# RVfM

# A Description of the Calculation of the Most Economically Advantageous Tender

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# 1   Introduction

This document is intended for use by procuring authorities who have chosen to use the Commerce Decisions Ltd.'s Real Value for Money[1] approach to identifying the Most Economically Advantageous Tender.  It is structured as follows

### Section 2. Identification of the Meat

This contains the text that the procuring Authority <u>must</u> include in their invitation.  It defines the simple equation that is used calculate the MEAT.

### Section 3. Explanation of RVfM

This explains the equation defined in Section 2.  It can be published to the bidders by being included in the Authority's invitation.  It can also be used internally to the Authority to explain the approach.

### Section 4. RVfM Illustrative Example

This is a worked example.  Once again it can be published to the bidders by being included in the Authority's invitation.  It can also be used internally to the Authority to explain the approach.

### Section 5. Description of RVfM for Bidders

This explains how bidders can improve their chances of winning the competition.  It can be published to the bidders by being included in the Authority's invitation.

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[1] Previously known as <u>Relative</u> Value for Money.  Name has been changed as "Relative" VfM created the perception that it scores tenders relative to one another when in fact it does not.

# 2   Identification of the MEAT

The Authority will award a Score in the range 0 to 100 to each Tender according to its assessment of the value of the Tender to the Authority.  The preferred tender will be identified as that with the <u>lowest</u> RVfM Rating.  This is defined by

$$\text{Tender RVfM Rating} = \text{Tender Cost} - \text{Tender Score} * £75,000$$

If there is more than one tender with the same lowest RVfM Rating then the tender with the lowest cost will be identified as the preferred tender.

# 3  Explanation of RVfM

The preferred tender will be identified by applying the Real Value for Money (RVfM) Most Economically Advantageous Tender (MEAT) calculation below.

The Authority will award a Score in the range 0 to 100 to each Tender according to its assessment of the value of the Tender to the Authority.  It has determined that it is willing to pay £75,000 for a 1 point increase in this Score.  This is the Cost of One Point Increase in Score (COPIS) for this procurement.

Acceptable tenders will be plotted on a graph with Score as the y-axis and Cost as the x-axis.  Tenders which are not acceptable to the Authority are not considered in the MEAT calculation and are not plotted on the graph.

All points on a line drawn on this graph with a gradient of 1 point difference in score for the COPIS difference in cost have equal value for money to the Authority - i.e. the Authority is indifferent to where a tender is located on such a line.  A line with this gradient drawn through a tender is called the Indifference Line of that tender.

When comparing two tenders TA and TB; TA is better value for money to the Authority than TB if TA's Indifference Line is to the left of TB's on the graph (because TA's cost would have to be higher for it to be equal value for money to the Authority as TB).  Hence the MEAT is the tender whose Indifference Line is leftmost on the graph.

The MEAT is calculated as that with the <u>lowest</u> RVfM Rating where the  RVfM Rating for each tender is the point at which its Indifference Line crosses the x-axis on the graph.  This is defined by

<div align="center">Tender RVfM Rating = Tender Cost - Tender Score * Cost of One Point Increase in Score</div>

If there is more than one tender with the same lowest RVfM Rating then the tender with the lowest cost is the MEAT.

In the illustration below the Indifference Line drawn through each tender has the gradient defined by the cost of one point increase in score for this procurement. TC is the MEAT as its RVfM Rating is the lowest of the tenders (and its Indifference Line is leftmost on the graph).
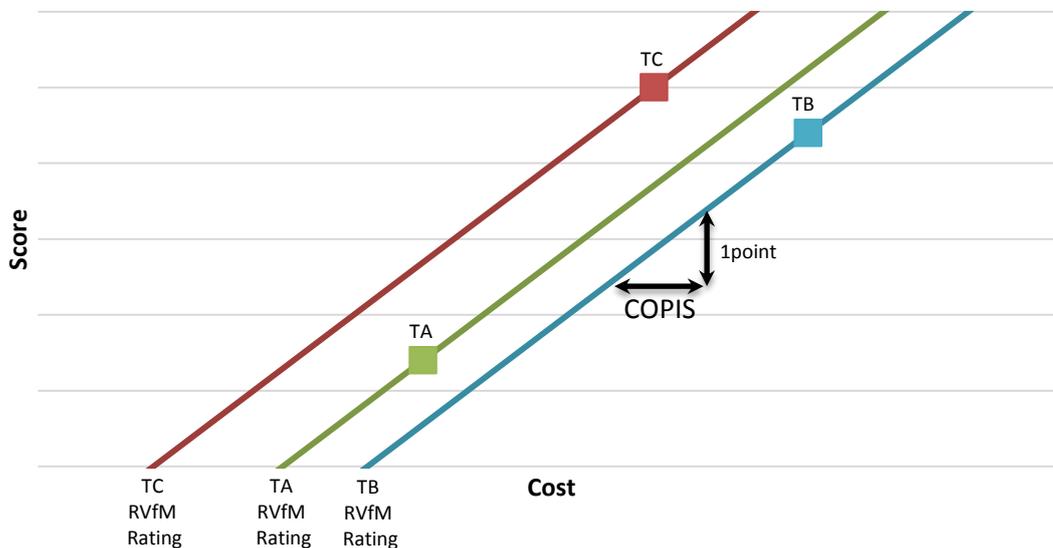
# 4 RVfM Illustrative Example

The following is an illustrative example of the RVfM calculation applied to three tenders.  Tender TC is the MEAT.

**Note that the values used in this example are arbitrary and must NOT be taken as an indication of expected functionality or price for the current procurement**.
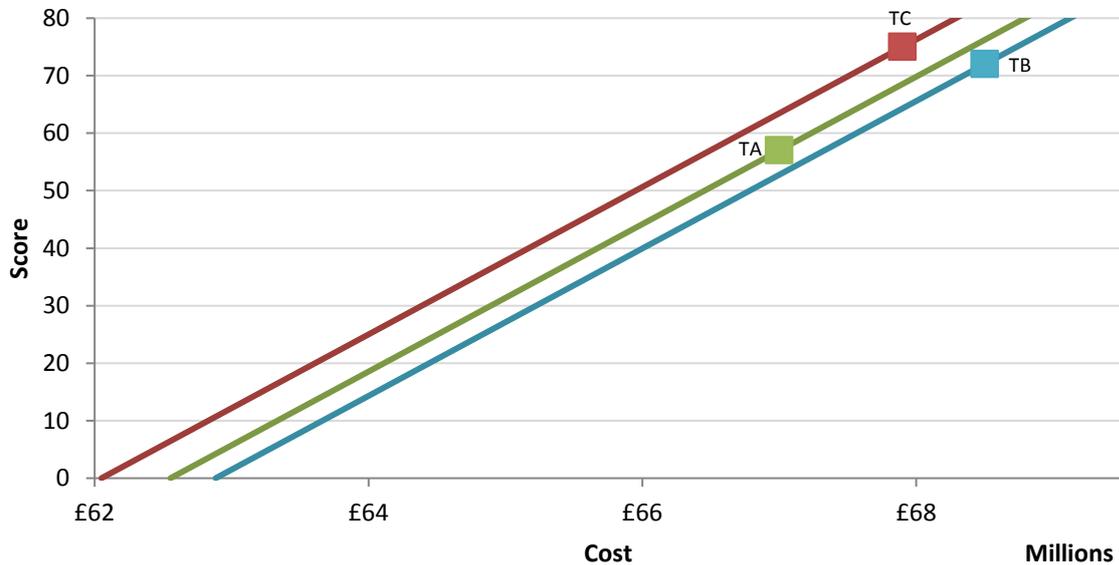
Three tenders have been assessed as being acceptable in this procurement, as follows:

| Tender | Cost | Score |
|--------|------|-------|
| TA | £67,000,000 | 57 |
| TB | £68,500,000 | 72 |
| TC | £67,900,000 | 75 |

The Authority has determined that it is willing to pay £78,000 for a 1 point change in Score.

The RVfM Rating of each tender is calculated as follows:

Tender RVfM Rating = Tender Cost - Tender Score * £78,000



| Tender | Cost | Score | Acceptable | RVfM Rating | RVfM Rank |
|--------|------|-------|------------|-------------|-----------|
| TC | £67,900,000 | 75 | TRUE | 62,050,000 | 1 |
| TA | £67,000,000 | 57 | TRUE | 62,554,000 | 2 |
| TB | £68,500,000 | 72 | TRUE | 62,884,000 | 3 |

# 5 Description of RVfM for Bidders

In order to improve the value for money of their tender to the Authority a bidder needs to move their tender to the left of its current Indifference Line. This can be achieved in any of the following ways:

- (a) Reducing its cost whilst maintaining its score
- (b) Increasing its score whilst maintaining its cost
- (c) Reducing its score whilst reducing its cost proportionally more w.r.t. the defined gradient
- (d) Increasing its score whilst increasing its cost proportionally less w.r.t. the defined gradient
- (e) Increasing its score and reducing its cost

Examples of these changes are illustrated in the diagram below. Whilst all of them would improve TA's value for money, only (a) and (e) would make TA the MEAT if nothing else changed in this scenario as they would move TA to the left of TC's Indifference Line.

Changing the score and cost in a way that moves the tender to the right of its current Indifference Line would reduce its value for money to the Authority and hence reduce its likelihood of being chosen as the MEAT.