FM PROCUREMENT
Contract Pricing Strategies

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GLOSSARY OF TERMS

The following terms are used throughout this paper and have the following definition.

Term	Definition
Price(s)	The price paid by the client for the provision of services by the supplier under the FM contract.
Pricing Schedule	The contract schedule setting out the requirements relating to the pricing of the services.
Pricing Model	An appendix to the Pricing Schedule, usually a MS Excel file that bidders are required to complete to submit their prices.
Cost(s)	The suppliers cost of delivering the FM services.
Fixed Price	A set price which does not change except in defined circumstances.
Fixed Price Review Triggers	One or more defined circumstances under which a Fixed Price may be subject to review and possible amendment.
Price Risk Transfer	The transfer of the financial responsibility from client to supplier, for delivery of the defined services and standards for a fixed price.
Price Risk Transfer Premium	A financial premium which may be included by suppliers at the bid stage for accepting the price risk transfer, i.e. the provision of a fixed price.
Value for money	Paying the lowest price for services delivered that meet all requirements including minimum service quality standards. Please refer to Value for Money in FM Service Contracts on the following page which sets out important issues relating to the determination of Value for Money of FM service contracts.
Pricing data	The information provided to bidders during the procurement to support bidder understanding of the client's facilities and service requirements in order to develop their prices. Appendix A provides details of the minimum, optimum and nice to have data requirements for key FM services.

PURPOSE OF THIS KNOWLEDGE PAPER

This knowledge paper intends to provide a detailed consideration of the alternative approaches to the pricing of FM services within outsourced FM contracts. It considers the issues affecting the choice of pricing strategy and the required approaches to contract drafting to support the alignment of pricing strategies to client price based objectives. Below are some examples of client price based objectives, some of which may be conflicting in certain circumstances:

- Simplicity of contract drafting and procurement
- Making it easy for bidders to respond
- Price certainty
- Value for Money
- Achieving the lowest price
- Continuous innovation and improvement reflected in prices paid
- Flexibility for changes in service scope or standards
- Minimising payment administration

This knowledge paper will also consider the key cost elements to include in an FM contract pricing model and the level of pricing detail suppliers should be required and reasonably expected to provide, to achieve robust evaluation of bids and to create a flexible and manageable mechanism for managing changes and variable costs.

Lastly Appendix A provides an assessment of the data required and its relative importance in the transfer of price risk to the supplier.

VALUE FOR MONEY IN FM SERVICE CONTRACTS

Assessing value for money in FM service contracts is difficult at the point of bid evaluation as an assessment must be made on which of the suppliers will actually deliver the specified services to the defined service standards for the prices submitted.

Where the appointed supplier does not achieve this, a ‘performance gap’ exists between the sales pitch in the bid and service delivery once the contract is live. Unfortunately, unlike contracts for goods, FM services cannot be ‘sent back’ if they do not meet the required quality standards, and it is a big upheaval to change supplier once appointed. It is only once the contract is live that a true assessment of value for money can be made, and with the benefit of hindsight, a determination made if another higher cost bid ***may*** have provided better value for money. The FM procurement process and contract documentation is critical in managing this risk and in particular:

- Evaluation process, activities, criteria and weightings
- Identifying and managing excessively low bids
- Appropriate contract performance provisions[1]

[1] Please refer to our Knowledge paper- FM Contract Performance Provisions

PRICING STRATEGIES

There are a range of pricing strategies that can be utilised within FM contracts. The main options considered in this paper are summarised below, although there are a number of possible variations. The paper goes on to consider each in more detail. A single contract, particularly for multiple FM services, may well incorporate different pricing strategies for different services to best meet the client's price objectives.

Fixed Price Services - Typically for services where the details (scope and standard) and quantum (volume/frequency) of the requirement is known or predictable. This paper considers the following variations:

- General Fixed Price Services
- Fixed Price – Fully Comprehensive
- Semi Comprehensive – Fixed Price
- Indicative Price leading to Fixed Price
- Partial or Nil Subsidy (Fixed Price can be £0)
- Management Fee

Variable Service Prices – Usually used in conjunction with Fixed Price Services, for services where either the details (scope and standard) of the requirement are unknown (e.g. project work) or details are known but the frequency of the requirement is unknown or unpredictable, or at the client's discretion (e.g. turn around cleans to student bedrooms). This paper considers the following variations:

- Fixed Unit Price
- Time and Materials
- Estimates and Quotations

Cost Plus - This pricing strategy allows for the supplier to recover all actual costs incurred for the management and delivery of the services including overhead costs with an additional agreed profit margin applied.

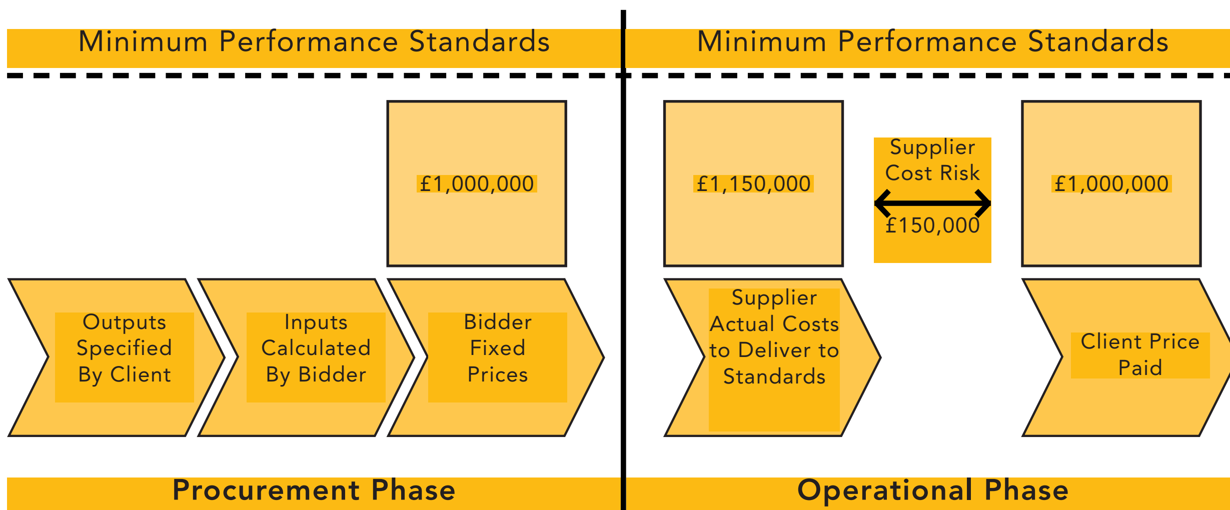
Target Price - This is used where a target price for the services is agreed, which is then reconciled against the actual costs and an agreed mechanism to adjust the price (up or down) with a degree of cost sharing between the client and the supplier on a 'gain/pain' basis.

FIXED PRICE SERVICES

The Role of the Specification in Price Risk Transfer For Fixed Prices - Before any price can be sought for the provision of services, a specification is required to set out the scope and standard of service to be provided. The specification of FM services can impact upon price in two main ways. Firstly, the clarity of the specification is critical in underpinning price risk transfer. If the specification is ambiguous, or is not comprehensive, then it provides the supplier with 'wriggle room' once appointed to argue that certain aspects of the service were not included in the fixed price.

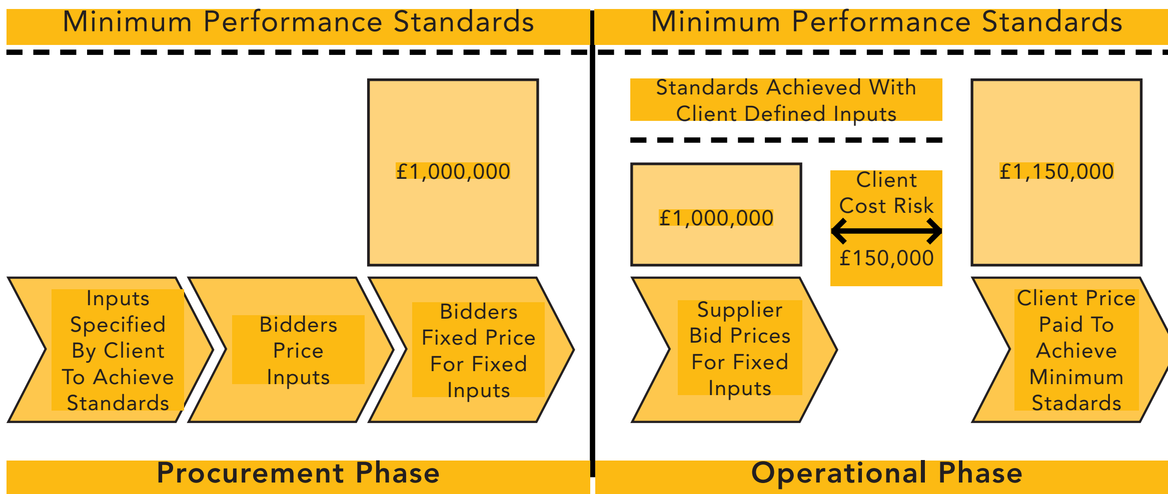
Secondly, the type of specification will impact upon the achievement of price certainty through price risk transfer. Where a service is specified using an output specification, with appropriate performance measures and incentives in place, the supplier takes on the cost risk of the resources (or inputs) required to deliver the services to the specified standard. This allows the client to achieve price certainty for a defined scope and standard of service, and the price will only vary should the client wish to amend the scope or standard of service. This is illustrated in Figure 1 below. There are of course potential negative consequences where the supplier cost risk in Figure 1 below is too large, not least the likelihood of minimum performance standards not being met.

Figure 1 - Financial Risk Allocation For Fixed Price Services Using Output Specifications



Where an input or prescriptive based specification is used, the client is effectively instructing the supplier with regards to the quantity of resources (or inputs) needed to meet their required standards. In this scenario the client is retaining the risk of additional costs being passed on from the supplier should the level of resources specified be inadequate to meet the desired standard. This is illustrated in Figure 2 below.

Figure 2 - Financial Risk Allocation for Fixed Price Services Using Input Specifications



The Role of Pricing Data in Price Risk Transfer for Fixed Prices - Understanding the impact of the availability and quality of data on the commercial realities of FM bidders pricing, and appointed suppliers delivering FM services, should play a critical role in setting FM pricing strategies. The aim should be to balance price certainty aspirations with ensuring value for money is achieved through the management of potential supplier 'price risk transfer premiums'.

To do this, consideration may need to be given to collating additional data to support price risk transfer or to adopting alternatives to fixed prices for certain elements of the requirements where value for money is unlikely to be achieved, for example the inclusion of an asset verification survey process where asset data is poor or unreliable. This is explored further in the section on 'Indicative Price leading to Fixed Price' later in this paper.

There is a wide variety of data that should be provided in a Data Pack during the FM tender process to enable bidders to understand the scope, scale and other considerations affecting the delivery and costs of their provision of the FM services specified. Please see Appendix A for further guidance on data requirements for commonly outsourced FM services which provides guidance on the relative importance of each data item in relation to the achievement of a value for money fixed price.

A final consideration in relation to data should be to determine who holds the liability for accuracy of the information provided in the data pack. Generally speaking the data should be described by the client as 'for indicative purposes only', with no representation or provision of warranty, indemnity or assurance as to the accuracy or completeness of the data pack.

That said it is important for clients to be honest with themselves about the quality of data, and develop their pricing strategies in a way that appropriately manages the price risk for the client and cost risk for the supplier. To do otherwise can create unnecessary price risk transfer premiums, or storing up supplier performance issues once the contract is awarded, or providing an opportunity for the supplier to request increases to fixed prices because the data was inacurate.

GENERAL FIXED PRICE SERVICES

Definition - Fixed price services are typically services where the details (scope and standard) and quantum (volume and frequency) of the requirement is known or predictable to the extent that it is reasonable to expect value for money to be achievable from a fixed price.

Practical Example – This pricing strategy is very well suited to the pricing of a wide range of Soft FM services such as cleaning, reception, security services, portering etc. However, when it comes to fixed prices for maintenance, the approach can be a little more nuanced and this is covered in later sections.

The Price/Payment Mechanism - For services defined as fixed price services in the contract, the financial and operational risk for delivery of the defined services and standards is transferred from the client to the supplier. However the degree to which the financial risk is transferred is dependent on the approach to specifying the services as discussed earlier.

Below is a summary of the advantages, considerations, indications and contra-indications specific to this approach to fixed price services.

ADVANTAGES	CONSIDERATIONS
- Price certainty for the client - Allows for more robust budgeting - Minimises contract management and administration for both client and supplier	- Potential risk transfer premiums - More time to draft appropriate and robust pricing clauses in contract - Bidders may seek to avoid price risk transfer through caveats in their bids (this can be resolved through careful clarification and evaluation of bids) - Appointed supplier may seek to benefit from any weaknesses in definition of fixed price inclusions - May impact supplier performance if under-priced (or low bid) by supplier - Which in turn may impact on client-supplier relationships - May be seen as being more inflexible if no clear mechanism for changing fixed prices on changes to scope or standards - Supplier will ‘bank’ efficiency/innovation savings unless clear and practical contractual requirement to do otherwise - Likely to remain some defined circumstances where the fixed price may change, not least changes to scope and standards - Contract may be seen as inflexible or not value for money, particularly where no or poorly defined mechanism for price changes due to changes to scope and standards

INDICATIONS	CONTRA-INDICATIONS
- Relatively stable FM requirements with 'typical' amounts of change in FM requirements (e.g. buildings in and out of scope) - High importance of price certainty	- Unclear or rapidly changing FM requirements - Poor quantity and quality of data

FIXED PRICE - FULLY COMPREHENSIVE

Definition - A fully comprehensive price allows for all elements of the contract/service to be covered within the supplier's price.

Practical Example - This is most commonly used in a maintenance contract where the supplier will provide all planned maintenance reactive maintenance, and replacement of worn or damaged parts as may be required through the life of the contract.

The Price / Payment Mechanism – As the name suggests, this is a relatively straight forward price and payment mechanism, however the fully comprehensive price may still exclude specific items such as damage arising from misuse or vandalism, or the life cycle replacement of an entire system or asset.

Below are the advantages, considerations, indications and contra-indications specific to this approach to fixed price services, over and above those detailed above:

ADVANTAGES	CONSIDERATIONS
- Potential for improved asset performance as supplier incentivised to minimise their costs	- Careful definition of exclusions required

INDICATIONS	CONTRA-INDICATIONS
- Simple single service contract possibly for single asset type e.g. lifts	- Blanket application across multiple asset types - Innovative new technology

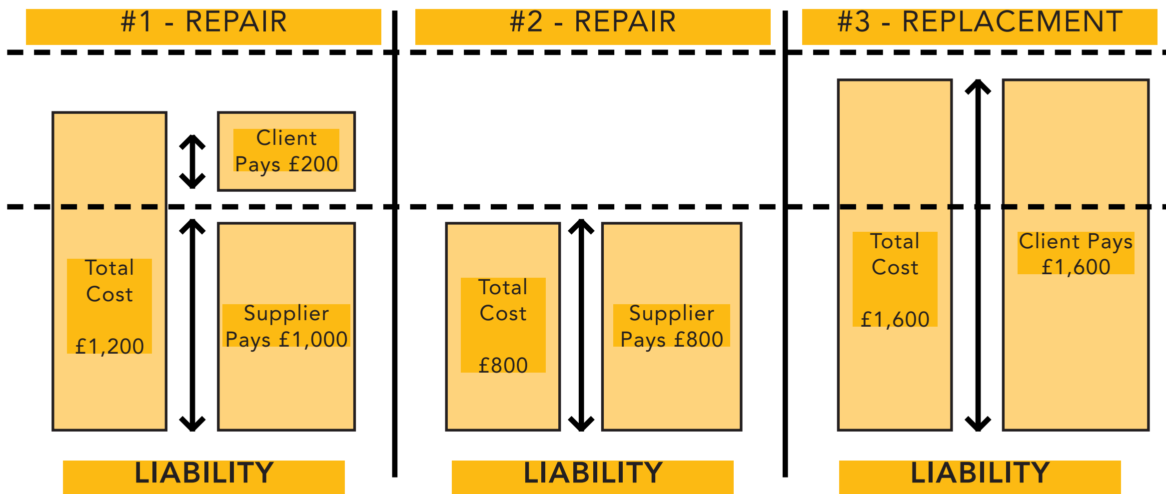
SEMI COMPREHENSIVE FIXED PRICE

Definition - A semi comprehensive fixed price generally provides for fixed prices for the delivery of elements of the service (usually reactive in nature) where the scope and scale of the activities can be reasonably predicted/controlled by the supplier up to a defined financial threshold.

Practical Example – This pricing strategy is typically used for a reactive maintenance service and often combined with a fixed price for planned maintenance.

The Price/Payment Mechanism – The price/payment mechanism is illustrated below. Here we can see that the first [£1,000] of costs for all reactive maintenance tasks is included in the suppliers Semi Comprehensive Fixed Price for Reactive Maintenance (see tasks #1 and #2 in the illustrations below). The contract pricing schedule will usually detail the inclusions and exclusions to the [£1,000] threshold. A typical exclusion to the Semi Comprehensive Fixed Price is repairs to Life Expired Assets/Assets Beyond Economic Repair which should also be defined in the contract (see task #3 in the illustration below).

Figure 3 - Semi Comprehensive Fixed Price Illustration



Below are the advantages, considerations, indications and contra-indications specific to this approach to fixed price services, over and above those detailed above:

ADVANTAGES	CONSIDERATIONS
- Transfers the liability of the first [£1,000] of all reactive tasks to the supplier - This reduces the administrative burden of dealing with these reactive tasks - Incentivises the supplier to ensure an effective planned maintenance regime in order to minimise the incidence of asset failure, which should in turn have asset performance benefits for the client - Can set different financial thresholds for different facility types or even asset types (although this complicates administration)	- Adequate time and experience is required to draft and tailor the necessary pricing clauses - Careful definition of inclusions and exclusions required - Requires definition in the contract of the management processes required for both supplier and client in the approval and payment of tasks falling outside of the threshold - Requires appropriate competence and capacity in the client team to review and authorise applications for payment for reactive tasks claimed to be outside of the Semi Comprehensive Fixed Price

INDICATIONS	CONTRA-INDICATIONS
- Good quality asset register made available in data pack - Ideally recent condition surveys made available in data pack - Ideally helpdesk asset fault history made available in data pack	- Poor asset data - Condition of assets is poor or unknown - History of backlog maintenance etc

INDICATIVE PRICE LEADING TO FIXED PRICE (PARTIAL PRICE RISK TRANSFER)

Definition - In this pricing strategy the price of a service is initially provided on an indicative price basis at the bid stage. The price is provided on the basis of the scope and standards specified along with pricing data provided by the client in the data pack. However in setting this pricing strategy the client recognises a need for verification of the data, which may affect the final price.

Practical Example – A typical example of this pricing strategy would be for a maintenance service where there is insufficient detail or confidence in the quality of information provided in the asset register(s).

The Price/Payment Mechanism - Carrying on with the example of maintenance, upon appointment the supplier is provided with a given period of time to undertake an Asset Verification Survey, ideally during mobilisation but sometimes extending into the early period of contract go live. The survey seeks to identify any errors or omissions in the asset register provided in the data pack, including consideration of assets that may have been removed as well as additional assets.

The supplier is then required to reprice the maintenance service provision on the basis of the results of the Asset Verification Survey, albeit within a contractually defined and well managed process to ensure value for money is retained once outside of the competitive process. A similar approach is also common for TUPE costs, where the actual staff transferring is not known until the transfer occurs.

Below are the advantages, considerations, indications and contra-indications specific to this approach to fixed price services, over and above those detailed above:

ADVANTAGES	CONSIDERATIONS
- Reduces risk of bids with Price Risk Transfer Premiums - Provides opportunity to update asset registers - Provides the most accurate assessment of actual maintenance costs and therefore value for money - Ensures not paying for maintenance to assets which have been decommissioned - Ensures newly installed assets are known and appropriately maintained thereby managing risks to business including compliance	- Additional drafting required in the pricing schedule to define the process and timings for price variation, which may impact on the design of the pricing model - Requires strict governance by the client, possibly with support from an independent consultant with experience in ensuring the contractual process is followed and revised pricing is appropriate

INDICATIONS	CONTRA-INDICATIONS
- Lack of confidence in accuracy of current asset data	- Independent asset survey carried out recently prior to procurement

PARTIAL OR NIL SUBSIDY

Definition - A Partial or Nil Subsidy Pricing Strategy is a form of fixed price service where the supplier is able to generate an income from sales of goods and is expected to recover some or all of their costs and make their profit from the income received.

Practical Example – This pricing strategy is typically used for a catering service provided to the client's internal market within their facilities.

The Price/Payment Mechanism - As an expert in their field, the catering supplier takes on the commercial risk of turning a profit based on their expectations of sales and therefore provides a fixed price. The fixed price can be £0 (Nil Subsidy) where this is a requirement in the contract and/or is substantiated as viable through the competitive tender process.

A fixed price greater than £0 can be set (a partial subsidy) where the competitive process suggests that a nil subsidy is not viable given one or a combination of the following factors: client stipulations on the tariff price points (a policy of free meals to staff will obviously entail a 100% subsidy), the size of the internal market, the range of services possible with space and equipment available and the extent of external provision in the locality.

The client will often make a fixed contribution through the provision of space, utilities and, in some cases, equipment.

Below are the advantages, considerations, indications and contra-indications specific to this approach to fixed price services, over and above those detailed above:

ADVANTAGES	CONSIDERATIONS
- Service achieved at minor or nil price - Price to the business known at the point of procurement of the contract - Quality should be high as incentivised to increase sales	- May miss out on share of income where sales significantly outweigh cost of sales - Range and quality of goods offered may suffer where supplier struggles to deliver expected sales volumes

INDICATIONS	CONTRA-INDICATIONS
- Large enough internal market with sufficient demand for goods	- Small internal market - Significant presence of similar service offering in locality

MANAGEMENT FEE

Definition – A fixed fee (price) for management of FM services on behalf of the client.

Practical example – This pricing strategy is appropriate where the client has decided upon an FM Strategy involving the use of the Managing Agent or similar model, involving a management only service.

The Price/Payment Mechanism – The management fee can be calculated in a number of ways. Firstly it can be calculated as a percentage of the value of FM services under management for a defined scope of management services within a defined period of time. In this instance the percentage is fixed but the actual price paid may vary as the value of FM services under management fluctuates during the period.

Alternatively the management fee can be fixed based on a known scope and value of FM services under management, with a Fixed Price Review Trigger mechanism to define the circumstances under which the management fee may be adjusted, e.g. where the total value of FM services under management changes by + or - 10%.

Below are the advantages, considerations, indications and contra-indications specific to this approach to fixed price services.

ADVANTAGES	CONSIDERATIONS
- As the name suggests – appropriate for fixing prices for a particular overall FM Strategy, namely the Managing Agent model or variants thereof	- Care to understand the potential impact of a dynamic portfolio on the management fee and drafting the pricing schedule in a way that appropriately manages this risk - Thought required as to the extent to which the management of variable FM services will be included within the fixed management fee

INDICATIONS	CONTRA-INDICATIONS
- FM Strategy involving use of a management service	

VARIABLE SERVICE PRICES AND PAYMENT

Definition - Variable services are typically where either the details (scope and standard) of the requirement and/or the frequency of the requirement is unknown or unpredictable. These ad hoc requests can be priced/paid in one of the three ways set out below. These should be used to ensure the best possible value for money for requirements which cannot be fixed or defined at the time of contract procurement.

FIXED UNIT PRICES

Practical Example - This pricing strategy can be used for many variable services where the details (scope and standard) of the requirement are known, but the frequency is not. An example might be the provision of one off extra cleans to student bedrooms or additional external window cleaning for an office building.

The Price/Payment Mechanism - The requirement (scope and standard) is included within the contract specification, and bidders provide their fixed prices for delivering one unit of the requirement. The client then pays for the number of units called off during any one invoicing period (usually monthly). Consideration can be given to volume based discounting of Fixed Unit Prices although this adds complexity to the management of payments.

Fixed unit prices facilitate the best possible value for money for variable price services where the scope and standard are known but the frequency is not, relative to simply using time and materials or requesting estimates or quotations at the time.

Since it is not always possible to predict the full range of variable services required over the life of the contract, it may be sensible to have a dynamic fixed unit price list, whereby agreed fixed unit prices can be added for other services as and when they are agreed, or where a 'Time and Materials' activity is likely to be repeated.

Below are the advantages and considerations, indications and contra-indications specific to this approach to variable service pricing.

ADVANTAGES	CONSIDERATIONS
- Likely to provide the best value for money due to competitive pricing (subject to appropriate evaluation strategy) - Reduced contract administration relative to alternative variable service pricing approaches - Potential for volume based discounting in contract pricing schedule	- Time required to identify and specify most likely ad hoc requirements at the point of procurement - The bid evaluation process should be structured in a way that ensures that bidders are incentivised to submit competitive prices - Contract should define how the performance of services delivered under fixed unit prices will be measured and the supplier incentivised to meet the defined standards

INDICATIONS	CONTRA-INDICATIONS
- Able to identify specific requirements that are likely to be required on a relatively frequent call off basis through the life of the contract - Ability to specify the scope and standard for each service included in the Fixed Unit Price schedule of rates	

TIME AND MATERIALS

Practical Example - This pricing strategy can be used for many FM service elements. Typical examples include the provision of a static security guard for a number of hours over and above that which might be provided within the security fixed price service or the provision of an electrician to install a new power outlet.

The Price/Payment Mechanism - Time and materials priced services will incorporate two elements to the final price paid for the ad hoc request by the client. Firstly fixed price labour rates should be required in the pricing model at the time of procurement which should include overheads and profits. These rates are typically linked to a pre-determined price index for annual inflation price adjustment.

The second element will be the additional costs incurred by the supplier in delivery of the ad hoc request. These additional costs might include equipment used, materials and consumables costs. The pricing model should require fixed rates for overhead and profit applied to these costs.

Ultimately the client pays for the total price for the delivery of the ad hoc request as detailed by the supplier in an application for payment which will set out the labour used, the number of hours, the fixed price labour rates applied and any additional costs incurred with the application of the agreed overhead and profit rates.

Below are the advantages and considerations, indications and contra-indications specific to this approach to variable service pricing.

ADVANTAGES	CONSIDERATIONS
- Flexibility provided to get something done quickly - Best for low value requirements	- The bid evaluation process should be structured in a way that ensures that bidders are incentivised to submit competitive prices - Contract administration effort can be significant relative to the other variable service pricing approaches - If the processes for the charging, agreement and payment of variable services delivered under the time and materials approach are either not defined, are poorly defined or poorly executed then there is significant scope for the value for money of these services to be quite poor - Significant value can be gained through independent auditing of the administration of time and materials processes and outcomes - Higher value requirements where time is not critical are likely to achieve better value for money using estimates/quotations

ESTIMATES AND QUOTATIONS

Practical Example - An example of the use of estimates or quotations would be the client requesting a quotation from the supplier for the provision of additional reception, catering and security services for an upcoming evening event to be held at the client's premises.

The Price/Payment Mechanism - Generally the supplier would be required to provide prices using the contract fixed price labour rates and fixed on-costs for overhead and profit on equipment, materials and consumables. The client is generally entitled to seek alternative estimates or quotations from other suppliers to ensure value for money. Some contracts require the supplier to get alternative quotations on the client's behalf. Project value thresholds above which alternative estimates or quotations are required can be set out in the pricing schedule. Payment is usually made on completion of the project or through other agreed payment terms.

ADVANTAGES	CONSIDERATIONS
- Enables the client to purchase additional ad hoc services (usually projects of one kind or another) through the FM contract without necessarily having to go to market - Beneficial where requirements are more complex or have a higher value	- Remember estimates are indicative only and are subject to change, whilst a quotation should be a fixed price! - May not give best value for money if alternatives estimates/quotes are not sought - Where reliant on supplier going to market for alternative estimates/quotes, potential question over value for money if favoured suppliers are used - Where the client seeks alternative estimates/quotes the client requires sufficient capability and capacity to specify and procure the requirements - Where projects are delivered by alternative client appointed suppliers, consideration of interfaces with FM supplier is required and potential knock on effects/costs, particularly for works projects

INDICATIONS	CONTRA-INDICATIONS
- It should be considered good practice to always include a requirement and process for the supplier to provide estimates and quotations for additional project work during the contract term	- None

COST PLUS (NO PRICE RISK TRANSFER)

Definition – A Cost Plus pricing strategy allows for the supplier to recover all actual costs incurred for the management and delivery of the services including overhead costs with an additional agreed profit margin applied.

Practical Example - A cost plus pricing strategy may be applied to any FM service, for example a catering service providing a staff restaurant or café may be provided on this basis.

The Price/Payment Mechanism – The contract should set out the basis on which the supplier will report their actual costs incurred to deliver the services to the specified scope and standards. It should also require the agreement of a fixed percentage to be applied for overheads and profit to be applied to costs of labour, equipment consumables etc.

In the example of a catering service under the cost plus pricing strategy, the supplier might report the cost of food, labour, sundries perhaps a fixed management fee and then apply a percentage for overheads and profit. In this example the actual price paid (or the catering subsidy) by the client would be the aggregate of these costs less the income from food sales, with the client retaining the risk of the price they pay.

Below are the advantages and considerations, indications and contra-indications specific to this approach to pricing.

ADVANTAGES	CONSIDERATIONS
- Simple approach to pricing - Flexibility to change scope of service - Flexibility to request changes to working practices - Easier client supplier relationships	- No incentive for supplier to seek efficiencies - Degree of trust required on reporting of costs incurred - Client or third party independent audits recommended

INDICATIONS	CONTRA-INDICATIONS
- Unable to clearly define scope and service levels - Poor availability and quality of data to support price risk transfer - Requirement to award contract quickly	- Opposite of the Indications!

TARGET PRICE - (PARTIAL OR FULL PRICE RISK TRANSFER)

Whilst contracts may vary slightly on how a Target Price strategy is implemented, the fundamentals of the pricing strategy are set out below.

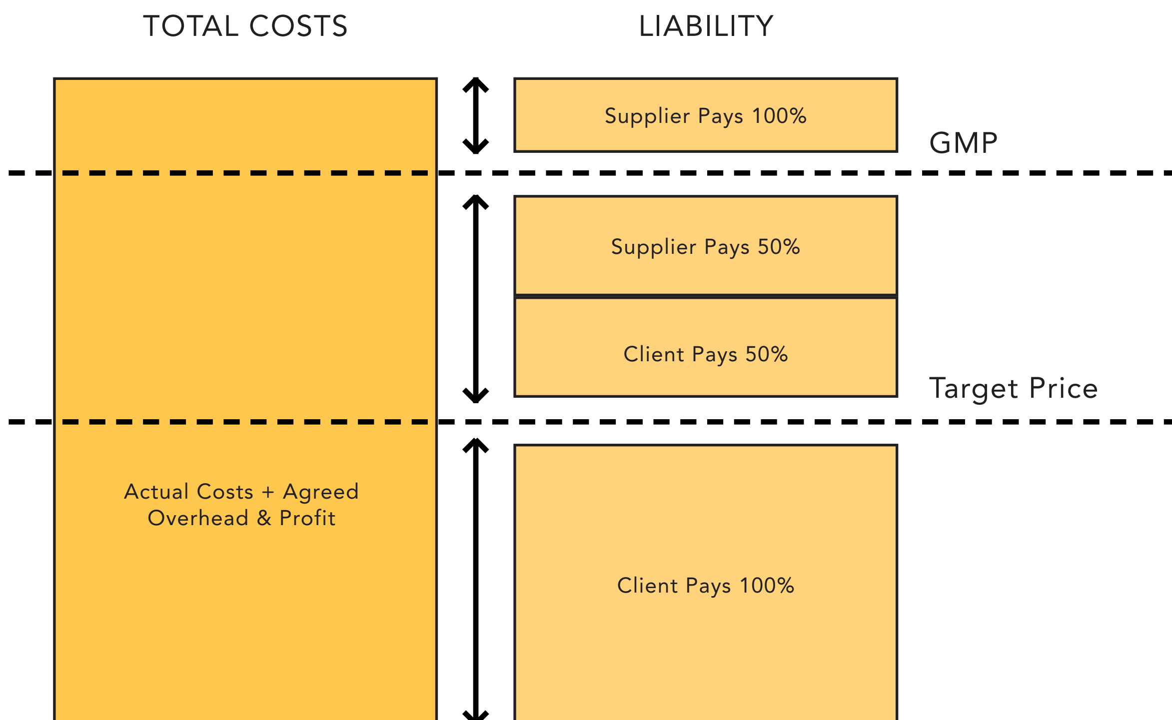
A 'Target Price' is set for the delivery of the services to meet the standards and service levels as set out within the FM contract. The setting of the Target Price can be achieved in a number of ways but is best achieved through a competitive tender process with the appointed supplier's tender price becoming the Target Price.

However the Target Price is set, the objective is for it to represent a reasonable estimate of a realistic price for delivering the services. The Target Price will be adjustable in certain circumstances during the contract term, most commonly for variations to requirements but also to account for efficiencies already made within agreed reporting periods.

The supplier is able to invoice on an actual costs incurred basis plus an agreed overhead and profit margin up to the Target Price for a defined period which could be annually or another period. Where the supplier's actual costs plus the agreed overhead and profit margin vary from the Target Price for the period a pain/gain sharing mechanism is applied.

The pain/gain share mechanism is best defined by the client in the contract. The pain/gain share mechanism can be designed in a variety of ways such as a straight forward 50/50 split or sliding scales/bands with different client-supplier ratios at each band. A pain share scale which requires the supplier to meet 100% of cost overruns above a certain price level provides the client with a Guaranteed Maximum Price (subject to contract variations).

Figure 4 - Target Price Illustration



If set appropriately the ratios should incentivise the supplier to identify and implement efficiencies in order to achieve greater profitability. An illustration of a simple pain/gain share mechanism is provided above.

Depending on how the Target Price is set, the bidder may include an element of price risk, within overheads for the contract. The price risk which whilst not necessarily visible to the client, represents the confidence the bidder has in being able to deliver the services to the Target Price, i.e. they are effectively 'insuring' against the risk of the pain share mechanism kicking in, all be it doing so under competitive tension which should keep this to a minimum.

Below are the advantages and considerations, indications and contra-indications specific to this approach to pricing.

ADVANTAGES	CONSIDERATIONS
- Some cost certainty is achievable through setting of pain share ratios - Supplier incentivised to implement efficiencies due to ability to achieve additional profits - Target Price changes as requirements change and efficiencies implemented	- May not represent value for money if Target Price is set inappropriately - If Target Price set too high, negates the incentive to the supplier to identify efficiencies - Target Price needs to be changed as requirements evolve which can be costly to administer - If Target Price set too low, can lead to poor performance, higher prices for variations and difficult client-supplier relationships - Poor performance consequences could be outweighed by incentives to reduce price resulting in poor quality of services - Records must be transparent - Appropriate audit clause required and the costs of audit

INDICATIONS	CONTRA-INDICATIONS
- Desire to drive cost efficiency through contract term - Sufficient client-side resource to carry out regular open book audit of supplier actual costs incurred	- Fluid estate with ever changing requirements (e.g. Facilities and FM services in and out of scope)

PRICING DETAILS AT BID STAGE

KEY COST ELEMENTS

The following represent the typical headline cost elements the client should include within FM contract pricing schedules:

- Overheads (Including a breakdown of inclusions)
- Profit
- Mobilisation
- Costs of Change
- Management (On and Off Site)
- CAFM & Helpdesk
- Individual FM services (See Below)
- Contract Exit
- Schedule of Rates for Variable Services

Furthermore, there are some common cost details suppliers should be required to provide for each of the cost elements listed above (excluding Overheads & Profit). These include:

- Labour Costs (Salaries, Hourly Rates, Pensions, National Insurance, Training, etc.)
- Equipment Costs
- Consumable Costs
- Sub-Contracted Costs

FACILITY BY FACILITY PRICING

It is recognised good practice to require FM prices to be provided on a facility by facility basis, which is useful to inform the wider property strategy for the client organisation. It is only by requesting prices from suppliers in this way, and ideally being invoiced and accounted for on this basis that the true costs of occupation/use of each facility can be tracked and fed into decisions on refurbishments, sales, lease extensions etc.

Pricing on this basis will also underpin a contractual mechanism for the agreement and application of overall price changes where facilities are removed from scope, and can also be used to support agreement on prices for new facilities entering scope.

Pricing on this basis allows pricing strategy to be determined within the context of data available for each facility. Ideally for simplicity of procurement, bidding and contract operation and management, the approach to pricing of each service element should be consistent across all facilities in the contract. However there may be occasions where variation delivers best value.

For example, in an estate with many facilities, some of which are modern and have good maintenance records, and some of which are old, have poor maintenance records and a history of backlog maintenance, it may be worth considering a different pricing strategy for maintenance based on which category each facility falls within.

SERVICE BY SERVICE PRICING

It should also be considered good practice to request prices from suppliers on a headline service by service basis for each facility. This will support the contractual mechanism for the agreement of overall price changes where services are removed from or added to scope.

It is only by requesting prices at this level of detail that appropriate interrogation and understanding of bidders pricing can be achieved. This will also allow meaningful comparisons with any 'Should Cost' modelling that may have been carried out to support the evaluation of bids. Furthermore, this level of detail will support analysis of any cost saving initiatives undertaken during the course of the contract.

There is always a need to balance the level of pricing detail requested with the potential future flexibility and price change management. Where services or service elements are not individually priced it becomes more difficult to make changes to services at a known cost/saving. However the level of detail required will have an impact on the effort and time required for the supplier to bid and the supplier/and or client to manage the price book. However this can be minimised through careful design of the pricing model.

IN CONTRACT PRICE CHANGES

In all but the simplest and stable of FM environments, the total prices chargeable to the client at contract award will not be the same total prices charged at the point of contract exit. There are a whole range of circumstances which could affect the prices charged during the life of the contract. It is important to recognise this as a reality and avoid oversimplified pricing and contracts that do not make allowances for the price to be changed in a managed and controlled manner.

Some of these circumstances can be considered when drafting the pricing schedule for the FM contract and methods such as Fixed Price Review Triggers incorporated to transfer some or all of the risk of price change. This approach provides clarity and can avoid constant minor price changes. Examples of circumstances that might be handled in this manner include inflationary pressures, number of building occupants, changes to core service hours and changes to the total number of facilities in the contract (in relation to off site management prices).

For the most obvious and likely of the remaining circumstances, definition and process should be included within the pricing schedule to set out how the price changes will be managed when they arise. For example a clear process and methodology for calculating the price of each FM service for new facilities brought into scope (such as the application of the same price/m^2 as other similar facilities in the contract. Care is however required here to ensure this is not overly simplified and that consideration is given to the similarity of new facilities and associated services to those already in the contract. Another mechanism to consider might be one for calculating a reduction in overall contract price for facilities leaving scope or for supplier service delivery efficiency initiatives.

The remainder, such as unforeseen changes in the law must necessarily be left to open negotiation between the client and the supplier, but should be managed in line with the contract change control process.

IN CONCLUSION

The pricing strategy or strategies used in an FM contract should be influenced by a range of factors which are likely to be unique to each contract being procured including:

- Form of contract used
- Number of facilities and services in scope
- Complexity of requirements
- Client objectives in relation to pricing (e.g. price certainty, value for money, flexibility etc.)
- Capacity of client team to manage some pricing strategies (administrative burden)
- The quantity and quality of pricing data available

Over and above the decisions to use the most appropriate pricing strategies, the degree to which value for money is achieved will also be influenced by:

- The clarity of requirements in the contract specification
- The quality of drafting of the pricing schedule and pricing model taking account of all of the considerations highlighted for each pricing strategy earlier in this knowledge paper
- The evaluation process undertaken to ensure bids are compliant

FOR FURTHER INFORMATION OR SUPPORT

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APPENDIX A

FM Procurement Pricing Data Requirements by Service

APPENDIX A -

FM PROCUREMENT PRICING DATA REQUIREMENTS BY SERVICE

1 - PLANNED AND REACTIVE MAINTENANCE

Level	Data Provided To Bidders
Minimum	1. Facility Postcode 2. Facility Primary Use 3. Gross Internal Area (GIA m2) 4. Owned or Leased 5. Core Working Hours 6. TUPE Data (Where applicable)
Optimum	7. Fixed Asset Register 8. Reactive Maintenance Records 9. Condition Survey (<3 years old) 10. Tenant / Landlord Obligations 11. Forward Maintenance Register 12. Portable Appliance Schedule
Nice to Haves	13. Statutory Inspection Records 14. Manufacturers Guidelines 15. Floor Plans 16. Operating & Maintenance Manuals

Fixed Price Value For Money

Low

High

2 - CLEANING

The table below indicates data required to enable potential suppliers to provide prices for cleaning services. Exact data requirements will depend upon the actual scope of service included within the contract specification.

Level	Data Provided To Bidders	Fixed Price Value For Money
Minimum	1. Facility Postcode	Low
	2. Facility Primary Use	
	3. Gross Internal Area (GIA m2)	
	4. Owned or Leased	
	5. Core Working Hours	
	6. TUPE Data (Where applicable)	
Optimum	7. Fixed Asset Register	
	8. Condition Survey (<3 years old)	
	9. Tenant / Landlord Obligations	
	10. Portable Appliance Schedule	
Nice to Haves	11. Statutory Inspection Records	
	12. Manufacturers Guidelines	
	13. Floor Plans	
	14. Operating & Maintenance Manuals	
	15. Reactive Maintenance Records	High

Where item no.6 is not available, assumptions on % of total GIA applied to different cleaning standards specified can be provided to bidders and an 'Indicative price leading to fixed price' pricing strategy adopted. In this scenario the creation of a schedule of accommodation for cleaning should form part of the mobilisation and transition requirement, and a price adjustment mechanism included. This helps to ensure that all bids are considered on a like for like basis.

3 - SECURITY (GUARDING) AND RECEPTION

The table below indicates data required to enable potential suppliers to provide prices for security and reception services. Exact data requirements will depend upon the actual scope of service and the level of prescription on number of staff, days and hours included within the contract specification.

Level	Data Provided To Bidders	Fixed Price Value For Money
Minimum	1. Facility Postcode 2. Facility Primary Use 3. Gross Internal Area (GIA m2) 4. Owned or Leased 5. Core Working Hours 6. TUPE Data (Where applicable)	Low
Typical	7. Fixed Asset Register	
Optimum	8. Condition Survey (<3 years old) 9. Tenant / Landlord Obligations 10. Forward Maintenance Register	
Nice to Haves	11. Manufacturers Guidelines 12. Floor Plans 13. Operating & Maintenance Manuals	High

4 - PORTERAGE AND MAILROOM SERVICES

Level	Data Provided To Bidders
Minimum	1. Facility Postcode 2. Facility Primary Use 3. Gross Internal Area (GIA m2) 4. Core Working Hours 5. TUPE Data (Where applicable)
Optimum	6. Schedule of Accommodation OR Floor Plans marked up with different cleaning standards applied to each area 7. Historical Consumables Volumes 8. Waste Volumes By Waste Stream 9. Feminine Hygiene Vending, Bins No. & Location
Nice to Haves	10. Schedule of Floor Finishes With Areas 11. Cleaners Cupboards Locations (Plans) 12. Reactive Cleaning Volumes

Fixed Price Value For Money

Low → High

5 - GROUNDS MAINTENANCE

The table below indicates data required to enable potential suppliers to provide prices for grounds maintenance services. Exact data requirements will depend upon the actual scope of service included within the contract specification.

Level	Data Provided To Bidders	Fixed Price Value For Money
Minimum	1. Facility Postcode 2. Facility Primary Use 3. Gross Internal Area (GIA m2) 4. Core Working Hours 5. TUPE Data (Where applicable)	Low
Optimum	6. No. & location of reception desks 7. Annual Volume Security Passes Issued 8. Annual Volume of Visitors 9. No. & locations of patrol system points	↓
Nice to Haves	10. Types of Security Passes 11. Annual Visitor Monthly Profile 12. No. of car parking spaces 13. Asset Register (Security Systems) - CCTV Systems - Access Control Systems - Security Pass Equipment - Guard Patrolling Systems	High

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