SCANNING, VALIDATION AND STORAGE SERVICES

SCHEDULE 7.1

CHARGES AND INVOICIING

Version: Final 120520

DEFINITIONS

In this Schedule, the following definitions shall apply:

"Achieved Profit Margin"	Not Used
"Actual Profit"	means in relation to any Profit Share Assessment Point, the total accumulated operating profit calculated as Actual Revenue less actual Costs (including accruals and prepayments but excluding provisions) in the corresponding Profit Share Period(s);
"Actual Profit Percentage"	in relation to any Profit Share Assessment Point is the Actual Profit for the Profit Share Assessment Point divided by the Actual Revenue for the Profit Share Assessment Point, expressed as a percentage;
"Actual Revenue"	means the total accumulated turnover of the Supplier, excluding any payments arising from implementation, incentive payments, Pass-Through Costs and any payments or gains arising from the Gain Share Calculation;
"Adjustment Date"	has the meaning set out in Schedule 7.1 (*Charges and Invoicing*);
"Anticipated Annual Service Profit Margin"	means the anticipated Supplier Profit Margin, excluding profit margin attributable to Implementation Services, over a contract year as calculated in the Financial Pricing Model;
"Anticipated Annual Service Threshold Profit Margin"	means the anticipated Supplier Service Profit Margin, excluding profit margin attributable to Implementation Services and profit margin attributable to risk mitigation (the risk mitigation mark-up included in worksheet '2.2 - Mark-up - IN' of the Financial Pricing Model), over a contract year as calculated in the Financial Pricing Model;

"Anticipated Average Monthly Service Profit Margin"	means the Anticipated Annual Service Profit Margin for any contract year as calculated in the Financial Pricing Model, divided by 12;
"Anticipated Contract Life Service Profit Margin"	means the anticipated Supplier Profit Margin, excluding profit margin attributable to Implementation Services, over the Term as calculated in the Financial Pricing Model;
"Certificate of Costs"	means a certificate of costs signed by the Supplier's Chief Financial Officer or Director of Finance (or equivalent as agreed in writing by the Authority in advance of issue of the relevant certificate) and substantially in the format set out in Annex 4;
"Costs"	means the following costs (without double recovery) to the extent that they are reasonably and properly incurred by the Supplier in providing the Services: (a) the cost to the Supplier or the Key Sub-contractor (as the context requires), calculated per Man Day where it is appropriate to do so, of engaging the Supplier Personnel, including: (i) base salary paid to the Supplier Personnel; (ii) employer's national insurance contributions; (iii) Employer Pension Contributions; (iv) car allowances; (v) any other contractual employment benefits; (vi) staff training; (vii) work place accommodation; (viii) work place IT equipment and tools reasonably necessary to perform the Services (but not including items included within limb (b) below); and (ix) reasonable recruitment costs, as agreed with the Authority;

(b) costs incurred in respect of those Assets which are detailed on the Registers and which would be treated as capital costs according to generally accepted accounting principles within the UK, which shall include the cost to be charged in respect of Assets by the Supplier to the Authority or (to the extent that risk and title in any Asset is not held by the Supplier) any cost actually incurred by the Supplier in respect of those Assets;

(c) operational costs which are not included within (a) or (b) above, to the extent that such costs are necessary and properly incurred by the Supplier in the delivery of the Services;

(d) Reimbursable Expenses to the extent these are incurred in delivering any Services where the Charges for those Services are to be calculated on a Fixed Price or Firm Price pricing mechanism;

but excluding:

(i) Overhead;

(ii) financing or similar costs;

(iii) maintenance and support costs to the extent that these relate to maintenance and/or support services provided beyond the Term, whether in relation to Assets or otherwise;

(iv) taxation;

(v) fines and penalties;

(vi) amounts payable under Schedule 7.3 (*Benchmarking*); and

(vii) non-cash items (including impairments and movements in provisions);

"Delay Payment Rate" has the meaning given in Paragraph 2.1(a) of Part C;

"Employer Pension Contributions" means:

a) in respect of CSPS Eligible Employees those sums set out at Clauses 7.1.1 (annual administration charges covering

core services), 7.1.5 (employer contributions), 7.1.7 (the ASLC) and 7.1.8 (flat charges applicable to the Partnership Pension Account) of the Admission Agreement;

b) in respect of NHSPS Eligible Employees, the standard employer contribution rate applicable to NHS Pension Scheme employers during the Term and payable by the Supplier[1] (but no other costs, contributions, charges or surcharges payable by the Supplier to or in respect of the NHS Pension Scheme or in respect of any NHS Premature Retirement Rights, unless otherwise agreed in writing by the Authority);

c) in respect of LGPS Eligible Employees the standard employer contribution rate applicable to LGPS Eligible Employees during the Term and payable by the Supplier[2] (but no other costs, contributions, charges or surcharges payable by the Supplier to or in respect of the LGPS or in respect of any Beckmann Liabilities, unless otherwise agreed in writing by the Authority); and

such other employer pension contributions, charges or costs incurred by the Supplier which have been expressly agreed by the Authority in writing to constitute 'Employer Pension Contributions';

"European Standard" in relation to an electronic invoice means the European standard and any of the syntaxes published in Commission Implementing Decision (EU) 2017/1870;

[1] Currently 14.3%

[2] Currently 14.3%

"Financial Pricing Model Narrative"	the narrative of assumptions submitted as part of the Financial Pricing Model documentation which can be found in Annex 5 in Schedule 7.1 (*Charges and Invoicing*);
"Fixed Price"	has the meaning set out in Part A Paragraph 3 of Schedule 7.1 (*Charges and Invoicing*);
"Fixed Price Service Charge"	has the meaning set out in Part A Paragraph 3 of Schedule 7.1 (*Charges and Invoicing*);
"Incurred Costs"	in relation to a Milestone, means the sum of: (a) the fixed day costs set out in Table 2 of Annex 2 multiplied by the number of Man Days that have been expended by the Supplier Personnel in Achieving the relevant Milestone; and (b) any amount that would fall within limbs (b) or (c) of the definition of "Costs" (but subject to exceptions (i) to (vii) in that definition), to the extent that such amount has been incurred in Achieving the relevant Milestone;
"Indexation" and "Index"	means the adjustment of an amount, sum or rate in accordance with Paragraph 6 of Part C;
"Man Day"	means 7.5 Man Hours, whether or not such hours are worked consecutively and whether or not they are worked on the same day;
"Man Hours"	means the hours spent by the Supplier Personnel properly working on the Services including time spent travelling (other than to and from the Supplier's offices, or to and from the Sites) but excluding lunch breaks;

"Management Services" means those management costs that are wholly necessary for the delivery of the Services, but which cannot be readily attributable to the other service lines, and/or are more efficiently delivered through a centralised function, for example as a proportionate and reasonable charge from the corporate centre that directly reflects the level of support provided. Example activities could include managing the interactions between different elements of the service, or contribution to centralised functions, such as payroll, HR, finance or other functions.

For any corporate centre charge, the following must apply:

(a) the allocations should be reasonable and reflect the degree of activity required for the Agreement;

(b) throughout the life of the Agreement, the charge should be consistent with the assumptions made during the bid unless there has been a significant change in the activities required for the Agreement; and

(c) the allocation methodology should be clear and specific and should not just be a set % allocation which does not reflect actual activity undertaken.

The following requirements are considered within the Management Services cost base:

A. Sub-contractor management;

B. Centralised functions (Payroll, HR or other functions); and

C. Management Information Reporting

Prices will not be derived on an annual basis, instead the monthly price to be paid will represent one twelfth of the annual price

	calculated from the annual input cost plus mark-up;
"Milestone Retention"	has the meaning given in Paragraph 1.3 of Part B;
"Overhead(s)"	means those amounts which are intended to recover a proportion of the Supplier's or the Key Sub-contractor's (as the context requires) indirect corporate costs (including financing, marketing, advertising, research and development and insurance costs and any fines or penalties) but excluding allowable indirect costs apportioned to facilities and administration in the provision of Supplier Personnel and accordingly included within limb (a) of the definition of "Costs";
"Pass Through Costs"	means those costs and expenses in respect of goods and/or services purchased by the Supplier in the provision of the Services and invoiced to the Authority for reimbursement at the purchase price, without any additional Supplier Profit Margin or Charges;
"Profit Share Amount"	means total amount of Profit Share to be apportioned between the Parties in accordance with Part D (*Excessive Supplier Profit Margin*);
"Profit Share Calculation"	has the meaning set out in Part D of this Schedule;
"Profit Share Period"	has the meaning set out in Part D Paragraphs 1.4(d), 1.4(f) and 1.4(g);
"Reimbursable Expenses"	means reasonable out of pocket travel and subsistence (for example, hotel and food) expenses, properly and necessarily incurred in the performance of the Services, calculated at the rates and in accordance with the Authority's expenses policy current from time to time, but not including:

	(a) travel expenses incurred as a result of Supplier Personnel travelling to and from their usual place of work, or to and from the premises at which the Services are principally to be performed, unless the Authority otherwise agrees in advance in writing; and (b) subsistence expenses incurred by Supplier Personnel whilst performing the Services at their usual place of work, or to and from the premises at which the Services are principally to be performed;
"Service Charge Trigger Event"	has the meaning given in paragraph 3.1 of Part B of this Schedule;
"Supplier Profit"	in relation to a period or a Milestone (as the context requires), means the difference between the total Charges (in nominal cash flow terms but excluding any Deductions) and total Costs (in nominal cash flow terms) for the relevant period or in relation to the relevant Milestone;
"Supplier Profit Margin"	in relation to a period or a Milestone (as the context requires), means the Supplier Profit for the relevant period or in relation to the relevant Milestone divided by the total Charges over the same period or in relation to the relevant Milestone and expressed as a percentage;
"Supporting Documentation"	means sufficient information in writing to enable the Authority reasonably to assess whether the Charges, Reimbursable Expenses and other sums due from the Authority detailed in the information are properly payable, including copies of any applicable Milestone Achievement Certificates or receipts;
"Time and Materials"	has the meaning set out in Part A Paragraph 2 of Schedule 7.1 (*Charges and Invoicing*);

"Volume Based"	has the meaning set out in Part A Paragraph 4 of Schedule 7.1 (*Charges and Invoicing*);
"Volume Based Service Charge"	has the meaning set out in Part A Paragraph 4 of Schedule 7.1 (*Charges and Invoicing*);

PART A: PRICING

1 APPLICABLE PRICING MECHANISM

1.1 Milestone Payments and Service Charges shall be calculated using the pricing mechanisms, rates and prices specified in Annex 1 or as more particularly set out in this Schedule.

1.2 Table 1 of Annex 1 sets out which pricing mechanism shall be used to calculate each Milestone Payment, which shall be "**Time and Materials**" for all Milestones and in which case, the provisions of Paragraph 2 shall apply.

1.3 Table 3 and Table 4 of Annex 1 sets out which pricing mechanism shall be used to calculate each Service Charge, which shall be one or more of the following:

(a) **"Fixed Price"** in which case the provisions of Paragraph 3 shall apply; or

(b) **"Volume Based"** pricing, in which case the provisions of Paragraph 4 shall apply.

2 TIME AND MATERIALS MILESTONE PAYMENTS

2.1 Table 1 of Annex 1 indicates that Implementation Milestone Payments must be calculated by reference to a Time and Materials pricing mechanism:

(a) the day rates set out in Table 2 of Annex 2 ,"Implementation Price Per Day Un-Indexed (£)" shall be used to calculate the relevant Charges, provided that the Supplier (or its Sub-contractor) shall:

(i) not be paid any Charges to the extent that they would otherwise exceed the cap specified against the relevant Charge in Table 1 of Annex 1 unless the Supplier has obtained the Authority's prior written consent. The Supplier shall monitor the amount of each Charge incurred in relation to the relevant cap and notify the Authority immediately in the event of any risk that the cap may be exceeded and the Authority shall instruct the Supplier on how to proceed; and

(ii) only be entitled to be paid Charges that have been properly and reasonably incurred, taking into account the Supplier's obligation to deliver the Services in a proportionate and efficient manner; and

(b) Implementation Milestone Charges for non-resource costs (eg items or other third party deliverables) shall be calculated based on the actual costs incurred plus the relevant mark-up, set out in Table 3 of Annex 2.

(c) the Supplier shall keep records of hours properly worked by Supplier Personnel (in the form of timesheets) and expenses and costs incurred and submit a summary of the relevant records with each invoice. If the Authority requests copies of such records, the Supplier shall make them available to the Authority within 10 Working Days of the Authority's request.

3 FIXED PRICE SERVICE CHARGES

3.1 Table 3 of Annex 1 indicates that a Fixed Price Service Charge must be calculated by reference to a Fixed Price pricing mechanism and the relevant Charges shall be those amounts set out against that Charge in Table 3 of Annex 1.

3.2 Fixed Price Service Charges shall also be subject to increase by way of Indexation.

a) Fixed Price Service Charges comprise the Management Services only.

4 VOLUME BASED SERVICE CHARGES

4.1 Table 4 of Annex 1 indicates that a Volume Based Service Charge must be calculated by reference to a Volume Based pricing mechanism and the relevant Charges shall be calculated on the basis of the unit costs set out against that Service Charge in Table 4 of Annex 1.

4.2 For the avoidance of doubt, it should be noted that the volumes included in the FPM are forecast and will therefore vary during Service delivery. Similarly, the shift towards increased digitalisation, although uncertain in terms of timing and significance, will vary both the number of documents processed and, in some cases, the number of documents processed per application. The Authority does not guarantee either the number of applications to be processed not the number of documents that relate to applications. However, the Authority advises that the volumes forecast included in the FPM is provided in good faith and will be utilised for financial evaluation purposes. It also confirms that it will work in partnership with the Supplier to ensure any future process change is managed in a reasonable and cost-effective manner.

4.3 Volume based Service Charges that are calculated by reference to a Fixed Price pricing mechanism shall be subject to increase by way of Indexation.

4.4 Volume based Service Charges comprise:

	Service Name	Units
a)	Applications – Chan Main Processing	Per application
b)	Applications – Extension Adult	Per application
c)	Applications – Extension Child	Per application

d)	Applications – New Adult	Per application
e)	Applications – New Child	Per application
f)	Applications – Renewal Adult	Per application
g)	Applications – Renewal Child	Per application
h)	Applications – Replacement Adult	Per application
i)	Applications – Replacement Child	Per application
j)	Applications – Paper Application	Per application
k)	Non Passport Mail Items	Per mail item
l)	Additional Documents	Per document
m)	Storage – Return on Completion	Per application

5 PASS-THROUGH COSTS

5.1 The Supplier shall procure certain goods and/or Services relating to the provision of the Services on a pass-through, all-inclusive basis and these are listed in Paragraph 5.4 below.

5.2 In addition, the Authority may seek to agree other items with the Supplier which shall be treated on a pass-through, all -inclusive basis.

5.3 For the avoidance of doubt, the Authority shall reimburse Pass-Through Costs on the basis of the verified purchase price without any additional charges, overheads or mark-ups.

5.4 The following elements of the Service have been classified as Pass-Through and, as such, the costs are recoverable as a Pass-Through Cost Payment:

(a) Staff security clearance costs; and

(b) Staff travel and subsistence costs;

(c) Agreed sums payable from the TUPE Redundancy Surcharge as set out in Schedule 9.1 (Staff Transfer) Part F Annex 1 of this Agreement.

6 REIMBURSEABLE EXPENSES

6.1 Where:

(a) Services are to be charged using the Time and Materials; and

(b) the Authority so agrees in writing,

the Supplier shall be entitled to be reimbursed by the Authority for Reimbursable Expenses (in addition to being paid the relevant Charges), provided that such Reimbursable Expenses are supported by Supporting Documentation.

6.2 The Authority shall provide a copy of its current expenses policy to the Supplier upon request.

6.3 Except as expressly set out in Paragraph 6.1, the Charges shall include all costs and expenses relating to the Deliverables, the Services and/or the Supplier's performance of its obligations under this Agreement and no further amounts shall be payable by the Authority to the Supplier in respect of such performance, including in respect of matters such as:

(a) any incidental expenses that the Supplier incurs, including travel, subsistence and lodging, document and report reproduction, shipping, desktop and office equipment costs required by the Supplier Personnel, including network or data interchange costs or other telecommunications charges; or

(b) any amount for any services provided or costs incurred by the Supplier prior to the Effective Date.

7 SUPPLIER EQUIPMENT FOR NON-DOCUMENT HANDLING UNIT SITES

The Supplier will provide Supplier Equipment for Threat Checking and processing passport applications in Authority sites as described in Schedule 2.1 (*Service Description*) paragraph 3.4 (including Requirements paragraph SVS 3.37 to 3.39 inclusive) and paragraph 5.4 (including Requirements paragraph SVS 5.23 to 5.26 inclusive). Prices for the relevant Supplier Equipment are set out in Table 4d – Non-DHU Equipment in Tab 4.4 Schedule 7.1 Annex 1 – OUT of the Contract Inception Report at Annex 3 of this Schedule. Purchases will be subject to the Change Control Procedure.

PART B: CHARGING MECHANISMS

1 MILESTONE PAYMENTS

1.1. Subject to the provisions of Paragraph 1 of Part C in relation to the deduction of Delay Payments, on the Achievement of a Milestone the Supplier shall be entitled to invoice the Authority for the Milestone Payment associated with that Milestone less the applicable Milestone Retention in accordance with this Part B.

1.2. Each invoice relating to a Milestone Payment shall be supported by:

(a) a Milestone Achievement Certificate; and

(b) a Certificate of Costs with Supporting Documentation.

1.3 The "Milestone Retention" for each Milestone shall be calculated as follows:

(a) where the Milestone Payment for the relevant Milestone is determined by reference to a Time and Materials, 10% of the Charges for that Milestone, and

(b) shall be payable on the achievement of the CPP Milestone, which shall be the Key Milestone "M6 - Implementation - Project Closure / In Service Support".

and, in the case of a Key Milestone, prior to deduction from the Milestone Payment of any Delay Payment attributable to that Key Milestone and without taking account of any amount payable by the Supplier pursuant to Paragraph 2 of Part C.

1.3. Following the issue of a Certificate of Costs in accordance with Paragraph 1.2, the Supplier shall not be entitled to invoice the Authority for any additional Charges relating to the Milestone.

2 RELEASE OF MILESTONE RETENTIONS

2.1. On Achievement of the CPP Milestone, the Supplier shall be entitled to invoice the Authority for an amount equal to all Milestone Retentions deducted in accordance with Paragraph 1.3 above and that have not been paid before such CPP Milestone.

3 SERVICE CHARGES

3.1 Each Service to which a Service Charge relates shall commence on the achievement of the Service Charge Trigger Event set out against that Service in Tables 3 and 4 of Annex 1 of this Schedule.

3.2 Service Charges shall be invoiced by the Supplier for each Service Period in arrears in accordance with the requirements of Part E.

3.3 If a Service Charge is to be calculated by reference to a Fixed Price pricing mechanism and the relevant Service:

(a) commences on a day other than the first day of a month; and/or

(b) ends on a day other than the last day of a month,

the Service Charge for the relevant Service Period shall be pro-rated based on the proportion which the number of days in the month for which the Service is provided bears to the total number of days in that month.

3.4 Any Service Credits that accrue during a Service Period shall be deducted from the Service Charges payable for the next following Service Period. An invoice for a Service Charge shall not be payable by the Authority unless all adjustments (including Service Credits) relating to the Service Charges for the immediately preceding Service Period have been agreed.

PART C: ADJUSTMENTS TO THE CHARGES AND RISK REGISTER

1 DELAY PAYMENTS OVERVIEW

Not used

2 DELAY PAYMENTS

2.1 If a Key Milestone has not been Achieved on or before the relevant Milestone Date, the Supplier shall pay a Delay Payment to the Authority in respect of that Key Milestone. Delay Payments shall accrue:

(a) at the daily rate (the "**Delay Payment Rate**") determined in accordance with Paragraph 2.2;

(b) from (but excluding) the relevant Milestone Date to the date on which the Key Milestone is Achieved;

(c) on a daily basis, with any part day's Delay counting as a day.

2.2 Where Delay Payments are payable in respect of Key Milestones, the Delay Payment Rate and financial limits shall be as follows:

(a) The Delay Payment payable in respect of Key Milestones M1, M2, M3 and M4 shall be [redacted] for each Key Milestone and the provisions of Paragraph 2.2(d) of this Part C (Adjustments to the Charges and Risk Register);

(b) The Delay Payment payable in respect of Key Milestone M5 shall be [redacted] with no financial limit but subject to the provisions of Paragraph 2.2(d) of this Part C (Adjustments to the Charges and Risk Register);

(c) The Delay Payment payable in respect of Key Milestone M6 shall be [redacted] and the provisions of Paragraph 2.2(d) of this Part C (Adjustments to the Charges and Risk Register); and

(d) Delay payments payable in respect of Key Milestones shall be aggregated and subject to an overall financial limit of [redacted]

2.3 Where the Authority serves a notice pursuant to Paragraph 2.1 and Paragraph 2.2, the Supplier shall, within 5 Working Days of the date the notice is served:

(a) pay to the Authority in cleared funds an amount equal to the number of days of delay calculated at the Delay Payment Rate; and

(b) issue a credit note to the Authority in respect of the relevant amount.

2.4 Any amounts paid to the Authority pursuant to Paragraph 2.3 shall not be refundable to the Supplier in any circumstances.

2.5 The Parties agree that Delay Payments calculated in accordance with the applicable Delay Payment Rates are in each case a genuine pre-estimate of the Losses which the Authority will incur as a result of any failure by the Supplier to Achieve the relevant Key Milestone by the Milestone Date. Delay Payment Rates are stated exclusive of VAT.

2.6 The Delay Payment in respect of a Key Milestone (net of any payment made in respect of that Key Milestone pursuant to Paragraph 2.3) shall be shown as a deduction from the amount due from the Authority to the Supplier in the next invoice due to be issued by the Supplier after the date on which the relevant Key Milestone was due.

2.7 Any Delay Payment due and not paid in accordance with the provisions of paragraph 2.3 of this Part C (Adjustments to the Charges and Risk Register), the Supplier shall pay to the Authority as a debt a sum equal to the total amount of the Delay Payment in respect of the Key Milestone together with interest on such amount at the applicable rate under the Late Payment of Commercial Debts (Interest) Act 1998, accruing on a daily basis from (and including) the due date up to (but excluding) the date of actual payment, whether before or after judgment.

2.8 The Key Milestones shall be those Milestones referred to in ITT Appendix 4 Indicative Outline Implementation Plan and shall comprise:

(a) M1 - Implementation - Definition;

(b) M2 - Implementation - Design;

(c) M3 - Implementation - Set-up;

(d) M4 - Implementation - Acceptance and Assurance;

(e) M5 - Implementation - Readiness for Service; and

(f) M6 - Implementation - Project Closure / In Service Support.

3 PAYMENTS FOR DELAYS DUE TO AUTHORITY CAUSE

3.1 If the Supplier is entitled in accordance with Clause 31.1(iii)(D) (*Authority Cause*) to compensation for failure to Achieve a Milestone by its Milestone Date, then, subject always to Clause 25 (*Limitations on Liability*), such compensation shall be determined in accordance with the following principles:

(a) the compensation shall reimburse the Supplier for additional Costs incurred by the Supplier that the Supplier:

(i) can demonstrate it has incurred solely and directly as a result of the Authority Cause; and

(ii) is, has been, or will be unable to mitigate, having complied with its obligations under Clause 31.1 (*Authority Cause*)

together with an amount equal to the Anticipated Profit Margin thereon as set out in Table 1 of Annex 2;

(b) the compensation shall not operate so as to put the Supplier in a better position than it would have been in but for the occurrence of the Authority Cause; and

(c) where the Milestone Payment includes any Charges which are capped, then to the extent that the compensation agreed pursuant to this Paragraph 3 results in the Authority paying additional Time and Materials Charges for resources or effort which the Supplier demonstrates are required as a result of the Authority Cause, such additional Time and Materials Charges shall be disregarded for the purposes of calculating the relevant cap.

3.2 The Supplier shall provide the Authority with any information the Authority may require in order to assess the validity of the Supplier's claim to compensation.

4 SERVICE CREDITS

4.1 Service Credits in any one Service Period shall be calculated by reference to the number of service failures and the category of each service failure pursuant to the provisions of Schedule 2.2 (*Performance Levels*).

4.2 For each Service Period the Service Credit Value applicable to each service failure shall be summed to calculate a total deduction from the monthly charges.

4.3 The liability of the Supplier in respect of Service Credits shall be subject to Clause 25.4 (*Financial and other Limits*) provided that, for the avoidance of doubt, the operation of the Service Credit Cap shall not affect the continued accrual of Service Credits in excess of such financial limit in accordance with the provisions of Schedule 2.2 (*Performance Levels*).

4.4 Service Credits are a reduction of the Service Charges payable in respect of the relevant Services to reflect the reduced value of the Services actually received and are stated exclusive of VAT.

4.5 Service Credits shall be shown as a deduction from the amount due from the Authority to the Supplier in the invoice for the Service Period immediately succeeding the Service Period to which they relate.

5 CHANGES TO CHARGES

5.1 Any Changes to the Charges shall be developed and agreed by the Parties in accordance with Schedule 8.2 (*Change Control Procedure*) and on the basis that the Supplier Profit Margin on such Charges shall:

(a) be no greater than that applying to Charges using the same pricing mechanism as at the Effective Date (as set out in the Contract Inception Report); and

(b) in no event exceed the Anticipated Contract Life Service Profit Margin.

5.2 The Authority may request that any Impact Assessment presents Charges without Indexation for the purposes of comparison.

6 INDEXATION

6.1 Any amounts or sums in this Agreement which are expressed to be "subject to Indexation" shall be adjusted in accordance with the provisions of this Paragraph 6 to reflect the effects of inflation.

6.2 Where Indexation applies, the relevant adjustment shall be:

(a) applied on the first day of the second April following the Effective Date and on the first day of April in each subsequent year (each such date an "**Adjustment Date**");

(b) The applicable indices shall be CPIH (Consumer Prices Index including owner occupiers' Housing costs (UK) (ONS Series L522)); and

(c) The applicable Indexation adjustment shall be measured by changes in the relevant published index for that Contract Year. The amount, sum or rate at a point in time will then be adjusted by application of the following formula:

$$AM_I = (AM_U \times Index_N / Index_{(N-1)})$$

Where:

AM_I is the indexed amount, sum or rate for the relevant Contract Year;

AM_U is the unindexed amount, sum or rate for the relevant Contract Year. This shall be the amount, sum or rate at the commencement of the relevant Contract Year (which shall be inclusive of all indexation uplifts up to and including Contract Year (N-1));

$Index_N$ is the value of the index published for the month three months prior to the date at which indexation is being applied; and

$Index_{(N-1)}$ for all indexation review dates other than the First Indexation Review Date, is the value of the index published for the month three months prior to the date of the commencement of the Contract Year (N-1). For the First Indexation Review Date this shall be the published index for October 2019.

6.3 For the avoidance of doubt, Pass-Through Costs are not subject to indexation.

6.4 Except as set out in this Paragraph 6, neither the Charges nor any other Costs, expenses, fees or charges shall be adjusted to take account of any inflation, change to exchange rate, change to interest rate or any other factor or element which might otherwise increase the cost to the Supplier or Sub-contractors of the performance of their obligations.

7 INTRODUCTION OF LIFE EVENT VALIDATION (LEV), OR NEED FOR OLD PASSPORT TO BE RETURNED WITH APPLICATIONS

7.1 As specified in the SVS ITT, at some point in the future the Authority is planning to introduce changes to the type of documents required for some applications i.e. Life Event Validation (LEV) introduction will allow the Authority to validate documents by accessing General Registry Office (GRO) digitised records directly. Hence the Supplier will have less documents to process. The effects of this introduction were demonstrated to bidders in the SVS ITT FPM, and the price effect communicated to the Authority in the submitted bids.

7.2 Deletion of the need for the Authority to receive Old Passports with certain types of applications will mean that the related processes by the supplier will no longer be required. The volumes affected by this were indicated in the SVS ITT forecast volumes and the specific unit price for the passport related process clearly indicated in the submitted bid.

7.3 The Supplier will be notified by Change Control note of the planned LEV introduction date, or the date from which Old Passports will not be required. The Supplier will be asked to complete an impact assessment, as appropriate for:

(a) Old Passport change based on deletion of unit prices for this process as specified in the Suppliers bid SVS FPM for the affected application types, and any related reduction in fixed costs.

(b) LEV change based on the adjusted document ratios supplied by Authority once volumes stabilise, and the unit price for the process as specified in the Suppliers bid SVS FPM for the affected application types, and any related reduction in fixed costs.

(c) In either scenario the reduced costs per affected application types will then be agreed with the Authority.

8 CONTRACT MIDTERM CHECKPOINT REVIEW

The Checkpoint Review for the midpoint of the Initial Period, as described in Schedule 8.1, paragraph 6.2, will include a review of Supplier's variable and fixed costs in the context of the SVS contract volumes at that time to ensure the Service is delivering 'value for money' for example, but not limited to, fixed costs affected by old passports no longer being processed. Such review shall be conducted using financial reports in the same format as those already delivered to the Authority by the Supplier as part of the Agreement. Reports submitted to the Authority as part of the most recent Annual Contract Report at the time of the Checkpoint Review shall be updated with the latest information.

9 RISK REGISTER

The Parties shall review the Risk Register as set out in Schedule 8.1 (*Governance*) from time to time and as otherwise required for the purposes of Schedule 8.1 (*Governance*).

PART D: EXCESSIVE SUPPLIER PROFIT MARGIN

1 LIMIT ON SUPPLIER PROFIT MARGIN

1.1. This paragraph details the method by which the Authority shall share in any cumulative profit above the Anticipated Annual Service Threshold Profit Margin made by the Supplier in the provision of the Services (Profit Share). Where the Actual Profit Percentage exceeds the Anticipated Annual Service Threshold Profit Margin, the Profit Share Amount shall be shared between the Supplier and the Authority in accordance with Part D of this Schedule.

1.2. Underage

If the Actual Profit Percentage is less than the Anticipated Annual Service Threshold Profit Margin, then:

(a) the underage (i.e. the sum by which Profit is under the Anticipated Annual Service Threshold Profit Margin converted into pounds sterling) shall be carried forward to the next Profit Share Assessment Point; or

(b) the cumulative underage shall be carried forward until the next Profit Share Assessment Point at which the overage (i.e. the sum by which Profit is above the Anticipated Annual Service Threshold Profit Margin converted into pounds sterling) for the relating Profit Share Period(s) exceeds the underage carried forward.

1.3. If, during the remainder of the Term, there is no Profit Share Assessment Point where the overage for the relating Profit Share Period(s) exceeds the underage carried forward then there shall be no further Profit Share. Any cumulative underage shall lapse at the end of the Agreement, even if Profit Share has been paid out during the Term.

1.4. Profit Share Principles

(a) Profit Share shall be calculated at each Profit Share Assessment Point in respect of the relevant Profit Share Period. The Financial Pricing Model will calculate an Anticipated Annual Service Threshold Profit Margin for each Contract Year of the Agreement, as set out in Table 1 of Annex 2.

(b) For each Profit Share Period, the amount of Actual Profit will be calculated as Actual Revenue adjusted for deductions in respect of Service Credits minus actual Costs.

(c) For the avoidance of doubt, deductions to Actual Revenue arising from transactions in respect of Service Credits shall be added back to Actual Revenue so as to state Actual Revenue as though Service Credit deductions had not occurred.

(d) The Profit Share Amount will be [redacted]

(e) For the avoidance of doubt, any Profit Share applies to Profit earned from delivery of the Operational Services only and excludes Profit earned during Implementation.

(f) For the avoidance of doubt, the provisions of this Part D (Excessive Supplier Profit Margin) shall apply to the period in which Operational Services are being provided, including the initial term, any optional extension periods and during any period of Termination Assistance.

(g) The first Profit Share Assessment Point shall occur on the second anniversary of the commencement of Operational Services and the relevant Profit Share Period shall be from the commencement of Operational Services up to and including the first Profit Share Assessment Point.

(h) Subsequent Profit Share Assessment Points shall occur on each anniversary of the first Profit Share Assessment Point referred to in Paragraph 1.4(g). The Profit Share Period for such Profit Share Assessment Points shall be the period since the previous Profit Share Assessment Point up to and including the latest Profit Share Assessment Point.

(i) If this Agreement is terminated on a day other than a Profit Share Assessment Point, a Profit Share Assessment Point will fall on the Termination Date and the Profit Share Period will be from the day following the previous Profit Share Assessment Point to the Termination Date.

(j) The Profit Share at each Profit Share Assessment Point shall be calculated by the Supplier in accordance with Part D of this Schedule immediately upon the issue of a Certificate of Costs. This will be used to determine any payments in accordance with this Paragraph 1.4.

(k) To allow the Authority to calculate its entitlement to Profit Share, the Supplier shall provide the Authority with a calculation (the Profit Share Calculation) in both paper and electronic copy of its Actual Revenue, actual Costs and the, Actual Profit (expressed as a percentage) for the relevant Profit Share Period based upon the Supplier's actual operating costs and revenues in relation to the provision of the Services. This calculation (the Profit Share Calculation) shall:

(i) be certified by the chief financial officer or a director of the Supplier as being accurate and not misleading and in conformity with all the terms of this Schedule, the Annual Contract Report and with generally accepted accounting principles within the UK;

(ii) at the Authority’s discretion, be verified by the Supplier’s external financial auditors;

(iii) include any profit share from arrangements with Subcontractors as revenue in the Profit Share Calculation in this Schedule; and

(iv) show separately the Profit Share Amount and the share to both the Authority and the Supplier.

(l) Subject to this Paragraph 1.4, Profit Share shall be payable to the Authority only when the Actual Profit for the relevant Profit Share Assessment Point exceeds the Anticipated Annual Service Threshold Profit Margin for the same Profit Share Assessment Point.

(m) The Supplier shall deliver a Profit Share Calculation together with the supporting information, in the same format as the Financial Pricing Model, or as otherwise agreed by the Authority, within 15 Working Days of the delivery of the Certificate of Costs produced for the Profit Share Assessment Point.

(n) Following receipt by the Authority of a Profit Share Calculation, the Supplier shall, at its own expense, promptly provide to the Authority any such additional information as it may reasonably request so that the Authority can verify the accuracy of the Profit Share Calculation. This shall include the detailed working papers and spreadsheets in both paper and electronic copy used, directly or indirectly, to make the Profit Share Calculation in accordance with this Part D of this Schedule.

(o) Within 30 Working Days of receipt by the Authority of the Profit Share Calculation and all additional information, the Authority shall Notify the Supplier if it agrees with or disputes the Profit Share Calculation. Where the Authority disputes the Profit Share Calculation it shall be a Dispute.

(p) If the Authority notifies the Supplier that it agrees with the Profit Share Calculation, the Supplier shall pay the relevant Profit Share to the Authority in accordance with Paragraph 1.4.

2 Profit Share Payment

2.1 Profit Share paid to the Authority cannot be clawed back by the Supplier to offset any losses in subsequent Profit Share Periods. The Supplier shall:

(a) pay any Profit Share Amount due to the Authority within 20 Working Days of receiving Notice from the Authority that it agrees with the Profit Share Calculation in accordance with Paragraph 1.4(o).

2.2 Any Profit Share Amount that is payable by the Supplier in accordance with this Schedule but remains unpaid, shall accrue interest on a daily basis at the applicable rate under the Late Payment of Commercial Debts (Interest) Act 1998 for each day that any such Profit Share Amount remains unpaid following the due date specified in Paragraph 1.4(a).

2 Disputes

If the Authority disputes any item contained in the Profit Share Calculation in accordance with Part D of this Schedule, the Supplier shall Notify the Authority within five Working Days of receipt of the Authority's Notice whether it agrees with the position that the Authority takes. If the Supplier does not agree then it shall, within 20 Working Days of receipt of the Authority's Notice, deliver to the Authority such further financial information certified by the chief finance officer, the director of finance or equivalent of the Supplier as it believes will prove its case. If the Authority and the Supplier are still unable to agree, then the matter shall then be subject to the provisions of Schedule 8.3 (*Dispute Resolution Procedure*).

PART E: INVOICING AND PAYMENT TERMS

1 SUPPLIER INVOICES

1.1 The Authority shall accept for processing any electronic invoice that complies with the European Standard, provided that it is valid and undisputed

1.2 If the Supplier proposes to submit for payment an invoice that does not comply with the European Standard the Supplier shall comply with the requirements of the Authority's e-invoicing system. In the alternative the Supplier shall:

(a) prepare and provide to the Authority for approval of the format a template invoice within 10 Working Days of the Effective Date which shall include, as a minimum, the details set out in Paragraph 1.3 together with such other information as the Authority may reasonably require to assess whether the Charges that will be detailed therein are properly payable; and

(b) make such amendments as may be reasonably required by the Authority if the template invoice outlined in (b) is not approved by the Authority

1.3 The Supplier shall ensure that each invoice contains the following information:

(a) the date of the invoice;

(b) a unique invoice number;

(c) the Service Period or other period(s) to which the relevant Charge(s) relate;

(d) the correct reference for this Agreement;

(e) the reference number of the purchase order to which it relates (if any);

(f) the dates between which the Services subject of each of the Charges detailed on the invoice were performed;

(g) a description of the Services;

(h) the pricing mechanism used to calculate the Charges (such as Fixed Price, Time and Materials etc);

(i) any payments due in respect of Achievement of a Milestone, including the Milestone Achievement Certificate number for each relevant Milestone;

(j) the total Charges gross and net of any applicable deductions and, separately, the amount of any Reimbursable Expenses properly chargeable to the Authority under the terms of this Agreement, and, separately, any VAT or other sales tax payable in respect of each of the same;

(k) details of any Service Credits or Delay Payments or similar deductions that shall apply to the Charges detailed on the invoice;

(l) reference to any reports required by the Authority in respect of the Services to which the Charges detailed on the invoice relate (or in the case of reports issued by the Supplier for validation by the Authority, then to any such reports as are validated by the Authority in respect of the Services);

(m) a contact name and telephone number of a responsible person in the Supplier's finance department in the event of administrative queries;

(n) the banking details for payment to the Supplier via electronic transfer of funds (i.e. name and address of bank, sort code, account name and number); and

(o) where the Services have been structured into separate Service lines, the information at (a) to (n) of this Paragraph 1.3 shall be broken down in each invoice per Service line.

1.4 The Supplier shall invoice the Authority in respect of Services in accordance with the requirements of Part B. The Supplier shall first submit to the Authority a draft invoice setting out the Charges payable. The Parties shall endeavour to agree the draft invoice within 5 Working Days of its receipt by the Authority, following which the Supplier shall be entitled to submit its invoice.

1.5 Each invoice shall at all times be accompanied by Supporting Documentation. Any assessment by the Authority as to what constitutes Supporting Documentation shall not be conclusive and the Supplier undertakes to provide to the Authority any other documentation reasonably required by the Authority from time to time to substantiate an invoice.

1.6 The Supplier shall submit all invoices and Supporting Documentation through the Authority’s electronic system [name] or if that is not possible to:

HOSupplierInvoices@Homeoffice.gov.uk

with a copy (again including any Supporting Documentation) to such other person and at such place as the Authority may notify to the Supplier from time to time.

1.7 All Supplier invoices shall be expressed in sterling or such other currency as shall be permitted by the Authority in writing.

1.8 The Authority shall regard an invoice as valid only if it complies with the provisions of this Part E. Where any invoice does not conform to the Authority's requirements set out in this Part E, the Authority shall promptly return the disputed invoice to the Supplier and the Supplier shall promptly issue a replacement invoice which shall comply with such requirements.

1.9 For the avoidance of doubt Pass-Through Costs as set out in Schedule 7.1 Part A paragraph 5 of this Schedule will be submitted by the Supplier on a separate

invoice on the basis of the verified price without any additional charges, overheads or mark-ups.

If the Authority fails to consider and verify an invoice in accordance with Paragraphs 1.4 and 1.9, the invoice shall be regarded as valid and undisputed for the purpose of Paragraph 2.1 [*Payment in 30 days*] after a reasonable time has passed.

2 PAYMENT TERMS

2.1 Subject to the relevant provisions of this Schedule, the Authority shall make payment to the Supplier within 30 days of verifying that the invoice is valid and undisputed.

2.2 Unless the Parties agree otherwise in writing, all Supplier invoices shall be paid in sterling by electronic transfer of funds to the bank account that the Supplier has specified on its invoice.

ANNEX 1: PRICING MECHANISMS, DELAY DEDUCTIONS AND CHARGES

SVS Schedule 7.1 Annex 1

[redacted]

ANNEX 2: ANTICIPATED PROFIT MARGIN AND STAFF DAY RATES

SVS Schedule 7.1 Annex 2

[redacted]

ANNEX 3 CONTRACT INCEPTION REPORT

SVS Contract Inception Report v1.03

[redacted]

ANNEX 4: PRO-FORMA CERTIFICATE OF COSTS

I **[*name of CFO or Director of Finance or equivalent as agreed in advance in writing with the Authority*]** of [***insert name of Supplier***], certify that the financial information provided as part of this Certificate of Costs, incurred in relation to the [***insert name/reference for the Agreement]*** (**the** "**Agreement**") in relation to the following [Milestone]:

[***Insert details of Milestone***]

1 has been reasonably and properly incurred in accordance with [*name of Supplier*]'s books, accounts, other documents and records;

2 is accurate and not misleading in all key respects; and

3 is in conformity with the Agreement and with all generally accepted accounting principles within the United Kingdom.

Signed [***Director of Finance or equivalent***]

ANNEX 5: ITT AND BID FINANCIAL PRICING MODEL AND ASSOCIATED DOCUMENTS

Files included for historical reference only

Supplier Response SVS ITT Qu19.1 Contract FPM v1.03

[redacted]

ITT Appendix 7 SVS Contract FPM Guide v1.01

[redacted]

Supplier Response SVS ITT Qu19.2 FPM Narrative

[redacted]