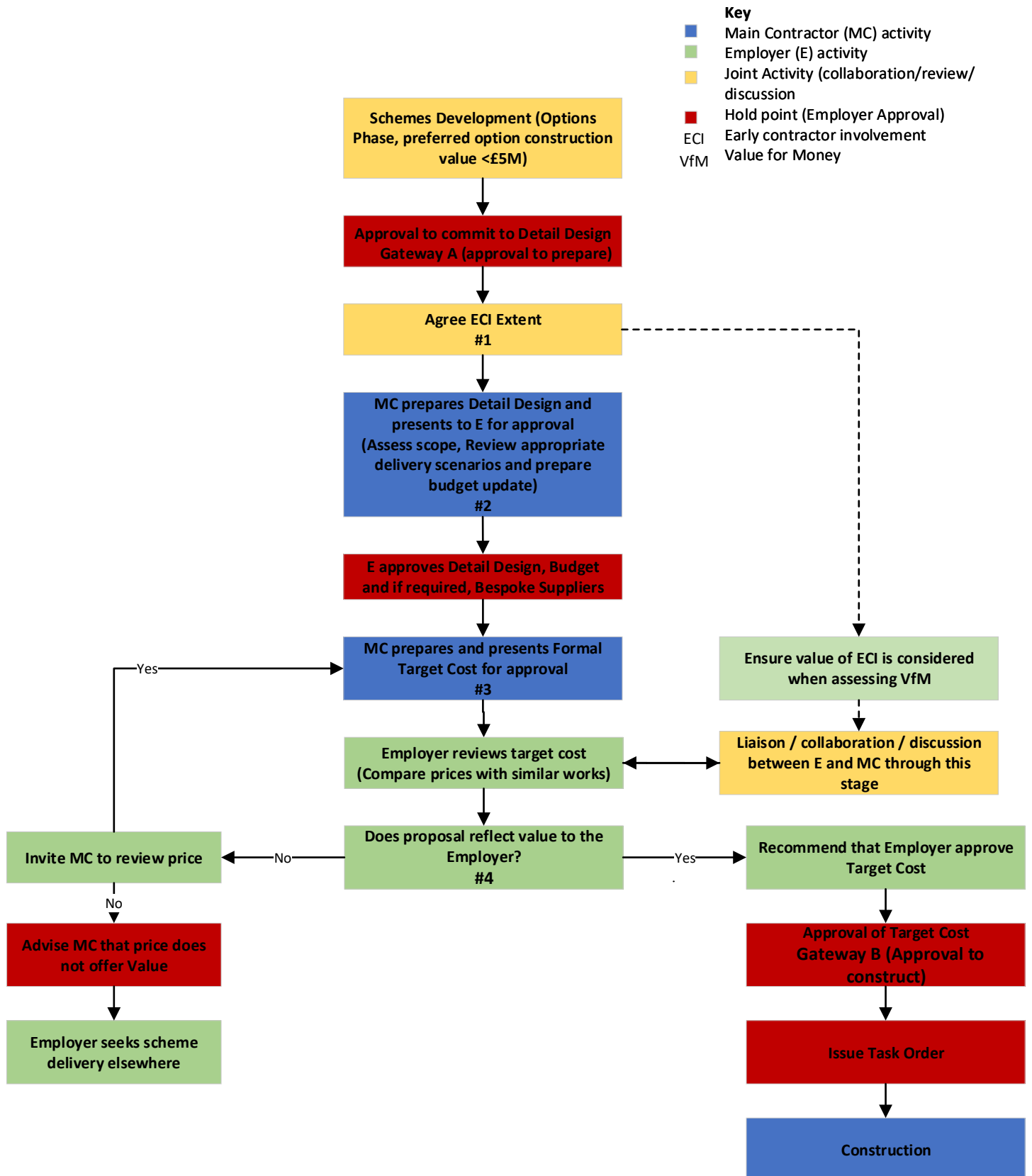


Improvement Schemes (up to £5M value) Pricing Flowchart – Incorporating VfM Activity



Further Notes and Explanation on Scheme Pricing Flowchart

#1 – In many cases the prospect of Early Contractor Involvement (ECI) brings Value Engineering cost savings and efficiencies through influencing buildability in to the design. Where the Main Contractor (MC) believe ECI input from specific suppliers will offer Value Engineering benefits, this will be considered during the selection of the appropriate delivery scenario at the start of detailed design to ensure the optimum solution is offered to the Council in their capacity as Employer (E). The Main Contractor will seek the Employers agreement to the level of ECI proposed and consideration will be given to the added value this brings to the scheme delivery, as part of the Value for Money (VfM) assessment to establish optimising quality and price, made during target cost validation. Potential for quality enhancement and cost savings will be optimised if the ECI contribution is made via the delivering supplier.

#2 – A selection exercise will be undertaken to identify which resources are best placed to offer VfM on the scheme. These will be selected from the following potential options: in-house resources, Tier 1, Framework and Bespoke suppliers. Each scheme will likely utilise a mix of suppliers:

- **In-house resources** - Following a rigorous procurement exercise conducted by the Employer at tender stage, Ringway Jacobs (RJ) became the MC and service provider for the Highways Service Contract (HSC). Under this contract, the MC can deliver improvement schemes up to a construction value of £5m (index linked). The award of high value schemes is dependent upon establishing that the scheme target cost offers best value and certain aspects of this were established through the quality and price submission within the MC's tender. As such, where possible, the MC will seek to deliver schemes or elements of schemes using in house capacity, assured that the value has been validated through the initial tender process and further supported through adjustment of tendered prices, via appropriate price adjustments to maintain currency of prices, for use in target costs. **These price increases will be linked back to tender assumptions and agreed as part of the wider requirements of the HSC.**
- **Tier 1 supply chain partners (Jacobs and Eurovia)** - The establishment of the reach back support from the MCs shareholders was detailed within the MC's tender submission and forms a core part of how the MC delivers the HSC. The MC does not charge their element of profit on Tier 1 (shareholders) works, offering a considerable saving from the outset. **Where comparable and appropriate, Tier 1 prices will be compared to similar previous competitively tendered works undertaken by the Tier 1 supplier for other clients.** This will be supported by further validation, as Target Costs will be reviewed by the Employer as part of the Target Cost assessment and the prices will be compared against other works carried out for the Employer by other parties.
- **Framework Suppliers** - These are key suppliers that have been providing service to the contract for many years, in many cases on a regular, daily, basis. Many of these suppliers originate from Cheshire and these were also noted within the MC's tender submission and present a strong contribution to the social value of the Cheshire community. The MC reviews these key suppliers on a cyclic basis to establish their continued eligibility and competitiveness through a series of procurement exercises, conducted by the MC's central management on a nationwide basis, to establish a core of benchmarked primary suppliers. The MC has already benchmarked the disciplines of Traffic Management in 2019 and Traffic Signals in 2020, offering preferred supplier status for 5-year terms. These exercises will continue to test other such disciplines and providers as the contract continues. These exercises, having established validity for the framework means it is not necessary to specifically market test on a scheme-by-scheme basis. Although at certain times, depending upon the nature of specific schemes, a further bespoke price competition may be undertaken between appointed framework suppliers for specific schemes. **(Note, the results of all the MC's procurement exercises will be made available at any time for Employer review.)**
- **Bespoke suppliers** -These suppliers are appointed subject to the bespoke requirements of each scheme and the resultant need to provide specific services. Where these are required, localised selection exercises will be undertaken, within the design phase of the process, to shortlist a proposed supplier offering best value to the service. **This proposal together with comparison to other competitors in the selection exercise will be provided to the Employer for approval.**

#3 – In preparing the Target Cost, as required in the contract, the MC will use, where comparable, the initial sample schemes presented at tender to prepare initial prices, these will be adjusted to reflect current market prices and enable parity for benchmarking purposes. Where works are bespoke, new prices will be created and will be competitively based upon current market rates. **All costs will be summarised in a Target Cost Pack and submitted to the Employer for comparison and validation.** Both the Employer and the Main Contractor will collaboratively engage in dialog to establish optimum value in terms of quality, based upon the ECI from the MC and their approved supply chain partners, and price, which is required to be within 10% of current market rates. As part of a target costing cycle, rates used will inform future schemes to ensure a continuous cycle of pricing accuracy is achieved.

#4 – “Does proposal reflect value to the Employer” – Initial criteria is set out in the Service Information, Schedule 8(5). The comparison of prices presented in the Target Cost is one aspect that is critical to establishing VfM, (key threshold that scheme delivery cost should not exceed comparable open market rates by more than 10%). However, the overall VfM comparison needs to also consider the added value that use of the HSC with the MC brings in terms of their overall support to the wider council through provision of the service, including non-monetary benefits, some of which are noted as follows:

- The cost savings to the council from not having to engage in bespoke tendering exercises for individual schemes
- Coordination of schemes and maintenance works to maximise efficiency and reduce overall cost
- Known provision of quality and ownership of the finished product remaining for the duration of the HSC
- ECI – the extent of cost savings from early contractor involvement
- Potential to reduce overheads across a number of schemes through continuity of work
- Savings achieved prior to construction, initiated through close design-construction delivery
- The “no profit on profit” approach from RJ and their shareholders

All of these factors will be considered when summarising the base price comparison and reasonable consideration will be made for these.