MONEY

It is agreed value for money is not just about price, albeit this should always be the determining factor when all else is equal. There are a wide range of other considerations that may be taken into account when assessing value for money. These include:

- Quality, determined as may be relevant and appropriate to the specifics of the scheme but with particular relevance paid to:
 - the community experience and outcomes
 - whole life value
- Programme, with particular reference to the period over which any benefits linked to investment are realised (the return on investment, whether financial, social, etc.)
- Risk transfer, again with reference to the nature of risk on an individual scheme and how this is apportioned between the Partnership and delivery partner. Risk should always be allocated to the party best placed to manage this risk and in a manner that:

- Ensures risk premiums included as part of fixed pricing arrangements are commensurate with the level of risk being transferred, and reflect the 'best for project' outcome
- Recognises the benefits that collaborative contractual models may offer in terms of sharing and managing risk effectively
- Wherever appropriate, links payment to the attainment of outputs and/or attainment of required performance levels
- Wider socio-economic benefits, having regard to the Social Value principles the Council expects the Strategic Partner to embed into the project, including Local Wealth Building.

Price will be assessed dependent on what is being procured, but is likely to be evaluated based on one of the following:

- Lowest project cost (works contracts, professional services, etc.)
- Lowest nominal/real/NPV cost (service contracts, funding packages, etc.)

3. DEMONSTRATING VALUE FOR MONEY

There are a number of ways in which value for money might be demonstrated. One or more of the following techniques must be used to provide a transparent means of assuring the Partnership Board that value for money has been achieved:

- Competitive tendering
- Benchmarking against historic schemes delivered by the Partnership
- Benchmarking against the wider market
- Market testing using an agreed and sustainable methodology
- Open book
- Use of frameworks where commercial terms have been agreed in a competitive process. Frameworks may be specific to the Partnership or may be wider industry frameworks.
- Approved schedules of rates

The basic principles as to how each of these will be operated are set out in the remainder of this section.

4. COMPETITIVE TENDERING

Competitive tendering should always be carried out having regard to best practice, and in the spirit of the public procurement regulations. Processes and procedures should always maintain transparency and equality of opportunity.

Competitive tenders will usually be issued to at least three organisations; however, the Partnership Board may agree to reduce this number if there are specific circumstances relating to an individual tender that warrant this.

The Partnership will proactively work to develop supply chains for all aspects of its activities and will ensure competitive processes provide fair opportunity across these supply chains. An important element of this activity will be to ensure all opportunities are appropriately advertised/publicised. The Partnership will not operate closed tender lists: a clear rationale should underpin the tender list selected for any individual project that recognises key issues including (in no particular order):

- The appropriateness of an organisation to work on the project.
- Experience, capability and capacity to complete the activities sought
- Market appetite: ensuring that tender lists and tender strategies best reflect the prevailing market conditions and how best to secure competitive tension
- The ability of an organisation to offer and underpin appropriate performance guarantees/warranties commensurate with the activity being undertaken

Competitive tender processes should be properly documented, and the basis of decisions recorded at all stages of the process, enabling a full and transparent audit trail. These records shall be made available for review by the Council as part of any reasonable request and at any time before, during or after activities have been undertaken.

5. BENCHMARKING

It is vital that all benchmarking exercises are properly conducted in accordance with good industry practice. Specifically, this should include:

- Ensuring that comparison is made on a 'like for like' basis, ideally using 'raw' data from similar relevant schemes. It is recognised however that more often than not, data will require some adjustment for items such as price inflation, scale of activity, etc. Wherever adjustments are made, these should be:
 - completed using standard indices selected to best match the nature of activities concerned.
 - applied to the relevant parts of the cost data, rather than the whole amount i.e. adjusting individual elements of cost (e.g. cost of elemental works, preliminaries, etc.) rather than applying indexation at a whole cost level
- Ensuring benchmarking data groups have a sufficient sample size and/or provenance to give the necessary assurance that it is indicative of the prevailing market.

Benchmarking exercises enable costs to be compared, and the value for money of any future proposition to be interpreted by the Partnership Board. Additional factors that must be considered as part of any interpretation (as opposed to any adjustments in the benchmarking exercise) include:

- The benefits of continuous improvement, either passed down from the Partnership to a supply chain partner, or as a result of the same supply chain partner undertaking similar works to those already underway/previously completed
- The benefits of any wider economies of scale that could be realised by aggregating collective activity within the overall programme or on a locality basis with other client groups
- The benefits of longer term commitments, which in turn should allow more effective planning/delivery on the part of the supply chain partner
- Other differences in the specified activity that form part of the overall value for money judgement as set out in Section 1.0 above.

Benchmarking data should be final outturn costs rather than tender costs, budgets, etc. This will avoid skewing benchmarking exercises with particular concerns relating to:

- Inflated initial budgets by virtue of substantial risk allowances, unknowns, etc. and where the cost at completion was substantively lower

- Initial budget or tender returns that were the subject of subsequent change as a result of variations/claims

6. MARKET TESTING

In the context of this Protocol, market testing is considered to be securing alternative prices from the market place to deliver the specified works/services/funds in order to demonstrate that a proposition is 'on-market'. It is not necessarily a competitive tender.

Market testing will only be an acceptable means of demonstrating value for money on 'off the peg' standard activities i.e. those that are clearly defined and understood and can be readily priced within the general market place.

A valid market testing exercise must be conducted having regard to the following:

- Packages of work to be market tested must be relatively standard in terms of their nature, how they are packaged, and the terms and conditions on which they will be let. The Partnership Board will disregard any market testing exercise where it is considered that the scope of works is likely to distort the integrity of the process. Examples where this may be the case include:
 - Combining several activities in a manner that makes it impossible for any peer organisation to properly offer a comparator price
 - Including commercial or technical risk that is beyond market norms, and requires an unreasonable amount of work from any peer organisation to understand the implications of such prior to offering a comparator price
 - Using bespoke terms and conditions (which includes substantive amendment to standard form contracts), where any peer organisation would need to engage additional internal/external support (and therefore cost) to understand the implications of such prior to offering a comparator price
- Generally, where market testing results in a peer organisation providing a lower cost, then they shall be entitled to step-in and deliver the service on the same terms as which the price was obtained. Where market testing is conducted with a 'right to match' provision for an incumbent/preferred provider, then the peer organisation shall be entitled to payment of its

reasonable costs (which may be specified beforehand) in preparing the comparator price in the event that this provision is exercised.

OPEN BOOK

It is recognised that whilst Open Book working provides a robust means of demonstrating value for money, it also requires a significantly greater level of input (and therefore cost) in administering the process for both the Partnership as client and the supply chain partner. The selection of this process as a means of securing and demonstrating value for money must recognise and reflect this consideration, and the Partnership Board must be content that this means of contracting offers the best value for money and most appropriate procurement route having regard to these additional costs when compared to other options available. With this in mind, it is generally expected that open book approaches will only be adopted on low value or highly specialised works/services packages where:

- The scope and level of input for works and/or services to achieve the required outcome cannot be reasonably be defined in advance
- Alternative pricing structures are reasonably considered to offer poor value for money as a result of contingent/risk pricing
- There is a clear commitment on the part of the supply chain partner to participate in a genuine open book process

As appropriate and with particular reference to the initial bullet point above, the Partnership Board may determine an open book process is appropriate for more significant activities only in conjunction with other commercial mechanisms to control open ended commercial commitments.

Possible examples include:

- Linking open book processes to target cost structures, where the supply chain is incentivised to manage/mitigate cost overruns. In such instances, the target cost is to be derived in accordance with this Protocol.
- Using competitive tender/benchmarking/market testing processes to secure unit rates/commercial adjustment factors that would be used in open book calculations to include:
 - Agreed mark-up on tier 2 supply chain (contractors, consultants, suppliers, etc.)

- Corporate overheads on self-delivered work (which includes work undertaken on any group affiliate/subsidiary companies). Overheads will include all head office, divisional and corporate overhead costs as follows:
 - Franchises, royalties, licences
 - Taxes (e.g. Council Tax/Business Rate etc.)
 - Interest, financing charges, banking charges
 - Company accounting / auditing
 - Research and development
 - Business and works insurance premiums including warranties, professional indemnity and product liability insurance
 - Non-Programme or Project specific stationery and consumables
 - Marketing, sales, exhibitions, advertising including agency fees and publication costs
 - General fees paid on a regular basis, including trade bodies and professional fees
 - Legal advice, fees and services
 - All Corporate management, technical, administration and service staff and non-project-specific staff including HR, Finance, Commercial, Accounts, Purchasing, HSQE and IT
 - Company cars, where not allocated directly to project specific staff
 - All non-Programme/Project specific accommodation costs including all services, administration, maintenance, furniture, equipment, rent, rates, taxes, telephone, fax, reprographics, couriers, postage
 - Corporate computer and telecommunications hardware and software systems

- All staff/HR costs associated with recruitment, statutory payments (maternity, paternity, sickness, etc.), redundancy, employee grievances, etc.
 - Tendering costs
 - Charitable donations and entertaining
 - Training and development costs (save for where specific to the Programme or Projects within it)
 - Parent Company Performance Guarantee/Performance Bonds
- Profit

Where open book processes are used, the supply chain partner must be required to evidence all costs relating to:

- Staff costs: Actual costs relating to named staff engaged on the programme/project directly employed by the supply chain partner, including but not limited to salaries, benefits to which an employee is contractually entitled, allowances or expenses incurred in delivering their designated role, plus employer direct costs associated with their employment. The following costs will not be permissible:
 - Statutory payments
 - Bonuses or other benefits linked to business performance
 - Training and development costs unless offered to meet specific requirements relating to the delivery of the project/programme that would not ordinarily be offered by the employer
- Project specific establishment costs: Actual costs relating to accommodation specifically procured for the delivery of programmes and/or projects not forming part of the supply chain partners corporate accommodation portfolio. Accommodation costs in this instance include property costs, energy costs, facilities management costs and the costs of general consumables.

- Actual costs relating to the use of purchased vehicles, plant and equipment. For the avoidance of doubt, in no instance shall the charges levied for these items exceed the general market rates for the hire of the same.

SCHEDULES OF RATES

There are multiple published schedules of rates within the housing sector, the majority of which are usually the subject of an 'adjustment factor percentage' when calculating the actual amounts to be paid.

As a result of this, the use of schedules of rates can only be considered as demonstrating value for money in the event that this adjustment factor is secured by way of:

- A competitive tender process
- A robust benchmarking process

The only exception to this is the bespoke schedule of rates tendered as part of the competitive process used to establish the Partnership itself.

7. ENHANCING VALUE FOR MONEY

In addition to demonstrating value for money at the outset of any engagement, the Partnership is also committed to improving value for money through the delivery phases wherever possible.

The Partnership recognises that there is significant potential to drive continuous improvement through the design and delivery processes it undertakes. Wherever appropriate, commercial structures will be designed to capture this opportunity.

CONTINUOUS IMPROVEMENT

Continuous improvement provisions should be embedded in arrangements wherever possible.

Specific areas where continuous improvement should be considered are:

- Value engineering of design solutions, provided that these maintain the minimum standards of functionality
- Improving whole life value: opportunities include the standardisation of products to improve aggregate purchasing and maintenance efficiencies, substitution of products with better whole life characteristics, etc.

- Taking advantage of emerging technologies/products to enhance efficiencies as a result of remote monitoring, intelligent servicing cycles, etc.
- Process re-design – using lessons learned and performance reviews to increase efficiencies in delivery processes

Continuous improvement provisions should clearly identify the basis on which continuous improvement will be measured. Examples include:

- Embedding an efficiency factor into the base price arrangements. Care should be taken to ensure this does not increase the price at the initial offer stage.
- Embedding metrics and/or performance indicators that allow progress to be objectively captured. It should be clear how these link into commercial structures.

CONTRACT STRATEGIES AND CONTRACT PROVISIONS

Different contract forms have different commercial provisions, and the appropriate contract form and contract provisions should be used having regard to the specific circumstances of an individual project or programme. The Partnership Board should consider the most appropriate form of supply chain engagement, having particular regard to:

- The ability of the supply chain partner to understand their risk, and therefore fix a price without the inclusion of inappropriate levels of pricing for the unknown.
- The ability of any party to accurately forecast the outcomes of a project and programme, and reflect this in the initial pricing structures.

OVERAGE CLAUSES

Overage clauses should be incorporated into all arrangements that involve any form of house or land sales. These should be balanced to incentivise the supply chain partner to maximise the outcomes of an individual project but should also ensure that this does not result in 'super profits'. The exact levels of overage that may be fixed will vary from project to project, depending on the initial risk profile, market conditions, etc.

CONTRACT SELECTION

The full range of contract choices should be considered, with choices made based on the merits of each individual project. Choices that should actively be considered are:

- Design & Build
- Traditional
- Target Cost
- Open Book/Cost Reimbursable

It is expected that the Partnership will primarily draw upon standard forms of contract (JCT, NEC, etc.) In exceptional circumstances, the Partnership Board may consider alternative/bespoke contract forms provided that a clear justification can be provided for doing so.

CONTRACTING BEHAVIOURS

It is expected that all members of the supply chain (at whatever tier they operate) will work in a collaborative manner to ensure effective management of risk and opportunity. As a standard requirement, the Partnership will require supply chain partners to:

- Provide accurate and timely data in support of asset management systems to ensure that decisions are made on the most up to date data
- Participate in risk reduction/opportunity realisation initiatives including (as appropriate to the individual activity):
 - Maintaining comprehensive and up to date project risk and opportunity registers linked to dashboard reporting
 - Implementation of an 'early warning notice' system for risks and opportunities
 - Lessons learnt – mid-project and post completion reviews
 - Regular risk reduction/opportunity identification workshops
- Identify and report potential issues, defects or concerns that they may identify in the course of their day-to-day activities through to the helpdesk, in particular maximising the opportunity presented by each home visit