

Value for Money in MoD Procurement Process

Aim

- Role of Scrutiny Team
- Points in the MoD Procurement Process where VFM is assessed
- How VFM was considered in the past and how it is currently considered
- Current advice on Tender Assessment

Role of Scrutiny

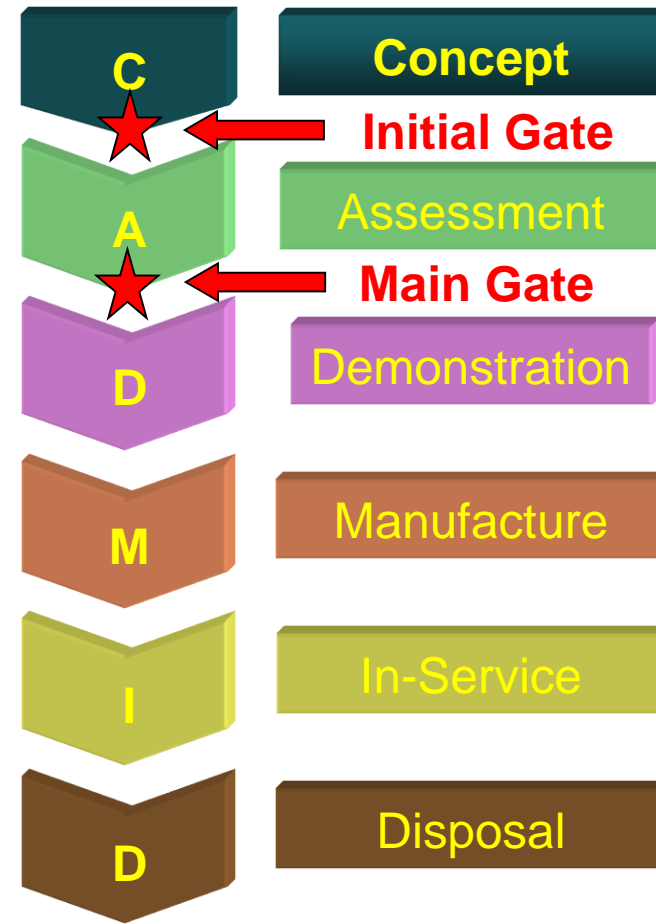
- Defence Economics and Scrutiny form part of the Scrutiny Team
- The Scrutiny Team role is
 - Provide an **independent, non-advocate**, expert and critical analysis of an investment proposal; and
 - To determine whether the evidence supports the recommendation made over alternative options

References

- The current approach to be used when considering when considering the criteria for making investment decisions within the MoD is laid down in two publications:
- **The Green Book**
HM Treasury guidance for Central Government, setting out a framework for the appraisal and evaluation of all projects. The book applies to all government departments
- **Joint Services Publication (JSP 507)**
The MOD Guide To Investment Appraisal And Evaluation, is a supplement to the Treasury Green Book and is intended as a practical handbook on the application of appraisal and evaluation within the MoD

The Current Acquisition Cycle

- 2 Decision Points
- Initial Gate
- At the end of the Concept Phase the ‘Initial Gate’ review assesses the feasibility of the programme.
- Main Gate
- At the end of the Assessment Phase the ‘Main Gate’ review represents the main investment decision on a programme and is the point at which a preferred procurement option/supplier is generally chosen.



How VFM was Initially Assessed

- Initial Gate

 - Initial (Outline) Combined Operational Effectiveness and Investment Appraisal (COEIA)

 - Investment Appraisal

- Main Gate

 - COEIA Plot

 - Investment Appraisal

COEIA Plot



Current VFM Assessment

- Initial Gate

 - Investment Appraisal

 - Combined Operational Effectiveness and Investment Appraisal (COEIA)

- Main Gate

 - Single Source

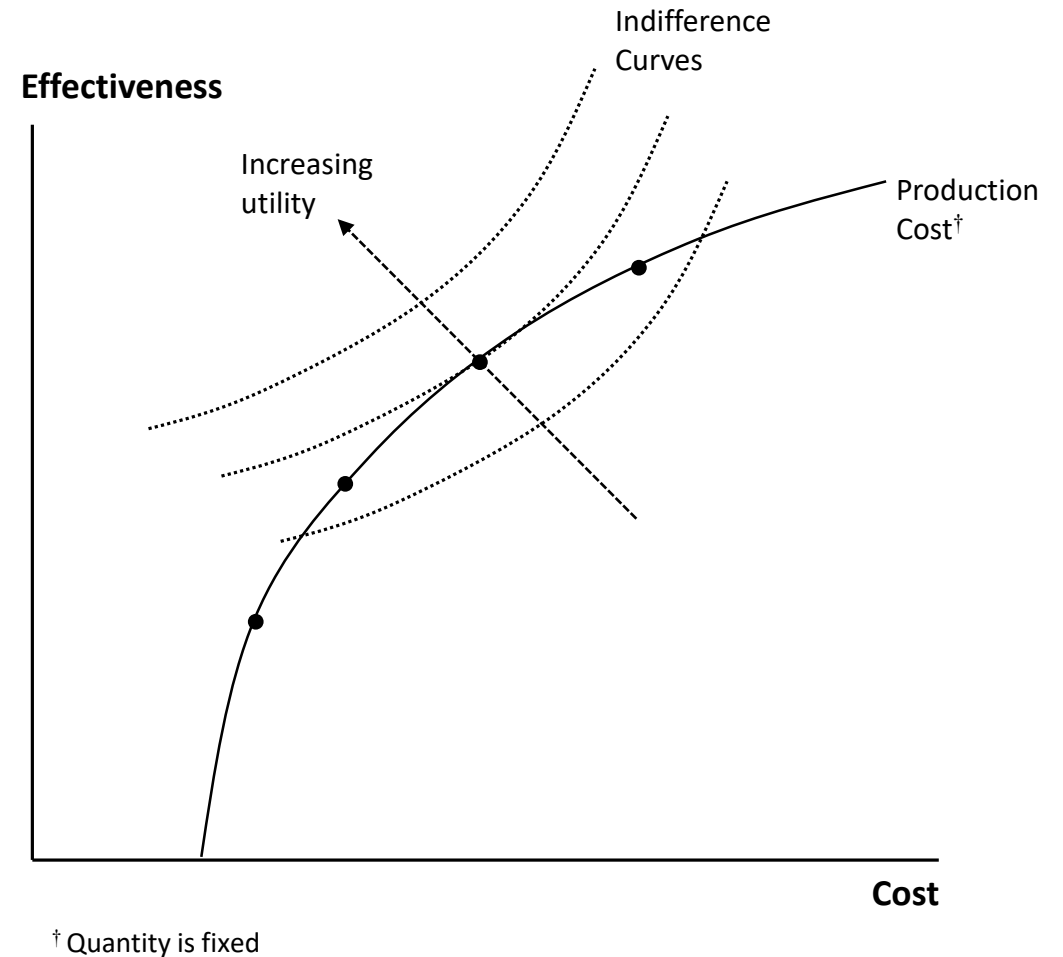
 - Should Cost Modelling/ Price Investigation of the single source offer

 - Competition

 - Tender Assessment Criteria (agreed by Defence Economics and Scrutiny)

Value for Money Definition

- **Value for Money** is measured by the level of 'Social Value' as defined in the HMT Green Book.
- **Social Value** includes everything that contributes to human wellbeing, including 'wider economic factors' and non-economic issues that are relevant to the policy decision.



Public Sector Procurement Regulations

- (1) *Contracting authorities shall base the award of public contracts on the **most economically advantageous tender assessed from the point of view of the contracting authority.***
- (2) *That tender shall be identified on the basis of the price or cost, using a cost-effectiveness approach....*

Price to Quality Scoring (Relative Assessment)

The total score (S) for bidder i with Quality Score (Q) is

$$S_i = w_q Q_i + w_c C_i$$

where:

w_q Quality Weight,

w_c Cost Weight,

and

$$C_i = \frac{\text{Cheapest Acceptable Tender}}{\text{Cost of Tender } i}$$

Most common method, flawed because¹:

- **Non-transparent**
- **Open to strategic manipulation**
- **Unreasonably non-linear in bid prices**

¹Bergman and Lundberg (2011)

Quality to Price Scoring (Willingness to Pay)

Value for money given by

$$Cost_i - (WTP * Q_i)$$

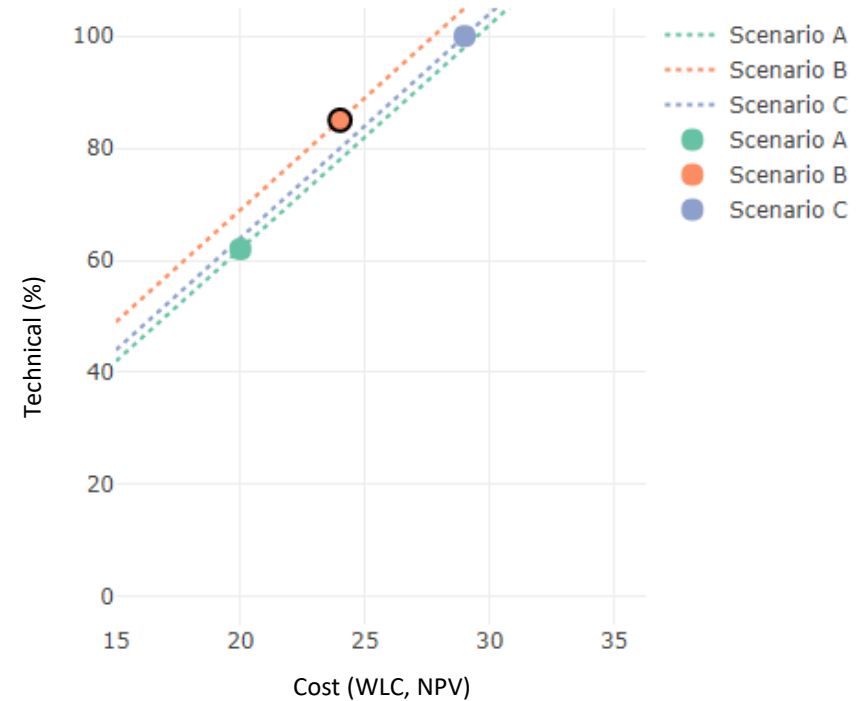
Where

WTP is the amount you would be willing to pay for a 1 unit increase in technical score

Or graphically through the y-intercept:

$$y = mx + c$$

$$c = y - mx$$



Key Messages

- Value for money is determined in accordance with HMT Green Book. This captures factors beyond price that are relevant to wider society.
- The Scrutiny Team advise absolute scoring methods such as quality to price rather than relative measure such as price to quality.