

**This is part of the Constructors Tender Documentation for the  
Mapeley Framework**

**July 2008**

# Target Cost & Reimbursement Mechanism

## 1. Overview

The Mapeley framework presents a series of challenges both in terms of programme and cost and in order to best meet these it is considered that a full open book reimbursement of actual cost linked to a target cost is the best mechanism to help mitigate these challenges.

The primary intentions of the mechanism outlined in Annex A are as follows:

- 1.1. Reduce the risk profile to the Constructor to facilitate the creation of a single integrated team** – by prevention of the bearing of risk the constructor can be allowed to work in a completely open environment maximising the value input into the project. It is therefore not necessary to neither take on the risk of uncertainty prior to commencement on site nor become embroiled in wasteful negotiations during construction if site constraints vary or are not as anticipated.
- 1.2. Provide for ringfenced overhead and profit to allow certainty of return to Parent Company** – the overhead and profit for each project will be ringfenced based upon the Agreed Price achieved at site commencement and set aside as a lump sum. This will remain payable in full independent of the final outturn cost providing for a defined and guaranteed return to your Parent Company.
- 1.3. Ensure that Mapeley's Clients do not pay for unnecessary risk allowances** – reliance on actual cost will ensure that clients do not pay for any risk taken on board by the Constructor for items related to site conditions, out of hours working etc. that is not actually expended.
- 1.4. Allow the implementation of an incentive scheme** – generation of savings from the difference between the target cost and the final outturn cost provides both a sum of money from which to draw the incentive from and a measure of performance.
- 1.5. Allow the Clients to benefit from the value engineering and process improvement that will be carried out on a progressive basis** – Mapeley will continue to work with both the Constructors and other members of the supply chain to reduce the cost base, use of actual cost as the method of reimbursement will allow these benefits to be fed through instantaneously.
- 1.6. Allow for sharing of best practice following analysis of outturn costs** – analysis of the outturn costs against a target that is comparable wherever the project is located will identify strengths and weaknesses in relation to cost performance. Reasons for strong performance can then be established and shared with parties that are not performing as strongly.

In essence the mechanism is designed to provide the lowest risk profile to each party whilst providing guaranteed overhead and profit payment to the Constructor and allowing the Clients to benefit from savings through improved process and value engineering.

# Target Cost & Reimbursement Mechanism

## 2. Mechanics

Detailed below are explanations of the documents to be produced at each stage and the relationship between the target cost and final outturn costs.

### 2.1. Constructors Proposals (Stage 2C) – At this stage two tasks are undertaken:

- Compilation of the Target Cost and
- Compilation of the Constructors Agreed Price.

The **Target Cost** will be based upon the generic schedule of rates and will be compiled using a standard template. Where items of work cannot be priced using the schedule of rates i.e. project specific items then costs that the Constructor has obtained from the supply chain will be included on a like for like basis of those included within the Constructors Agreed Price. In addition to the items that are priced by either the rates or the Constructor there will be items that either remain as risks or provisional sums, these sums will be combined to form a “Risk” allowance for each project and will be subject to instruction from the Client Representative throughout the course of the project. The scope of the Target Cost shall match exactly the scope of the Constructors Agreed Price.

The **Constructors Agreed Price** will be the price that the Constructor develops in conjunction with their supply chain and is required to provide the necessary certainty of price prior to commencement on site that cannot be ascertained from the schedule of rates, which at this stage still represent an estimate. In addition to the confirmed prices from the supply chain it will include the same “Risk” allowance referred to above. In addition to such overall sum calculated the Constructor shall add as a percentage addition the agreed level of Central Office Overhead and Profit recovery (herein after referred to as ‘OH&P’. The increase to the sum noted previously by the application of the OHP percentage addition shall be converted to a lump sum cost and be referred to as the ‘Ringfenced OH&P. This is not a tendering exercise to establish if the Constructor is competitive or whether they will be awarded a contract but a test of the Target Cost. If the Constructors Agreed Price is in excess of the Target Cost then the project team will either have to undertake steps to reduce the cost by revaluation of the scope and delivery constraints or accept the price if the integrity of the overall Budget can be maintained.

### 2.2. Completion (Stage 4)– At this stage there are two outturn documents:

- Final Target Cost
- Final Outturn Cost.

The **Final Target Cost** is the same as the **Target Cost** at site commencement except for the addition or subtraction of any scope changes. Scope changes being defined as any additional piece of work or, the omission of any item of work that was defined in the Project Proposals at site commencement. Any item of work that was originally defined as either a risk or provisional sum at does not constitute a scope change. The Final Target Cost is that which the Final Outturn Cost is compared against to define any savings achieved on the project.

The **Final Outturn Cost** is made up of the actual cost incurred by the Constructor as defined in Annex B plus the ringfenced lump sum overheads and profit determined at site commencement plus or minus any overheads and profit allowable as a result of variations resulting from either the expenditure of risks/provisional sums or the execution of scope changes.

# Target Cost & Reimbursement Mechanism

## 3. Incentive

The incentive derived from the target cost mechanism is twofold.

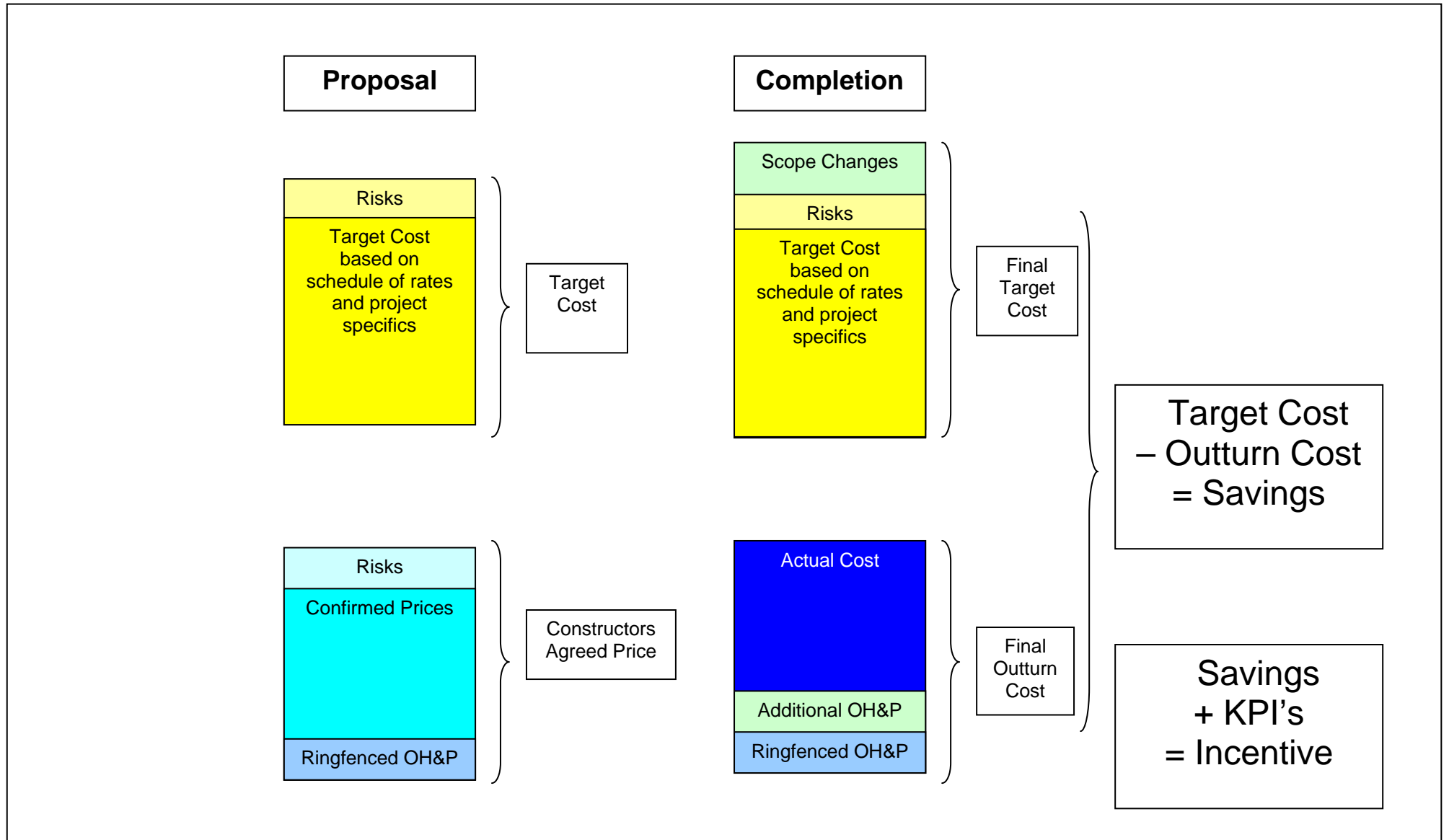
- The first incentive is for the constructor to reduce the level Final Outturn cost at completion below that of the Constructors Agreed Price at site commencement. As the overheads and profit at site commencement are a lump sum this will have the effect of increasing the return to Parent Company in percentage terms as the overheads and profit is divided by a smaller sum. See example below.

		Confirmed Prices	Actual Cost	Overhead & Profit %	Overhead & Profit Sum
Constructors Agreed Price (Stage 2C)	<b>428,000</b>	400,000		7.00%	28,000
Final Outturn Cost (Stage 4)	<b>378,000</b>		350,000	8.00%	28,000

- The second incentive is the formalised Incentive scheme based upon the scores from the Key Performance Indicators and the savings calculated from the difference between the Final Target Cost and the Final Outturn Cost of the Project. The mechanism for achieving this incentive is outlined in Annex C.

# Target Cost & Reimbursement Mechanism

## Annex A – Summary of Process



# Target Cost & Reimbursement Mechanism

## Annex A – Worked Example of Process

	<b>Proposal</b>		<b>Completion</b>		
	<b>Target Price</b>		<b>Final Target Price</b>		
Schedule of Rates	280,000	72%	Schedule of Rates	280,000	
Project Sepcifics	90,000	23%	Project Sepcifics	90,000	
Risks	20,000	5%	Risks	20,000	
			Scope Changes	30,000	
	<hr/>			<hr/>	
	390,000		420,000	420,000	
	<hr/>			<hr/>	
	<b>Constructors Agreed Price</b>		<b>Final Outturn Cost</b>		
Risks	20,000				
Confirmed Prices from Supply Chain	245,455		Actual cost incurred	317,000	
Ditto in relation to project specifics	81,818				
Ringfenced overhead & profit	32,727		Ringfenced overhead & profit	32,727	
			Additional OH&P as a result of expenditure of risk and scope changes £40,000*10%	4,000	
	<hr/>			<hr/>	
	380,000		353,727	353,727	
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			<b>Saving</b>	<b>-66,273</b>	
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## Target Cost & Reimbursement Mechanism

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## Annex B – Determination of Actual Cost

The Final Outturn Cost will be the Actual Cost that the Constructor has paid determined in a true open book environment, plus the overheads and profit determined at site commencement plus or minus the overheads and profit determined from the valuation of any variations during construction.

The Actual Cost is the amount of payments due to Sub Contractors/Specialists for work which is subcontracted and the cost of the components in the Schedule of Cost Components for work which is not subcontracted less any Disallowed Cost. All Actual Costs shall be nett and shall pass to the Client the benefit of any discounts and any deferred or volume discounts or bonuses and all such costs shall not include the cost to include for a main contractors discount.

Disallowed cost is cost that the Client decides:

- Is above the agreed maximum rate
- Is not justified by the Constructors accounts and records
- Should not have been paid to a specialist/subcontractor in accordance with his subcontract
- Was incurred only because the Constructor did not
  - Follow an acceptance or procurement procedure stated in the Project Brief
  - Give an early warning which he could have given that would have allowed for mitigation of the stated cost
- Results from paying a specialist/subcontractor more for a change than is included in the accepted quotation.
- Correcting defects after completion
- Correcting defects caused by the Constructor not complying with a requirement for how he is to provide the works stated in the Project Brief or Project Proposals
- Plant and materials not used to provide the works (after allowing for reasonable wastage)
- Resources not used to provide the works (after allowing for reasonable availability and utilisation) not taken away from the project when requested by the Client Representative.
- Result from inefficient or excessive labour or staff involvement in any task or work (having due regard to the nature of the task or item of work in question)
- In respect to materials stored incorrectly, damaged while stored on site or in transit
- Result from reinstating access removed prior to an agreed period
- Arise in connection with uncovering work covered prior to an agreed period
- Arise in connection with correcting damage to existing structure or new works
- Have resulted from the Constructor failing to take such reasonable security precautions that would have prevented loss, damage or delay to the project
- Were otherwise incurred through any failure by the Constructor, or persons or organisations for whom he is responsible, to comply with the Project Contract or Commencement Agreement
- Any indemnity monies that are paid by the Constructor to the Client as a result of third party claims in accordance with the Framework Agreement and the project Contract

## Schedule of Cost Components – Headings Only

**People** - the cost of employing people either directly or by agency who will be working directly on the projects defined in the Framework agreement.

**Plant** – the cost of hiring plant, which must be at commercially competitive rates, or payment for an allowance for depreciation and maintenance if the Constructor owns the plant.

**Materials** – the cost of purchasing and delivering materials to the project.

**Charges** – payment of charges to utilities or public authorities for works in connection with the project.

**Manufacture and Fabrication** –costs associated with off site manufacture carried out at the Constructors own facilities.

**Design** – costs associated with design carried out by the Constructors

# Target Cost & Reimbursement Mechanism

## Pre Determined Overheads and Profit

The pre determined overheads and profit percentage for the projects under the Mapeley Framework agreement is 5.25 %

### Overheads

For the avoidance of doubt Central Office Overheads will include:

- Head and regional office management (all parties above Contract Manager)
- Head and regional office administration
- Head and regional office supplies and equipment
- Management travel and subsistence
- Training costs and fees
- Production of literature/videos etc. and delivery of health, safety and environmental training and site inductions
- Attendance by office management at workshops whether at intervals as stated in the Framework Agreement or more regular basis
- Attendance by office management at Core Group meetings
- All costs associated with the security clearance process for staff
- All costs associated with provision of and occupation of head and regional offices
- Insurances where applicable
- Head and regional costs
- Marketing, advertising and sponsorship
- IT systems and services
- Audit, professional and bank charges
- All costs associated with tendering for Mapeley Framework projects.

### Profit

For the avoidance of doubt overhead recovery and profit recovery shall not be compounded.

# Target Cost & Reimbursement Mechanism

Annex C - Proposed Scorecard Framework for each Project								
Detailed Benchmark	Score	Weight	Adj Score	Key Benchmark	Score	Weight	Adj Score	Overall Score
Customer Service Questionnaire		50%		Quality		25%		
Snag free at handover		50%						
Completion of on site works on time		100%		Programme		15%		
Performance against target cost		80%		Cost		30%		
Period taken to agree final account		20%						
Produce a Waste Management Plan and disposal certificates		10%		EHS		30%		
Accident reporting		40%						
Submission of Health & Safety Files and O&M Manuals		50%						
Reportable Accident								

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## Annex C – Proposed Relationship Between Score and % of Savings Payable

