

Procuring for retrofit: Cost and commercials

Supply Chain Advice Pack

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Overview

Once a retrofit opportunity is identified, what are the strategies and processes to be adopted to make a successful bid? This advice note will review the evaluation process and the pricing document, a consideration of risks and potential commercial outcomes from pricing submissions, and a review of proposed commercial terms/contract.

What will the pricing criteria comprise?

Submitting pricing for a retrofit competition involves several key steps. Here's a general guide to help you navigate the process:


- **Understand the specific tender requirements:** Carefully review the framework documents to understand the scope, requirements, and evaluation criteria. This includes understanding the cost/quality split, which is often around 60% quality and 40% cost.
- **Prepare your pricing strategy:** Develop a pricing strategy that reflects your costs, desired profit margins, and competitive positioning. Consider factors such as materials, labour, overheads, preliminaries, professional fees, risk mitigation measures and allowances and any contingencies.
- **Complete the pricing submission forms:** Fill out the required pricing submission forms provided in the tender documents. Ensure all costs are clearly itemised and justified.
- **Include supporting documentation:** Provide any necessary supporting documentation, such as detailed cost breakdowns, assumptions, and methodologies used in your pricing calculations.
- **Review and validate:** Check your pricing submission for accuracy and completeness. Ensure all figures are correct and that your submission aligns with the tender requirements. Has the scope of the works been understood and priced?
- **Submit by the deadline:** Ensure your pricing submission is submitted by the specified deadline. Late submissions are typically not accepted.
- **Engage in clarifications:** Be prepared to engage in any clarification processes if the contracting authority has questions about your submission.

By following these steps, you can create a competitive and compliant pricing submission for a retrofit framework competition.

What are the common pricing strategies that are used?

Commercial submissions can take a variety of forms, requirements and formats. The typical pricing requirements are detailed below.

- **Cost-plus pricing:** This involves calculating the total cost of producing a product or service and then adding a percentage markup to ensure a



profit. It's straightforward but doesn't always consider market demand or competition.

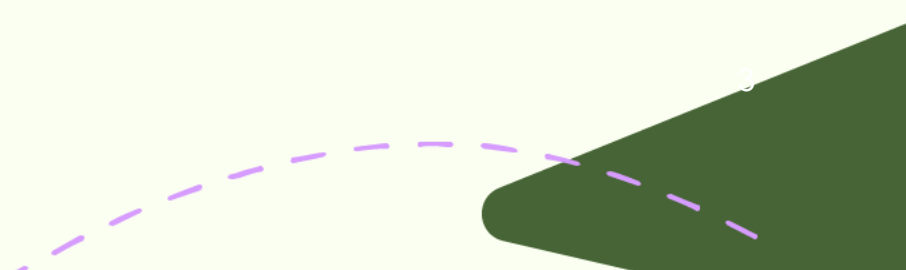
- **Competitive lump sum pricing:** Submitting prices based on what the supply chain have quoted, with any adjustments for attendance, risk and preliminaries.
- **Competitive schedule of rates:** Submission of a priced schedule of rates. There is typically a brief detailing the likely extent and scope of works, with an expectation of the value of the overall contract. The contractor will be paid for the actual works required, using pricing from the schedule of rates, plus allowance for preliminaries, overheads and profit.

These strategies can be tailored to fit different business models and market conditions. Clarity should be provided regarding the "Base Date", the date at which the pricing is valid, and consideration for the period up to when the offer remains open for acceptance. Pricing may need to be kept fixed for the duration of the proposed project as a fixed price. There may be instances when pricing will be adjusted for time, if the programme period is long, and will be subject to the application of fluctuations, to account for build price inflation.

Are all tenders based solely on price?

Not necessarily. While cost is an important factor in many tender evaluations, it's not always the deciding one.

There are several reasons why the lowest cost bid might not always win:

- **Quality and value:** Many tenders are evaluated on a combination of cost and quality. A bid that offers higher quality or better value for money might be preferred over a lower-cost bid that doesn't meet the same standards.
 - **Compliance with requirements:** A bid must meet all the specified requirements and criteria. If a low-cost bid fails to comply with these, it may be disqualified.
 - **Experience and track record:** The contracting authority might consider the bidder's experience, expertise, and past performance.
 - **Risk management:** Authorities often assess the risks associated with each bid. A low-cost bid might be seen as higher risk if it appears unsustainable or if the bidder lacks the capacity to deliver the project successfully.
 - **Innovation and added value:** Bids that offer innovative solutions or additional benefits beyond the basic requirements can stand out, even if they are not the cheapest.
 - **Sustainability and Social Value:** Increasingly, tenders include criteria related to sustainability, social value, and community benefits. A bid that scores highly in these areas might be chosen over a lower-cost alternative.
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In summary, while cost is a significant factor, it's usually balanced with other considerations to ensure the best overall outcome for the project.

How is the cost element scored?

Marks for costs in a tender are typically calculated using a proportional scoring system. Here's a general overview of how this process works:

- **Determine the lowest bid:** Identify the lowest bid submitted for the tender.
- **Calculate the price score:** Each bid is scored relative to the lowest bid. The formula often used is shown below, where the weighting is the percentage allocated to the cost criterion (for example 40%).

$$\text{Price score} = \left(\frac{\text{Lowest bid}}{\text{Bid price}} \right) \times \text{Weighting}$$

- **Total score:** The price score is then combined with scores from other criteria (e.g., quality, technical capability) to determine the overall score for each bid.


This method ensures that the lowest bid receives the highest score for cost, and other bids are scored proportionally based on how close they are to the lowest bid.

Would my tender be considered abnormally low?

An abnormally low tender (ALT) refers to a bid that is significantly lower than the others, raising doubts about its economic sustainability and the bidder's ability to deliver the contract requirements.

Key items when considering ALTs are:

- **Economic sustainability:** An ALT may indicate that the bidder has underestimated the costs or is willing to take a loss to win the contract. This can lead to financial instability and poor contract performance.
- **Risk of poor performance:** Bids that are too low might result in substandard work, delays, or the need for additional funding to complete the project.
- **Impact on supply chain:** The negative effects of an ALT can extend to suppliers and subcontractors, who may face financial difficulties if the main contractor cannot meet its obligations.
- **Legal and regulatory considerations:** Contracting authorities are encouraged to scrutinise ALTs carefully to ensure they are realistic and sustainable. This helps prevent issues that could arise from accepting an unsustainable bid.



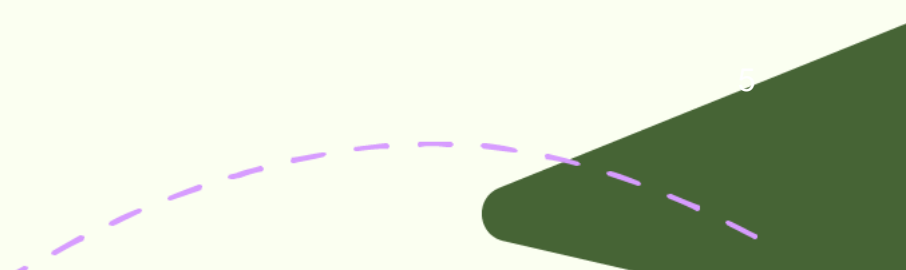
Understanding and addressing ALTs is crucial for maintaining the integrity and success of procurement processes.

Authorities evaluate ALTs through a structured process to ensure that the bids are realistic and sustainable. If your submission is considered an ALT, here are the steps that may be followed by clients:

- **Identification:** Authorities identify potential ALTs by comparing the bid prices with the average or median prices of other bids. If a bid is significantly lower, it may be flagged for further scrutiny.
- **Request for clarification:** The contracting authority will request the bidder to provide detailed explanations and justifications for the low price. This may include breakdowns of costs, methodologies, and assumptions used in the pricing.
- **Assessment of justifications:** Authorities assess the explanations provided by the bidder to determine if the low price is due to legitimate factors such as innovative methods, economies of scale, or lower overheads.
- **Verification of feasibility:** The authority will verify whether the bidder can realistically deliver the project at the proposed price without compromising quality or performance. This may involve checking the bidder's financial stability, resources, and past performance.
- **Decision:** Based on the assessment, the authority will decide whether to accept or reject the ALT. If the bid is deemed unsustainable or poses a high risk, it may be rejected.

The aim of this process is to ensure that the selected winning tender is both economically viable and capable of delivering the required outcomes.

To avoid your bid being classified as an ALT, consider these strategies:

- **Prepare accurate cost estimation:** Ensure your cost estimates are realistic and comprehensive.
 - **Detailed justifications:** Provide detailed explanations and justifications for your pricing. Clearly outline your methodologies, assumptions, and any innovative approaches that contribute to cost savings.
 - **Market benchmarking and research:** Conduct thorough market research to understand the typical pricing for similar projects. This helps ensure your bid is competitive but not unrealistically low.
 - **Risk assessment:** Assess the risks associated with your bid and include appropriate contingencies. This demonstrates that you have considered potential challenges and are prepared to manage them
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- **Quality assurance:** Highlight your commitment to quality and how you plan to deliver the project successfully within the proposed budget. This can reassure the contracting authority that your low price won't compromise quality
- **Transparent communication:** Be transparent in your communication with the contracting authority. If your bid is flagged as an ALT, respond promptly and provide clear, detailed explanations.

By following these strategies, you can create a competitive bid that avoids being classified as an ALT.

Contract Terms

As part of the suite of tender documents issued, it is likely there will be contract terms proposed, that would be implemented if your tender is accepted. It is normally a condition that the contract terms are agreed as part of the tender process.

These terms may impact on the commercial offer that is submitted and should be considered carefully, as they may create a liability for the organisation. Such terms are likely to include:

- **Fixed price:** the tender, if accepted, is likely to be fixed and remain unaltered, even if input prices rise from your supply chain.
- **Anticipated date for the commencement of the works,** will dictate how long you will be required to fix your pricing.
- **Payment terms and timescales** will be detailed, and payment may be subject to deductions for retention. Extended payment periods may impact on your cashflow and the financing of the project.
- **Insurances for the works** will be required, together with professional liability insurance, if there is a design element in the contract. The level of indemnity and the extent of coverage of the insurance should be checked.
- **Expectation of entering into collateral warranties** with third parties, establishing a contractual link in addition to the liabilities of the building contract.
- The obligations under the contract may extend beyond the completion date and include a 12 months **defect rectification period**. This period will need to be resourced and costs included in the price submission.
- Should the project not complete by the date stated in the contract, then **liquidated damages** may be levied. A review of these costs, which are normally applied on a weekly basis, would need to be undertaken to assess the severity and risk of likelihood.



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