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Retail Trade Framework

Invitation to Tender (ITT)
Financial Evaluation Methodology

1. Principles

- 1.1 This document sets out the methodology to be used for the financial evaluation of the Retail Trade Framework procurement. The financial evaluation will comprise of two key elements:
- 1.2 **Part 1** - A financial evaluation will be performed on all submitted tenders. The financial evaluation will comprise of 60 per cent of the overall evaluation score for each bid, with the remaining 40 per cent derived from the quality score.
- 1.3 **Part 2** - A financial viability risk assessment which will not count towards the tender assessment scores but will be used to highlight any financial risks to the department and used to provide feedback to contractors on issues they need to consider/resolve. A red rating here may result in elimination from the competition.

2. PART 1 – FINANCIAL EVALUATION

- 2.1 DWP will assess the supplier's proposed prices in 2 stages:
 - **Detailed review and clarification.** A detailed review of tenders will be conducted in order to ensure the consistency of financial and non financial information. The authority reserves the right to request clarifications where required. This review will ensure that the prices offered are sustainable and in line with more detailed delivery cost assumptions. The detailed costs in the pricing proposal will be cross-referenced to the information provided within the quality elements of the proposal to ensure that the information correlates. If there are any discrepancies or ambiguities, these will be clarified with Bidders.
 - **Final Price Scoring and Ranking.** Scoring will be undertaken on a relative assessment model. A final ranking will be produced taking in to account any adjustments made following the detailed review and clarification.

3. Scoring and Ranking

- 3.1 Bidders will be required to complete a LOT Pricing Proposal for the delivery of the Retail Trade Framework. The LOT Pricing Proposal covers all 5 Lots, including the further breakdown of Lot 1 (ie Lot 1a – Lot 1g). This gives Bidders the opportunity to compete for a total of 11 separate contracts.

- 3.2 Each contract will be separately scored e.g. if a Bidder completes 7 of the 11 LOT Pricing Proposal sheets, they will each be scored on their own merit (Total 'Basket' Unit Cost) and not amalgamated.
- 3.3 The finance evaluation will accrue a maximum of 100 marks when evaluating Bidder's tenders and will be multiplied by the finance weighting of 60%. The marks will be split as follows:

95	Total 'Basket' Unit Cost
5	Delivery/Additional Charges

NB: Please note that, although Lot 4, Bicycles and Accessories, asks for information in relation to assembly services, this does not form part of the evaluation and is for information only.

- 3.4 Within each individual Lot, the Bidder with the cheapest Total 'Basket' Unit Cost (after discount) will receive 95 marks and all other bids will be relatively assessed against this bid. If the next bid is 10% more expensive, they will receive 85.5 marks.

The Total 'Basket' Unit Cost is calculated as follows:

LOT 1: Ladies Clothing (Lots 1a – 1g)

Total 'Basket' Unit Cost (after discount) - cells E7:E19

LOT 1: Gents Clothing (Lots 1a – 1g)

Total 'Basket' Unit Cost (after discount) - cells K7:K18

LOT 2: Work Wear:

Total 'Basket' Unit Cost (after discount) - cells E7:E30

LOT 3: Work Tools/Equipment

Total 'Basket' Unit Cost (after discount) - cells E7:E40
Total No. of items offered x Total No. of items on list (34)

LOT 4: Bicycles and Accessories

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Total 'Basket' Unit Cost (after discount) - cells E8:E20
Total No. of items offered x Total No. of items on list (13)

LOT 5: Laptops, Tablets and Mobile Phones

Total 'Basket' Unit Cost (after discount) - cells E7:E8

- 3.5 Within each individual LOT, the Bidder with the cheapest Total 'Basket' Unit Cost will receive 100 marks and all other bids will be relatively assessed against this bid. If the next bid is 10% more expensive, they will receive 90 marks
- 3.6 Within each individual Lot, Delivery/Additional Charges will be scored as follows:

Lots 1, 2, 3 & 5:

Delivery Service Available? No

Score: Nil Marks

Delivery Service Available? Yes

Score:

Free P&P 5 Marks

P&P Charge 2 Marks

The Bidder with the cheapest Delivery/Additional Charges will receive 5 marks and all other bids will be relatively assessed against this bid. If the next bid is 10% more expensive, they will receive 4.5 marks.

- 3.7 The two scores will then be added together and multiplied by the 60% weighting to give an overall Financial score. **Annex 1** gives a worked example.

4. Price Sensitive Information

- 4.1 Where a Bidder considers that the nature of information submitted in support of their proposal is particularly price sensitive (e.g. potential to impact share price) they are required to indicate this as "Price Sensitive" and submit in a sealed envelope. Such information will be passed directly to Shaun Robinson (Head of CD Finance), who will be solely responsible for the secure storage. Only Shaun Robinson will have access to view such information (or, in his absence, his nominated representative).

5. Parent Company Guarantee

- 5.1 If your organisation has a Parent Company and should you be deemed successful in bidding for this contract, then DWP will require a signed Parent Company Guarantee (PCG) to be in place prior to any potential and future contracts being signed. If the parent company is a charity, the Authority would need to understand whether there is anything in the provisions of the charity's constitution that prevents them from being able to offer a PCG. In these circumstances the Authority may require an alternative guarantor. Performance bonds, deposits, sub contractor warranties or other forms of appropriate security may be required in appropriate circumstances.
- a. The PCG will not be negotiable; however there may be exceptional circumstances where the wording needs to be slightly amended or a deed of guarantee supplied. These may include Special Purpose Vehicles (SPVs), frameworks, consortia and organisations that have parent companies based abroad. The Department standard form of words will be used as this is the basis of the PCG.
 - b. A draft copy of the PCG is located in the Terms and conditions at Schedule 11.
 - c. **Abnormally low tender**
 - d. Bidders are advised that the authority will scrutinise any tender that contains prices which appear very low (having regard to, amongst other things, to the prices submitted in other tenders received). The authority reserves the right to reject any tender that is an abnormally low tender (whether in terms of the total unit price or in terms of any of the prices or their underpinning assumptions submitted within the tender form from which the total unit price is derived or otherwise). Although this procurement is for Part b Services, the authority will adopt a procedure analogous to that set out in regulation 30(6), 30(7) and 30(8) of the Public Contracts Regulations 2006 (as amended) in determining whether a tender is abnormally low.

6. PART 2 – FINANCIAL VIABILITY RISK ASSESSMENT

- 6.1 The aim of the evaluation is to ensure Bidders who proceed have sufficient resources to successfully deliver the contract with a minimal risk of failure. The assessment will consist of an evaluation of the accounts and other financial and organisational data that the prospective Bidder makes available to the Authority.

- 6.2 Special Purpose Vehicles (SPVs) will be assessed using the same approach as other companies, except each member of the SPV will have their contribution to the key metrics apportioned based on their equity holding in the organisation (or proposed equity holding if the SPV has not yet been formed).
- 6.3 In order to comply with the accounting standard, IAS 24 Related Party Disclosures, Bidders are required to ensure that their financial statements contain the disclosures necessary to draw attention to the possibility that its financial position, and profit or loss, may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.
- 6.4 Where the bidding organisation has a Parent Company, then the Parent Company accounts should also be supplied. If your organisation has a Parent Company, and should you be deemed successful in bidding for this contract, then DWP will require a signed Parent Company Guarantee (PCG) to be in place prior to any contracts being signed.
- 6.5 The PCG will not be negotiable; however there may be exceptional circumstances where the wording needs to be amended or a deed of guarantee supplied. These may include Special Purpose Vehicles (SPVs), frameworks, consortia and organisations that have parent companies based abroad.
- 6.7 In order for a like for like evaluation on organisations based abroad, the Authority will require that all financial accounts are converted and supplied in GB sterling, stating the exchange rate used and the justification for this exchange rate.
- 6.8 The analysis of the accounts will consider the size of the business, its age and which sector of industry it is trading in, as well as focusing on appropriate ratio analysis and organisational growth. The financial appraisals will be conducted by suitably qualified and experienced staff to ensure an accurate, consistent and professional approach.
- 6.9 Individual Bidder responses will be assessed on the following three areas:
- Organisational Stability;
 - Financial Stability; and
 - Growth Management;
- 6.10 If the assessment of any of the above areas produces a RAG rating of **RED** the result will be potential elimination from the procurement. An

organisation that has a negative balance sheet (technically insolvent) will be given a RAG rating of **RED**. Further investigation and clarification will be required by the Authority to fully understand the issues causing the red rating.

- 6.11 As part of such investigation and clarification the Authority may require the Supplier to provide supplementary information relating to the matters specified. If, following such clarification, the Authority is satisfied that there are clear and robust mitigating circumstances, which provide satisfactory assurance that there is minimal risk of contract failure as demonstrated by the clarification and/or supplementary information provided, the Authority reserves the right not to eliminate the Supplier from the procurement process, and to amend the RAG rating from RED to **AMBER**.
- 6.12 If you identify that your organisation will be rated RED, but believe there to be mitigating circumstances, then you should submit an explanation and supporting evidence of the mitigating circumstances with your annual accounts.
- 6.13 If any Bidders score a mixture of **AMBER** and **GREEN** in the criteria listed in **Annex 2**, the greater number of **AMBER/GREEN** takes priority. If a Bidder has an equal number of **AMBER/GREEN** the Bidder will be deemed **AMBER**. An **AMBER** rating does not exclude an organisation from progressing in the competition.
- 6.14 For an organisation which achieves an **AMBER** rating it may be necessary before contracting with that organisation for a Bidder to supply additional evidence that the Bidder can manage the level of growth, from an organisational, financial and delivery perspective. **Annex 2** provides the RAG criteria and related action across all areas of the assessment.

7. Organisational Stability

- 7.1 This section focuses on the overall stability of the organisation based on set criteria. Using the data supplied in the financial statements, an assessment will be completed to determine the stability of the organisation.
- 7.2 If the assessment raises major concerns about the organisation [please see the qualification table at **Annex 3** for more information] this will result in the organisation being given a **RED** rating which will result in the potential elimination from the process.
- 7.3 Organisations who do not fall into the above rating category will receive a **GREEN** rating.

8. Growth Management

- 8.1 This section provides an initial assessment of an organisation's ability to manage the contract. Please see **Annex 4** for details that will be used in the assessment at this stage.
- 8.2 Turnover growth analysis will focus on the contract limit, and an organisation's ability to manage a single contract.
- 8.3 This analysis will be used to identify how the organisation is likely to achieve the following:
- **Financial Strength** - can the organisation cope financially with the size of contract or asset requirement; and
 - **Capacity** - does the organisation have the resource to carry out the work.
- 8.4 The Authority will assess each organisation's ability to carry out and complete the contract, and will calculate an organisational threshold initially based on 75% of their turnover. Organisational / group / SPV structures will also be taken into account, where appropriate, as part of this financial threshold calculation. It is anticipated that this financial threshold must be equal to or higher than the annual contract value to progress.
- 8.5 Failure to meet the threshold will not mean automatic elimination from the competition, but further assurances will be sort by the Authority regarding the organisation's ability to grow and cope with the requirements of the contract. Failure to provide these assurances will result in elimination from the competition.
- 8.6 If the organisation progresses through to future stages of the procurement exercise, a Growth Capacity model may be used to explore financial and non financial elements to further measure growth potential. This will be dependant on contract size. The non financial elements will include, but not be limited to:
- Strategic Management;
 - Supply Chain Management;
 - Infrastructure;
 - People and Skills; and
 - Policies and Procedures.

9. Financial Stability

- 9.1 This section involves completing a ratio analysis of the financial information contained in the bidding organisation's financial statements and will inform the outcome of this part of the assessment.
- 9.2 Two ratios will be analysed: the Acid Test ratio (1) and the Debt ratio (2). Please see **Annex 4** for details of the scoring and weighting criteria that will be attributed to this assessment.
- 9.3 When analysing a bidding organisation's Liabilities, the Authority will exclude any amounts in relation to Provisions for Pensions Liabilities.

10. Outcome

- 10.1 The overall outcome of the analysis is intended to produce a field of Bidders considered viable to undertake and conduct the contract.

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ANNEX 1

Relative Assessment – ranking and scoring:

LOT 1a						
RELATIVE ASSESSMENT - List Items						
Ranked Result	Bidder	Pricing Schedule bid price £	Price difference from the min bid	Relative Assessment	Weighted Score	
1	Supplier A	750	£0.00	95.0	57.0	
2	Supplier B	876	£125.50	79.1	47.5	
3	Supplier C	950	£200.00	69.7	41.8	
4	Supplier D	1,000	£250.00	63.3	38.0	
5	Supplier E	1,200	£450.00	38.0	22.8	
						34.2
RELATIVE ASSESSMENT -Delivery/Additional Charges						
Ranked Result	Bidder	Pricing Schedule bid price £	Price difference from the min bid	Relative Assessment	Weighted Score	
1	Supplier A	0	£0.00	5.0	3.0	
2	Supplier B	5	£5.00	5.0	3.0	
3	Supplier C	10	£10.00	4.9	3.0	
4	Supplier D	15	£15.00	4.9	2.9	
5	Supplier E	20	£20.00	4.9	2.9	
						3.0
RELATIVE ASSESSMENT -Total						
Ranked Result	Bidder	Pricing Schedule bid price £	Price difference from the min bid	Relative Assessment	Weighted Score	
1	Supplier A			100.0	60.0	
2	Supplier B			84.1	50.4	
3	Supplier C			74.6	44.8	
4	Supplier D			68.2	40.9	
5	Supplier E			42.9	25.7	

Figure 1: Please note the above is for illustrative purposes only

ANNEX 2

Qualifying Criteria

The following table defines the RAG assessment and related action.

Criteria	Outcome
RED - Potential Elimination	Bidder exits the exercise subject to section 6.10 above
AMBER - Tentative Progression	Bidder progresses to next stage, but analysis continues and a dialogue commences between DWP and the organisation. The possibility of elimination at a later date does exist, but is not definite.
GREEN - Progression	Bidder progresses to next stage

ANNEX 3

Turnover Growth Methodology

The table below shows the scoring and weighting mechanism for Turnover Growth (section 1.3 refers).

Criteria	Score
Turnover Growth	>75% = Red 75% or less = Green

ANNEX 4

Financial Stability and Growth Management Scoring Methodology

The financial tests performed during the evaluation process are as follows (section 6 onwards refers):

Criteria	Score
Acid Test Ratio	<p>>1.1 = 5</p> <p>>0.8 <1.1 = 3</p> <p><0.8 = 1</p>
Debt Ratio	<p><0.5 = 5</p> <p>>0.5 <1.0 = 3</p> <p>>1.0 = 1</p>

- i) All Bidders will be given an Amber or Green risk rating based on this assessment. Green and Amber risk rated Bidders will be deemed as having passed the analysis for the PQQ stage.
- ii) For those Bidders achieving an Amber rating Finance may seek further clarification and reassurance that any potential risks can be fully mitigated.
- iii) Bidders scoring between 2 and 6 marks in total are given an amber rating; Bidders scoring above 6 marks in total are given a green rating.
- iv) Acid Test Ratio = $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$
- v) Debt Ratio = $(\text{Total Debt} - \text{Pensions Liability}) / \text{Total Assets}$