



Q&A from the Launch of the White Paper – Price evaluation models for the housing sector

We received a variety of questions during the launch webinar on 1 December 2020 and the speakers have set out answers to the questions below.

1. Whilst I am supportive of the thrust of this White Paper, my concern is that no matter what evaluation model is used, it will be undermined if the bidder(s) don't submit viable bids; so how do we stop this from occurring? We have seen multiple companies disappear as a consequence of suicidal tendering, but still it goes on. Do we need to consider the use of viability assessments that demonstrate that the income and expenditure lines achieved through the project will balance (allowing for declared OH&P levels)?

Your question addresses an important issue: how do you know that what you have in front of you is a genuine bid? Our working assumption is that lowest price/relative models create the environment for suicidal bidding and that by replacing a relative model (one that prioritises lowest price) with a model that seeks to change bidder behaviour by asking for a different price (eg not the lowest one, but a genuine one, one intrinsically linked to the quality required etc.), the client does not reward suicidal tendering but seeks to disincentivise it. Clearly, the need for robust verification of prices, regardless of the pricing model used, is a requirement of all good procurement procedures, but we have seen time and again how reliance on the "abnormally low tender" procedure to investigate bids.

2. Have you used those evaluation models tested on real time projects?

We tested the evaluation models on some real but anonymised bids and witnessed some changes to the outcome on a number of the models. But in order to

show how the models worked on a wide range of tender scenarios that the real bids didn't offer, we elected to use the theoretical examples in the White Paper.

Further, one of the working assumptions of the White Paper is that the use and explanation of an alternative price evaluation model could have the effect of changing bidder behaviour and therefore we are really interested in seeing the results on future tenders – to see if these models actually do change bidder behaviour and to see if the experience of the working group is replicated (hopefully amplified) across the sector.

3. In model 4 will the minimum price be stated for all tenderers to see?

Yes, you will need to publish the minimum acceptable price in the procurement documents.

4. Shane - are there certain value thresholds of tender that model 4 works particularly well for?

In the testing we trialled, it worked on all value of bids so we do not think there is a floor or ceiling that would hinder you.

5. How would what Shane has outlined work on frameworks as there are no properties at that stage and therefore a pre tender estimate is difficult?

A framework let by a Central Purchasing Body may this may be more difficult (eg because exact scope, and even the identity of the clients are not known at the outset of the procurement) -- but where an individual or group of clients let frameworks for a pre-ascertained need - that would enable a PTE to be confirmed.

The Frameworks the working group tested Model 4 on appointed bidders based on the quantum of the first year's work so we were able to set a minimum acceptable price. Subsequent mini-tenders would be evaluated on the same basis.

6. Do we think there will be challenges from leaseholders and how could we defend these?

Leaseholders are often billed on the contract sum (final account value) so they will pay what the project cost. This model aims to get the tender sum much closer to the final account sum.

It is worth noting as well that the leaseholder provisions also require a client to charge leaseholders a "reasonable" cost, not the lowest cost.

7. If you don't have a strong sense of where the 'optimum' pricing should be, is there an absolute model available or will it always be relative?

The Optimum Price model is only suitable when the Client has confidence in their base line. Where this isn't the case another of the absolute models may be more relevant such as the price/quality ratio at model 7.

It came through in the Q&A and comments at the launch that best practice is to undertake sufficient PME and intelligence gathering to ensure that you do have a strong sense of what the price for your contract should be ahead of tendering for it.

8. Life cycle is fine, but only if the client joins up revenue with capital. Most public sector bodies keep these separate, so it would be difficult to fund a higher capital cost on the basis of lower running cost if it is unaffordable. Always a challenge. I suspect the private sector is more interested in this and capable of implementing.

The experience of a number of our working group was that this structural barrier could be addressed, and often is, by local authority and housing association clients on strategic and high-value contracts. The need to review the separation of capital and revenue budgets going forward may well be a recommendation to the sector that comes out of this conversation.

In any event, on a number of asset management contracts let, there is currently a mixture of capital and revenue works (i.e. boiler servicing often comes with a replacement or installation element to it) and it may be this "low-hanging fruit" that can be brought into the conversation over the next year or so..

9. New methods involve everyone throughout the project to understand it - Pre/during tender - writing the contract, tendering, evaluators, Contract Managers, QSs, Finance Team, and Post-Contract - Surveyors, and Repairs and Maintenance. Bear in mind that the Golden thread is critical. They feel like Consultants'/Lawyers' Cash Cow/s?

We agree that all of the contributors and decision-makers in a procurement process should understand the basis on which a contract is going to be procured,

particularly as this will have a direct impact on the ensuing contract and its outputs/outcomes.

We agree that the "Golden Thread" is critical and that to put a price evaluation model in play at the procurement stage that does not disrupt the Client's quality and safety aspirations/requirements is essential.

The White Paper is free to access and free to use for any client, consultant or bidder. To suggest that the sector sticks with lowest price tendering and the havoc it has been proven to cause because (a) people are going to have to get to grips with new models and (b) to adopt anything else is going to cost the client more in consultants or legal fees is an interesting slant on the matter.

Declaring our potential conflict of interest as a working group (that also includes consultants and solicitors), we would suggest that the costs of getting it wrong in the first place (in terms of poor quality and safety outcomes, variations, disputes etc.) makes the risk in not publishing the White Paper and starting the conversation one worth taking.

10. Great white paper and interesting presentations. Many of these models rely on quality scores once a price floor is set - but do clients have access to the right quality management standards to ensure they will get like for like outcomes from different bidders? Is this an area that needs parallel development?

We totally agree with the need for a new take on quality evaluation. Time and capacity limited us to the important issue of price evaluation only and we fully concede that the price evaluation models need to be supported by a robust and relevant quality evaluation. If quality management standards allow clients to confidently verify a bidder's quality submission, which in turn more robustly underpins the price quoted for it, then (as a Working Group) we would whole-heartedly support their development and wider adoption.

11. Absolute costs are dependent on procurement being knowledgeable enough to price up what is a feasible threshold, with the risk they estimate a low threshold and there is a drive to the low threshold with sub-optimum quality

You are right, an absolute model (and certainly the Balanced Price: Quality with Thresholds model) requires an accurate Pre-Tender Estimate. One of the working assumptions of the White Paper is that a client will know what a project will cost before going to the market, no matter what evaluation model is used.

We would go so far as to say that relying solely on the market to tell you is not the right approach. So use your internal QS teams or an external practice to review and estimate your project. A simple way of tackling it is take your proposed pricing document and populate it with known, rates. Investing time and money in the planning stage will pay dividends when you come to evaluate against a price floor you have confidence in.

12. Does the life cycle model take into account the time value of money?

The Life Cycle Model in the White Paper sets out different options for taking account of the future value of money, either by using discounted costs calculated by using a Net Present Value formula, or by using undiscounted costs (as is currently recommended by the British Standards Institute and RICS).

13. I think we need to be careful not to confuse “race to the bottom” with a genuinely innovative solutions that a single organisation could bring that meets the requirements at a price that is lower than others but is a sustainably deliverable one

We agree and some of the models (eg the Optimum Pricing model) can be used in a way that allows innovative solutions that save money to be rewarded. Nevertheless, in the housing sector, there are few contracts that are let where innovation brings around significant price savings. Instead, many contracts are let on rules that assume that there is an innovative solution that no-one has heard about "out there" that will create savings for the client that needs to be anticipated in the tender documents.

If there is a contract where innovation is expected to bring savings, then that should be flushed out in the pre-market engagement sessions, and therefore easily addressed in the tender documents. In such a scenario, the procurement documents should anticipate additional price and quality marks for the innovative solution and the savings it brings.

14. In model 8, how are issues such as product performance, compliance and building safety taken into account as part of the life cycle cost evaluation?

With the life cycle costing model, the model itself looks at the overall cost of the product/services/works, alongside the various elements that might affect the cost (for example, product life and maintenance costs - which will include, to a certain extent, product performance).

In terms of other aspects of quality (including compliance and building safety), clients can evaluate quality alongside the life cycle cost assessment (either as a minimum requirement, or as a scored quality submission).

15. Has Homes England made any comments on the use of models other than lowest cost since their willingness to support higher capital costs is critical for smaller housing associations when procuring new housing?

We have sent Homes England copies of the White Paper and hope to engage with them in due course as part of the conversation... Please see below – the assumption is that these price evaluation models will result in higher capital costs, whereas one of the working assumptions we would like tested during the conversation is that the price evaluation models should

more accurately predict the final outturn cost for the delivery of the required quality and safety standards.

16. Where a tender for a construction contract receives Social Housing Grant, where the RSL has to share details of the tender process, do we know how this will be viewed? (I.e do we expect them to accept this approach although this may result in higher costs than previously encountered?)

We have sent the Regulator copies of the White Paper and hope to engage with them in due course as part of the conversation.

We would also note that there is a difference between a higher tender price and a higher cost. One of the working assumptions is that the price evaluation models will hopefully get the tender price nearer to the final outturn cost that RPs will end up paying.

17. Is there a risk that more than one bidder will score exactly the same if the price threshold is stated? There is sometimes a tendency for some contracting authorities to default to price as being the determinant as there is less room for challenge in comparison with qualitative evaluation. Some CAs do 'dumb down' qualitative questions making qualitative differentiation difficult.

Yes, where price thresholds are stated there is a risk all/some bidders will score the same. The greater determiner would become quality. I would discourage Clients from 'dumbing down' questions as this is unlikely to deliver the best outcome. Instead consider this – where price is within the Client's defined thresholds, your focus is now more firmly on how the bidder will deliver. A supplier who has submitted a 'blind bid' or not given due consideration to the Client's requirements is unlikely to be able to provide the clarity of response to score well. The quality evaluation mechanisms and scoring criteria need to be adequate to the task.

18. How do the group feel the Governments Two Stage Open Book Procurement Model can avoid the race to the bottom?

This falls outside the scope of the White Paper save to say the same principles in the White Paper apply to the early appointment of the contractor through a robust procurement process.

It's important the Client selects the right bid at the first stage that is often on the basis of Overhead and Profit against the project budget and a virtual project to establish some rates to use as benchmarks/caps etc. moving forward. At this stage, as with other procurements, the client needs to ensure that it does not accept a bid at a price that may well compromise its quality and safety aspirations for the project.

The second stage tenders will be conducted in collaboration once the works have been scoped and designed. Those will be contractor led tenders but it will be for the Partnering Team to agree an evaluation model that rewards the right price. So with the right

direction and intent, there's no reason at all why Two Stage Open Book tendering can deflect awarding the highest mark to the cheapest bid.

19. RPs use lowest price bidding because it's easy. How do you convince RPs and their consultants to use a more difficult form of assessment?

As with all change, breaking people's mind set away from what they know and are comfortable with (lowest = best in this case) is the challenge.

But there is enough evidence of the lowest price at tender not being the price paid in the final account with all the pain of dealing with variations and disputes along the way to demonstrate that getting out of that 'comfort' zone is essential. If they don't change, they will continue to suffer!

20. On all the projects I have been involved with the Pre Tender Estimate has been used to set the budget and then when tendered has ALWAYS come out higher. How do we ensure a more accurate PTE?

In an earlier reply we suggested a more straight forward approach is to populate your intended pricing model with empirical pricing data that is often a pretty good marker. It depends on the complexity of the project (and some will lend themselves to having a tape thrown over it than others) but there good Quantity Surveyors out there who can be relied upon to produce accurate PTEs.

We have seen quite complex projects with a fixed budget set by the client successfully delivered under a two stage open book model. Once the design team is appointed, their proposed schemes can be priced and the design adjusted where necessary to fit the budget.

It should also be noted that, under the public procurement rules, ignorance is not an excuse and if, as a client, you do not have the capacity and expertise to establish a price with certainty and confidence. If you do not have such capacity and expertise, then it is incumbent on you to outsource it to someone/a firm that does, or employ someone with an appropriate skill-set.

21. For LCC calculations, the discount rate can have a major influence on future costs and the resulting balance between capital costs and running and other costs. A realistic rate is important reflecting current interest rates.

We agree. This may be another "ask" coming out of the conversation: do we need to increase the discount rate to make life-cycle costing more attractive? Essentially the discount rate is decided by policy, and we need to make sure that it is not hampering the adoption of LCC across the sector, where appropriate to do so/where there is business need.

22. When setting a minimum price, how do we avoid penalising SMEs or innovative tenderers who are able to reduce costs whilst still giving a superb end result?

The minimum price threshold must be an informed one. Pre market engagement with potential suppliers will help ensure you're pitching this correctly and allowing for more efficient or innovative delivery models.

You can also ask bidders to outline their proposals for delivering efficiencies through the contract. Attributing this a portion of the quality weighting possibly?

To support SMEs further we think clients need to look outside of the Pre-market engagement process and consider the client's contract documentation. For example; reducing payment terms to improve cashflow, offering longer term arrangements to enable suppliers to negotiate better deals with their supply chain and considering whether division into lots is possible.

We also need to recognise not all projects are suitable for SMEs.

23. Hi, firstly very good conversation, refreshing to listen to. Taking on board Katie's point on 'blind bidding', would the models be accompanied by dialogue, interview; site visits etc to robustly challenge that contractors can deliver what they are promising before awarding?

Yes. Where price is within the Client's defined thresholds, your focus is now more firmly on how the bidder will deliver. A supplier who has submitted a 'blind bid' or not given due consideration to the Client's requirements is unlikely to be able to provide the clarity of response to score well. The quality evaluation mechanisms and scoring criteria need to be adequate to the task.

24. Within the holistic approach adopted, were actual case studies conducted to improve the validity and reliability of the model?

Yes, real tender data was used during the first phase of trials to determine how various models impacted the outcomes. Additionally, we reflected on the subsequent performance of the resulting contracts. In the White Paper we've highlighted any risks and potential mitigations.

We also recognised the use of the model itself would likely impact bidder's behaviour particularly where price thresholds are used.

25. There is also a need to change the culture of a Client, the right approach needs to become policy to drive the right Client cultures and behaviours – I have worked both side, and it's not all the market issue?

Agreed. The procurement team need the support of the wider business in taking the necessary time to determine the best solution.

However, the pressure to deliver savings at speed restricts the procurement department's options. This time-pressure makes the procurement team less likely to consult with the market and analyse its internal data and it is therefore more likely to fall back on hold habits.

26. Most Clients will struggle to set a price floor that is above their budget. Would an option be to score bids based on variance away from the second lowest bid?). i.e. the bid then becomes the market testing.

The price evaluation models in the White Paper assume that the price floor will be pre-set and based on pre-market engagement of client knowledge/budget.

The price floor should not be set from the lowest, second lowest or any of the bids received as it will need to be declared in the tender documents from the outset.

27. Does the white paper have any models based around using the median, rather than lowest price as the highest scoring, to encourage sustainable pricing?

No – please see the note in the White Paper about the Kingdom of Spain case and the prohibitions it places on mean average/median tendering models.

28. As a contractor, we can change our mindsets easily. The struggle will be to get the client to accept that lowest price is not the be all and end all.

We are glad you are confident that contractors' mind sets can be changed easily!

The challenge is to shift the commissioning client out of what they may have only ever known into this brave new world. If they can remember to take a bag for life to the supermarket, they will remember to change their evaluation model(!)

It will require some intervention and a series of training courses and webinars that will follow this White Paper.

29. The shift to a threshold-based contractor selection mechanism will place greater emphasis on distinguishing competing bidders by quality. Have the team any recommendations on how quality of bids can be assessed in a more calibrated way to manage risk of challenge?

We have not looked at quality evaluation in any great detail as part of this White Paper, but it seems to us that in order to form a robust and relevant part of the evaluation process, quality evaluation needs to focus on:

- Economic standards and measurements
- Risk proposals that are specifically linked to the required outcomes
- The use of minimum standards and systems where possible
- Issues that are linked to the subject-matter of the contract

- Verifiable (and make sure they are verified: if you have asked for information as part of a question – use it.

We understand that there are significant issues arising in relation to quality assessment that need to be addressed. Maybe for a future White Paper?!

30. Is there any evidence yet that absolute pricing reduces variations in projects?

The mobilisation period and first six months of any term contract are typically the most telling.

As the supplier begins to show their interpretation plainly. I've not made any links to the pricing evaluation method used. It often comes down to the clarity of the price framework and contractual mechanisms, rather than being directly linked to the price evaluation model. However, it is our belief that if you use a price evaluation model that moves away from the fiction of "lowest price", then it is less likely that the contractor will lose money in bidding that it needs to "make up" via variations.

31. are there any standard pricing templates available that we can use and adapt to our requirements?

The spreadsheet that we have provided alongside the White Paper can be adapted into a pricing template (by using the formula for the relevant model, and inputting the relevant tender information for your procurement).

All of the models have been presented in a way that can be used in the procurement documents too.

32. How do we avoid moving backwards towards very prescriptive specifications which prevent creativity and innovation?

We think this question probably touches on matters outside the White Paper and is more germane to issues of quality evaluation.

33. How will the models that set the benchmark price address the need for S20 consultation with leaseholders?

As set out above, the leaseholder provisions require a client to charge leaseholders a reasonable cost, not the lowest cost.

This means that if a client's pre-market engagement exercise is such that it can justify the price the floor is set out, then these models should pass leaseholder scrutiny.

34. You assume that bidders know what such projects should cost. My experience is bidders use estimating models which often don't reflect the cost of actually delivering the project. Most contractors seek to rework their estimates once they win the project.

In an earlier reply we noted the complexity of the project will determine the extent to which you can get a

reliable PTE. That depends also on the quality of estimating. If bidder's estimates come in well under the client's minimum price floor, they risk being disqualified on some evaluation models or declared abnormally low on others.

Bidders are responsible for submitting a genuine price as the client is for setting the right budget or price floor. A contractor seeking to re-work their estimates post award is just the thing we are seeking to avoid.

35. Once the quality split has been determined, we often see clients fail to appreciate the SAFETY aspect that must be contained within the quality score. Too often quality rather focuses on process, added value, and customer service etc., with the actual real SAFETY aspect being allocated an immaterial score! How does holistic safety form part of the procurer's objective and understanding?

It will depend on the contract that is being secured – and your question chimes with the others that have been asked regarding quality evaluation and the ability of current practice to really get under the skin of a bid and investigate the delivery of the contract rather than the added extras.

36. How can procurement leads meaningfully evaluate and score responses on quality when, as you point out in white paper, these are often 'boiler plate' written by professional bid writers?

Unfortunately, this is outside the scope of the White Paper.

37. In respect of model 8 there will be a specific requirement for data provided by clients in respect of cost in use. This will present a particular difficulty, as data is not always well recorded and not in the right format. Do you perceive this as a disincentive for clients to use this model?

We acknowledge that there are organisations with data management that is wanting that in turn means overall record keeping cannot be relied upon. That will impact on producing accurate cost in use results and may mean you will need to engage external QS resource to assist. If organisations have poor data and they know it, they may be better placed to use an alternative model than Life Cycle Costing.

38. Having a selection of varied pricing evaluation models is welcome so thank you. However from my experience as a few speakers have eluded to, the majority of issues have resulted from lack of

professional procurement involvement at the right time to advise, support, and often lead this activity given the required skillset. Would you say that is still something lacking within the housing sector that would ensure the correct application of a pricing evaluation model?

All of these models assume a well-structured procurement process. By that we mean the pricing document is fit for purpose and will return prices that reflect the work required, and the evaluation criteria is robust, transparent and encourages bidders to submit genuine, deliverable bids.

If your organisation doesn't have the resource or skill set to construct a sound procurement, there are good procurement consultants available who can help. We would recommend that you contact a selection of them for an initial discussion about what they may be able to help with.

If you do commission a procurement adviser to help, the same evaluation rules we are advocating in this paper applies in appointing them.

39. How do you manage the risks associated with the base line prices especially avoiding organisations bidding the same prices

We would ask why you want to avoid this? If the Client is confident the baseline price is the 'right price' then you've successfully achieved this. Now it's all down to quality. There is a possibility the baseline has been pitched too high. Were there more savings to be made? Or would they have impacted performance?

40. Where can we join the 14th January session?

Please go onto the website – www.trowers.com – and a link to sign-up to the session is available now.

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