

OFFICIAL – COMMERCIAL

**SCHEDULE 7.1**

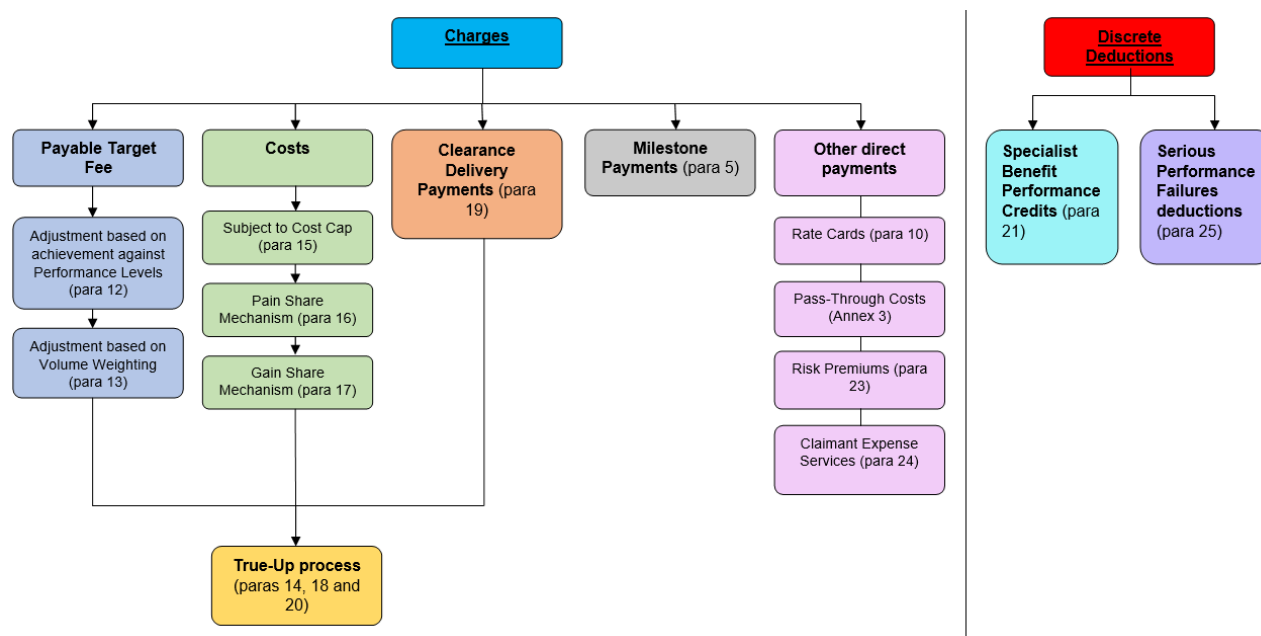
**CHARGES AND INVOICING**

## INTRODUCTION

This Schedule 7.1 is comprised of the following 3 sections:

1. **PART A: Payment Structure.** This sets out the provisions detailing how the Charges are calculated, and Deductions that may be made to the Charges. The diagram below sets out an overview of such Charges and Deductions and the corresponding paragraphs in Part A.
2. **PART B: Implementation Period Invoicing and Validation.** This sets out the procedure for raising and validating invoices for the Milestone Payments.
3. **PART C: Live Running Invoicing and Validation.** This sets out the procedure for raising and validating invoices for the Charges during the live running of the Agreement.

Except as defined in Schedule 1 (*Definitions*) of this Agreement, the capitalised terms used in this Schedule 7.1 shall have the meaning as set out in the glossary in Annex 5.



## **PART A: PAYMENT STRUCTURE**

### **1. GENERAL**

- 1.1 This Part A of Schedule 7.1 details:
  - 1.1.1 the Charges for the Services under this Agreement;
  - 1.1.2 the application and payment of Staged Payments and the Balancing Payment;
  - 1.1.3 Specialist Benefit Performance Credits; and
  - 1.1.4 Serious Performance Failures.
- 1.2 Annex 8 sets out worked examples which illustrate how the Charges are calculated.
- 1.3 Unless stated otherwise in this Schedule 7.1, the rounding convention within this Schedule 7.1 (for presentation purposes) is:
  - 1.3.1 all percentages are rounded to one decimal place; and
  - 1.3.2 all monetary values are to the nearest GBP.
- 1.4 Automatic indexation shall not apply to the Charges or any other payments under this Agreement. Any adjustments to the Charges due to inflationary pressures will be dealt with in accordance with Paragraph 26.
- 1.5 Where the Supplier is likely to incur previously unforeseen Costs or there are potential movements in forecasted Costs that are likely to alter the Supplier's annual budgetary forecast of Costs by 5% or more, the Supplier shall inform the Authority as soon as practicable.

### **2. CHARGES**

- 2.1 The Authority shall pay to the Supplier the Charges for the Services in accordance with the amounts set out in this Schedule 7.1.
- 2.2 The Supplier acknowledges and agrees that, except as otherwise agreed between the Parties in accordance with the relevant processes set out in this Agreement, it shall have no entitlement to remuneration in respect of the Services whatsoever other than the Charges as set out in this Schedule 7.1.
- 2.3 The Charges set out in this Schedule 7.1 will be subject to the Target Cost Review process as detailed in Paragraph 22.

### **3. VALUE ADDED TAX**

- 3.1 All Charges payable to the Supplier under this Schedule 7.1 are exclusive of VAT, and the Authority shall in addition pay an amount equal to any VAT chargeable on those Charges on delivery of a VAT invoice.
- 3.2 It remains the responsibility of the Supplier to accurately account for and pay any VAT included in the payments received from the Authority to HMRC.

#### **4. TYPES OF CHARGES AND DEDUCTIONS**

- 4.1 Actual Target Cost payments will be calculated and paid in accordance with Paragraphs 11.1.1 and 15 to 18.
- 4.2 Payable Target Fee is the payment made to the Supplier in respect of the Target Fee, adjusted in accordance with Paragraphs 12 to 14.
- 4.3 Pain Share payments are payments made to the Supplier in respect of the Authority's share of Cost overruns, in the stated Share Ratios, up to the Cost Cap, dependent on the conditions as set out in Paragraph 16.
- 4.4 Gain Share payments are payments made to the Supplier in respect of the Supplier's share of Cost efficiencies, in the stated Share Ratios, dependent on the conditions as set out in Paragraph 17.
- 4.5 Clearance Delivery Payments are payments made to the Supplier in respect of the additional volume of Clearances above the Monthly Volume Clearance Target or the Annual Volume Clearance Target (as applicable), dependent on the conditions as set out in Paragraphs 19 and 20.
- 4.6 Pass-Through Cost payments are payments made to the Supplier in respect of the Pass-Through Costs as detailed in Paragraph 6.2.6 and Annex 3.
- 4.7 Staged Payments and the Balancing Payment are payments made in respect of the Implementation Plan Costs as detailed in Paragraph 5.
- 4.8 Risk Premium payments are payments made in respect of the Risk Premiums as detailed in Paragraph 23.
- 4.9 Rate Card payments are payments made in respect of the Rate Cards as detailed in Paragraph 10.

#### **5. MILESTONE PAYMENTS**

- 5.1 Implementation activity comprises the delivery of the Milestones as detailed in the Implementation Plan.
- 5.2 No Target Fee or Target Fee Percentage Mark-Up is to be applied to the Implementation Plan Costs.
- 5.3 The Authority shall pay 40% of the total Implementation Plan Costs as detailed in the Contract Cost Register at the Effective Date, as Staged Payments in 11 equal monthly instalments, rounded to the nearest £1 (as referred to in Part 1 of Annex 1) in arrears upon receipt of valid invoices in accordance with Paragraph 28.1, with the final instalment to be paid following completion of the month that ends 30 September 2024.
- 5.4 The Supplier shall provide records of their actual Costs to the Authority each month during the Implementation Period in accordance with Paragraph 28.2 ("**Actual Implementation Plan Costs**"). Such Actual Implementation Plan Costs shall:
  - 5.4.1 only cover Allowable Costs;
  - 5.4.2 be subject to a maximum Implementation Plan Cost Cap and any Costs above this cap shall be borne by the Supplier; and

- 5.4.3 be subject to the validation of Actual Implementation Plan Costs procedure as set out in Paragraphs 28.4 and 28.6.
- 5.5 Subject to Paragraphs 5.6 and 29, the Authority shall pay the Actual Implementation Plan Costs (provided they do not exceed the Implementation Plan Cost Cap), less the 40% Implementation Plan Costs paid in accordance with Paragraph 5.3, once the criteria in Paragraph 5.6 have been met ("**Balancing Payment**").
- 5.6 To release the Balancing Payment, the Authority will require evidence as agreed with the Supplier to prove that the Final Delivery Milestone has been Achieved. The Final Delivery Milestone Achievement Certificate will be issued by the Authority once it is satisfied that the Final Delivery Milestone has been met. Once the Final Delivery Milestone Achievement Certificate has been issued, the Supplier must then submit an invoice in accordance with Paragraph 29.3. The invoice will be subject to the Post-Validation procedure as detailed in Paragraphs 29.5 to 29.8.
- 5.7 If the Supplier fails to achieve the Final Delivery Milestone, the provisions set out in Paragraphs 6.4 to 6.6 of Schedule 6.1 (*Implementation Related Plans*) shall apply.
- 5.8 Upon successful completion of the Final Delivery Milestone, the Authority shall run a reconciliation process of the Actual Implementation Plan Costs paid to the Supplier (including the 40% Implementation Plan Costs) against the Implementation Plan Costs set out in the Contract Cost, whereby the following scenarios will be addressed:
- 5.8.1 If the total of the Balancing Payment and the 40% of the Implementation Plan Costs paid to the Supplier are lower than the Implementation Plan Costs forecast in the Contract Cost Register, causing a surplus of budget (the "**Surplus**"), the Supplier shall notify the Authority as soon as reasonably practicable after it becomes aware of this. The Authority will reserve the right, at its discretion, to pay the Supplier the Surplus for the purposes of the Supplier investing it in a Service delivery improvement initiative connected to the provision of the Services as directed by the Authority. If the Authority agrees to give the Supplier the Surplus to invest, the Parties shall agree at the time the process for managing the investment including timescales for payment of the Surplus. Any Surplus paid to the Supplier by the Authority would be following receipt of a valid invoice from the Supplier separate to all other invoices.
- 5.8.2 In the event that the Authority has inadvertently made payments to the Supplier above the Implementation Costs Cap, the Supplier shall notify the Authority as soon as reasonably practicable after it becomes aware of any such payments and the Supplier shall refund any Implementation Plan Costs in excess of this cap to the Authority following invoice validation.
- 5.9 In the event that this Agreement is terminated due to a Supplier Termination Event, the Supplier shall repay to the Authority such part of the Implementation Plan Costs that it has received by the Termination Date that exceed the Actual Implementation Plan Costs incurred by the Supplier as at the Termination Date.
- 5.10 Unless otherwise agreed by the Authority in writing:
- 5.10.1 no Costs relating to Implementation Plan activities are payable by the Authority for such activities after 6 September 2024; and
- 5.10.2 all Actual Implementation Plan Costs relating to Implementation Plan activities will be invoiced by the Supplier to the Authority no later than 31 October 2024 and, for the avoidance of doubt, the Supplier shall not be entitled to the

reimbursement of any Actual Implementation Plan Costs relating to Implementation Plan activities invoiced after this date.

## **6. COSTS**

- 6.1 The Supplier's Target Costs are as set out in the Contract Cost Register. The Supplier shall submit its Actual Target Costs to the Authority in each Service Period through the Supplier Cost Report in accordance with Paragraph 40 and such Actual Target Costs shall be paid to the Supplier in accordance with Paragraph 31.
- 6.2 The Supplier shall exclude from Target Costs and Actual Target Costs the following:
- 6.2.1 costs for the IT System incurred and paid for by the Authority;
  - 6.2.2 WCA costs for improvement to the Authority Premises in accordance with Schedule 15.1 (*Estates*);
  - 6.2.3 WCA costs for courier services incurred and paid for by the Authority;
  - 6.2.4 WCA costs for Royal Mail collection services, business reply envelopes and postage for outputs produced by the IT System incurred and paid for by the Authority;
  - 6.2.5 WCA pre-paid envelopes from Royal Mail, which are required by the Supplier to deliver the Services, and are outside of those produced by the IT System (which will be procured by the Supplier and charged to the Authority as a Pass-Through Cost); and
  - 6.2.6 the Pass-Through Costs as stipulated in Annex 3, which shall be invoiced to the Authority as a separate invoice in accordance with Paragraph 36.
- 6.3 Categories of Allowable Cost that will (subject to Paragraph 6.1) be reimbursed and can be included in the Contract Cost Register are summarised in Annex 3. Any costs not included in the Allowable Costs set out in Annex 3 are deemed to be a Disallowable Cost unless the Authority agrees otherwise. A non-exhaustive list of Disallowable Costs are summarised in Annex 3.
- 6.4 Unless otherwise agreed by the Authority in exceptional circumstances, any cost incurred by the Supplier prior to the Implementation Services Commencement Date shall be borne by the Supplier and the Authority shall not be liable to reimburse any such cost.
- 6.5 In respect of expenses to be incurred for travel and subsistence (and which form part of the Target Cost), the Supplier shall comply with the Authority's expenses policy as set out in Annex 7. It is acknowledged that the Authority may change its own expenses policy from time to time. In the event it does so:
- 6.5.1 the Authority shall provide a copy of the same via the Change Control Procedure;
  - 6.5.2 the Supplier shall assess any detrimental impact on billable Costs that would occur if such new policy were applicable;
  - 6.5.3 the Supplier and the Authority shall agree exceptions to any such new policy (such that the Supplier shall not suffer any increase in its unbillable costs as a result of the updates in the Authority's expenses policy); and

- 6.5.4 once the exceptions are agreed, the Authority and the Supplier shall agree a Change replacing the embedded expense policy with the new version and the agreed exceptions.

## **7. ALLOWABLE ASSUMPTIONS**

- 7.1 The Parties agree that the Target Costs are based on the Allowable Assumptions and as such, may be adjusted, as required in accordance with the provisions as set out in Annex 2.
- 7.2 With effect from the Implementation Services Commencement Date, the Authority shall provide the Supplier with reasonable assistance and access to information within its possession or reasonable control and which the Authority deems is relevant to the Allowable Assumptions being verified by the Supplier in accordance with Paragraphs 7.3 and 7.4.
- 7.3 As soon as practicable after the Implementation Services Commencement Date, and in any event no later than 20 Working Days after the Operational Service Commencement Date the Parties shall agree whether each Allowable Assumption is accurate.
- 7.4 With the exception of the Allowable Assumption in Paragraphs 1 and 6 of Annex 2, the Supplier accepts that any change to one or more specific Allowable Assumptions as stated in Annex 2 will not impact the Target Cost as at the Effective Date, and will not trigger a Target Cost Review process, but will trigger mitigating steps and actions as detailed in Annex 2.

## **8. FUTURE SERVICE CHANGE**

- 8.1 The Authority will continue to consider and implement Service improvements during the Implementation Period, which shall be implemented through the Change Control Procedure in accordance with Paragraph 8.3, and the Services will continue to respond to the impacts of events such as Covid-19.
- 8.2 The Authority will promptly communicate all proposed Changes to the Operational Services to the Supplier and will work with the Supplier to impact assess the proposed Change.
- 8.3 Changes to the Operational Services are expected to support greater efficiency in delivery of the Services by the Supplier. The Authority will consider, collaboratively with the Supplier, any impact of Change to the Operational Services after the Operational Service Commencement Date as part of the Target Cost Review process or through the Change Control Procedure in Schedule 8.2 (*Change Control Procedure*).

## **9. CONTRACT COST REGISTER (CCR)**

- 9.1 The Contract Costs Register for this Agreement is that provided by the Supplier in its final response (constituting its best and final offer) to the invitation to tender under the procurement process and is as set out in Annex 4. The Contract Cost Register will remain constant during the Term.
- 9.2 Any Changes made to the Target Costs and any consequential Changes to the Target Fees will update the Payment Model Construct.

## **10. RATE CARDS**

- 10.1 Additional resource Costs, subject to the Authority's agreement, for specified staff roles and grades, which are not built into the current Target Cost, will be paid on an Actual Target Cost incurred basis, up to the maximum which shall be the lower of: (i) the amount detailed in the Rate Card within Part 4 of Annex 1; or (ii) the actual additional resource Costs incurred. For the avoidance of doubt, no Target Fee is applicable to the Rate Card.
- 10.2 Additional resource Costs must only be used to support activity considered temporary (e.g. expected to conclude within a 6 month period or other time limited period agreed by the Authority). For the avoidance of doubt, where the additional resources required are HPs, the Supplier will ensure that there is no adverse impact on the delivery of any other elements of the Services as a result of the deployment of HPs on such temporary activities.
- 10.3 The Target Cost Review process will consider any longer-term requirement for resources deployed through the use of the Rate Card. The Supplier will be required to supply rationale as to this requirement as part of the Target Cost Review process.
- 10.4 All day rates as set out in the Rate Card are based on a Working Day consisting of 7.5 hours excluding lunch break and travel time. All day rates are inclusive of travel and subsistence.

## **11. CHARGES**

- 11.1 The Supplier shall be paid the Charges as set out below by the Authority for the Operational Services:
  - 11.1.1 the Actual Target Costs incurred in the delivery of the Services (based on the Target Costs) as calculated and adjusted in accordance with Paragraphs 15 to 18 (inclusive); and
  - 11.1.2 the Payable Target Fee, calculated and adjusted in accordance with Paragraphs 12 to 14 (inclusive) below.
- 11.2 The Target Cost, Target Fee, Target Price, Cost Cap and Share Ratios for each Service Period during the Term are set out at Part 2 of Annex 1.
- 11.3 The Payable Target Fee is only payable in relation to PIP and WCA.

## **12. ADJUSTMENTS TO THE TARGET FEE BASED ON PERFORMANCE LEVELS ACHIEVED**

The flow diagram at the end of Paragraph 13 sets out an overview of how the Target Fee Achieved is calculated and this Paragraph 12 should be read in conjunction with such flow diagram.

- 12.1 The Monthly Available Target Fee shall be the Target Fee phased across each Service Period of the Service Delivery Year as set out in Part 2 of Annex 1, as an absolute monetary value which shall be calculated as the Target Fee Percentage Mark-Up above the Target Cost.
  - 12.1.1 Movements in Target Cost due to increased Costs (Pain Share) or decreased Costs (Gain Share) will not change the Target Fee monetary value in the Service Periods.



12.1.2 The Target Cost Review process will consider changes to the Target Costs, which may have an impact on the monetary value of Target Fee for the applicable Service Period(s). For the avoidance of doubt, amendments to Target Cost through the Target Cost Review process will only amend the Target Fee values, and will not amend the Target Fee Percentage Mark Up, which shall remain constant throughout the Term of this Agreement.

12.2 The Target Fee Achieved shall be based on the following:

12.2.1 the amount of the Target Fee Achieved that can be earned by the Supplier in respect of a Service Period, shall be subject to the Supplier's achievement against the fourteen Performance Levels as to be calculated in accordance with Paragraphs 12.3 to 12.5 (inclusive). Where details of the Supplier's actual performance against any Performance Level are unavailable for the Service Period just ended, the Authority shall use indicative Performance Levels data determined by the Performance Monitoring Report and/or the Balanced Scorecard Report, or the IT System (as the case may be in accordance with Paragraph 5.13 of Schedule 8.1 (*Governance*)) to determine the Target Fee Achieved for the Service Period just ended, which shall be reconciled once the details of the Supplier's actual performance as against the applicable Performance Levels become available in accordance with the Post-Payment Validation process set out in Paragraph 42.4;

12.2.2 the Monthly Available Target Fee is split 50% for PIP and 50% for WCA, as referred to in each of the tables in Part 3 of Annex 1; and

12.2.3 each Performance Level has been assigned a percentage of the Monthly Available Target Fee, which shall be the maximum amount of Target Fee available to the Supplier if the Supplier achieves the required Target Performance Level in such Service Period.

12.3 The Supplier's achievement against each of the Performance Levels TPL1a, TPL1c and TPL1d shall be measured pro-rata, as further detailed in Paragraph 12.5, between the Minimum Performance Level and the Target Performance Level, with:

12.3.1 100% of the relevant percentage of the Monthly Available Target Fee being earned for achieving at or above the Target Performance Level for the relevant Performance Level in such Service Period;

12.3.2 0% of the relevant percentage of Monthly Available Target Fee being earned for achieving at or below the Minimum Performance Level for the relevant Performance Level in such Service Period; and

12.3.3 the relevant amount of Monthly Available Target Fee earned for achieving a Performance Level between the Minimum Performance Level and the Target Performance Level for the relevant Performance Level, being such amount calculated in accordance with the pro-rata approach set out in Paragraph 12.5.

12.4 The Supplier's achievement against each of the Performance Levels TPL1b, TPL1e, TPL4a, TPL5a, TPL3a, TPL3b, TPL2a, TPL2b and TPL2c shall be determined as a pass or fail with:

12.4.1 100% of the relevant percentage of Monthly Available Target Fee being earned for achieving at or above or below (as applicable based on whether the Target Performance Level requires the Supplier to achieve more or less than

OFFICIAL – COMMERCIAL

the stated percentage) the Target Performance Level for the relevant Performance Level in such Service Period; and

12.4.2 0% of the relevant percentage of Monthly Available Target Fee being earned for failing to achieve the Target Performance Level for the relevant Performance Level in such Service Period.

12.5 The pro-rata mechanism referred to in Paragraph 12.3.3 (in respect of Performance Levels TPL1a, TPL1c and TPL1d), is a straight line pro-rata, with the following percentage of Monthly Available Target Fee being earned for every 0.1% of movement between the Minimum Performance Level and Target Performance Level:

Target Performance Level	Service Delivery Year 1	Service Delivery Years 2 - 5
TPL1a	2.4%	3.2%
TPL1c	2.4%	3.2%
TPL1d	2.0%	2.4%

12.6 The total of Target Fees that are achieved in accordance with adjustments set out in this Paragraph 12 shall be the “**Target Fee Achieved**”.

**13. ADJUSTMENTS TO THE TARGET FEE ACHIEVED BASED ON VOLUME WEIGHTING**

The flow diagram set out at the end of this Paragraph 13 sets out an overview of how the Payable Target Fee is calculated and this Paragraph 13 should be read in conjunction with such flow diagram.

13.1 The Target Fee Achieved may be adjusted in accordance with the Supplier’s achievement against the Monthly Volume Clearance Target during the Service Periods, and Annual Volume Clearance Target at True-Up (“**Volume Weighting**”).

13.2 The Volume Floors are the minimum percentage of Clearances of the Monthly Volume Clearance Target that the Supplier is required to achieve in each Service Period in order for the Target Fee Achieved not to be withheld for the applicable Service Period. The Volume Floors are the same for PIP and WCA.

13.3 The “**Protected Target Fee**” is the percentage of the Target Fee Achieved that can be achieved provided that the Supplier meets the Volume Floor in Clearances.

13.4 The Volume Floors and Protected Target Fee applicable in the Service Periods of each Service Delivery Year are shown in the table below:

Service Delivery Year	Volume Floor	Protected Target Fee
1	60.0%	0.0%
2	70.0%	25.0%
3-5	80.0%	50.0%

13.5 The “**Target Fee Multiplier**” is equal to 2.5% of the Target Fee for every 1.0% of volume of Clearances above the Volume Floor as illustrated in the calculations below.

The Target Fee Multiplier is calculated for Year 1	
(100% Target Fee – Protected Target Fee) / (100% Volume Clearance Target - Volume Floor)	$(100.0\% - 00.0\%) / (100.0\% - 60.0\%) = 2.5$
The Target Fee Multiplier is calculated for Year 2	
(100% Target Fee – Protected Target Fee) / (100% Volume Clearance Target - Volume Floor)	$(100.0\% - 25.0\%) / (100.0\% - 70.0\%) = 2.5$
The Target Fee Multiplier is calculated for Year 3-5	
(100% Target Fee – Protected Target Fee) / (100% Volume Clearance Target - Volume Floor)	$(100.0\% - 50.0\%) / (100.0\% - 80.0\%) = 2.5$

13.6 The Supplier acknowledges and agrees that:

13.6.1 the amount of the Target Fee Achieved that can be earned by the Supplier shall be subject to the Supplier's achievement against the Monthly Volume Clearance Targets for that Service Period. The Payable Target Fee may be reconciled in accordance with the Post-Payment Validation process set out in Paragraph 42.4 where an audit in accordance with Paragraphs 9 and 10 of Schedule 2.2 (*Performance Levels*) concludes that there is a change in the number of Clearances achieved by the Supplier compared to the number of Clearances recorded in the IT System in any given Service Period; and

13.6.2 the Authority may withhold some or all of the Target Fee Achieved if the Supplier fails to meet the Monthly Volume Clearance Targets and/or the Volume Floors (as further detailed in Paragraphs 13.7.2 and 13.7.3) but, provided the Supplier recovers the Clearances (either partially or in full) by the end of that Service Delivery Year, the Supplier shall be entitled to recover some of the Target Fee attributed to the relevant Service Delivery Year (as further detailed in Paragraph 13.9).

13.7 In respect of the Supplier's performance as against the Monthly Volume Clearance Targets, if:

13.7.1 the Supplier achieves 100% of the Monthly Volume Clearance Target in the relevant Service Period, then 100% of the Target Fee Achieved will be paid;

13.7.2 the Supplier does not achieve 100% of the Monthly Volume Clearance Target, but does achieve above the Volume Floor for that Service Period, then a proportion of the Target Fee Achieved will be withheld for that Service Period as illustrated in the examples set out in Paragraph 13.10; or

13.7.3 the Supplier does not achieve above the Volume Floor for that Service Period, then 100% of the Target Fee Achieved for that Service Period will be withheld.

13.8 The amount of Monthly Available Target Fee earned by the Supplier in each Service Period in accordance with Paragraph 13.7, shall be the "**Payable Target Fee**" for such Service Period and shall be paid in accordance with the process set out in Paragraph 32.

13.9 After the end of the relevant Service Delivery Year, once the Post-Payment Validation of the Target Fees has been carried out in accordance with Paragraph 32.2, a

## OFFICIAL – COMMERCIAL

reconciliation of the Clearances achieved by the Supplier will be undertaken which may result in all or a proportion of the Withheld Target Fee being released, subject to and in accordance with the provisions of Paragraph 14.

### 13.10 Target Fee examples:

<b>Example 1: Year 1</b> <b>Achieved 100.0% of Target Fee</b> <b>Achieved 80.0% of Monthly Volume Clearance Target</b>	
(Monthly Volume Clearance Target – Actual Monthly Volume Clearances) * Target Fee Multiplier = Volume Weighting	$100.0\% - 80.0\% = 20.0\%$ $20.0\% * 2.5 = 50.0\%$
Target Fee Achieved * Volume Weighting	$100.0\% * 50.0\%$
Withheld Target Fee	50.0%
Payable Target Fee	50.0%
Note: At or below 60.0% volume then all Target Fee will be withheld	

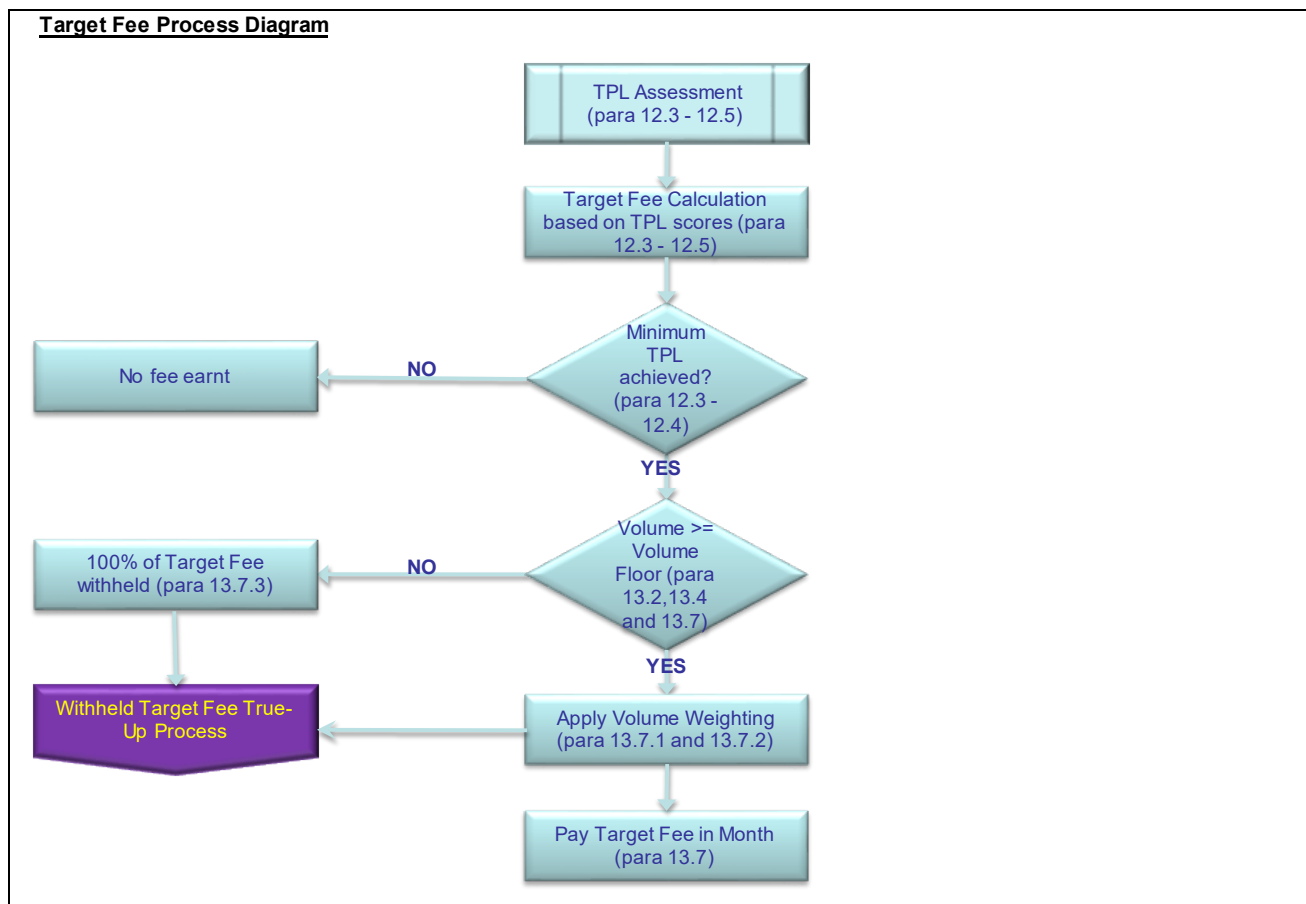
<b>Example 2: Year 1</b> <b>Achieved 50.0% of Target Fee</b> <b>Achieved 70.0% of Monthly Volume Clearance Target</b>	
(Monthly Volume Clearance Target – Actual Monthly Volume Clearances) * Target Fee Multiplier = Volume Weighting	$100.0\% - 70.0\% = 30.0\%$ $30.0\% * 2.5 = 75.0\%$
Target Fee Achieved * Volume Weighting	$50.0\% * 75.0\%$
Withheld Target Fee	37.5%
Payable Target Fee	12.5%
Note: At or below 60.0% volume then all Target Fee will be withheld	

<b>Example 3: Year 2</b> <b>Achieved 100.0% of Target Fee</b> <b>Achieved 80.0% of Monthly Volume Clearance Target</b>	
(Monthly Volume Clearance Target – Actual Monthly Volume Clearances) * Target Fee Multiplier = Volume Weighting	$100.0\% - 80.0\% = 20.0\%$ $20.0\% * 2.5 = 50.0\%$
Target Fee Achieved * Volume Weighting	$100.0\% * 50.0\%$
Withheld Target Fee	50.0%
Payable Target Fee	50.0%
Note: Below 70.0% volume then all Target Fee will be withheld	

<b>Example 4: Year 2</b> <b>Achieved 100.0% of Target Fee</b> <b>Achieved 70.0% of Monthly Volume Clearance Target</b>	
(Monthly Volume Clearance Target – Actual Monthly Volume Clearances) * Target Fee Multiplier = Volume Weighting	$100.0\% - 70.0\% = 30.0\%$ $30.0\% * 2.5 = 75.0\%$
Target Fee Achieved * Volume Weighting	$100.0\% * 75.0\%$
Withheld Target Fee	75.0%
Payable Target Fee	25.0%
Note: Below 70.0% volume then all Target Fee will be withheld	

<b>Example 5: Year 3</b> <b>Achieved 100.0% of Target Fee</b> <b>Achieved 95.0% of Monthly Volume Clearance Target</b>	
(Monthly Volume Clearance Target – Actual Monthly Volume Clearances) * Target Fee Multiplier = Volume Weighting	$100.0\% - 95.0\% = 5.0\%$ $5.0\% * 2.5 = 12.5\%$
Target Fee Achieved * Volume Weighting	$100.0\% * 12.5\%$
Withheld Target Fee	12.5%
Payable Target Fee	87.5%
Note: Below 80.0% volume then all Target Fee will be withheld	

Target Fee Process Diagram



#### **14. TARGET FEE TRUE-UP**

The flow diagram at the end of this Paragraph 14 sets out an overview of how the Target Fee True-Up process works and this Paragraph 14 should be read in conjunction with such flow diagram.

14.1 The Parties will undertake an annual reconciliation of the Payable Target Fee in accordance with this Paragraph 14 after the end of each Service Delivery Year once the Post Payment Validation process of Target Fees has been carried out as set out in Paragraph 32.2.

14.2 The Target Fee True-Up is limited to the Service Delivery Year.

14.3 At the end of each Service Delivery Year, the Actual Cumulative Volume Clearances is assessed against the Annual Volume Clearance Target and the following action undertaken:

14.3.1 if the Actual Cumulative Volume Clearances is:

14.3.1.1 in relation to Service Delivery Year 1, at or below the Volume Floor;  
or

14.3.1.2 in relation to Service Delivery Years 2 onwards, below the Volume Floor,

then:

14.3.1.3 the Withheld Target Fee will be forfeited; and/or

14.3.1.4 any Payable Target Fee paid to the Supplier during such Service Delivery Year shall be reclaimed against the Charges payable in future Service Period(s). For the avoidance of doubt, the Authority may reclaim such Payable Target Fees over multiple Service Periods against the Charges if the Charges are not sufficient to cover the reclaimed Payable Target Fees in the next Service Period and if it is the last Service Delivery Year of the Agreement, the Authority shall be entitled to invoice the Supplier for such Payable Target Fee;

14.3.2 if the Actual Cumulative Volume Clearances is below the Annual Volume Clearance Target, but above the Volume Floor, a proportion of the Withheld Target Fee will become payable calculated based on the Volume Weighting calculation (i.e. which shall equate to 2.5% of Target Fee Achieved for every 1.0% of volume of Clearances above the Volume Floor for the whole Service Delivery Year) as illustrated in example 4 below, less a 10% deduction of the Withheld Target Fee for the Supplier failing to meet the Monthly Volume Clearance Targets; or

14.3.3 if the Actual Cumulative Volume Clearances is above the Annual Volume Clearance, then the Withheld Target Fee shall become payable to the Supplier from the Service Delivery Year less a 10% deduction of the Withheld Target Fee for the Supplier failing to meet the Monthly Volume Clearance Targets.

14.4 Target Fee True-Up examples:

<b>Example 1: Service Delivery Year –Annual Volume Clearance Target achieved</b>	
Year 1 Volume Floor	60.0%
Target Fee Achieved for the Service Delivery Year spread equally across Service Periods	£2,400,000
Months 1 to 6 percentage of achievement against the total of Monthly Volume Clearance Targets in such Service Periods	80.0%
<i>Following on from the examples above, the Withheld Target Fee and Payable Target Fee will be</i>	
Withheld Target Fee (50.0%)	£600,000
Payable Target Fee (50.0%)	£600,000
Months 7 to 12 percentage of achievement against the total of Monthly Volume Clearance Targets in such Service Periods	120.0%
<i>Following on from the examples above, the Withheld Target Fee and Payable Target Fee will be</i>	
Withheld Target Fee	£0
Payable Target Fee (100.0%)	£1,200,000
<b>Note: Clearance Delivery Payment is not achieved because Actual Cumulative Volume Clearances is below target</b>	
At True-Up in the Service Delivery Year, the Actual Cumulative Volume Clearances is compared to the Annual Volume Clearance Target, and in this case 100.0% of the Annual Volume Clearance Target has been achieved	
Volume lost * Target Fee Multiplier	0% * 2.5 = 0%
Target Fee Achieved for the Service Delivery Year * Volume Weighting for Service Delivery Year = Target Fee lost	£2,400,000 * 0% = £0
Payable Target Fee for the Service Delivery Year	£2,400,000 – £0 = £2,400,000
Payable Target Fee for the Service Delivery Year – Paid Target Fee in the Service Periods = Withheld Target Fee to be released	£2,400,000 - £600,000 - £1,200,000 = £600,000
Released Withheld Target Fee * 90.0% (less 10.0% deduction)	£600,000 - £60,000 = £540,000
Released Target Fee – Withheld Target Fee = Withheld Target Fee forfeited	£600,000 - £600,000 = £0
Target Fee lost due to deduction	-£60,000



<b>Example 2: Service Delivery Year - Actual Cumulative Volume Clearances is below Volume Floor</b>	
Year 2 Volume Floor	70.0%
Target Fee Achieved for the Service Delivery Year spread equally across Service Periods	£2,400,000
Months 1 to 11 percentage of achievement against the total of Monthly Volume Clearance Targets in such Service Periods	70.0%
<i>Following on from the examples above, the Withheld Target Fee and Payable Target Fee will be</i>	
Withheld Target Fee (75.0%)	£1,650,000
Payable Target Fee (25.0%)	£550,000
Month 12 percentage of Annual Volume Clearance Target achieved is	69.9%
Withheld Target Fee (100.0%)	£200,000
At True-Up in the Service Delivery Year, the Actual Cumulative Volume Clearances is compared to the Annual Volume Clearance Target, and in this case 69.9% of the Annual Volume Clearance Target has been achieved	
<b>The Actual Cumulative Volume Clearances is below the Volume Floor, so 100.0% of the Target Fee is forfeited</b>	
The Payable Target Fee to be reclaimed in the future Service Period(s)	£550,000

<b>Example 3: Service Delivery Year – Actual Cumulative Volume Clearances is equal to Volume Floor</b>	
Year 3 Volume Floor	80.0%
Target Fee Achieved for the Service Delivery Year spread equally across Service Periods	£2,400,000
Months 1 to 12 percentage of Annual Volume Clearance Target achieved is	80.0%
Withheld Target Fee (50.0%)	£1,200,000
Payable Target Fee (50.0%)	£1,200,000
At True-Up in the Service Delivery Year, the Actual Cumulative Volume Clearances is compared to the Annual Volume Clearance Target, in this case 80.0% of the Volume Target has been achieved	
<b>The Withheld Target Fee of £1,200,000 will be forfeited</b>	

<b>Example 4: Service Delivery Year –Annual Volume Clearance Target achieved</b>	
Year 3 Volume Floor	80.0%
Target Fee Achieved for the Service Delivery Year spread equally across Service Periods	£2,400,000
Months 1 to 6 percentage of achievement against the total of Monthly Volume Clearance Targets in such Service Periods	80.0%
<i>Following on from the examples above, the Withheld Target Fee and Payable Target Fee will be</i>	
Withheld Target Fee (50.0%)	£600,000
Paid Target Fee (50.0%)	£600,000
Months 7 to 12 percentage of achievement against the total of Monthly Volume Clearance Targets in such Service Periods	110.0%
<i>Following on from the examples above, the Withheld Target Fee and Payable Target Fee will be</i>	
Withheld Target Fee	£0
Paid Target Fee (100.0%)	£1,200,000
<b>Note: Clearance Delivery Payment is not achieved because Actual Cumulative Volume Clearances is below target</b>	
At True-Up in the Service Delivery Year, the Actual Cumulative Volume Clearances is compared to the Annual Volume Clearance Target, and in this case 95.0% of the Annual Volume Clearance Target has been achieved	
Volume lost * Target Fee Multiplier	5% * 2.5 = 12.5%
Target Fee Achieved for the Service Delivery Year * Volume Weighting for Service Delivery Year = Target Fee lost	£2,400,000 * 12.5% = -£300,000
Payable Target Fee for the Service Delivery Year	£2,400,000 – £300,000 = £2,100,000
Payable Target Fee for the Service Delivery Year – Paid Target Fee in the Service Periods = Withheld Target Fee to be released	£2,100,000 - £600,000 - £1,200,000 = £300,000
Released Withheld Target Fee * 90.0% (less 10.0% deduction)	£300,000 - £30,000 = £270,000
Released Target Fee – Withheld Target Fee = Withheld Target Fee forfeited	£300,000 - £600,000 = -£300,000
Target Fee lost due to deduction	-£30,000

True-Up: Target Fee Process Diagram

[REDACTED]

## **15. COST CAP**

- 15.1 The Supplier will be solely responsible for Actual Target Costs which exceed the Cost Cap, which is known as the “**Excess Cost**”, as set out in the table in Part 2 of Annex 1.
- 15.2 Where an Excess Cost was incurred by the Supplier during the Service Delivery Year, but by the end of the Service Delivery Year the overall Actual Target Costs are below the Cost Cap, then any Excess Cost incurred by the Supplier during the Service Delivery Year will be recompensated to the Supplier through the True-Up of the Actual Target Costs through the Pain Share or Gain Share Mechanism. For the avoidance of doubt, this will mean that the Supplier will not be entitled to be refunded for the full Excess Cost it had incurred, as it will be subject to the Share Ratios through the Pain Share or Gain Share True-Up.

## **16. PAIN SHARE MECHANISM**

The flow diagram at the end of Paragraph 17 sets out an overview of how Pain Share and Gain Share is calculated and this Paragraph 16 should be read in conjunction with such flow diagram.

- 16.1 Where the Supplier’s Actual Target Costs are greater than the Target Cost in any given Service Period, Pain Share will apply, and the Parties shall share the cost between Actual Target Cost and the Target Cost in accordance with the Share Ratios set out in the 5<sup>th</sup> column of the table shown at Part 2 of Annex 1.
- 16.2 The value of the Actual Target Cost used in the Pain Share calculations shall be the lower of the Cost Cap or the Actual Target Cost.
- 16.3 Pain Share shall be calculated and applied as follows:
- 16.3.1 The difference between the Target Cost and the Actual Target Cost up to the Cost Cap shall be the “**Over Cost**”, which shall be calculated as follows:  
Actual Target Cost (up to the Cost Cap) – Target Cost = Over Cost.
- 16.3.2 The Over Cost shall be apportioned between the Authority and the Supplier at the agreed Share Ratio. Therefore, the Supplier’s Pain Share is calculated as:  
Over Cost x Supplier Share Ratio, and the Authority’s Pain Share is calculated as:  
Over Cost x Authority Share Ratio.
- 16.3.3 The Authority’s portion of Pain Share shall be paid to the Supplier as part of the Charges in the next Service Period.
- 16.4 Pain Share examples - The examples below provide examples of the Pain Share Mechanism and calculation.

**Example 1a - Example of how the Pain Share Mechanism will work where Actual Target Costs exceed the Target Cost but fall below the Cost Cap:**

<b>Illustration of Pain Share calculation in Service Delivery Year 2 with 50/50 Pain Share</b>	
Target Cost per Service Period	£100,000
Target Fee (maximum available to the Supplier in the Service Period)	£10,000
Target Price	£110,000
Cost Cap	£120,000
Actual Target Cost for Service Period	£118,000
<b>Calculate Pain Share</b>	
<b>Calculate Excess Cost</b>	
Cost Cap - Actual Target Cost (restricted to lower of Actual Target Cost or Cost Cap) = Excess Cost	£120,000 - £118,000 = £2,000 (No Excess Cost)
<b>Calculate Over Cost</b>	
Target Cost - Actual Target Cost = Over Cost	£100,000 - £118,000 = -£18,000
<b>Calculate Supplier's proportion of the Pain Share</b>	
Over Cost x Supplier Share Ratio = Supplier percentage (50%) of Pain Share	-£18,000 x 50% = -£9,000
<b>Calculate payment to Supplier</b>	
<i>Actual Target Cost up to the Cost Cap</i>	<i>£118,000</i>
<i>Payable Target Fee</i>	<i>£10,000</i>
<i>Pain Share</i>	<i>-£9,000</i>
<b>Service Charge due to Supplier</b>	<b>£119,000</b>

**Example 1b – Example of how Pain Share Mechanism will work between the Supplier and Authority when Actual Target Costs exceed the Target Cost and exceed the Cost Cap:**

<b>Illustration of Pain Share calculation in Service Delivery Year 2 with 50/50 Pain Share</b>	
Target Cost per Service Period	£100,000
Target Fee (maximum available to Supplier in the Service Period)	£10,000
Target Price	£110,000
Cost Cap	£120,000
Actual Target Cost for Service Period	£125,000
<b>Calculate Pain Share</b>	
<b>Calculate Excess Cost</b>	
Cost Cap - Actual Target Cost= Excess Cost	£120,000 - £125,000 = -£5,000 (Excess Cost)
<b>Calculate Over Cost</b>	
Target Cost - Actual Target Cost (restricted to lower of Actual Target Cost or Cost Cap) = Over Cost	£100,000 - £120,000 = -£20,000
Actual Target Cost above the Cost Cap is 100% the liability of the Supplier = -£5,000	
<b>Calculate Supplier's proportion of the Pain Share</b>	
Over Cost x Supplier Share Ratio = Supplier percentage (50%) of Pain Share	-£20,000 x 50% = -£10,000
<b>Calculate payment to Supplier</b>	
Actual Target Cost up to the Cost Cap	£120,000
Payable Target Fee	£10,000
Pain Share	-£10,000
<b>Service Charge due to Supplier</b>	<b>£120,000</b>

## **17. GAIN SHARE MECHANISM**

The flow diagram at the end of this Paragraph 17 sets out an overview of how Pain Share and Gain Share is calculated and this Paragraph 17 should be read in conjunction with such flow diagram.

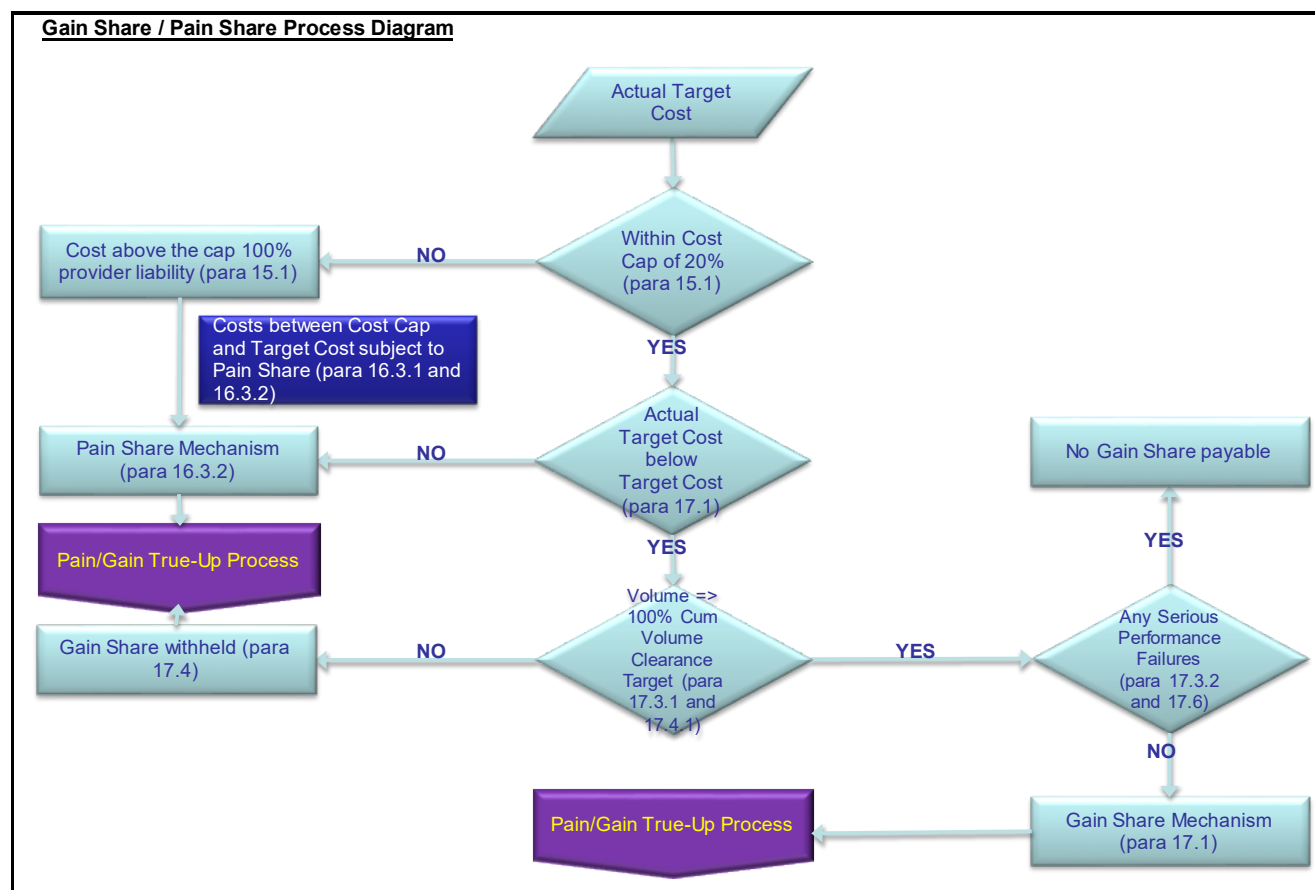
- 17.1 Where the Supplier's Actual Target Costs are less than the Target Cost ("**Under Cost**"), Gain Share will apply and the Parties shall share the savings between the Actual Target Cost and the Target Cost in accordance with the Share Ratios set out in the 5<sup>th</sup> column of the table shown at Part 2 of Annex 1.
- 17.2 The Authority and the Supplier shall share all gains and there will be no cap placed on the gain that may be shared between the Supplier and the Authority under the Gain Share Mechanism.
- 17.3 Gain Share will only be payable in the Service Period to the Supplier if the following conditions have been met:
  - 17.3.1 Actual Cumulative Volume Clearances for each Service (PIP, WCA and Specialist Benefits) is equal to or greater than the applicable Cumulative Volume Clearance Target at that point in the Service Delivery Year; and
  - 17.3.2 there have been no Serious Performance Failures in the Service Period or previous Service Periods in the Service Delivery Year.
- 17.4 Gain Share will be withheld in the Service Period if the following conditions have been met:
  - 17.4.1 Actual Cumulative Volume Clearances for each Service (PIP, WCA and Specialist Benefits) is less than the applicable Cumulative Volume Clearance Target at that point in the Service Delivery Year; and
  - 17.4.2 there have been no Serious Performance Failures in the Service Period or previous Service Periods in the Service Delivery Year.
- 17.5 At True-Up, the Actual Cumulative Volume Clearances will be assessed and Withheld Gain Share may be released or forfeited, as set out in Paragraph 18.
- 17.6 Gain Share will be lost if there are any Serious Performance Failures in the Service Delivery Year. If Gain Share has been paid in the Service Periods in the Service Delivery Year and there is a Serious Performance Failure in later Service Periods in the Service Delivery Year, then any Gain Share paid will become repayable to the Authority at True-Up, as set out in Paragraph 18.7.
- 17.7 Gain Share example - The example below provides an example of the Gain Share Mechanism and calculation:

**Example 1c – Example of how the Gain Share Mechanism will work where Actual Target Costs fall below the Target Cost (using for the purposes of this example the Share Ratio percentage set for Service Delivery Years 2-5):**

<b>Illustration of Gain Share calculation in Service Delivery Year 2 with 50/50 Gain Share</b>	
Target Cost per Service Period	£100,000
Target Fee (maximum available to Supplier in the Service Period)	£10,000
Target Price	£110,000
Cost Cap	£120,000
Actual Target Cost for Service Period	£90,000
<b>Calculate Gain Share</b>	
<i>Calculate Under Cost</i>	
Target Cost - Actual Target Cost = Gain to Share	£100,000 - £90,000 = £10,000
<i>Calculate Supplier's proportion of the Gain Share</i>	
Gain to share x Supplier Share Ratio = Supplier proportion percentage (50%) of Gain Share	£10,000 x 50% = £5,000
<i>Calculate Payment to Supplier</i>	
<i>Actual Target Cost up to the Cost Cap</i>	<i>£90,000</i>
<i>Payable Target Fee</i>	<i>£10,000</i>
<i>Gain Share</i>	<i>£5,000</i>
<b>Service Charge due to Supplier</b>	<b>£105,000</b>

- 17.8 The Supplier shall report to the Authority its Actual Target Costs incurred in delivering the Agreement on a monthly basis as part of the Supplier Cost Report as further detailed in Paragraph 40.

Gain Share/ Pain Share Process Diagram





## **18. PAIN SHARE AND GAIN SHARE TRUE-UP**

The flow diagram at the end of this Paragraph 18 sets out an overview of how the True-Up process works for Pain Share and Gain Share and this Paragraph 18 should be read in conjunction with such flow diagram.

- 18.1 The Parties will undertake an annual reconciliation of the Pain Share and/or Gain Share payable at the end of each Service Delivery Year in accordance with this Paragraph 18. For the avoidance of doubt, the True-Up reconciliation shall also take into account any change in the number of Clearances achieved by the Supplier that are discovered as a result of the audit of the Performance Levels in accordance with Paragraphs 9 and 10 of Schedule 2.2 (*Performance Levels*).
- 18.2 The Pain Share and Gain Share True-Up is limited to the Service Delivery Year.
- 18.3 At the Service Delivery Year end, Actual Target Cost will be compared to Target Cost and:
  - 18.3.1 if the Actual Target Cost is greater than the Target Cost then the Pain Share True-Up process will run, as set out in Paragraph 18.5.
  - 18.3.2 if the Actual Target Cost is less than the Target Cost then the Gain Share True-Up process will be run, as set out in Paragraph 18.7.
- 18.4 If the Actual Target Cost is equal to the Target Cost, then any Pain Share or Gain Share processed in the Service Periods of the Service Delivery Year will be reclaimed.

### **Pain Share True-Up Process**

- 18.5 The Pain Share True-Up process will be based on the following steps:
  - 18.5.1 Step 1: Calculate for the Service Delivery Year whether there is an Excess Cost i.e. Cost Cap – Actual Target Cost. If the result is negative this is an Excess Cost and the sole responsibility of the Supplier.
  - 18.5.2 Step 2: Calculate the difference between Target Cost and the lower of: (a) the Actual Target Cost; or (b) the Cost Cap, for the whole Service Delivery Year, i.e. Target Cost – Actual Target Cost (or Cost Cap, if applicable). If the result is an Over Cost (i.e., a negative value), the Pain Share Mechanism will be applicable.
  - 18.5.3 Step 3: Calculate Supplier's Pain Share, i.e. the Over Cost x Supplier's Share Ratio = Supplier's Pain Share.
  - 18.5.4 Step 4: Calculate Authority's Pain Share, i.e. the Over Cost x Authority's Share Ratio = Authority's Pain Share.
  - 18.5.5 Step 5: Compare the True-Up calculated Authority's Pain Share to the total amount of Authority's Pain Share paid to the Supplier as part of the Charges during the Service Delivery Year to date:
    - 18.5.5.1 if the difference is positive (i.e., a reduction in the value of Pain Share) then this amount will be reclaimed from the Supplier in future Service Period(s);

## OFFICIAL – COMMERCIAL

18.5.5.2 if the difference is negative (i.e., an increase in the value of Pain Share) then this amount will be paid to the Supplier in the next Service Period; or

18.5.5.3 if the difference is zero, no action is required.

18.6 The examples below outline the True-Up Pain Share process:

18.6.1 Example 1: Pain Share with Excess Cost and True-Up Pain Share paid

<b>Illustration of Pain Share True Up calculation in Service Delivery Year 2 with 50/50 Pain Share</b>	
Target Cost for Service Delivery Year	£1,200,000
Target Fee for Service Delivery Year	£120,000
Target Price for Service Delivery Year	£1,320,000
Cost Cap (+20% on Target Cost)	£1,440,000
Actual Target Cost for Service Delivery Year	£1,500,000
Authority's Pain Share paid in Service Delivery Year	£20,000
<b>Calculate Pain Share</b>	
<b>Calculate Excess Cost</b>	
Cost Cap - Actual Target Cost = Excess Cost (if negative result)	£1,440,000 - £1,500,000 = -£60,000 (Excess Cost)
<b>Calculate Over Cost</b>	
Target Cost - Actual Target Cost (restricted to lower of Actual Target Cost or Cost Cap) = Over Cost	£1,200,000 - £1,440,000 = -£240,000
Actual Target Cost above the Cost Cap is 100% the liability of the Supplier = -£60,000	
<b>Calculate Supplier's proportion of the Pain Share</b>	
Over Cost x Supplier Share Ratio = Supplier percentage (50%) of pain	-£240,000 x 50% = -£120,000
<b>Calculate Authority's proportion of the Pain Share</b>	
Over Cost x Authority's Share Ratio = Authority's percentage (50%) of pain	-£240,000 x 50% = -£120,000
<b>Compare True-Up Authority's Pain Share</b>	
Authority's Pain Share paid in Service Delivery Year - True-Up calculated Authority's Pain Share	£20,000 - £120,000 = -£100,000
<b>True-Up Pain Share paid to Supplier</b>	<b>-£100,000</b>

## 18.6.2 Example 2: Pain Share with Excess Cost and True-Up Pain Share reclaimed

<b>Illustration of Pain Share True Up calculation in Service Delivery Year 2 with 50/50 Pain Share</b>	
Target Cost for Service Delivery Year	£1,200,000
Target Fee for Service Delivery Year	£120,000
Target Price for Service Delivery Year	£1,320,000
Cost Cap (+20% on Target Cost)	£1,440,000
Actual Target Cost for Service Delivery Year	£1,500,000
Authority's Pain Share paid in Service Delivery Year	£140,000
<b>Calculate Pain Share</b>	
<b>Calculate Excess Cost</b>	
Cost Cap - Actual Target Cost = Excess Cost (if negative result)	£1,440,000 - £1,500,000 = -£60,000 (Excess Cost)
<b>Calculate Over Cost</b>	
Target Cost - Actual Target Cost (restricted to lower of Actual Target Cost or Cost Cap) = Over Cost	£1,200,000 - £1,440,000 = -£240,000
Actual Target Cost above the Cost Cap is 100% the liability of the Supplier = -£60,000	
<b>Calculate Supplier's proportion of the Pain Share</b>	
Over Cost x Supplier Share Ratio = Supplier percentage (50%) of pain	-£240,000 x 50% = -£120,000
<b>Calculate Authority's proportion of the Pain Share</b>	
Over Cost x Authority's Share Ratio = Authority's percentage (50%) of pain	-£240,000 x 50% = -£120,000
<b>Compare True-Up Authority's Pain Share</b>	
Authority's Pain Share paid in Service Delivery Year - True-Up calculated Authority's Pain Share	£140,000 - £120,000 = £20,000
<b>True-Up Pain Share reclaimed from Supplier</b>	<b>£20,000</b>

**Gain Share True-Up Process**

18.7 If either of the following steps have not been met, then any Gain Share paid to the Supplier during the Service Delivery Year will be reclaimed by the Authority in future Service Periods, and any withheld Gain Share will be lost:

18.7.1 Step 1: if the Actual Cumulative Volume Clearances for all Services (PIP, WCA and Specialist Benefits) is equal to or greater than the applicable Cumulative Volume Clearance Target; and

OFFICIAL – COMMERCIAL

18.7.2 Step 2: there has been no Serious Performance Failures in the Service Delivery Year.

18.8 The True-Up of the Supplier's Gain Share shall then be calculated as follows:

18.8.1 Step 3: Target Cost - Actual Target Cost. If the result is positive, the Gain Share Mechanism is applicable.

18.8.2 Step 4: The amount of Gain Share as calculated in accordance with Paragraph 18.8.1 x Supplier's Share Ratio = Supplier's True-Up Gain Share.

18.8.3 Step 5: Supplier's Gain Share at True-Up - Supplier's Gain Share paid in the Service Periods of the Service Delivery Year. If the result is positive, then the additional Gain Share shall be payable to the Supplier. If the result is negative, then such amount shall be reclaimed by the Authority in future Service Period(s). If the result is zero, no action is required.

18.9 The examples below outline the process:

## 18.9.1 Example 1: Serious Performance Failure in Service Delivery Year

<b>Illustration of Gain Share True Up calculation in Service Delivery Year 2 with 50/50 Pain Share</b>	
Target Cost for Service Delivery Year	£1,200,000
Target Fee for Service Delivery Year	£120,000
Target Price for Service Delivery Year	£110,000
Actual Target Cost for Service Delivery Year	£1,100,000
Supplier's Gain Share paid in Service Delivery Year	£50,000
Actual Cumulative Volume Clearances	1,000,000
Cumulative Volume Clearance Target	950,000
Serious Performance Failure in Service Delivery Year	Yes
<b>Calculate Gain Share</b>	
<b>Step 1</b>	
Actual Cumulative Volume Clearances – Cumulative Volume Clearance Target	$1,000,000 - 950,000 = 50,000$
PASSED	
<b>Step 2</b>	
Serious Performance Failure in Service Delivery Year	Yes
FAILED	
<b>Decision</b>	
Supplier's Gain Share paid in Service Delivery Year reclaimed	£-50,000

18.9.2 Example 2: Actual Cumulative Volume Clearances are less than Cumulative Volume Clearance Target

<b>Illustration of Gain Share True Up calculation in Service Delivery Year 2 with 50/50 Pain Share</b>	
Target Cost for Service Delivery Year	£1,200,000
Target Fee for Service Delivery Year	£120,000
Target Price for Service Delivery Year	£110,000
Actual Target Cost for Service Delivery Year	£1,100,000
Supplier's Gain Share paid in Service Delivery Year	£50,000
Actual Cumulative Volume Clearances	900,000
Cumulative Volume Clearance Target	950,000
Serious Performance Failure in Service Delivery Year	NO
<b>Calculate Gain Share</b>	
<b>Step 1</b>	
Actual Cumulative Volume Clearances – Cumulative Volume Clearance Target	$900,000 - 950,000 = -50,000$
FAILED	
<b>Step 2</b>	
Serious Performance Failure in Service Delivery Year	NO
PASSED	
<b>Decision</b>	
Supplier's Gain Share paid in Service Delivery Year reclaimed	-£50,000

## 18.9.3 Example 3: True-Up Gain Share greater than Gain Share paid during the Service Delivery Year

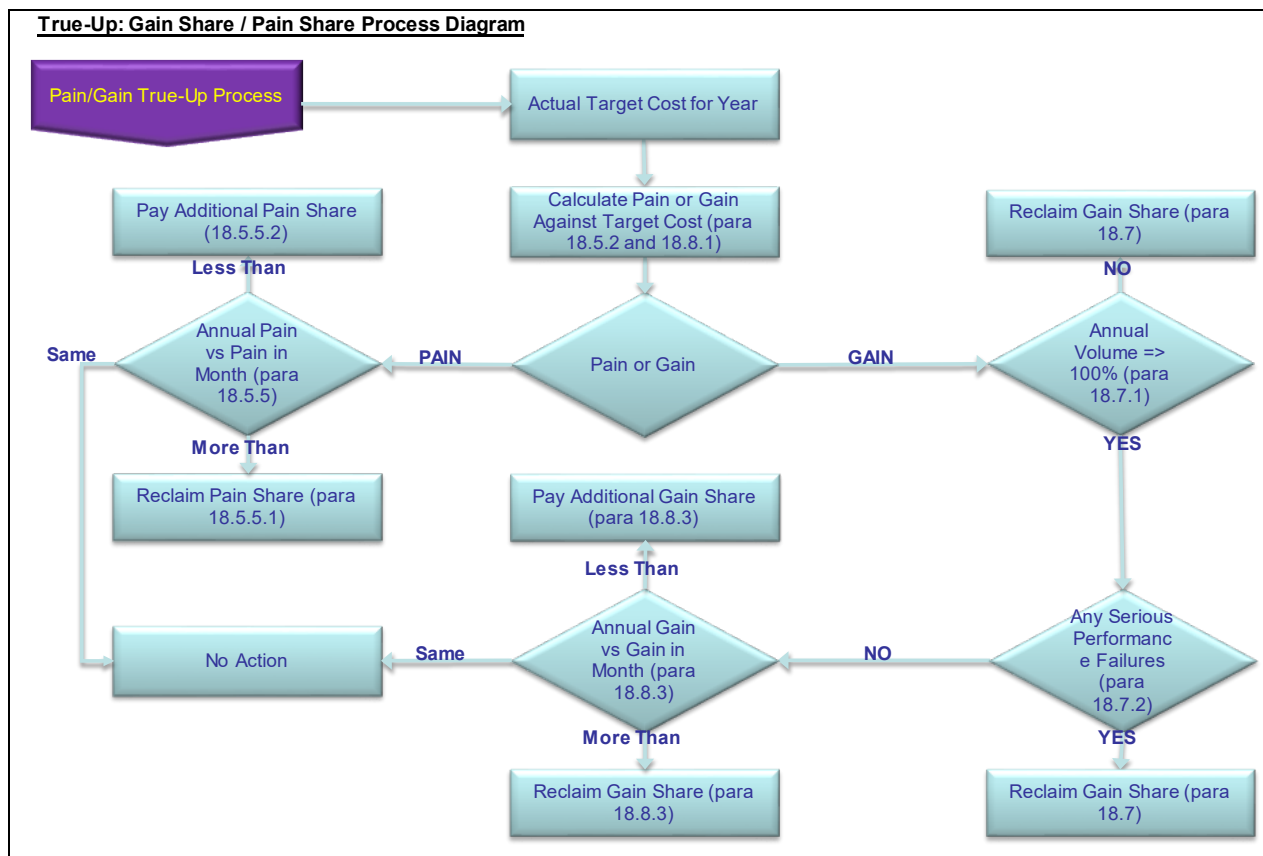
<b>Illustration of Gain Share True Up calculation in Service Delivery Year 2 with 50/50 Pain Share</b>	
Target Cost for Service Delivery Year	£1,200,000
Target Fee for Service Delivery Year	£120,000
Target Price for Service Delivery Year	£110,000
Actual Target Cost for Service Delivery Year	£1,100,000
Supplier's Gain Share paid in Service Delivery Year	£40,000
Actual Cumulative Volume Clearances	1,000,000
Cumulative Volume Clearance Target	1,000,000
Serious Performance Failure in Service Delivery Year	NO
<b>Calculate Gain Share</b>	
<b>Step 1</b>	
Actual Cumulative Volume Clearances – Cumulative Volume Clearance Target	$1,000,000 - 1,000,000 = \text{nil}$
PASSED	
<b>Step 2</b>	
Serious Performance Failure in Service Delivery Year	NO
PASSED	
<b>Step 3</b>	
Target Cost – Actual Target Cost = Gain Share	$£1,200,000 - £1,100,000 = £100,000$
<b>Step 4</b>	
Gain Share x Supplier's Share Ratio	$£100,000 \times 50\% = £50,000$
<b>Step 5</b>	
Supplier's True-Up Gain Share – Supplier's Gain Share paid during the Service Delivery Year	$£50,000 - £40,000 = £10,000$
Supplier's additional Gain Share payable	<b>£10,000</b>

## 18.9.4 Example 4: True-Up Gain Share less than Gain Share paid during the Service Delivery Year

<b>Illustration of Gain Share True Up calculation in Service Delivery Year 2 with 50/50 Pain Share</b>	
Target Cost for Service Delivery Year	£1,200,000
Target Fee for Service Delivery Year	£120,000
Target Price for Service Delivery Year	£110,000
Actual Target Cost for Service Delivery Year	£1,100,000
Supplier's Gain Share paid in Service Delivery Year	£60,000
Actual Cumulative Volume Clearances	1,000,000
Cumulative Volume Clearance Target	1,000,000
Serious Performance Failure in Service Delivery Year	NO
<b>Calculate Gain Share</b>	
<b>Step 1</b>	
Actual Cumulative Volume Clearances – Cumulative Volume Clearance Target	$1,000,000 - 1,000,000 = \text{nil}$
PASSED	
<b>Step 2</b>	
Serious Performance Failure in Service Delivery Year	NO
PASSED	
<b>Step 3</b>	
Target Cost – Actual Target Cost = Gain Share	$£1,200,000 - £1,100,000 = £100,000$
<b>Step 4</b>	
Gain Share x Supplier's Share Ratio	$£100,000 \times 50\% = £50,000$
<b>Step 5</b>	
Supplier's True-Up Gain Share – Supplier's Gain Share paid during the Service Delivery Year	$£50,000 - £60,000 = -£10,000$
Supplier's additional Gain Share reclaimed	-£10,000



True-Up: Gain Share/ Pain Share Process Diagram



## **19. CLEARANCE DELIVERY PAYMENTS**

The flow diagram at the end of this Paragraph 19 sets out an overview of how to calculate the Clearance Delivery Payments and this Paragraph 19 should be read in conjunction with such flow diagram.

- 19.1 To incentivise the number of PIP or/and WCA Clearances achieved by the Supplier under this Agreement, the Supplier shall, subject to the following provisions of this Paragraph 19 and Paragraph 20, be entitled to a Clearance Delivery Payment for each additional Assessment Specific Clearance achieved by the Supplier above the relevant Monthly Volume Clearance Target and relevant Cumulative Volume Clearance Target for either PIP or WCA, as the case may be. For the avoidance of doubt, Clearance Delivery Payments shall only be payable in relation to PIP and WCA only as the Supplier is not entitled to Clearance Delivery Payments in relation to Specialist Benefits.
- 19.2 To be entitled to a Clearance Delivery Payment in any given Service Period, the following conditions must be met:
  - 19.2.1 the Actual Cumulative Volume Clearances for both PIP and WCA must be equal to or greater than the applicable Cumulative Volume Clearance Target; and
  - 19.2.2 without prejudice to the provisions relating to Performance Levels set out elsewhere in this Agreement, the Supplier must achieve the following minimum performance for the Clearances for the Assessment type for which a Clearance Delivery Payment is being claimed:
    - 19.2.2.1 for PIP, the Supplier must achieve a performance of 95% for the Performance Level TPL1a; and
    - 19.2.2.2 for WCA, the Supplier must achieve a performance of 93% for the Performance Level TPL1d.
- 19.3 Subject to Paragraph 19.4, if the condition at Paragraph 19.2.1 is not achieved for both PIP and WCA in the relevant Service Period, then the Clearance Delivery Payment will be withheld until the True-Up (as further detailed in Paragraph 20).
- 19.4 If the condition at Paragraph 19.2.2 is not achieved in the relevant Service Period, then the Clearance Delivery Payment for such Service Period shall be forfeited and will not be released at True-Up.
- 19.5 The Clearance Delivery Payment for both PIP and WCA shall be paid at a fixed unit cost of £150.00 per additional Clearance as of the Operational Service Commencement Date, but the Authority reserves the right to vary the fixed unit cost (in relation to both PIP and WCA or either) of the Clearance Delivery Payment from time to time, at its discretion.

### **Monthly Calculation**

- 19.6 The Actual Monthly Volume Clearances achieved by the Supplier in respect of each of PIP and WCA shall be assessed at the end of each Service Period against the Assessment Specific Target Volumes.
- 19.7 Subject to the following provisions of this Paragraph 19, where in any Service Period:

- 19.7.1 the number of Actual Monthly Volume Clearances achieved by the Supplier in respect of PIP or WCA (as the case may be) exceeds the Assessment Specific Target Volumes (or as otherwise subsequently agreed by the Authority) for that Service Period;
- 19.7.2 the number of Actual Cumulative Volume Clearances achieved by the Supplier in respect of PIP or WCA (as the case may be) exceeds the applicable Cumulative Volume Clearance Target for PIP or WCA (as the case may be) required at that point of the Service Delivery Year (or as otherwise subsequently agreed by the Authority);
- 19.7.3 the Supplier achieves the relevant quality performance levels as set in Paragraph 19.2.2 in relation to the relevant Assessment type that the Clearance Delivery Payment is being claimed for, for all Clearances completed in that Service Period; and
- 19.7.4 the Supplier has, as a minimum, achieved the Cumulative Volume Clearance Target for the other Assessment Type (PIP or WCA (as the case may be)),
- then the Authority shall pay the Clearance Delivery Payment for each Assessment Specific Clearance, which shall be the lower of:
- 19.7.5 the number of Assessment Specific Clearances above the Assessment Specific Target Volume for that assessment type for that Service Period; or
- 19.7.6 the number of Actual Cumulative Volume Clearances to date in the applicable Service Delivery Year above the Cumulative Volume Clearance Target for that assessment type at that point in the Service Delivery Year.
- 19.8 Clearance Delivery Payment example - The examples below provide examples of the Clearance Delivery Payment mechanism and calculation.

**Example 1**

PIP additional Clearances above the Monthly Volume Clearance Targets across the whole Service Delivery Year are equal to the additional Clearances above the Cumulative Volume Clearance Target for the whole Service Delivery Year.

WCA Actual Cumulative Volume Clearances are at least equal to the Cumulative Volume Clearance Target.

The PIP performance level test has been passed.

CDP is eligible for in month payment.

<b>Example 1</b>	
<b>PIP Volume Test</b>	
PIP Actual Monthly Volume Clearances	23,375
PIP Monthly Volume Clearance Target	21,250
<b>PIP monthly Clearance difference</b>	<b>2,125</b>
<b>PIP Actual Cumulative Volume Clearances – PIP Monthly Volume Clearance Target</b>	<b>2,125</b>
<b>WCA Volume Test</b>	
WCA Actual Cumulative Volume Clearances	200,000
WCA Cumulative Volume Clearance Target	200,000
<b>WCA cumulative Clearance difference</b>	<b>0</b>
<b>PIP Target Performance Level Test</b>	
PIP performance level passed	PASS
<b>Decision</b>	
Volume of Clearances eligible for payment	2,125
Payment decision	Payment
<b>Payment</b>	
CDP unit cost	£150
CDP payment made	£318,750
CDP payment withheld	
CDP payment lost	

**Example 2**

PIP additional Clearances above the Monthly Volume Clearance Targets across the whole Service Delivery Year are equal to the additional Clearances above the Cumulative Volume Clearance Target for the whole Service Delivery Year.

WCA Actual Cumulative Volume Clearances is at least equal to the Cumulative Volume Clearance Target.

The PIP performance level test has not been passed.

CDP is not eligible for payment in month.

<b>Example 2</b>	
<b>PIP Volume Test</b>	
PIP Actual Monthly Volume Clearances	23,375
PIP Monthly Volume Clearance Target	21,250
<b>PIP monthly Clearance difference</b>	<b>2,125</b>
<b>PIP Actual Cumulative Volume Clearances – PIP Monthly Volume Clearance Target</b>	<b>2,125</b>
<b>WCA Volume Test</b>	
WCA Actual Cumulative Volume Clearances	200,000
WCA Cumulative Volume Clearance Target	200,000
<b>WCA cumulative Clearance difference</b>	<b>0</b>
<b>PIP Target Performance Level Test</b>	
PIP performance level passed	FAIL
<b>Decision</b>	
Volume eligible for payment	2,125
Payment decision	No payment
<b>Payment</b>	
CDP unit cost	£150
CDP payment made	
CDP payment withheld	
CDP payment lost	£318,750

**Example 3**

PIP additional Clearances above the Monthly Volume Clearance Targets across the whole Service Delivery Year are equal to the additional Clearances above the Cumulative Volume Clearance Target for the whole Service Delivery Year.

WCA Actual Cumulative Volume Clearances is below the Cumulative Volume Clearance Target.

The PIP performance level test has been passed.

CDP payment withheld in month.

<b>Example 3</b>	
<b>PIP Volume Test</b>	
PIP Actual Monthly Volume Clearances	23,375
PIP Monthly Volume Clearance Target	21,250
<b>PIP monthly Clearance difference</b>	<b>2,125</b>
<b>PIP Actual Cumulative Volume Clearances – PIP Monthly Volume Clearance Target</b>	<b>2,125</b>
<b>WCA Volume Test</b>	
WCA Actual Cumulative Volume Clearances	190,000
WCA Cumulative Volume Clearance Target	200,000
<b>WCA cumulative Clearance difference</b>	<b>-10,000</b>
<b>PIP Target Performance Level Test</b>	
PIP performance level passed	PASS
<b>Decision</b>	
Volume eligible for payment	2,125
Payment decision	Withheld
<b>Payment</b>	
CDP unit cost	£150
CDP payment made	
CDP payment withheld	£318,750
CDP payment lost	

**Example 4**

PIP additional Clearances achieved above the Monthly Volume Clearance Targets in the Service Periods, but the number of additional Clearances above the Cumulative Volume Clearance Target for the whole Service Delivery Year is lower.

CDP payments are based on the lower of the (a) difference between the Actual Volume Monthly Clearances and the Monthly Volume Clearance Target; or (b) the difference between the Cumulative Volume Clearance Target and the Actual Cumulative Volume Clearances (i.e. previous periods were below period the Monthly Volume Clearance Target and therefore the Actual Cumulative Volume Clearances was below target).

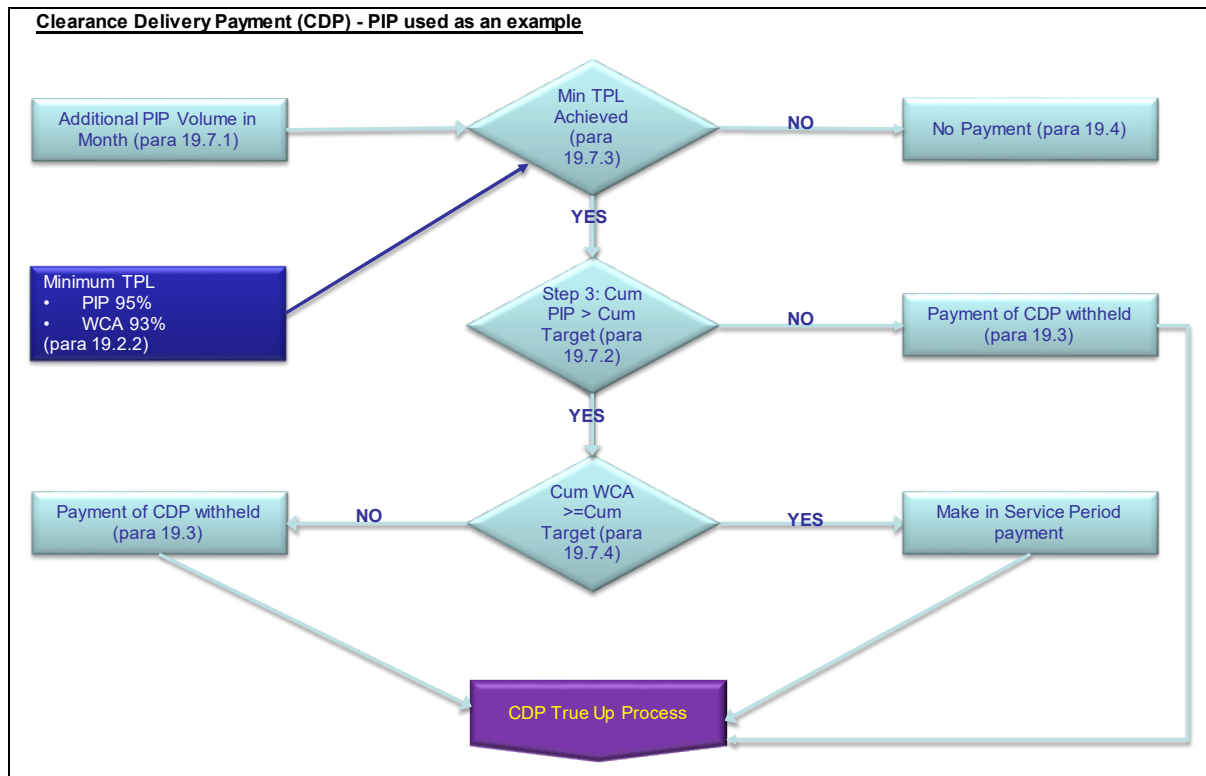
WCA Actual Cumulative Volume Clearances is at least equal to the Cumulative Volume Clearance Target.

The PIP performance level test has been passed.

CDP payment is made based on the difference between the Cumulative Volume Clearance Target and the Actual Cumulative Volume Clearances.

<b>Example 4</b>	
<b>PIP Volume Test</b>	
PIP Actual Monthly Volume Clearances	23,375
PIP Monthly Volume Clearance Target	21,250
<b>PIP monthly Clearance difference</b>	<b>2,125</b>
<b>PIP Actual Cumulative Volume Clearances – PIP Cumulative Volume Clearance Target</b>	<b>1,000</b>
<b>WCA Volume Test</b>	
WCA Actual Cumulative Volume Clearances	200,000
WCA Cumulative Volume Clearance Target	200,000
<b>WCA cumulative Clearance difference</b>	<b>0</b>
<b>PIP Target Performance Level Test</b>	
PIP performance level passed	PASS
<b>Decision</b>	
Volume eligible for payment	1,000
Payment decision	Pay
<b>Payment</b>	
CDP unit cost	£150
CDP payment made	£150,000
CDP payment withheld	
CDP payment lost	

Clearance Delivery Payment Flow Diagram – PIP example





## **20. CLEARANCE DELIVERY PAYMENTS TRUE-UP**

The flow diagram at the end of this Paragraph 20 sets out an overview of how to calculate the Clearance Delivery Payments and this Paragraph 20 should be read in conjunction with such flow diagram.

- 20.1 The Parties shall undertake an annual reconciliation of the Clearance Delivery Payments payable at the end of each Service Delivery Year in accordance with this Paragraph 20.
- 20.2 The Supplier acknowledges and agrees that the annual reconciliation in respect of Clearance Delivery Payments due in a Service Delivery Year will be assessed for each of PIP and WCA respectively against the Actual Cumulative Volume Clearances achieved for PIP or WCA (as the case may be) at the end of the Service Delivery Year. For the avoidance of doubt, the True-Up reconciliation shall also take into account any change in the number of Clearances achieved by the Supplier that are discovered as a result of the audit of the Performance Levels in accordance with Paragraphs 9 and 10 of Schedule 2.2 (*Performance Levels*).

### **PIP**

- 20.3 PIP Clearance Delivery Payments at the end of the Service Delivery Year are dependent on the following conditions:
- 20.3.1 the Actual Cumulative Volume Clearances for PIP exceeds the Annual Volume Clearance Target for that Service Delivery Year; and
- 20.3.2 the Actual Cumulative Volume Clearances for WCA is equal to or greater than the Annual Volume Clearance Target for that Service Delivery Year.
- 20.4 The PIP Clearance Delivery Payment True-Up shall be calculated as follows:
- 20.4.1 Step 1: Calculate the difference between the PIP Actual Cumulative Volume Clearances and the PIP Annual Volume Clearance Target = the “**PIP Clearance Difference**”.
- 20.4.2 Step 2: Add together the number of Assessment Specific Clearances for which Clearance Delivery Payments were paid for PIP Clearances during the Service Delivery Year and the number of PIP Clearances for which Clearance Delivery Payments withheld during the Service Delivery Year = the “**PIP Eligible Clearances**”.
- 20.4.3 Step 3: The True-Up Clearances for PIP shall be the lower of: (i) the PIP Clearance Difference; or the (ii) PIP Eligible Clearances.
- 20.4.4 Step 4: The True-Up Clearance Delivery Payment for PIP shall be calculated as = (the True-Up Clearances for PIP calculated from Step 3 x the fixed unit cost of £150.00 per Clearance) minus the Clearance Delivery Payments already paid to the Supplier during the Service Period. If the result is positive, the Authority shall pay such amount of Clearance Delivery Payments to the Supplier. If the result is negative, the Authority shall be entitled to reclaim the over payment of Clearance Delivery Payments from the Supplier in future Service Period(s).
- 20.5 If the Actual Cumulative Volume Clearances for PIP or WCA at the end of the Service Delivery Year are less than the Annual Volume Clearance Target for PIP or WCA (as

applicable), then the Supplier shall forfeit all of the withheld Clearance Delivery Payments (if any), and the Authority shall be entitled to reclaim any Clearance Delivery Payments made to the Supplier in relation to PIP during such Service Delivery Year.

WCA

20.6 WCA Clearance Delivery Payments at the end of the Service Delivery Year are dependent on the following conditions:

20.6.1 the Actual Cumulative Volume Clearances for WCA exceeds the Annual Volume Clearance Target for that Service Delivery Year; and

20.6.2 the Actual Cumulative Volume Clearances for PIP is equal to or greater than the Annual Volume Clearance Target for that Service Delivery Year.

20.7 The WCA Clearance Delivery Payment True-Up shall be calculated as follows:

20.7.1 Step 1: Calculate the difference between the WCA Actual Cumulative Volume Clearances and the WCA Annual Volume Clearance Target = the **“WCA Clearance Difference”**.

20.7.2 Step 2: Add together the number of Assessment Specific Clearances for which Clearance Delivery Payments were paid for WCA Clearances during the Service Delivery Year and the number of WCA Clearances for which Clearance Delivery Payments withheld during the Service Delivery Year = the **“WCA Eligible Clearances”**.

20.7.3 Step 3: The True-Up Clearances for WCA shall be the lower of: (i) the WCA Clearance Difference; or the (ii) WCA Eligible Clearances.

20.7.4 Step 4: The True-Up Clearance Delivery Payment for WCA shall be calculated as = (the True-Up Clearances for WCA calculated from Step 3 x the fixed unit cost of £150.00 per Clearance) minus the Clearance Delivery Payments already paid to the Supplier during the Service Period. If the result is positive, the Authority shall pay such amount of Clearance Delivery Payments to the Supplier. If the result is negative, the Authority shall be entitled to reclaim the over payment of Clearance Delivery Payments from the Supplier in future Service Period(s).

20.8 If the Actual Cumulative Volume Clearances for WCA or PIP at the end of the Service Delivery Year are less than the Annual Volume Clearance Target for WCA or PIP (as applicable), then the Supplier shall forfeit all of the withheld Clearance Delivery Payments, and the Authority shall be entitled to reclaim any Clearance Delivery Payments made to the Supplier in relation to WCA during such Service Delivery Year.

**Example 1**

Clearance Delivery Payments were paid in the Service Periods of the Service Delivery Year because Actual Cumulative Volume Clearances were achieved in the applicable Service Periods.

Further Clearance Delivery Payments were withheld due to WCA Actual Cumulative Volume Clearances being below the WCA Cumulative Volume Clearance Target.

2,125 additional Clearances failed to meet the quality requirements set out in Paragraph 19.2.2.

At True-Up, the PIP Eligible Clearances is lower than the PIP Clearance Difference, and the WCA Actual Cumulative Volume Clearances is equal to the WCA Annual Volume Clearance Target, so the Clearance Delivery Payments become payable, minus the CDP already paid during the Service Delivery Year.

If the minimum performance for the Performance Level TPL1a or TPL1d (as the case may be) is not achieved, then no Clearance Delivery Payment will be made. This is reflected in the note on the example below.

Line item	Clearances	£ Value
CDP unit cost		£150
PIP Actual Cumulative Volume Clearances	280,500	
PIP Annual Volume Clearance Target	255,000	
<b>PIP Clearance Difference</b>	<b>25,500</b>	
WCA Actual Cumulative Volume Clearances	400,000	
WCA Annual Volume Clearance Target	400,000	
<b>WCA Clearance Difference</b>	<b>0</b>	
CDP paid on PIP Clearances in Service Period	6,375	£956,250
CDP withheld on PIP Clearances in Service Period	17,000	£2,550,000
<b>PIP Eligible Clearances</b>	<b>23,375</b>	<b>£3,506,250</b>
<i>Note: CDP Clearances lost due to quality failure</i>	<i>2,125</i>	<i>£318,750</i>
PIP True-Up Clearances Lower of PIP Clearance Difference or PIP Eligible Clearance	23,375	£3,506,250
Less CDP for PIP paid in Service Periods	-6,375	-£956,250
True-Up CDP for PIP	17,000	£2,550,000

**Example 2**

Clearance Delivery Payments were paid in the early Service Periods of the Service Delivery Year because Actual Cumulative Volume Clearances were achieved in the applicable Service Periods.

Further Clearance Delivery Payments were withheld due to WCA Actual Cumulative Volume Clearances being below the WCA Cumulative Volume Clearance Target.

The quality requirement set out in Paragraph 19.2.2. was achieved for all additional Clearances.

In later Service Periods of the Service Delivery Year, PIP Actual Monthly Volume Clearances were below the PIP Monthly Volume Clearance Target and therefore not all of the withheld Clearance Delivery Payments could be released.

Line item	Clearances	£ Value
CDP unit cost		£150
PIP Actual Cumulative Volume Clearances	267,750	
PIP Annual Volume Clearance Target	255,000	
<b>PIP Clearance Difference</b>	<b>12,750</b>	
WCA Actual Cumulative Volume Clearances	400,000	
WCA Annual Volume Clearance Target	400,000	
<b>WCA Clearance Difference</b>	<b>0</b>	
CDP paid on PIP Clearances in Service Period	6,375	£956,250
CDP withheld on PIP Clearances in Service Period	8,500	£1,275,000
<b>PIP Eligible Clearances</b>	<b>14,875</b>	<b>£2,231,250</b>
<i>Note: CDP Clearances lost due to quality failure</i>	0	£0
PIP True-Up Clearances Lower of PIP Clearance Difference or PIP Eligible Clearance	12,750	£1,912,500
Less CDP paid in Service Periods	-6,375	-£956,250
True-Up CDP payment for PIP	6,375	£956,250

**Example 3**

Clearance Delivery Payments were paid in the early Service Periods of the Service Delivery Year because Actual Cumulative Volume Clearances were achieved in the applicable Service Periods.

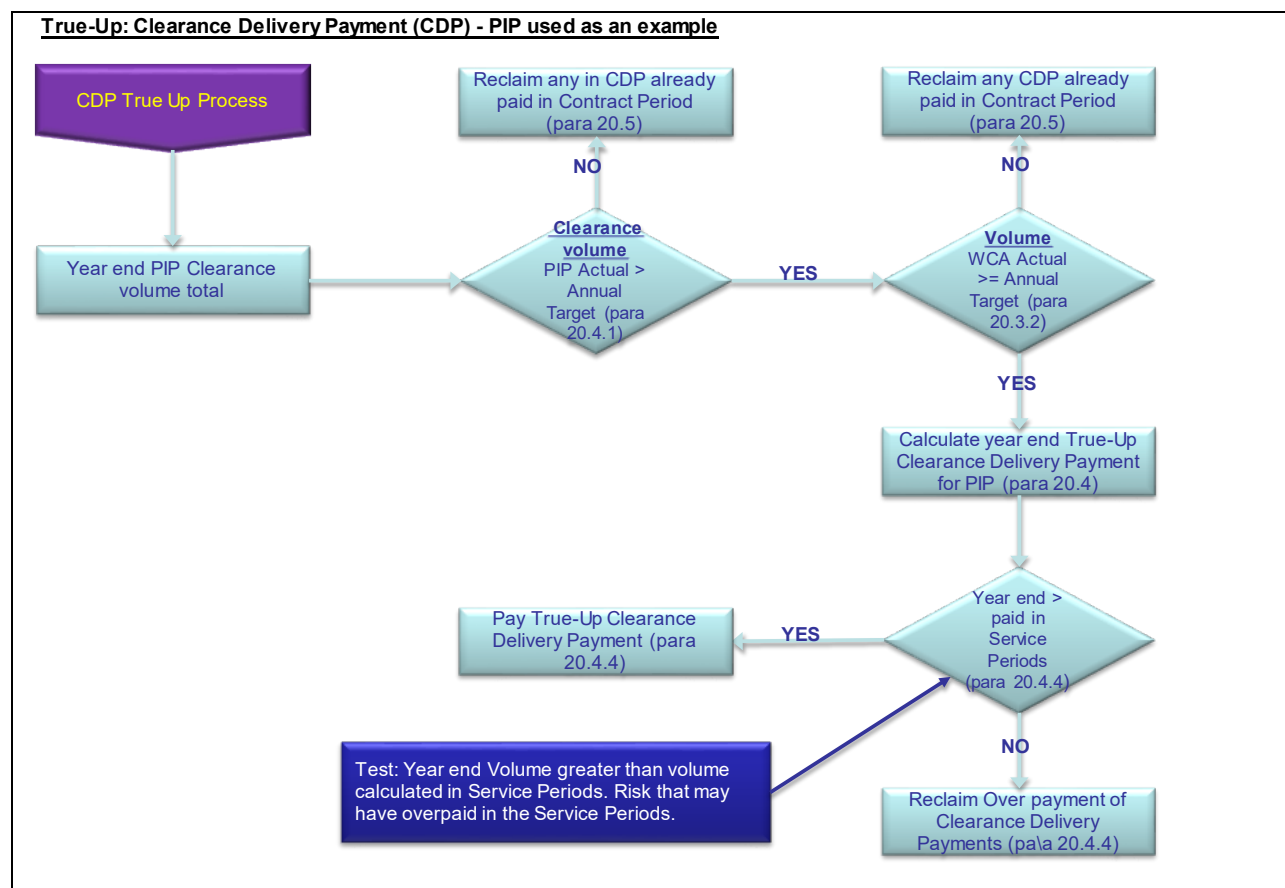
Further Clearance Delivery Payments were withheld due to WCA Actual Cumulative Volume Clearances being below the WCA Cumulative Volume Clearance Target.

The quality requirement set out in Paragraph 19.2.2. was achieved for all additional Clearances.

By the end of the Service Delivery Year, the WCA Actual Cumulative Volume Clearances was below the WCA Annual Volume Clearance Target.

Line Item	Clearances	£ Value
CDP unit cost		£150
PIP Actual Cumulative Volume Clearances	267,750	
PIP Annual Volume Clearance Target	255,000	
<b>PIP Clearance Difference</b>	<b>12,750</b>	
WCA Actual Cumulative Volume Clearances	395,000	
WCA Annual Volume Clearance Target	400,000	
<b>WCA Clearance Difference</b>	<b>-5,000</b>	
CDP paid on PIP Clearances in Service Periods	6,375	£956,250
CDP withheld on PIP Clearances in Service Period	8,500	£1,275,000
<b>PIP Eligible Clearances</b>	<b>0</b>	<b>£0</b>
<p>PIP has achieved the Cumulative Volume Clearance Target in the Service Periods of the Service Delivery Year and the Supplier has been paid the respective Clearance Delivery Payments in these Service Periods of the Service Delivery Year for 6,375 PIP Clearances (the PIP Clearance Difference) (£956,250).</p> <p>However, at True-Up WCA Actual Cumulative Volume Clearances for the Service Delivery Year is below the WCA Annual Volume Clearance Target for the Service Delivery Year.</p> <p>Therefore, the PIP CDP made in the Service Periods of the Service Delivery Year become repayable to the Authority.</p>		
PIP True-Up Clearances Lower of PIP Clearance Difference or PIP Eligible Clearance	0	£0
Less CDP paid in Service Periods	-6,375	-£956,250
True-Up CDP reclaimed in relation to PIP	-6,375	-£956,250

True-Up: Clearance Delivery Payment (CDP) – PIP used as an example



## **21. SPECIALIST BENEFIT PERFORMANCE CREDITS**

- 21.1 Where, in any Measurement Period, the Supplier fails to achieve the Target Performance Level applicable to any one or more of the Specialist Benefit Performance Levels as identified in Paragraph 2.2 of Schedule 2.2 (*Performance Levels*), the Authority shall be entitled to deduct from the Supplier an amount of £15,000 in respect of the Supplier's performance against the Specialist Benefit Performance Levels in that Measurement Period (a "**Specialist Benefit Performance Credit**"), such Specialist Benefit Performance Credit to be applied to the next available invoice payment to the Supplier.
- 21.2 The maximum amount that the Authority shall be entitled to apply in respect of Specialist Benefit Performance Credits arising in relation to any 1 Measurement Period shall be limited to £15,000.

## **22. TARGET COST REVIEW**

- 22.1 Without prejudice to Schedule 8.2 (*Change Control Procedure*), the provisions of this Paragraph 22 shall apply to the pricing of any Contract Change (or proposed Contract Change) and the calculation of any change to the Charges consequent upon a Contract Change (or any such change to the Charges that may result if a proposed Contract Change is agreed).
- 22.2 The Parties acknowledge that a Contract Change may have an impact on the Charges in one or both of the following ways:
- 22.2.1 the Contract Change may generate a one-off Cost or one-off saving, in which case Paragraph 22.4 shall apply; and/or
  - 22.2.2 the Contract Change may generate a change to the operational process used in the provision of the Services, leading to a change to the Target Costs on which the Charges are based, in which case Paragraph 22.5 shall apply.
- 22.3 If either (or both) of the cases referred to in Paragraphs 22.2.1 and 22.2.2 above is likely to arise, the Supplier shall use the Authority's finance templates including the Contract Cost Register and Supplier Cost Report or any other template as prescribed by the Authority and submit these with the Contract Change form (as set out in Annex 1 of Schedule 8.2 (*Change Control Procedure*)) to demonstrate and justify any claim for additional or reduced Charges and/or proposed revisions to the Target Costs on which the Charges are based arising as a result of any proposed Contract Change. Such submission shall be at the Supplier's own cost and shall:
- 22.3.1 be based on and reflect the principles of the Contract Cost Register;
  - 22.3.2 include estimated volumes of each type of resource to be employed;
  - 22.3.3 include full disclosure of any assumptions underlying such quotation; and
  - 22.3.4 include evidence of the Cost of any assets required for the Contract Change as to be determined on a case by case basis.

For the avoidance of doubt, if the Supplier either instructs existing staff (including any staff deployed in the provision of the Services) or appoints an external organisation to carry out the Target Cost Review, the Authority will not be liable for any costs relating to this activity of carrying out the Target Cost Review.

22.4 Where Paragraph 22.2.1 applies:

- 22.4.1 the Supplier shall be paid in full (or, as the case may be, the Authority shall be reimbursed) upon completion of the Change, or by an agreed schedule of staged payments (both payment options subject to meeting specified acceptance criteria agreed at the outset); and
- 22.4.2 the Supplier shall raise a separate invoice or credit note (or, as the case may be, the Authority shall issue a separate purchase order) in respect of the one-off Cost or saving.

22.5 Where Paragraph 22.2.2 applies:

- 22.5.1 any agreed changes to the Charges shall be effected by amending the Target Costs and the Payment Model Construct will be updated accordingly;
- 22.5.2 all Changes made in accordance with this Paragraph 22.5 will be implemented in accordance with any timescales agreed between the Parties, which will be no later than 2 months from the Change (except for: (i) Channel Mix Changes, HAS Changes and Volume Pivots, which shall be implemented in accordance with any time scales agreed as part of the Specialised Change Control Procedure set out in Paragraph 10 of Schedule 8.2 (*Change Control Procedure*), and (ii) the adjustment to the Target Cost which shall be adjusted in accordance with Paragraph 22.5.3) and such implementation shall not await the applicable Price Adjustment Effective Date;
- 22.5.3 except as authorised in accordance with Paragraph 22.5.7.2, such adjustment to Target Costs shall not be made more than once a quarter. The effective date of any such adjustment to Target Costs ("**Price Adjustment Effective Date**") shall be on the first day of each quarter (relevant to the dates of the Service Delivery Year) immediately following implementation of the Contract Change in question. If there are several adjustments in one quarter, these will be aggregated to make one adjustment at the start of the next quarter;
- 22.5.4 adjustments to Target Cost will exclude consideration of Target Fee Percentage Mark-Up, which shall remain constant throughout the Term. Any adjustments to Target Cost will apply the Target Fee Percentage Mark-Up as at the Effective Date in order to arrive at the monetary value of the Target Fee as a result of the adjustment;
- 22.5.5 adjustment to Target Cost will also take into account Risk Premiums associated with the period upon which the review is taking place, and whether risks have been realised in whole or in part, to identify impact on Target Cost;
- 22.5.6 the Authority shall provide the Supplier a revised Part 2 of Annex 1 on each Price Adjustment Effective Date; and
- 22.5.7 if a Change is implemented and there is a demonstrable financial loss to a Party due to the relevant Target Costs not being adjusted until the Price Adjustment Effective Date (the first day of the next quarter), then either Party shall be entitled to seek recovery of the amount due in the following manner:
  - 22.5.7.1 if the Supplier suffers demonstrable financial loss, it should submit a separate invoice and provide supporting documentation to back up the amount invoiced; or



22.5.7.2 if the Authority suffers demonstrable financial loss, it should issue a credit note request and supporting documentation, and

any request to seek recovery of such an amount must be submitted within 3 months of the Price Adjustment Effective Date. For the avoidance of doubt, any invoices and/or credit notes raised in accordance with this Paragraph 22.5.7 shall be raised and validated in accordance with Parts B and C.

- 22.6 In relation to the introduction of any optional HAS Services, Channel Mix Change and any optional Contingency Services, the Parties shall follow the principles set out in Paragraph 22.5 (unless stated otherwise) for the purposes of determining the calculation of the applicable Charges.

### **23. RISK PREMIUM REVIEW**

- 23.1 The Parties shall follow the Risk Premium Review process set out in this Paragraph 23 where the Supplier wishes to claim payment for a Risk Premium where such corresponding risk as set out in the Contract Cost Register materialises. The Contract Cost Register sets out the Risk Premiums available in each Service Delivery Year.
- 23.2 The detailed process for a Risk Premium Review is subject to further confirmation between the Parties as part of implementation activities and shall reflect the steps and principles set out in this Paragraph 23. If the Authority does not agree that a Risk Premium is payable, the issue be referred as a Dispute to the Dispute Resolution Procedure.
- 23.3 A Risk Premium will not be payable until a risk has been validated by the Authority as having crystallised, following consideration of the trigger evidence at the review, as detailed further in Paragraph 23.4.
- 23.4 The Supplier or the Authority can request a Risk Premium Review takes place to consider the payment of one or more identified Risk Premiums. The Supplier will provide to the Authority Risk Premium trigger evidence detailing:
- 23.4.1 the risk that has materialised and the impact of that risk on the Supplier; and
  - 23.4.2 evidence to demonstrate the Cost impact of the materialised risk(s),
- and the Authority will then review such evidence and notify the Supplier within 30 Working Days of receiving the trigger evidence as to whether it agrees a risk for which the Risk Premium was payable has crystallised. The Authority may request, and the Supplier shall provide any additional evidence required by the Authority for review of the Risk Premium.
- 23.5 The Supplier or the Authority can request a Risk Premium Review against any and all risks identified in the Contract Cost Register. No risk outside of these can be considered as part of a Risk Premium Review. A Risk Premium Review would form part of the Agreement management activity between the Parties. The outcome of a Risk Premium Review would be considered by appropriate governance as detailed in Schedule 8.1 (*Governance*).
- 23.6 Subject to Paragraph 23.7, where a Risk Premium is approved for payment by the Authority in accordance with the validation process set out in Paragraph 23.4, this will form part of future monthly invoicing as detailed in Paragraph 35.3. Any Risk Premium set out in the Contract Cost Register is only recoverable once, and so once approved

and paid in accordance with this Paragraph 23.6, such corresponding risk and Risk Premium shall not be recovered again by the Supplier.

- 23.7 Risk Premium payments will be capped at the lower of: (i) the crystallised value of the risk item as evidenced by the Supplier in accordance with Paragraph 23.4; or (ii) the value of the Risk Premium input for that risk into the Contract Cost Register.
- 23.8 All Risk Premium values in the Contract Cost Register are limited to the Service Delivery Year for which they are forecasted in, and do not carry forward to a future Service Delivery Year. All unmaterialised Risk Premiums are void at end of the Service Delivery Year to which they relate.
- 23.9 Unclaimed Risk Premiums across all FAS Lot Suppliers from each Service Delivery Year may be incorporated into an innovation fund. All FAS Lot Suppliers will have the ability to bid for monies to support initiatives to improve Agreement delivery. Award of these funds is at the absolute discretion of the Authority.

#### **24. CLAIMANT EXPENSE SERVICES BEING PROVIDED BY THE SUPPLIER UNDER THIS AGREEMENT**

- 24.1 Notwithstanding any other provision in this Schedule 7.1, the Authority and the Supplier have agreed the provisions in this Paragraph 24 in relation to the Claimant expense services to be provided by the Supplier in accordance with Paragraph 12.56 of Schedule 2.1 (*Services Description*), being provided by the Supplier under this Agreement.
- 24.2 The Cost for the set up and ongoing management of the Supplier solution required by Paragraph 12.56(c) of Schedule 2.1 (*Services Description*) for the payment of Claimant expenses shall be added to relevant section of the Contract Cost Register.
- 24.3 For the Costs of Claimant expenses themselves, the Authority will reimburse the Supplier as a Pass-Through Cost for all expense claims paid to Claimants in accordance with Paragraphs 12.52 to 12.59 (inclusive) of Schedule 2.1 (*Services Description*).

#### **25. SERIOUS PERFORMANCE FAILURES**

- 25.1 Where, in any Service Period, a Serious Performance Failure occurs, then the Authority shall be entitled to raise a credit to be applied to the next available invoice payment or, if no further invoices are due to be raised by the Supplier, an invoice to account for such Serious Performance Failure deduction.
- 25.2 The amount that the Authority shall be entitled to deduct pursuant to Paragraph 25.1 in respect of Serious Performance Failures occurring in any Service Period shall be 6% of:
  - 25.2.1 Target Cost where the Target Cost and Actual Target Costs in the Service Period are equal;
  - 25.2.2 Actual Target Costs where the Actual Target Costs are lower than the Target Cost in the Service Period; or
  - 25.2.3 Actual Target Costs following the adjustments made by the Pain Share Mechanism in accordance with Paragraph 16, where the Actual Target Costs are higher than the Target Cost in the Service Period,

divided against the measures as further detailed in Paragraph 25.3.

25.3 The 6% deduction referred to in Paragraph 25.2 shall be divided as follows:

25.3.1 in respect of Serious Performance Failures occurring in relation to Performance Levels TPL1a, TPL1b, TPL1c, TPL1d and/or TPL1e, 2%;

25.3.2 in respect of Serious Performance Failures relating to the Monthly Volume Clearance Targets for PIP and WCA, 2%;

25.3.3 in respect of Serious Performance Failures occurring in relation to Performance Levels TPL4a, TPL5a, TPL3a, TPL3b, TPL2a, TPL2b and/or TPL2c, 1%; and

25.3.4 in respect of Serious Performance Failures occurring in relation to Performance Levels SB1(a), SB1(b), SB2(b), SB2(d), SB2(f), SB2(h), SB2(j) and/or SB2(p), 1%;

in each case, the Service Regression Failure Performance Level for each applicable Performance Level is referred to in the table in Paragraph 8.2 of Part A of Schedule 2.2 (*Performance Levels*), but subject always to the foregoing provisions of that Paragraph 8.2.

25.4 The deductions referenced in Paragraph 25.3, which can be applied independently and concurrently in a Service Period, are applied based on the following principles:

25.4.1 a deduction (the exact amount as calculated based on Paragraph 25.2) is applied to the invoice value in the first month following the month in which the Serious Performance Failure is formally recognised by the Authority and confirmed to the Supplier;

25.4.2 once a Serious Performance Failure has been reached, and the Authority has confirmed this to the Supplier, the rolling period for calculation of a Serious Performance Failure, as detailed in the table at Paragraph 8.2 of Schedule 2.2 (*Performance Levels*), ends. This is irrespective of the remaining Service Periods in the rolling period. The following worked examples A & B below this paragraph illustrate this position; and

25.4.3 should a rolling period end as a result of a Serious Performance Failure being reached, a new rolling period begins when the first of the three further (3) Service Regression Failure events occurs. For the avoidance of doubt this can be in any month following the end of a previous rolling period, including the Service Period where a Serious Performance Failure deduction has been applied. Worked example C below this paragraph illustrates this position.

**Worked Example A – Serious Performance Failure Illustration**

Month	Event	Serious Performance Failure handling
1	Failure to meet TPL1a Service Regression Failure Performance Level	First Service Regression Failure
2	Failure to meet TPL1c Service Regression Failure Performance Level	Second Service Regression Failure
3	Failure to meet TPL1e Service Regression Failure Performance Level	Third Service Regression Failure – end of rolling period
4	Serious Performance Failure cost impact applied against invoice costs as per Paragraph 25.2	2% deduction applied
5		Rolling period ended – no cost impact
6		Rolling period ended – no cost impact
7		Rolling period ended – no cost impact
8		Rolling period ended – no cost impact
9		Rolling period ended – no cost impact

**Worked Example B – Serious Performance Failure Illustration**

Month	Event	Serious Performance Failure handling
1	Failure to meet TPL1a Service Regression Failure Performance Level	First Service Regression Failure
2		
3		
4	Failure to meet TPL1c Service Regression Failure Performance Level	Second Service Regression Failure
5		
6		
7		
8		
9	Failure to meet TPL1e Service Regression Failure Performance Level	Third Service Regression Failure – end of rolling period
10	Serious Performance Failure cost impact applied against invoice costs as per Paragraph 25.2	2% deduction applied

**Worked Example C – Serious Performance Failure – Rolling Period Illustration**

Month	Event	Serious Performance Failure handling	Event	Serious Performance Failure handling
1	Failure to meet TPL1a Service Regression Failure	First Service Regression Failure		

OFFICIAL – COMMERCIAL

	Performance Level			
2	Failure to meet TPL1c Service Regression Failure Performance Level	Second Service Regression Failure		
3	Failure to meet TPL1e Service Regression Failure Performance Level	Third Service Regression Failure – end of rolling period		
4	Serious Performance Failure cost impact applied against invoice costs as per Paragraph 25.2	2% deduction applied	Failure to meet TPL1a Service Regression Failure Performance Level	First Service Regression Failure
5			Failure to meet TPL1c Service Regression Failure Performance Level	Second Service Regression Failure
6			Failure to meet TPL1e Service Regression Failure Performance Level	Third Service Regression Failure – end of rolling period
7			Serious Performance Failure cost impact applied against invoice costs as per Paragraph 25.2	2% deduction applied
8				
9				
10				

## **26. INFLATION**

26.1 Proposed inflationary changes can be discussed no more than annually, up to 3 months before the commencement of each Service Delivery Year, unless there are extenuating circumstances which require an additional review outside of the annual review process. Any agreed Changes shall go through the Target Cost Review process to enact the Change.

26.2 In the event that a requirement for an additional review is identified by either Party, a written request for a review must be submitted outlining the extenuating circumstances and an overview of the impact. The Parties will then agree an additional inflation review if appropriate, but the Authority shall have final say as to whether an additional review is granted.

26.3 The Authority will utilise a range of resources to inform discussion and negotiation regarding inflation which may include the use of appropriate indices. If the Parties cannot agree as to the appropriate value of inflation to apply, the Authority shall have sole discretion, acting reasonably, to determine the value of indexation.

26.4 Inflationary changes will only apply to the following Charges:

26.4.1 Target Cost

26.4.2 Clearance Delivery Payment

26.4.3 Rate Cards

26.4.4 Specialist Benefit Performance Credit.

26.5 The value of annual inflation determined in accordance with Paragraph 26.3 will be compounded with previous years, with the compounded inflation value applied to the following:

26.5.1 Target Cost based on the relevant Service Delivery Year from the Contract Cost Register; and

26.5.2 the contractual value as at the Effective Date of this Agreement for:

26.5.2.1 Clearance Delivery Payments;

26.5.2.2 Rate Card; and

26.5.2.3 Specialist Benefit Performance Credit.

An example of how inflationary Changes would be applied is provided in the table below (values are for illustrative purposes only):

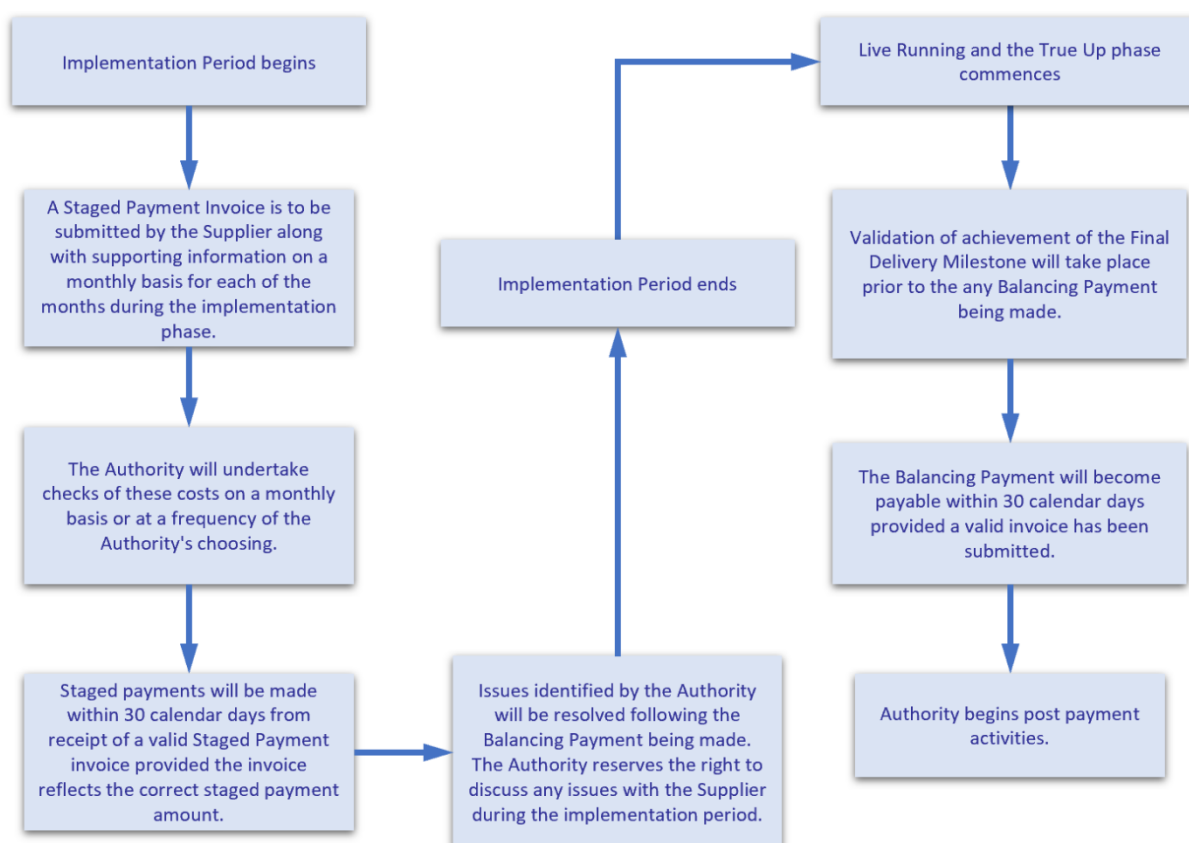
Inflation Example	Unit	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Target Cost Per BAFO CCR Excluding Inflation</b>						
Target Cost	£m	£100.0m	£100.0m	£100.0m	£100.0m	£100.0m
Target Fee @ 10% Mark Up	£m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m
<b>Evaluation Value</b>	<b>£m</b>	<b>£110.0m</b>	<b>£110.0m</b>	<b>£110.0m</b>	<b>£110.0m</b>	<b>£110.0m</b>
<b>Inflation Calculation</b>						
Annual Inflation	%	5.0%	5.0%	5.0%	5.0%	5.0%
Compound Inflation	%	5.0%	10.3%	15.8%	21.6%	27.6%
Target Cost Inflation	£m	£5.0m	£10.3m	£15.8m	£21.6m	£27.6m
<b>Target Cost Including Inflation</b>						
Target Cost	£m	£105.0m	£110.3m	£115.8m	£121.6m	£127.6m
Target Fee @ 10% Mark Up	£m	£10.5m	£11.0m	£11.6m	£12.2m	£12.8m
<b>Evaluation Value</b>	<b>£m</b>	<b>£115.5m</b>	<b>£121.3m</b>	<b>£127.3m</b>	<b>£133.7m</b>	<b>£140.4m</b>

**PART B: IMPLEMENTATION PERIOD INVOICING AND VALIDATION****27. OVERVIEW OF IMPLEMENTATION PERIOD**

- 27.1 Staged Payments are not contingent on Achieving set Milestones, but the Authority will monitor the Supplier's progress against the Milestones and, in accordance with Paragraph 28.2, monitor the Supplier's spend throughout the Implementation Period. An example of this process flow is detailed in Annex 6.
- 27.2 The Balancing Payment will be paid to the Supplier in accordance with Paragraph 29 once the Final Delivery Milestone has been validated and it has been given the Final Delivery Milestone Achievement Certificate. An example of this process flow is detailed in Annex 6.

The diagram below sets out an overview of the payment process for the Staged Payments and Balancing Payments:

## Staged and Balancing Payment Overview

**28. STAGED PAYMENTS****Invoice**

- 28.1 The Supplier shall submit to the Authority separate invoices for payment in respect of each Staged Payment. Each Staged Payment invoice must comply with the requirements in Paragraph 37.3.

## **Monitoring**

- 28.2 The Supplier shall provide records of their Actual Implementation Plan Costs to the Authority each month during the Implementation Period. The Authority will review the Actual Implementation Plan Costs monthly in accordance with Paragraph 28.4, unless the Authority decides in its sole discretion to amend the frequency of any Pre-Payment Validation checks. Any issues identified by the Authority with the Actual Implementation Plan Costs will be resolved after the Authority has paid the Balancing Payment but may be discussed with the Supplier in advance of paying the Balancing Payment.
- 28.3 On a monthly basis, the Supplier shall provide the Authority with the supporting information which shall include the information detailed in Paragraph 38.2. For the avoidance of doubt, where the Authority requests additional information, the Supplier shall provide such information in accordance with any timescales specified by the Authority. The Authority shall act reasonably when requesting further information.

## **Pre-Payment Validation**

- 28.4 The Authority may undertake Pre-Payment Validation of the Staged Payments invoices in accordance with the procedure set out in Paragraph 38. Such checks will be made to see if payments are in line with forecast figures as set out in Part 1 of Annex 1. The Authority may bring its findings to the Supplier's attention. The Authority will only act on its findings (e.g. to recover overpayments) after payment of the Balancing Payment and once it has completed Post-Payment Validation.

## **Payment**

- 28.5 Staged Payments shall be made by the Authority to the Supplier within 30 calendar days from receipt of a valid Staged Payment invoice provided the invoice reflects the correct Staged Payment amounts. The Staged Payments shall be made monthly in arrears in accordance with a purchase order issued by the Authority. For Lot 5 (Northern Ireland), Staged Payments will be made by Account NI on behalf of the Authority.

## **Post-Payment Validation**

- 28.6 The Authority will undertake: (i) internal validation of the Supplier's achievement of Milestones to ensure the corresponding Deliverable has been achieved; and (ii) and Post-Payment Validation of the Staged Payment invoices provided in accordance with Paragraph 28.5, throughout the Implementation Period on a monthly basis, unless the Authority decides in its sole discretion to amend the frequency of such validation processes. This shall be in addition to the Post-Payment Validation exercise at the end of the Implementation Period relating to the Balancing Payment. The Authority will act on its findings only at the end of the Implementation Period. Post-Payment Validation shall be carried out following the process set out in Paragraph 42 against the same Cost Categories as set out in Table 1 under Paragraph 42.11.1 of Part C with the addition of the Cost Categories TUPE and project management. These additional Cost Categories for use during the Implementation Period are outlined in Table 1 under Paragraph 29.8 of this Part B.

## **29. BALANCING PAYMENT**

- 29.1 After the Operational Service Commencement Date, the Authority will review and validate the Supplier's achievement of the Final Delivery Milestone and issue the Final



Delivery Milestone Achievement Certificate in accordance with Paragraph 5.6. This will be completed before payment of the Balancing Payment.

- 29.2 The Supplier shall receive the Balancing Payment if it satisfies the criteria set out in Paragraph 5.6. If the Supplier has not Achieved any Milestone, including in terms of quality, cost or completeness, this must be rectified in accordance with Paragraph 5.7 before the Authority will authorise payment of the Balancing Payment.

#### **Balancing Payment invoice**

- 29.3 The Supplier will submit a valid invoice to the Authority no later than the timeframe set out in Paragraph 5.10.2 for the Balancing Payment following the issue of the Final Delivery Milestone Achievement Certificate. A valid Balancing Payment invoice will comply with the requirements in Paragraph 37.3. The Balancing Payment shall be made by the Authority to the Supplier within 30 calendar days from receipt of the valid Balancing Payment invoice provided the invoice reflects the correct amount. For Lot 5 (Northern Ireland), the Balancing Payment will be made by Account NI on behalf of the Authority.

#### **Pre-Payment Validation of Balancing Payment invoice**

- 29.4 The Authority may undertake Pre-Payment Validation of the Balancing Payment invoice in accordance with Paragraph 38.

#### **Post-Payment Validation of Balancing Payment invoice**

- 29.5 Following payment of the Balancing Payment and as soon as reasonably practicable, the Authority shall undertake Post-Payment Validation of the Balancing Payment invoice. in accordance with Paragraph 42.
- 29.6 The Parties shall work together to complete Post-Payment Validation as efficiently as possible.
- 29.7 Once Post-Payment Validation is completed, if any remedial action is required, the Supplier will promptly issue a subsequent invoice or credit note as appropriate.
- 29.8 For the purposes of the Cost Categories for Post-Payment Validation, Costs will be grouped into the Cost Categories detailed in Table 1 under Paragraph 42.11.1 of Part C, with the additional element to cover TUPE and project Management Costs as detailed below, in Table 1 under this Paragraph 29.8. Both TUPE and project Management Cost Categories are for use during the Implementation Period only.

**Table 1 – Implementation period only**

<b>Cost Cat.</b>	<b>Cost Category Name</b>	<b>Validation Method</b>	<b>Frequency</b>
I.P1	TUPE	Sample and extrapolate model <i>The Authority will request invoices and itemised backing data on live screen-sharing calls.</i>	Monthly
I.P2	Project management	Sample and extrapolate model <i>The Authority will request invoices and itemised backing data on live screen-sharing calls.</i>	Monthly

## **PART C: LIVE RUNNING INVOICING AND VALIDATION**

### **30. OVERVIEW OF THE PAYMENT CATEGORIES FOR INVOICING**

- 30.1 Paragraphs 31 to 35 (inclusive) provide an overview of the timing of payment for the different types of Charges. Paragraph 36 onwards outlines the invoicing and validation process.

### **31. TARGET COST**

- 31.1 For Actual Target Cost invoices, the Authority shall make payments to the Supplier in line with the relevant Service Period in arrears for Services provided by the Supplier. Each Target Cost invoice shall be submitted on the 7<sup>th</sup> Working Day of each month accompanied by the Supplier Cost Report.

### **32. TARGET FEE**

- 32.1 The Payable Target Fee will be paid following validation of the Supplier's performance against Performance Levels and volumes of Clearances delivered in accordance with Paragraphs 12 and 13. This Payable Target Fee will be processed by means of an invoice based on the indicative performance as at Working Day 5 (using actual data for achievement against Performance Levels where obtained, and forecast data where the achievement against Performance Levels is unavailable at that time), which shall be paid within 30 calendar days of receipt of a valid invoice.
- 32.2 A Post-Payment Validation will take place as soon as reasonably practicable in the Service Period following payment of the Payable Target Fee invoice, however the Authority reserves the right to delay this activity to ensure accuracy of the Post-Payment Validation process if details of the Supplier's actual performance as against any applicable Performance Level are still unavailable and/or actual number of Clearances achieved changes as a result of an audit carried out in accordance with Paragraphs 9 and 10 of Schedule 2.2 (*Performance Levels*) is still to be confirmed. In any event, such Post-Payment Validation shall be completed no later than 4 months following payment of each invoice. Following this Post-Payment Validation, any variance in the Supplier's actual performance as against the Performance Levels and/or the number of Clearances achieved from that used as the basis for determining the Payable Target Fee for the Service Period in question shall be taken into account and the amount of such Payable Target Fee shall be reconciled in accordance with Paragraph 42.3.

### **33. PASS-THROUGH COSTS**

- 33.1 For Pass-Through Cost invoices, the Authority shall make payments to the Supplier in line with the relevant Service Period in arrears for Services provided by the Supplier.

### **34. RATE CARD**

- 34.1 The Supplier will submit to the Authority an invoice with supporting evidence including, but not limited to, the number of days claimed, the pre-agreed Costs as agreed in accordance with Paragraph 10.1, the rate charged for each staff member and the timesheets for each member of staff.
- 34.2 The Authority will complete Pre-Payment Validation of the number of days claimed by the Supplier against the pre-agreed Costs, assuring that the rate time charged does not exceed that shown on the agreed Rate Card as set out in Part 4 of Annex 1.

- 34.3 The Parties shall work together promptly and in good faith to resolve any disputed items and amounts in relation to any additional resource Costs and shall refer any unresolved items and amounts as a Dispute to the Dispute Resolution Procedure where necessary. An example of this process flow is detailed in Annex 6.

### **35. RISK PREMIUM**

- 35.1 The Authority will complete the Risk Premium review process in accordance with Paragraph 23.
- 35.2 The Parties shall work together promptly and in good faith to resolve the disputed items and amounts in relation to Risk Premiums and shall refer any unresolved items and amounts as a Dispute to the Dispute Resolution Procedure where necessary.
- 35.3 Once a Risk Premium has been reviewed and validated by the Authority in accordance with Paragraph 23.4, the Supplier will submit an invoice to the Authority in accordance with Paragraph 36, for the amount of the agreed Risk Premium payment, along with the approved Risk Premium documentation supplied by the Authority in accordance with Paragraph 23.4.
- 35.4 Once the invoice has been submitted in accordance with Paragraph 35.3, the Authority may carry out pre-payment checks of the Risk Premium invoices to verify that the amounts match the agreed Risk Premium payments. The timescales for such checks will depend on the nature of the request from the Supplier and the evidence provided for consideration. An example of this process flow is detailed in Annex 6.

### **36. PAYMENT OF INVOICES**

- 36.1 The Supplier shall provide separate invoices for payments in respect of all the Charges (e.g., Target Cost, Pass-Through Cost, Target Fee, Risk Premium and Rate Card).
- 36.2 Payment shall be made by the Authority to the Supplier, in the lawful currency of the United Kingdom, within 30 calendar days from receipt of a valid invoice. The Supplier shall invoice the Authority for the Charges that are payable in accordance with the terms of this Agreement. For Lot 5 (Northern Ireland), payments will be made by Account NI on behalf of the Authority.
- 36.3 The following accounting procedures shall be followed in relation to each invoice:
- 36.3.1 a Finance Director (or authorised delegate) duly authorised by the Supplier must certify that the amounts claimed in each invoice are attributable wholly and exclusively to the Services relating to the Agreement and wholly represent net Charges;
- 36.3.2 it will be the Supplier's responsibility to maintain records of Costs and supporting documentation (including in relation to any Affiliates or Sub-contractors), which the Supplier shall arrange an external audit of twice annually, the results of which will be available for inspection by the Authority. The Supplier will be responsible for all costs incurred by the Supplier in relation to such audits. For the avoidance of doubt, the audits referred to in this Paragraph 36.3.2 are required to provide assurance that the Supplier is representing their financial position fairly and accurately and in accordance with accounting standards and are distinct and separate from the audits which may be carried out by the Authority under Schedule 7.5 (*Financial Reports*). If the audit identifies that:

## OFFICIAL – COMMERCIAL

36.3.2.1 the Authority has overpaid Charges, the Supplier shall pay to the Authority:

- 36.3.2.1.1 the amount overpaid;
- 36.3.2.1.2 interest on the amount overpaid at the applicable rate under the Late Payment of Commercial Debts (Interest) Act 1998, accruing on a daily basis from the date of overpayment by the Authority up to the date of repayment by the Supplier; and
- 36.3.2.1.3 the reasonable costs incurred by the Authority in undertaking the audit, and

the Authority may exercise its right to deduct such amount from the Charges if it prefers; or

36.3.2.2 the Authority has underpaid any Charges, the Supplier shall not be entitled to increase the Charges paid or payable by the Authority; and

36.3.3 the Supplier shall maintain up to date management and financial information relating to the Agreement in accordance with the requirements set out in Paragraph 8.4 (*Management Information and Records Provisions*).

### **37. INVOICING PROCESS**

37.1 The Authority shall (unless otherwise notified to the Supplier) issue separate purchase orders to the Supplier for all the Charges using the Authority's electronic purchasing system. The attachments included below refer to the electronic purchasing systems which may be used. Such purchase orders shall be issued by the Authority within a reasonable time to enable the Supplier to submit the invoices which are covered by the purchase orders using the Authority's standard purchase to pay processes.

[REDACTED]

37.2 Upon receipt of a valid purchase order from the Authority (which shall be issued in accordance with Paragraph 37.1), the Supplier shall be entitled to invoice the Authority:

37.2.1 for all invoices (excluding the Target fee and Clearance Delivery Payment), within 7 Working Days of the end of each calendar month or Service Period (as applicable); and

37.2.2 for the Target Fee and Clearance Delivery Payment, from 12 Working days of the end of each calendar month or Service Period (as applicable).

All invoices shall be clearly addressed to the Authority's relevant department and be in accordance with the Purchase Order currently in force and with any instructions provided by the Authority (or as may be notified to the Supplier from time to time). The Supplier shall provide to the Authority an invoice in a form and manner notified to the Supplier by the Authority which complies with the invoicing requirements set out in Paragraph 37.3, together with such other information as the Authority may reasonably require to assess whether the Charges that will be detailed therein are properly payable. The Supplier shall provide any further information reasonably requested by the Authority to enable the Authority to undertake Pre-Payment Validation of the invoice, with such information to be provided at no additional cost to the Authority

- 37.3 The Supplier shall ensure each of the above invoices is in a form which is aligned with, and which provides sufficient information for, and is fully compliant with the procedural requirements for input into the Authority's electronic purchasing system and contains as a minimum (and where permitted by the Authority's electronic purchasing system) the following:
- 37.3.1 the date of the invoice;
  - 37.3.2 a unique invoice number;
  - 37.3.3 the Service Period or Staged Payment period or other period(s) to which the relevant Charge(s) relate;
  - 37.3.4 the correct reference for this Agreement;
  - 37.3.5 the reference number of the purchase order (as issued by the Authority) to which it relates including the amount and time period to which it relates;
  - 37.3.6 the dates between which the Service lines that the Charges apply;
  - 37.3.7 a description of the Service to which the invoice relates and that has been satisfactorily delivered in accordance with the Agreement;
  - 37.3.8 the total Charges gross and net of any applicable deductions and separately, any VAT or other sales tax payable in respect of each of the same along with the prevailing rate of such taxes;
  - 37.3.9 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); and
  - 37.3.10 a contact name and telephone number of a responsible person in the Supplier's finance department in the event of administrative queries.
- 37.4 Elements of the invoice will be paid on a provisional basis and may then be adjusted (positively or negatively) when details of the Supplier's actual performance as against the applicable Performance Levels become known and the number of Clearances achieved by the Supplier are finally determined. In such circumstances, the Post-Payment Validation procedure set out in Paragraph 42.3 shall apply.

### **38. PRE-PAYMENT VALIDATION OF INVOICES**

- 38.1 The Authority reserves the right to undertake pre-payment validation, as detailed in Paragraphs 38.2 to 38.8 (inclusive), of invoices and subsequently to recover any sums which have been overpaid by the Authority to the Supplier ("**Pre-Payment Validation**"). An example of the Pre-Payment Validation sequencing is included in the guidance at Paragraph 38.9, which may be updated unilaterally by the Authority from time to time. An example of this process flow is detailed in Annex 6.
- 38.2 At the end of each Service Period (or month of the Implementation Period if applicable), from 12 Working Days for the Target Fee and Clearance Delivery Payment and within 7 Working Days for all other Charges, the Supplier shall provide the Authority with supporting information, including but not limited to; a valid invoice (as detailed in Paragraph 37.3), a Supplier Cost Report (an example of which can be found at Paragraph 40.6), a Trial Balance (an example of which can be found at

Paragraph 42.6) and Transactional Data (an example of which can be found at Paragraph 42.6). The Supplier shall at all times ensure that the supporting documentation provides sufficiently detailed information (in accordance with the transparency provisions set out in Schedule 7.5 (*Financial Reports*)) to enable the Authority to accurately and comprehensively verify the invoice and payment. Information should be presented in a format prescribed by the Authority. The Authority has the right to amend the format and type of documentation required of the Supplier to support the processes detailed in this Schedule 7.1. Changes will not be unreasonably made without prior consultation. Any notification to the Supplier by the Authority as to what constitutes supporting documentation shall not be exhaustive and the Supplier undertakes to promptly provide to the Authority any other documentation reasonably required by the Authority from time to time to substantiate an invoice.

- 38.3 The Authority shall endeavour to check that the invoice submitted is valid within 5 Working Days from receipt from the Supplier and shall either approve or reject the submitted invoice. Where the submitted invoice is approved, the Authority shall notify the Supplier. The Authority shall regard an invoice as valid only if it complies with the provisions of this Schedule 7.1. Where an invoice does not conform to the Authority's requirements set out in Paragraph 37.3, the Authority shall return the disputed invoice to the Supplier (using the Authority's electronic portal) within no more than 7 Working Days from the point the Authority received the invoice. The Supplier shall issue a replacement invoice within 5 Working Days of such return, which shall comply with such requirements. The Authority shall not be liable to pay an invoice that is not valid. The Authority reserves the right to revisit approved invoices in the Post-Payment Validation process as set out in Paragraph 42. The Authority shall endeavour to complete the Pre-Payment Validation procedure for all types of Charges that an invoice and supporting evidence has been submitted for within 30 calendar days of receipt of a valid invoice.
- 38.4 Where the invoice is rejected by the Authority, the Authority shall notify the Supplier of the disputed items and amounts. The Parties shall work together promptly and in good faith to resolve the disputed items and amounts and shall refer any unresolved items and amounts as a Dispute to the Dispute Resolution Procedure where necessary. The Supplier shall promptly re-submit the invoice but excluding the disputed items and amounts within 2 Working Days of the disputed invoice being returned to the Supplier. The Supplier shall be entitled to submit a further invoice within 10 Working Days from the date when the Dispute is resolved in relation to any items and amounts which were the subject of a Dispute and which the Parties subsequently agree to be properly due to the Supplier.
- 38.5 If any invoice rendered by the Supplier is paid but any part of it is disputed or subject to question by the Authority and such part is subsequently agreed or determined not to have been properly payable, then the Supplier shall promptly repay such part to the Authority via a separate credit note within 30 calendar days of such agreement or determination, or if no further invoices are due, the Authority shall be entitled to raise an invoice to the Supplier for such amount.
- 38.6 If any part of an invoice rendered by the Supplier is disputed or subject to question by the Authority either before or after payment then the Authority may call for the Supplier to provide such further supporting documentation and evidence as it may reasonably require to verify its liability to pay the amount which is disputed or subject to question and the Supplier shall promptly provide such evidence in a form prescribed by the Authority, within 10 Working Days of the identification of the Dispute.
- 38.7 Each invoice shall at all times follow the accounting procedure set out in Paragraph 36.3 and be accompanied by the supporting evidence required in Paragraph 38.2.

38.8 Without prejudice to the provisions of Clauses 10.6 and 10.7 (*Set-off and Withholding*) and Paragraph 38.4, the Authority shall be entitled to deduct from sums due to the Supplier any amounts owed to it, or which are in Dispute or subject to question. If the Authority fails to pay the Supplier undisputed sums of money within 30 days from the receipt of a validly issued invoice the Supplier shall:

38.8.1 notify the Authority in writing of such failure to pay and provide details of the invoice concerned; and

38.8.2 allow the Authority to:

38.8.2.1 make prompt payment of such undisputed sums; or

38.8.2.2 provide details of the grounds for why the invoice is disputed.

38.9 [REDACTED]

### **39. FIXED ASSET REGISTER**

39.1 The Authority will require the Supplier to maintain a discrete Fixed Asset Register for the duration of the Agreement.

39.2 The purpose of the Fixed Asset Register is to allow the Authority, during the Term, to review the depreciation Costs being charged by the Supplier, to the Authority, for the implementation and running of the Agreement.

39.3 These reviews will:

39.3.1 allow the Authority to review all the non-current assets, tangible and intangible associated with the Agreement, the depreciation applied to these and the amortisation of any capitalised development Costs;

39.3.2 provide assurance to the Authority that the payments made under this Agreement are achieving value for money for the taxpayer and are in line with accounting officer principles, the principles of Managing Public Money and any other applicable government guidelines and regulations;

39.3.3 ensure that the Authority is not exposed to any reputational risk or damage; and

39.3.4 ensure the validity of all Costs charged by the Supplier and any Sub-contractors.

39.4 The Authority will also use the Fixed Asset Register to validate transaction flows and transactions resulting from capitalisation.

39.5 Within 7 Working Days of the end of the first Service Period or the end of the first month of the Implementation Period as the case may be (and quarterly thereafter) the Supplier will supply the Authority with the Fixed Asset Register in an Excel file format using a template to be designed and supplied by the Authority. An example of what the template may look like is shown below for illustrative purposes only.

39.6 [REDACTED]

#### **40. SUPPLIER COST REPORT**

40.1 Each Actual Target Cost invoice submitted on Working Day 7 of each Service Period by the Supplier during the Term will be accompanied by an updated version of the Supplier Cost Report using the template set out in Paragraph 40.6 and completed declaration sheet (as further described in Paragraph 40.3.6).

#### **Supplier certification of the monthly invoice and update to the Supplier Cost Report**

40.2 The updated Supplier Cost Report will provide a month-by-month view of the Costs incurred since the Implementation Services Commencement Date and the Costs forecast for the remaining Term.

40.3 Each update of the Supplier Cost Report shall:

40.3.1 be completed using all reasonable skill and care and using the same approach and methodology;

40.3.2 be completed on an accruals basis, making clear any accrued or pre-paid amounts, and in accordance with the Supplier's internal financial reporting;

40.3.3 incorporate and use the same defined terms as are used in this Agreement;

40.3.4 quote all monetary values in pounds sterling;

40.3.5 quote all Costs as exclusive of any VAT;

40.3.6 be certified (via the declaration sheet) by the Supplier's Finance Director (or equivalent if the Authority has provided written approval in advance), as being:

- a) accurate and not misleading;
- b) prepared in conformity with generally accepted accounting principles and standards within the UK; and
- c) a true and fair reflection of:
  - i. the information included within the Supplier's own internal financial reports with full and no false inclusion; and
  - ii. the Costs and revenue incurred and forecast by the Supplier in connection with this Agreement.

40.4 The Supplier shall ensure that the Supplier's finance representative shall be present at each meeting required by this Schedule 7.1 and where required in accordance with Schedule 8.1 (*Governance*). The Supplier shall also promptly provide any supplementary, additional or clarificatory information relating to the subject matter of the Supplier Cost Report upon written request from the Authority within any timescales specified by the Authority as part of such request.

40.5 The Supplier Cost Report template as at the Effective Date is embedded below. The Authority may update this template from time-to-time upon written notification to the Supplier. The Supplier will start using the updated Supplier Cost Report from the Service Period following receipt of the written notification from the Authority. For the avoidance of doubt, the Authority may add new line items or other new information requirements as part of any such updates.



## 40.6 [REDACTED]

**41. OPEN BOOK RIGHTS**

- 41.1 In accordance with Paragraph 2 of Part A of Schedule 7.5 (*Financial Reports*), the Authority has full open book rights to view, assess and test the Supplier's Cost data to enable more detailed analysis and Post-Payment Validation to take place. For the avoidance of doubt, this shall include allowing the Authority access to the Supplier's financial systems directly if required.
- 41.2 The Authority may determine other areas of focus for, and timings of, finance reviews during the Term and the Supplier shall cooperate fully with such reviews (including, but not limited to, by providing all relevant information requested by the Authority as part of any such review). The areas selected for further deep dive analysis will be informed by the Authority's view of the risk inherent in the Costs including;
- 41.2.1 any areas of weakness highlighted in the Supplier's internal or external audit reports;
  - 41.2.2 any recurring areas of error / adjustment;
  - 41.2.3 areas of concern / further analysis highlighted by the Authority's Pre-Payment Validation and Post-Payment Validation processes;
  - 41.2.4 any areas of concern highlighted by the Authority's PAT in relation to the Supplier's financial control environment; and
  - 41.2.5 a short narrative/commentary shall accompany each submission, produced, and provided by the Supplier.

**42. POST-PAYMENT VALIDATION OF INVOICES**

- 42.1 The Authority shall undertake validation of the invoice's constituent Charges after the invoice has been approved for payment by the Authority ("**Post-Payment Validation**"). Post-Payment Validation will be undertaken as soon as reasonably practicable following payment of each invoice, and in any event shall be completed no later than 4 months following payment of each invoice. An example of the Post-Payment Validation sequencing is included in Paragraph 42.10.
- 42.2 The Parties shall work together to complete Post-Payment Validation as efficiently as possible. Within 2 Working Days of the Authority notifying the Supplier that Post-Payment Validation is to commence, both Parties will agree the date and time to complete the validation of the evidence presented through live screen share arrangements (or otherwise as agreed), provided the Post-Payment Validation is completed no later than 12 Working Days from the date of the Authority notifies the Supplier.
- 42.3 Post-Payment Validation checks shall be carried out in relation to both Costs and the Payable Target Fee. The applicable provisions in relation to Post-Payment Validation of Costs are set out below in Paragraphs 42.4 to 45. In relation to Post-Payment Validation of the Payable Target Fee, once details of the Supplier's actual performance as against the applicable Performance Levels and achievement of Clearances are determined by the Authority, the Authority will compare such actual level of performance and number of Clearances with the indicative level of performance and number of Clearances used to calculate the Payable Target Fee in the relevant Service Period, and the appropriate adjustment will be made by issuing an invoice or credit

note accordingly. Where the Supplier is liable to repay some of its Payable Target Fee, the Supplier shall submit its credit note setting out full details of the repayment due. Where there are no further invoices due to be issued, the Supplier shall pay the Authority an amount equal to the outstanding monies within thirty (30) calendar days following the end of the Service Period. An example of the process flow for invoicing and validating the Payable Target Fee is detailed in Annex 6.

### **Post-Payment Validation checks of Costs**

42.4 This sets out the method by which the Authority will carry out the Post-Payment Validation in respect of the Costs.

42.5 The Post-Payment Validation checks provide a more detailed level of assurance of the paid invoice Costs and ensures that the invoiced items and amounts have been properly and necessarily incurred by the Supplier in accordance with this Agreement. The Authority may, at its discretion, validate the accuracy of all billable expenditure claimed by the Supplier by sampling, to assure payments claimed by the Supplier under this Agreement are a true reflection of the Costs incurred. Such process will be carried out as soon as is reasonably practicable following the payment of each invoice. To complete these checks, the Authority will use the information supplied, as detailed in Paragraph 38.2. The Trial Balance (an illustrative example of which is provided in Paragraph 42.6) will support the Authority in gaining transparency and assurance of the Supplier's accounting records.

42.6 [REDACTED]

42.7 On a monthly basis, the Supplier shall provide the Authority with transactional data. Every transaction line shall feature: a unique identifier in a format prescribed by the Authority; the categorisation of that transaction either into one of the Cost Categories defined in Paragraph 42.11.1 or as Disallowable Costs. An illustrative example of these characteristics is below.

[REDACTED]

42.8 The Supplier shall also demonstrate how its various financial systems (e.g. Payroll system, HR system) work by providing walkthroughs for Authority staff at any point, upon reasonable notice, this is requested.

42.9 Where the Authority in its sole and absolute discretion uses a sample and extrapolation method, as detailed in Paragraphs 44 and 45, for invoice and Cost Post-Payment Validation, and if the Authority identifies any error in the Charges levied to the Authority through a sample check of the evidence (such sample size to be reasonable and proportionate so as to represent a statistically valid sample size), then the Authority shall be entitled to extrapolate the value of the percentage error rate across the full population from which the sample was taken. The Supplier shall promptly provide the Authority with a credit note to the amount of the extrapolated error. If the Supplier considers that the extrapolation was inappropriate, then it may at its own cost engage an independent expert, subject to the Authority's approval, not to be unreasonably withheld, to audit the totality of all invoices. If the independent expert determines that the actual error is less than the extrapolated error, then the Supplier shall provide the Authority with all appropriate supporting evidence. The Authority shall review this evidence and if deemed valid by the Authority shall refund the difference. If an agreement cannot be reached between the Authority and the Supplier, the Dispute Resolution Process should be followed.

42.10[REDACTED]

**Cost Categories**

42.11 For the purposes of Post-Payment Validation, Costs will be grouped into the Cost Categories detailed in Table 1 of this Part C below. This ensures the Authority has sufficient visibility of the different Cost types and the level of error within them. The Supplier will be required to map all Transactional Data supplied to the Authority to one of the Cost Categories detailed below, the allocation of which requires approval by the Authority. For the avoidance of doubt each line of Transactional Data will be mapped to only one of the Cost Categories detailed in this Table 1. An example of the Transactional Data template is included above, in Paragraph 42.6.

42.11.1 These categories (each a “**Cost Category**”) are:

**Table 1**

<b>Cost Category</b>	<b>Cost Category name</b>	<b>Type of Costs</b>
1	Payroll Costs	Total payroll listing
2	Recruitment (inc. training)	All payments made to 3 <sup>rd</sup> Parties associated with the recruitment and training of new staff
3	Supply chain / Sub-contractors	All payments made as part of the Supplier's supply chain including payments made to all Sub-contractors
4	Corporate overheads	Covers overhead recovery costs and indirect corporate costs to be detailed in the CCR. This should include all central services costs attributable to the Agreement where the costs are not already paid through other means. See the Allowable Costs table in Annex 3 in relation to corporate overheads for further detail.
5	Estates	All Costs associated with the provision of estates
6	IT	All payments, made to 3 <sup>rd</sup> parties, associated with the provision of IT services
7	Accounting transactions	Any accruals, prepayments, depreciation, apportioned costs, accounting adjustments
8	Pass-Through Costs	All Costs defined as Pass-Through Costs within the Agreement
9	Central purchases & recharges	Central Costs incurred by the business in providing the contracted Service.
10	All Other costs e.g. a) Staff expenses b) Purchased goods & services	All other invoiced Costs

42.11.2 The Supplier shall ensure, as far as reasonably practical, that each Cost is allocated to the right Cost Category prior to submitting a claim and shall

work with the Authority to achieve this. Where in the course of Post-Payment Validation, the Authority considers, at its sole discretion, that a Cost has been allocated to an incorrect Cost Category, it shall consult the Supplier as soon as reasonably practical. If appropriate, the Authority may then re-allocate the Cost to what it considers to be the right Cost Category for sampling, validation and extrapolation.

### Validation of Cost Categories

42.12 The method of validation will vary for each Cost Category depending on the nature and volume of the Costs. Table 2 of this Part C details the expected method of validation that the Authority will use. Table 1 under Paragraph 29.8 of Part B shows the additional Cost Categories and associated validation method to be utilised during the Implementation Period only. The Authority may use other validation methods at its sole discretion and the Supplier shall cooperate fully with the Authority when any other validation methods are used to help to ensure effectiveness of such validation methods. An example of this process flow is detailed in Annex 6.

**Table 2**

<b>Cost Category</b>	<b>Cost Category Name</b>	<b>Validation Method</b>	<b>Frequency</b>
1	Payroll	Sample and extrapolate model The Authority will validate payroll data by viewing any HR, attendance management and payroll systems via live screen-sharing.	Monthly
2	Recruitment & training	Sample and extrapolate model The Authority will request invoices and backing data on live screen-sharing calls. The evidence should show a breakdown of the costs including identifying starters and leavers and showing costs and credits	Monthly
3	Supply chain & Sub-contractors	The Supplier is expected to complete a monthly validation check on each of its Sub-contractors' costs. The Authority will check the reasonableness of the Supplier's supply chain costs as well as the robustness of the Supplier's validation checks The Authority will undertake a 6 monthly deep dive into supply chain costs using a sample and extrapolate model. See Paragraph 47 for additional information.	Monthly
4	Corporate overheads	Risk based checking. These costs will be subject to a monthly review of reasonableness with periodic deep dives.	Monthly

<b>Cost Category</b>	<b>Cost Category Name</b>	<b>Validation Method</b>	<b>Frequency</b>
5	Estates	Sample and extrapolate model. The Authority will request invoices and backing data on live screen-sharing calls. All recurring fixed costs will be removed from the population prior to sampling and will be validated separately via a 100% census check. The Supplier is expected to provide copies of all lease agreements at the start of the contract and at any point there is a change such as contract renewal or purchase of new estates.	Monthly
6	IT	Sample and extrapolate model. The Authority will request invoices and backing data on live screen-sharing calls.	Monthly
7	Accounting transactions (e.g. accruals, adjustments)	Risk based checking. These Costs will be subject to a monthly review of reasonableness with periodic deep dives.	Monthly
8	Pass-Through Costs	Sample and extrapolate model. The Authority will request invoices and backing data on live screen-sharing calls.	Monthly
9	Central purchases/& recharges	Risk based checking. These Costs will be subject to a monthly review of reasonableness with periodic deep dives.	Monthly
10	All other Invoiced & receipted Costs (including staff expenses)	Sample and extrapolate model. The Authority will request invoices and backing data on live screen-sharing calls.	Monthly

### **43. RISK BASED CHECKING**

43.1 Following receipt of the invoice, the Transactional Data template and Supplier Cost Report from the Supplier on Working Day 7, the Authority will commence with its monthly payment validation activities in relation to the Cost Categories detailed as having a risk-based checking approach in Table 2 under Paragraph 42.12 of this Part C. For the avoidance of doubt, this will be carried out on the applicable invoices prior to payment of it.

43.2 The range of payment validation activity checks conducted by the Authority will include, but will not be limited to, the testing as detailed in Table 3 below.

43.3 The checks outlined in Table 3 are not exhaustive and are shown as an illustration of the scope and scale of the risk-based checking approach to be adopted by the Authority.

**Table 3**

<b>Information Checked</b>	<b>Rationale</b>
----------------------------	------------------

Information Checked	Rationale
Analytical review of financial data	Establishing metrics to measure Costs / expectations against performance i.e., does the expenditure match the level of activity and other information the Authority has been provided?
Reasonableness check of MI received	Review of invoice costs against Supplier Cost Report and transactional listings along with comparison of Cost Category trend data with previous Service Periods of the Agreement (run rates) and against previous forecasts.
Profiles of expenditure and Cost	To ensure the invoice value is correctly calculated and stated so the Authority is paying the correct amount. To identify any patterns, trends and outliers/material variances to suggest the existence of error or assurance of the information used in analytical review, including correct categorisation of expenditure (e.g., Pass-Through Costs / Disallowable Costs).
Affiliate profit and supply chain partner Costs	To ensure that the information supplied to the Authority provides sufficient assurance on the monies paid.
Capital items and depreciation	To ensure these are appropriately charged and calculated according to the terms of the Agreement and accounting principles.  Quarterly checks of the non-current asset details on the Fixed Asset Register will be undertaken to substantiate the asset related Costs.
Commercial Check	To ensure that Costs are Allowable Costs and there are no Disallowable Costs or contentious Costs included e.g., certain types of legal costs, gifts, hospitality etc.

43.4 Any anomalies identified by the Authority will be discussed and resolved via monthly Supplier engagement sessions and be resolved prior to any invoice approval and progression to payment of an invoice. Where an anomaly cannot be agreed by the Supplier and the Authority, the issue will be resolved in accordance with the Dispute Resolution Procedure.

#### **44. SAMPLING**

44.1 For Cost Categories that are to be validated post payment via the sample and extrapolate method, the Authority will generate a sample for such Cost Categories. The Authority, at its sole discretion, will decide the most suitable statistically valid sampling methodology to be used. The Authority may also decide, at its sole discretion, to combine certain Cost Categories into a single population for the purposes of validation.

44.2 The Authority will then request evidence either via live screen-share or other methods depending on the nature of the Cost. The Authority will check this evidence to ensure:

44.2.1 Accuracy: does the detail shown on the general ledger match the evidence?

44.2.2 Validity: is it an Allowable Cost?

44.2.3 Reasonableness: is the expenditure in line with the principles of Managing Public Money and does it provide value for money for the taxpayer?

- 44.3 Where the initial evidence provided is not sufficient for the Authority to pass the validation check, further evidence will be requested from the Supplier. If further evidence is requested, the Supplier will provide sufficient evidence to the Authority for validation of the sample within 10 Working Days following such request.
- 44.4 The Authority may treat any Costs as an error where satisfactory supporting evidence has not been provided within the timescales set out at Paragraph 44.3.
- 44.5 If errors are identified, these errors will be extrapolated, regardless of whether they had or would have been corrected in a future Service Period. The exception to this will be where the Supplier makes the Authority aware of a known error at the point of sharing the data that the error exists in. These errors will not be extrapolated and must be corrected by the Supplier in the following Service Period.
- 44.6 If any lines are removed from an invoice due to them being queried before payment the Supplier shall ensure that these lines are added back into the next invoice after the issues relating to the reason for removing them have been resolved.

#### **45. EXTRAPOLATION OF ERRORS**

- 45.1 It is not possible, nor value for money, for the Authority to review every single line item of Cost incurred in the delivery of the Services. The Authority will therefore adopt a sample and evidence review process for Post-Payment Validation of invoices where the Authority will use a targeted approach based on the Cost Category as detailed in Table 2 under Paragraph 42.12 of this Part C. Where errors are found from the sample validation, these will be assumed to be applicable to the entire population of invoiced Cost from which the sample was drawn.

##### Extrapolation Process – outline

- 45.2 Where extrapolation applies, the Authority will carry out checks to produce an error rate per Cost Category (or combined population where multiple Cost Categories have been combined for validation purposes). This will be derived from a statistically valid sample of the population and the Authority will extrapolate that error rate across the spend in, but not beyond, the relevant Cost Category (or combined population). The period to which the extrapolation will apply will be the same as the period in respect of which the checked claims are taken (for example, if the checked claims are taken from Cost Category 1 in August 2024, any extrapolation will apply to all Costs incurred in Cost Category 1 during August 2024). For these purposes:
- 45.2.1 the sample will be a value-weighted selection using the Monetary Unit Sampling Method (unless the Supplier is notified otherwise at the Authority's sole discretion); and
- 45.2.2 the Authority will decide, at its sole discretion, the sample sizes to be used to validate each Cost Category in any given period.
- 45.3 Any errors identified by the Authority from Post-Payment Validation processes will be discussed with the Supplier to explain the reasons for the errors. Following this:
- 45.3.1 the error value is calculated as a weighted percentage of the sample from which it derives to produce an error percentage representative of the population from which the sample was drawn;

45.3.2 the error percentage is applied to the billable costs within the relevant Cost Category (or combined population) to produce an error extrapolation amount; and

45.3.3 the Supplier will be notified of the extrapolated error amount which should then be credited to the Authority within 10 Working Days of such notification.

45.4 The principles of how Monetary Unit Sampling works are set out in the document below.

[REDACTED]

#### **46. DISPUTE RESOLUTION PROCESS FOR POST-PAYMENT VALIDATION**

46.1 Where Post-Payment Validation identifies a disputed item, no invoice adjustment will be made until the Dispute is resolved between both Parties. If an error is identified by the Authority and agreed by the Supplier such that a subsequent adjustment is required to a paid invoice, this will be reflected as credit in the following Service Period's invoice. If it is the end of the Agreement and no further invoices will be due to the Supplier, such sums shall be paid directly to the Authority within 30 calendar days of receiving a valid invoice.

46.2 Where an error cannot be agreed by the Supplier and the Authority, the issue will be resolved in accordance with the Dispute Resolution Procedure. If upon resolution of that Dispute an error is identified such that a subsequent adjustment is required to a paid invoice, this will be reflected as a credit in the following Service Period's invoice. If it is the end of the Agreement and no further invoices will be due to the Supplier, such sums shall be paid directly to the Authority within 30 calendar days of receiving a valid invoice.

An example of this process flow is detailed in Annex 6.

#### **47. AUDIT**

47.1 In addition to the bi-annual audits described Paragraph 36.3.2, the Authority shall have the right to carry out audits in accordance Part C of Schedule 7.5 (*Financial Reports*).

#### **48. SUB-CONTRACTORS**

48.1 The Authority requires the Supplier to derive the same level of assurance through validation of their Sub-contractors as that applied by the Authority to the Supplier and requires that the Supplier will follow the same principles as the Authority.

48.2 Suppliers will ensure for each of its Sub-contractors that:

48.2.1 monthly checks on Sub-contractors' Costs are completed, including Pre-Payment Validation and Post-Payment Validation;

48.2.2 transactional level data from Sub-contractors is obtained and shared with the Authority monthly, which shall be set out in the Transactional Data template as set out in Paragraph 42.6; and

48.2.3 all checks completed each month by the Supplier on their Sub-contractors are fully documented and available to the Authority.



48.3 When undertaking monthly checks on its Sub-contractors, the Supplier shall ensure that:

48.3.1 all the Sub-contractors' Costs lines are in scope for checking by the Supplier;

48.3.2 where possible, a sample and extrapolate model is applied; and

48.3.3 any extrapolated errors are recovered from the relevant Sub-contractor by the Supplier and passed back to the Authority via a credit note in relation to the sampled Cost Categories that demonstrate errors identified in accordance with Paragraphs 44 and 45.

48.4 The Authority will, periodically, draw a sample from all of the Supplier's Sub-contractors' Costs and shall undertake a validation of this sample. The Authority may also decide, at its sole discretion, to combine certain Cost Categories into a single population for the purposes of validation. Any errors identified by the Authority as part of this validation process will be extrapolated across the Cost Categories (or combined population) that the validation sample was drawn from for that particular Sub-contractor's Cost base relating to the Agreement. Any extrapolated error Costs will be passed back to the Authority via a credit note.

**ANNEX 1****PART 1 – STAGED PAYMENTS**

<b>Milestone</b>	<b>Staged Payment amount</b>
Payable month 1	[REDACTED]
Payable month 2	[REDACTED]
Payable month 3	[REDACTED]
Payable month 4	[REDACTED]
Payable month 5	[REDACTED]
Payable month 6	[REDACTED]
Payable month 7	[REDACTED]
Payable month 8	[REDACTED]
Payable month 9	[REDACTED]
Payable month 10	[REDACTED]
Payable month 11	[REDACTED]
Final Delivery Milestone	[REDACTED]

**PART 2 – CHARGES**

<b>Month</b>	<b>Target Cost (per Service Period)  £000</b>	<b>Monthly Available Target Fee (per Service Period)  £000</b>	<b>Target Price (per Service Period)  £000</b>	<b>Share Ratios  Authority%:Supplier %</b>	<b>Cost Cap (per Service Period)  £000</b>
Month 1	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 2	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 3	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 4	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 5	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 6	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 7	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 8	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 9	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 10	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 11	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]

OFFICIAL – COMMERCIAL

Month	Target Cost (per Service Period) £000	Monthly Available Target Fee (per Service Period) £000	Target Price (per Service Period) £000	Share Ratios Authority%:Supplier %	Cost Cap (per Service Period) £000
Month 12	[REDACTED]	[REDACTED]	[REDACTED]	80:20	[REDACTED]
Month 13	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 14	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 15	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 16	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 17	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 18	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 19	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 20	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 21	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 22	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]

OFFICIAL – COMMERCIAL

Month	Target Cost (per Service Period)  £000	Monthly Available Target Fee (per Service Period)  £000	Target Price (per Service Period)  £000	Share Ratios  Authority%:Supplier %	Cost Cap (per Service Period)  £000
Month 23	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 24	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 25	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 26	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 27	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 28	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 29	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 30	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 31	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 32	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 33	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]

OFFICIAL – COMMERCIAL

Month	Target Cost (per Service Period) £000	Monthly Available Target Fee (per Service Period) £000	Target Price (per Service Period) £000	Share Ratios Authority%:Supplier %	Cost Cap (per Service Period) £000
Month 34	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 35	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 36	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 37	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 38	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 39	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 40	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 41	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 42	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 43	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 44	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]

OFFICIAL – COMMERCIAL

Month	Target Cost (per Service Period) £000	Monthly Available Target Fee (per Service Period) £000	Target Price (per Service Period) £000	Share Ratios Authority%:Supplier %	Cost Cap (per Service Period) £000
Month 45	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 46	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 47	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 48	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 49	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 50	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 51	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 52	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 53	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 54	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 55	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]

OFFICIAL – COMMERCIAL

Month	Target Cost (per Service Period) £000	Monthly Available Target Fee (per Service Period) £000	Target Price (per Service Period) £000	Share Ratios Authority%:Supplier %	Cost Cap (per Service Period) £000
Month 56	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 57	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 58	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 59	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]
Month 60	[REDACTED]	[REDACTED]	[REDACTED]	50:50	[REDACTED]



**PART 3 – FINANCIALLY LINKED TARGET PERFORMANCE LEVELS****Service Delivery Year 1**

Measure (model)	Performance Level	% of Monthly Available Target Fee	Minimum Performance Level	Target Performance Level	Measurement
1	TPL1a (PIP)	28.0%	93.0%	97.0% or more	Pro-Rata
2	TPL1b (PIP)	7.0%	n/a	83.0% or more	Pass/Fail
6	TPL4a (PIP)	4.5%	n/a	2.0% or less	Pass/Fail
7	TPL5a (PIP)	3.0%	n/a	81.0% or more	Pass/Fail
10	TPL3a (PIP)	2.5%	n/a	100.0%	Pass/Fail
12	TPL2a (PIP)	5.0%	n/a	1.0% or less	Pass/Fail
<b>Total PIP</b>		<b>50.0%</b>			
3	TPL1c (WCA)	7.0%	93.0%	97.0% or more	Pro-Rata
4	TPL1d (WCA)	21.0%	90.0%	95.0% or more	Pro-Rata
5	TPL1e (WCA)	7.0%	n/a	73.0% or more	Pass/Fail
8	TPL4a (WCA)	4.5%	n/a	2.0% or less	Pass/Fail
9	TPL5a (WCA)	3.0%	n/a	81.0% or more	Pass/Fail
11	TPL3a (WCA)	2.5%	n/a	100.0%	Pass/Fail
13	TPL2b (WCA)	3.5%	n/a	80.0% or more	Pass/Fail
14	TPL2c (WCA)	1.5%	n/a	1.0% or less	Pass/Fail
<b>Total WCA</b>		<b>50.0%</b>			
<b>Total PIP and WCA</b>		<b>100.0%</b>			

**Service Delivery Year 2**

OFFICIAL – COMMERCIAL

Measure (model)	Performance Level	% of Monthly Available Target Fee	Minimum Performance Level	Target Performance Level	Measurement
1	TPL1a (PIP)	28.0%	94.0%	97.0% or more	Pro-Rata
2	TPL1b (PIP)	7.0%	n/a	85.0% or more	Pass/Fail
6	TPL4a (PIP)	4.5%	n/a	2.0% or less	Pass/Fail
7	TPL5a (PIP)	3.0%	n/a	83.0% or more	Pass/Fail
10	TPL3a (PIP)	2.5%	n/a	100.0%	Pass/Fail
12	TPL2a (PIP)	5.0%	n/a	1.0% or less	Pass/Fail
<b>Total PIP</b>		<b>50.0%</b>			
3	TPL1c (WCA)	7.0%	94.0%	97.0% or more	Pro-Rata
4	TPL1d (WCA)	21.0%	91.0%	95.0% or more	Pro-Rata
5	TPL1e (WCA)	7.0%	n/a	75.0% or more	Pass/Fail
8	TPL4a (WCA)	4.5%	n/a	2.0% or less	Pass/Fail
9	TPL5a (WCA)	3.0%	n/a	83.0% or more	Pass/Fail
11	TPL3a (WCA)	2.5%	n/a	100.0%	Pass/Fail
13	TPL2b (WCA)	3.5%	n/a	80.0% or more	Pass/Fail
14	TPL2c (WCA)	1.5%	n/a	1.0% or less	Pass/Fail
<b>Total WCA</b>		<b>50.0%</b>			
<b>Total PIP and WCA</b>		<b>100.0%</b>			

**Service Delivery Year 3**

Measure	Performance	% of Monthly	Minimum Performance	Target Performance	Measurement
---------	-------------	--------------	---------------------	--------------------	-------------

OFFICIAL – COMMERCIAL

(model)	Level	Available Target Fee	Level	Level	
1	TPL1a (PIP)	28.0%	94.0%	97.0% or more	Pro-Rata
2	TPL1b (PIP)	7.0%	n/a	85.0% or more	Pass/Fail
6	TPL4a (PIP)	4.5%	n/a	2.0% or less	Pass/Fail
7	TPL5a (PIP)	3.0%	n/a	85.0% or more	Pass/Fail
10	TPL3a (PIP)	2.5%	n/a	100.0%	Pass/Fail
12	TPL2a (PIP)	5.0%	n/a	1.0% or less	Pass/Fail
<b>Total PIP</b>		<b>50.0%</b>			
3	TPL1c (WCA)	7.0%	94.0%	97.0% or more	Pro-Rata
4	TPL1d (WCA)	21.0%	91.0%	95.0% or more	Pro-Rata
5	TPL1e (WCA)	7.0%	n/a	75.0% or more	Pass/Fail
8	TPL4a (WCA)	4.5%	n/a	2.0% or less	Pass/Fail
9	TPL5a (WCA)	3.0%	n/a	85.0% or more	Pass/Fail
11	TPL3a (WCA)	2.5%	n/a	100.0%	Pass/Fail
13	TPL2b (WCA)	3.5%	n/a	80.0% or more	Pass/Fail
14	TPL2c (WCA)	1.5%	n/a	1.0% or less	Pass/Fail
<b>Total WCA</b>		<b>50.0%</b>			
<b>Total PIP and WCA</b>		<b>100.0%</b>			

**Service Delivery Year 4**

Measure (model)	Performance Level	% of Monthly Available Target	Minimum Performance Level	Target Performance Level	Measurement
-----------------	-------------------	-------------------------------	---------------------------	--------------------------	-------------

OFFICIAL – COMMERCIAL

		Fee			
1	TPL1a (PIP)	28.0%	94.0%	97.0% or more	Pro-Rata
2	TPL1b (PIP)	7.0%	n/a	85.0% or more	Pass/Fail
6	TPL4a (PIP)	4.5%	n/a	2.0% or less	Pass/Fail
7	TPL5a (PIP)	3.0%	n/a	85.0% or more	Pass/Fail
10	TPL3a (PIP)	2.5%	n/a	100.0%	Pass/Fail
12	TPL2a (PIP)	5.0%	n/a	1.0% or less	Pass/Fail
<b>Total PIP</b>		<b>50.0%</b>			
3	TPL1c (WCA)	7.0%	94.0%	97.0% or more	Pro-Rata
4	TPL1d (WCA)	21.0%	91.0%	95.0% or more	Pro-Rata
5	TPL1e (WCA)	7.0%	n/a	75.0% or more	Pass/Fail
8	TPL4a (WCA)	4.5%	n/a	2.0% or less	Pass/Fail
9	TPL5a (WCA)	3.0%	n/a	85.0% or more	Pass/Fail
11	TPL3a (WCA)	2.5%	n/a	100.0%	Pass/Fail
13	TPL2b (WCA)	3.5%	n/a	80.0% or more	Pass/Fail
14	TPL2c (WCA)	1.5%	n/a	1.0% or less	Pass/Fail
<b>Total WCA</b>		<b>50.0%</b>			
<b>Total PIP and WCA</b>		<b>100.0%</b>			

**Service Delivery Year 5**

Measure (model)	Performance Level	% of Monthly Available Target Fee	Minimum Performance Level	Target Performance Level	Measurement
-----------------	-------------------	-----------------------------------	---------------------------	--------------------------	-------------

OFFICIAL – COMMERCIAL

1	TPL1a (PIP)	28.0%	94.0%	97.0% or more	Pro-Rata
2	TPL1b (PIP)	7.0%	n/a	85.0% or more	Pass/Fail
6	TPL4a (PIP)	4.5%	n/a	2.0% or less	Pass/Fail
7	TPL5a (PIP)	3.0%	n/a	85.0% or more	Pass/Fail
10	TPL3a (PIP)	2.5%	n/a	100.0%	Pass/Fail
12	TPL2a (PIP)	5.0%	n/a	1.0% or less	Pass/Fail
<b>Total PIP</b>		<b>50.0%</b>			
3	TPL1c (WCA)	7.0%	94.0%	97.0% or more	Pro-Rata
4	TPL1d (WCA)	21.0%	91.0%	95.0% or more	Pro-Rata
5	TPL1e (WCA)	7.0%	n/a	75.0% or more	Pass/Fail
8	TPL4a (WCA)	4.5%	n/a	2.0% or less	Pass/Fail
9	TPL5a (WCA)	3.0%	n/a	85.0% or more	Pass/Fail
11	TPL3a (WCA)	2.5%	n/a	100.0%	Pass/Fail
13	TPL2b (WCA)	3.5%	n/a	80.0% or more	Pass/Fail
14	TPL2c (WCA)	1.5%	n/a	1.0% or less	Pass/Fail
<b>Total WCA</b>		<b>50.0%</b>			
<b>Total PIP and WCA</b>		<b>100.0%</b>			

**PART 4 – RATE CARD**

<b>Job Category</b>	<b>Job Role</b>	<b>Rates</b>
Project	Project Manager	[REDACTED]
	Team Leader	[REDACTED]
	Business Analyst	[REDACTED]
	Senior Consultant	[REDACTED]
	Junior Consultant	[REDACTED]
	Technical Consultant (incl. IT)	[REDACTED]
	Technical Expert / Lead (e.g. Training and Guidance writer)	[REDACTED]
Administration	Project Support	[REDACTED]
	Administration Staff	[REDACTED]
Medical	Clinical Director / Senior Doctor	[REDACTED]
	Healthcare Professional - GP	[REDACTED]
	Healthcare Professional – Other	[REDACTED]
Contract	Contract Manager	[REDACTED]
	Contract Administrator / Support	[REDACTED]
IT	IT Senior Consultant	[REDACTED]
	IT Junior Consultant	[REDACTED]
	IT Support	[REDACTED]
	IT - Other	[REDACTED]

**PART 5 – MONTHLY VOLUME CLEARANCE TARGET FOR EACH BENEFIT TYPE**

<b>Service Period</b>	<b>PIP Monthly Volume Clearance Target</b>	<b>WCA Monthly Volume Clearance Target</b>	<b>Specialist Benefit Monthly Volume Clearance Target</b>
Month 1	[REDACTED]	[REDACTED]	[REDACTED]
Month 2	[REDACTED]	[REDACTED]	[REDACTED]
Month 3	[REDACTED]	[REDACTED]	[REDACTED]
Month 4	[REDACTED]	[REDACTED]	[REDACTED]
Month 5	[REDACTED]	[REDACTED]	[REDACTED]
Month 6	[REDACTED]	[REDACTED]	[REDACTED]
Month 7	[REDACTED]	[REDACTED]	[REDACTED]
Month 8	[REDACTED]	[REDACTED]	[REDACTED]
Month 9	[REDACTED]	[REDACTED]	[REDACTED]
Month 10	[REDACTED]	[REDACTED]	[REDACTED]
Month 11	[REDACTED]	[REDACTED]	[REDACTED]
Month 12	[REDACTED]	[REDACTED]	[REDACTED]
Month 13	[REDACTED]	[REDACTED]	[REDACTED]
Month 14	[REDACTED]	[REDACTED]	[REDACTED]
Month 15	[REDACTED]	[REDACTED]	[REDACTED]
Month 16	[REDACTED]	[REDACTED]	[REDACTED]
Month 17	[REDACTED]	[REDACTED]	[REDACTED]
Month 18	[REDACTED]	[REDACTED]	[REDACTED]
Month 19	[REDACTED]	[REDACTED]	[REDACTED]
Month 20	[REDACTED]	[REDACTED]	[REDACTED]
Month 21	[REDACTED]	[REDACTED]	[REDACTED]

<b>Service Period</b>	<b>PIP Monthly Volume Clearance Target</b>	<b>WCA Monthly Volume Clearance Target</b>	<b>Specialist Benefit Monthly Volume Clearance Target</b>
Month 22	[REDACTED]	[REDACTED]	[REDACTED]
Month 23	[REDACTED]	[REDACTED]	[REDACTED]
Month 24	[REDACTED]	[REDACTED]	[REDACTED]
Month 25	[REDACTED]	[REDACTED]	[REDACTED]
Month 26	[REDACTED]	[REDACTED]	[REDACTED]
Month 27	[REDACTED]	[REDACTED]	[REDACTED]
Month 28	[REDACTED]	[REDACTED]	[REDACTED]
Month 29	[REDACTED]	[REDACTED]	[REDACTED]
Month 30	[REDACTED]	[REDACTED]	[REDACTED]
Month 31	[REDACTED]	[REDACTED]	[REDACTED]
Month 32	[REDACTED]	[REDACTED]	[REDACTED]
Month 33	[REDACTED]	[REDACTED]	[REDACTED]
Month 34	[REDACTED]	[REDACTED]	[REDACTED]
Month 35	[REDACTED]	[REDACTED]	[REDACTED]
Month 36	[REDACTED]	[REDACTED]	[REDACTED]
Month 37	[REDACTED]	[REDACTED]	[REDACTED]
Month 38	[REDACTED]	[REDACTED]	[REDACTED]
Month 39	[REDACTED]	[REDACTED]	[REDACTED]
Month 40	[REDACTED]	[REDACTED]	[REDACTED]
Month 41	[REDACTED]	[REDACTED]	[REDACTED]
Month 42	[REDACTED]	[REDACTED]	[REDACTED]
Month 43	[REDACTED]	[REDACTED]	[REDACTED]



<b>Service Period</b>	<b>PIP Monthly Volume Clearance Target</b>	<b>WCA Monthly Volume Clearance Target</b>	<b>Specialist Benefit Monthly Volume Clearance Target</b>
Month 44	[REDACTED]	[REDACTED]	[REDACTED]
Month 45	[REDACTED]	[REDACTED]	[REDACTED]
Month 46	[REDACTED]	[REDACTED]	[REDACTED]
Month 47	[REDACTED]	[REDACTED]	[REDACTED]
Month 48	[REDACTED]	[REDACTED]	[REDACTED]
Month 49	[REDACTED]	[REDACTED]	[REDACTED]
Month 50	[REDACTED]	[REDACTED]	[REDACTED]
Month 51	[REDACTED]	[REDACTED]	[REDACTED]
Month 52	[REDACTED]	[REDACTED]	[REDACTED]
Month 53	[REDACTED]	[REDACTED]	[REDACTED]
Month 54	[REDACTED]	[REDACTED]	[REDACTED]
Month 55	[REDACTED]	[REDACTED]	[REDACTED]
Month 56	[REDACTED]	[REDACTED]	[REDACTED]
Month 57	[REDACTED]	[REDACTED]	[REDACTED]
Month 58	[REDACTED]	[REDACTED]	[REDACTED]
Month 59	[REDACTED]	[REDACTED]	[REDACTED]
Month 60	[REDACTED]	[REDACTED]	[REDACTED]

## **ANNEX 2**

### **ALLOWABLE ASSUMPTIONS**

**1. Assumption as to adjustments in Target Cost based on changes to Principal Civil Service Pension Scheme (PCSPS) and NHS pension contribution rates**

The Parties agree that the Supplier shall be entitled to make future adjustments to the Target Cost should any change to the PCSPS and NHS pension contribution rates or policies occur. Where the Supplier requires such an adjustment in the future, such change shall be implemented in accordance with the Change Control Procedure in Schedule 8.2 (*Change Control Procedure*).

**2. Assumption as to TUPE Costs**

With regard to the application of the payment mechanism in accordance with this Schedule 7.1, and specifically the adjustment of Target Cost to reflect Changes the Parties will operate as follows:

- 2.1 the Supplier has priced the TUPE Costs in its final response (constituting its best and final offer) to the invitation to tender under the procurement process;
- 2.2 where a Relevant Transfer takes place, the Supplier shall, no later than 30 (thirty) days after the Relevant Transfer Date notify the Authority of any increase in the TUPE Costs from what was anticipated in its final response (constituting its best and final offer) to the invitation to tender under the procurement process (including any increase in the TUPE Costs of a Notified Sub-Contractor); and
- 2.3 the Authority, by exception, will consider the impact of any increase in TUPE Costs against the performance expectations within the Agreement as detailed in Schedule 2.2 (*Performance Levels*) and recalibrate to be consistent with the principle that the Services should not be any harder to deliver as a result of a change in Allowable Assumption.

**3. Assumption as to number of HPs**

With regard to the application of the payment mechanism in accordance with this Schedule 7.1, and specifically the adjustment of Target Cost to reflect Changes the Parties will operate as follows:

- 3.1 the Parties will not change the Target Cost to reflect any reduction in the number of HPs transferring to the Supplier when compared to the Implementation Plan expectations. Target Cost will remain as at the Effective Date and the Supplier will ensure additional recruitment and training requirements are included within Schedule 6.1 (*Implementation Related Plans*) within 4 weeks of the Operational Service Commencement Date. The impact on Target Cost as described here is limited to Service Delivery Year 1 and the Target Cost Review process will apply for Service Delivery Year 2 onwards;
- 3.2 the Authority, by exception, will consider the impact of any reduction in HPs against the performance expectations and/or channel mix within the Agreement as detailed in Schedule 2.2 (*Performance Levels*), and recalibrate to be consistent with the principle that the Services should not be any harder to deliver as a result of a change in Allowable Assumption; and

- 3.3 where the number of HPs a supplier receives as a result of TUPE is higher than expected, including the transfer of HPs geographically out of Lot, the Supplier will work with the Authority to consider how those HPs could be deployed to support FAS service delivery before alternative mechanisms such as redundancy are considered; and
- 3.4 any Gain Share calculation for the period this Change impacts, will exclude any potential gain from a reduction in HP numbers.

#### 4. **Assumption as to novated estate**

With regard to the application of the payment mechanism in accordance with this Schedule 7.1, and specifically the adjustment of Target Cost to reflect Changes the Parties will operate as follows:

- 4.1 The Parties will not change the Target Cost to reflect any reduction in the number of premises, or change in running Costs associated with estate novated to the Supplier from incumbent Suppliers as part of the agreed Implementation Plan and/or the Implementation Estates Plan (as defined in Schedule 15.1 (*Estates*)), where that reduction cannot be rectified through mitigating action by the Supplier to source alternative estate in advance of the Operational Service Commencement Date as required in Schedule 15.1 (*Estates*). Target Cost will remain as at the Effective Date and the Supplier will ensure activity to secure additional estate is mobilised in accordance with the provisions of Schedule 15.1 (*Estates*). The impact on Target Cost as described here is limited to Service Delivery Year 1 and the Target Cost Review process will consider for Service Delivery Year 2 onwards.
- 4.2 No estate running Costs for novated estate will be chargeable to this Agreement before the Operational Service Commencement Date.
- 4.3 Where a Change in assumption impacts the Implementation Plan and/or the Implementation Estates Plan, the Supplier will provide an updated Implementation Plan within 10 Working Days of the event being known.
- 4.4 Dilapidations will remain the responsibility of the leaseholder.
- 4.5 The Authority, by exception and at its sole discretion, will consider the impact of any reduction in estate novated against the performance expectations within the Agreement as detailed in Schedule 2.2 (*Performance Levels*), and recalibrate to be consistent with the principle that the service should not be any harder to deliver as a result of a change in Allowable Assumption. For the avoidance of doubt, unless the Authority exercises such discretion the provisions in this Agreement relating to the Supplier's obligations to have any relevant estate novated to it will apply.

#### 5. **Assumption as to Authority provided IT services and support**

The assumption is that Authority IT will be delivered as per Schedule 2.1 (*Services Description*) and Schedule 18 (*Information Technology Services*) - With regard to the application of the payment mechanism in accordance with this Schedule 7.1, and specifically the adjustment of Target Cost to reflect Changes the Parties will operate as follows:

- 5.1 the Parties will not change the Target Cost to reflect any delay to, or change in the detailed functionality of the IT provided by the Authority, where that delay impacts the Service being delivered from the Operational Service Commencement Date;

- 5.2 where any delay or change in the Authority provided IT Services and support impacts a Supplier's ability to meet performance targets, the Authority will, by exception, consider this impact with Supplier and may recalibrate performance to ensure the impact does not result in Services that are materially more difficult to deliver; and
  - 5.3 the Authority will set out to the Supplier the approach to manage the change or delay once it has considered the impact.
6. **Assumption as to availability of HPs and other applicable staff that are trained on the IT Systems to support Service delivery at the Operational Service Commencement Date**

The assumption is that the Authority IT Services will be delivered as per Schedule 18 (*Information Technology Services*) and the Supplier shall be responsible for ensuring that HPs will be adequately trained in the use of the IT Systems – with regard to the application of the payment mechanism in accordance with this Schedule 7.1, and specifically the adjustment of Target Cost to reflect Changes to Parties will operate as follows:

- 6.1 the Parties will not change the Target Cost to reflect any delay to, or change in the availability of fully trained HPs, where that delay impacts the Service being delivered from the Operational Service Commencement Date;
- 6.2 the Supplier will work with the Authority to agree a training plan as soon as possible if and when any delay to, or change in, the availability of fully trained HPs at the Operational Service Commencement Date is identified; and
- 6.3 the Authority will, by exception, consider the impact of any delay to, or change in, the availability of fully trained HPs against the performance expectations within the Agreement as detailed in Schedule 2.2 (*Performance Levels*), and recalibrate to be consistent with the principle that the service should not be any harder to deliver as a result of a change in Allowable Assumption.

7. **Assumption as to Channel Mix % change**

With regard to the application of the payment mechanism in accordance with this Schedule 7.1, and specifically the adjustment of Target Cost to reflect changes that take effect prior to the Operational Service Commencement Date (Changes after this point will be as per Schedule 8.2 (*Change Control Procedure*)) the Parties will operate as follows:

- 7.1 where the Change in Channel Mix is within the stated tolerance as per Schedule 2.1 (*Services Description*), there will be no Change to the Target Cost;
- 7.2 the Authority will consider the impact of any Change on Channel Mix percentage, including those within the stated tolerance as per Schedule 2.1 (*Services Description*), against the performance expectations within the Agreement as detailed in Schedule 2.2 (*Performance Levels*) that would apply at the Operational Service Commencement Date, and recalibrate to be consistent with the principle that the Services should not be any harder or easier to deliver as a result of a change in Allowable Assumption; and
- 7.3 where the Change in Channel Mix is beyond the stated tolerance the Parties will not change the Target Cost as at the Effective Date to reflect the Change in percentage unless the Supplier provides specific evidence to justify additional Cost to support introduction of the Change. Change will be considered on a case by

case basis and may result in a Target Cost Review post Operational Service Commencement Date and/or be considered as part of Channel Mix Change Control in Schedule 8.2 (*Change Control Procedure*).

**8. Assumption as to change in Volume of Clearances**

With regard to the application of the payment mechanism in accordance with Schedule 7.1, and specifically the adjustment of Target Cost to reflect changes that take effect prior to the Operational Service Commencement Date (Changes after this point will be as per Schedule 8.2 (*Change Control Procedure*)) the Parties will operate as follows:

- 8.1 Where there is an increase in volume expectations (monthly / annual / caseload as at the Operational Service Commencement Date / impact of all policy and service Changes) when compared to the volumes as per Schedule 2.1 (Services Description), the Authority will work with the Supplier to impact assess this against their Target Cost and performance expectations; and
- 8.2 Where the volume that the Supplier expects to deliver from the Operational Service Commencement Date cannot be reached as a result of HP capacity constraints and/or a significantly lower proportion of claimants suitable for paper-based assessment than forecast, the Authority will work with the Supplier to impact assess this against their Target Cost and performance expectations as detailed in Schedule 2.2 (Performance Levels).

**ANNEX 3**

**ALLOWABLE COSTS AND DISALLOWABLE COSTS REGISTER**

**ALLOWABLE COSTS – LIVE RUNNING**

All Costs should be excluding profit, and will form the Target Cost part of the Charges. Overheads are an Allowable Cost and are identified separately within this table.

Cost category	Sub-type	CCR Guidance	CCR Target Fee Tab & Section	Allowable Costs	Notes
Staffing	Delivery Staff	6.2 & 22.2	Staff Costs 22.1	Yes	This should include car allowance costs paid to eligible staff who conduct qualifying journeys.  Please refer to Annex 7 – Travel and Subsistence policy for a definition of qualifying journeys and other eligibility requirements.
Staffing	Non-Delivery Staff	6.12 & 22.13	Staff Costs 22.2	Yes	This should include car allowance costs paid to eligible staff who conduct qualifying journeys.  Please refer to Annex 7 – Travel and Subsistence policy for a definition of qualifying journeys and other eligibility requirements.

Cost category	Sub-type	CCR Guidance	CCR Target Fee Tab & Section	Allowable Costs	Notes
Staffing	Travel and Subsistence	6.20-6.21	Staff Costs 22.3	Yes, within Authority conditions	Detailed guidance contained with this Schedule 7.1 and CCR guidance.  This should include public transport costs, pool car, hire car or lease car costs for eligible staff for qualifying journeys.  Please refer to Annex 7 (Travel and Subsistence policy) for a definition of qualifying journeys and other eligibility requirements.
Staffing	Staff Training	6.22	Staff Costs 22.4	Yes	-
Staffing	Staff Recruitment Costs	6.19	Staff Costs 22.5	Yes	-
Staffing	Other Staff Costs	6.23-6.25	Staff Costs 22.6	Yes	<b>Overtime</b> Overtime is an Allowable Cost however the Supplier should plan to meet the volume Clearance requirements without the use of overtime. Overtime should only be used in the following scenarios: <ul style="list-style-type: none"> <li>When lower than</li> </ul>

Cost category	Sub-type	CCR Guidance	CCR Target Fee Tab & Section	Allowable Costs	Notes
					<p>expected recruitment and/or higher attrition result in lower capacity</p> <ul style="list-style-type: none"> <li>• Peak periods</li> <li>• Volume demand (requested by the Authority and agreed through Change Control Procedure)</li> <li>• Unforeseen business events or circumstances</li> </ul> <p>The use of overtime is a contingency measure and allowable under the circumstances described above and with the agreement of the Authority.</p> <p><b><u>Home Working</u></b>  Costs relating to the set-up for home offices for new eligible employees should be included in this line. Duplication of existing equipment would be a Disallowable Cost, as would be equipment provided as part of Schedule 18 (<i>Information Technology Services</i>).</p>



Cost category	Sub-type	CCR Guidance	CCR Target Fee Tab & Section	Allowable Costs	Notes
					<p>Eligible employees are those who are both:</p> <ul style="list-style-type: none"> <li>new employees, or existing employees with changed assessed working requirements; or</li> <li>employees who work from home full time, or who are hybrid working</li> </ul> <p>Below are examples of items that are Allowable Costs for eligible employees, with a maximum of one per employee:</p> <ul style="list-style-type: none"> <li>Desk</li> <li>Office chair</li> <li>Height adjustable desk platform</li> </ul> <p>Items would need to be approved by their line manager, purchased by the employee, and then the employee reimbursed via expenses.</p> <p>These items would not be Authority Assets, but employee assets. The</p>

Cost category	Sub-type	CCR Guidance	CCR Target Fee Tab & Section	Allowable Costs	Notes
					Authority would not therefore have any maintenance or repair obligations for these assets.
Staffing	Staff Bonus Payments	7.1-7.11	Staff Costs bonuses 23.1a – 23.2a	Yes	-
Accommodation	Rent/Lease/ Mortgage Costs	8.4	Accommodation Costs 24.1	Yes	For Supplier managed WCA & PIP estate only – see Schedule 15.1 ( <i>Estates – PIP and WCA</i> ) Inclusive of lease licensing Costs
Accommodation	Fit-Out Costs	8.11	Accommodation Costs 24.2	Yes	For Supplier managed WCA & PIP estate only – see Schedule 15.1 ( <i>Estates – PIP and WCA</i> )
Accommodation	Rates	8.14	Accommodation Costs 24.3	Yes	For Supplier managed WCA & PIP estate only – see Schedule 15.1 ( <i>Estates – PIP and WCA</i> )
Accommodation	Security & Facilities Management Costs	8.13	Accommodation Costs 24.4	Yes	For Supplier managed WCA & PIP estate only – see Schedule 15.1 ( <i>Estates – PIP and WCA</i> )
Accommodation	Other Accommodation Costs	8.13	Accommodation Costs 24.5	Yes	For Supplier managed WCA & PIP estate only – see Schedule 15.1 ( <i>Estates – PIP and WCA</i> )

Cost category	Sub-type	CCR Guidance	CCR Target Fee Tab & Section	Allowable Costs	Notes
IT	IT Hardware	9.2-9.5	ISIT Costs 25.1	Yes	If meets requirements in IT Schedule 18 ( <i>Information Technology Services</i> ).  IT or other technical hardware Costs required for running of the Agreement, that are not already detailed in Schedule 18 ( <i>Information Technology Services</i> ).  This excludes costs for damaged Authority IT equipment, for which the Supplier is liable – see Disallowable Costs below
IT	IT Software	9.2-9.5	ISIT Costs 25.2	Yes	If meets requirements in IT Schedule 18 ( <i>Information Technology Services</i> ).  IT or other technical software Costs required for running of the Agreement, that are not already detailed in Schedule 18 ( <i>Information Technology Services</i> ).
IT	IT Maintenance	9.2-9.5	ISIT Costs 25.3	Yes	If meets requirements in IT Schedule 18 ( <i>Information Technology Services</i> ).
IT	IT Security	9.2-9.5	ISIT Costs 25.4	Yes	If meets requirements in IT Schedule 18 ( <i>Information Technology Services</i> ).

Cost category	Sub-type	CCR Guidance	CCR Target Fee Tab & Section	Allowable Costs	Notes
IT	Other IT Costs	9.2-9.5	ISIT Costs 25.6	Yes	If meets requirements in IT Schedule 18 ( <i>Information Technology Services</i> ).
IT	Telephony & Communications	9.4	ISIT Costs 25.5	Yes	All soft and mobile telephony provided no duplication of Schedule 18. Fixed telephony is a Disallowable Cost.
Sub-contractor	Sub-contractor Costs	10.1-13.5	Sub-contractor Costs, Sub-contractor Costs Details, Sub-contractor profiles & Sub-contractor Staff Detail (Tabs 26-29)	Yes	Subjective Cost breakdown required for each Sub-contractor – subject to 5% de-minimis.
Other Operating Costs	Postage, Printing & Stationary	17.1	Other operating Costs 33.1	Yes	Consumable item Costs.
Other Operating Costs	Marketing Costs	17.1	Other operating Costs 33.2	Yes	-
Other Operating Costs	Other Operating Costs	17.1	Other Operating Costs 33.3	Yes, except any insurance claim excesses	See 5.3 in CCR Guidance for more on Insurance.
Consultancy Services	Legal Costs (non-claimant)	18.1	Consultancy service Costs 34.1	Yes	Business Costs associated with general legal advice (e.g. Estates).

Cost category	Sub-type	CCR Guidance	CCR Target Fee Tab & Section	Allowable Costs	Notes
Consultancy Services	Interpretation Services	18.1	Consultancy service Costs 34.2	Yes	-
Consultancy Services	Other Professional/ Consultancy Services	18.1	Consultancy service Costs 34.3	Yes	Subject to prior agreement with the Authority.
Corporate Overhead Costs	HR support Finance support Financing Costs IT Operational Overheads Marketing & communications Other Corporate recharges	19.1-19.2	Corporate overheads 35.1-35.7	Yes	<p>This includes overheads in the form of intercompany charges, which are Allowable Costs at current market rates. All intercompany charges will be considered overheads for the Agreement.</p> <p>All directly employed staff Costs would need to be declared in the relevant staff category (i.e., clinical, or non-clinical) rather than against this cost line.</p> <p>The Authority reserves the right to request additional validation for intercompany charges.</p>

Cost category	Sub-type	CCR Guidance	CCR Target Fee Tab & Section	Allowable Costs	Notes
Other Operating Costs	Medical Equipment (reusable)	20.1	Medical equipment 36.1	Yes	-
Other Operating Costs	Medical equipment (disposable)	20.1	Medical equipment 36.2	Yes	-
Other Costs	Other	21.1-21.3	Other Costs 37.1	Yes, if not stated in below tables	Full detail required for Authority.  Any Costs that are not noted in Annex 3 and which are not agreed on the contract award will need to be notified to the Authority and agreed to be Allowable Costs.

**DISALLOWABLE COSTS – LIVE RUNNING**

Cost category	Sub-type	CCR Guidance	CCR Tab & Section	Allowable Costs	Notes
Accommodation	Authority managed estate	8.2-8.3	N/A	No	Incurred by Authority – see Schedule 15.1( <i>Estates – PIP and WCA</i> ).
Accommodation	Premises for personal use	2.22	N/A	No	-
IT	IT for Assessment provision	2.21	N/A	No	Incurred by Authority or its managed service provider – see IT Schedule 18 ( <i>Information Technology Services</i> ).
					This includes Supplier costs in relation to the replacement of damaged Authority IT equipment – in accordance with Paragraph 2.8 of Schedule 15.2 ( <i>Authority Assets</i> )
Other Operating costs	Insurance Excesses	N/A	N/A	No	Premiums only are Allowable Costs.
Other Operating costs	Consultancy Costs	N/A	N/A	No	Where not agreed in advance with the Authority.
Other Operating costs	Corporate Hospitality	2.22	N/A	No	-

Cost category	Sub-type	CCR Guidance	CCR Tab & Section	Allowable Costs	Notes
Other Operating costs	Conference Costs	2.22	N/A	No	-
Other Operating costs	Gifts & Rewards	2.22	N/A	No	-
ISIT	Telephony & Communications - Fixed Telephony	9.4 and 2.22	N/A	No	Functionality to be delivered via soft and mobile telephony.
Other Operating costs	Parent Company Guarantees	N/A	N/A	No	Costs for putting in place or maintaining requirements for a Parent Company Guarantee
Corporate Overhead costs	Legal costs relating to Disputes initiated by the Supplier including any Disputes initiated against the Authority	N/A	N/A	No	Disputes should be managed in accordance with Schedule 8.3 ( <i>Dispute Resolution Procedure</i> ).
Corporate Overhead costs	Legal costs relating to Claimant Cases relating to UK GDPR or Supply Chains, cases brought by Supplier employees, and cases over	N/A	N/A	No	For full details and further provisions that apply to legal costs, see Appendix 1 (Legal Costs – Claimant Cases).



Cost category	Sub-type	CCR Guidance	CCR Tab & Section	Allowable Costs	Notes
	£5,000.				
Corporate overhead costs	Audit costs relating to the Authority's exercise of its Audit Rights	N/A	N/A	No	In accordance with Paragraph 2.5 of Part C of Schedule 7.5 ( <i>Financial Reports</i> ), costs incurred by the Supplier during the Authority's exercise of these rights shall be borne by the Supplier.
Other costs	Contract, MI (including MI Admin Fees) or Serious Performance Failures	N/A	N/A	No	Where fees (including MI Admin Fees), costs, damages, penalties or liquidated damages are incurred in relation to failing to deliver an element of contractual obligations that is within Supplier control, these will not be reimbursed by the Authority.
Other costs	Re-work	N/A	N/A	No	The terms applicable to Re-work are set out in Paragraphs 23.1 to 23.6 of Schedule 2.1 ( <i>Services Description</i> ). Where Re-work of reports is above the contract standard of 0.5%, associated costs above this threshold will be disallowed. This threshold of 0.5% will be applied individually against PIP,

Cost category	Sub-type	CCR Guidance	CCR Tab & Section	Allowable Costs	Notes
					WCA and Specialist Benefit reports
Remedial Adviser	Costs concerning the appointment of and the fees charged by a Remedial Adviser and the Supplier's own related costs.	N/A	N/A	No	Clause 31.5 ( <i>Remedial Adviser</i> ) provides that where a Remedial Adviser is appointed by a Supplier in connection with Intervention Trigger Events, the relevant costs are to be met by the Supplier.

**PASS-THROUGH COSTS**

Cost category	Sub-type	Guidance	CCR Tab & Section	Allowable Costs	Notes
Pass-Through Cost	Professional Fees	39.4	PT Costs 39.1	Yes, as pass through	All professional subscription fees are Allowable Costs for clinical or non-clinical delivery staff. This includes medical body, and other professional body, registration fees - for example GMC/ACCA fees - that are required for the performance of an employee's duties. This includes on a proportionate basis, if the staff do not work 100% of their time on the Agreement. This does not include when such fees form part of the corporate overhead
Pass-Through Cost	Further Medical Evidence	39.4	PT Costs 39.2	Yes, as pass through	-
Pass-Through Cost	Redundancy Costs	39.4	PT Costs 39.3	Yes, as pass through	Only where agreed with the Authority or on termination of the Agreement in accordance with Schedule 7.2 ( <i>Payments on Termination</i> ). These costs would be allowable for TUPE, where attrition cannot be used to manage down numbers and costs have been included within an approved bid
Pass-Through Cost	Pre-paid Envelopes	39.2	PT Costs 39.4	Yes, as pass through	WCA related.
Pass-Through Cost	Claimant Expenses	39.4	PT Costs 39.5	Yes, as pass through	Different to staffing policy.

Cost category	Sub-type	Guidance	CCR Tab & Section	Allowable Costs	Notes
Pass-Through Cost	Seconded Staff to Independent Audit	39.4	PT Costs 39.6	Yes, as pass through	Differing VAT treatment, to be invoiced separately.
Pass-Through Cost	Legal Costs – Claimant Cases	39.4	PT Costs 39.7	Yes, as pass through	Where combined Costs of any compensation payments and associated legal advice per case are under £5,000.  For full details and further provisions that apply to legal costs, see Appendix 1 (Legal Costs – Claimant Cases). See also Schedule 8.7 ( <i>Conduct of Claims</i> ) in connection with the related issue of conduct of claims.

**ALLOWABLE & DISALLOWABLE COSTS – IMPLEMENTATION SERVICES**

The Allowable Costs and Disallowable Costs noted in the tables above also apply to the Implementation Period except for the inclusions/exclusions noted in this table.

Cost category	Sub-type	Guidance	CCR Tab & Section	Implementation - Allowable Cost	Notes
Staffing	TUPE and Transition Costs	5.23	SET Staffing 6.6	Yes	Implementation Services only.
Staffing	Project Management	5.23	SET Staffing 6.7	Yes	Project initiation Cost.
Other Operating costs	Further Medical Evidence	5.23	N/A	No	Should not be incurred prior to live running of Agreement.
Pass-Through	Redundancy costs	5.23	N/A	No	Costs are disallowable prior to TUPE – see notes above on redundancy during live running for any post-TUPE redundancies

**ANNEX 3, APPENDIX 1**

**LEGAL COSTS – CLAIMANT CASES**

1. Most legal Costs for Claimant cases below £5,000 will be Pass-Through Costs. The exception would be that any claims relating to UK GDPR or Supply Chain s, would be Disallowable Costs under this Agreement.
2. Any legal costs for Claimant cases over £5,000 would also be Disallowable Costs, but the Authority will consider exceptions to this on a case by case basis with the Supplier.
3. Where the Authority agrees to consider exceptions in accordance with Paragraph 2 above, the Parties will work together, acting reasonably, to agree fair apportionment of such costs between them. In this event, Costs chargeable to the Authority would be treated as Pass-Through Costs.
4. The Authority shall not exercise its rights under Clause 26.13 (*Supplier Indemnity*) in respect of legal costs recovered by the Supplier as Pass-Through Costs in accordance with Paragraphs 1 to 3 above.
5. The legal costs for Claimant cases referred to in this Appendix 1 include the costs of legal advice obtained by the Supplier in relation to the case and any compensation payment made (including any payment towards the Claimant's legal costs).

**ANNEX 4**

**CONTRACT COST REGISTER**

[REDACTED]

**ANNEX 5****GLOSSARY**

Account NI	means the body that provides the facility to process financial transactions for the Northern Ireland Civil Service;
Actual Cumulative Volume Clearances	means the amount of actual Assessment Specific Clearances achieved by the Supplier at any given cumulative Service Periods of the relevant Service Delivery Year;
Actual Implementation Plan Costs	shall have the meaning given to it in Paragraph 5.4;
Actual Monthly Volume Clearances	means the amount of actual Assessment Specific Clearances for both PIP or WCA achieved by the Supplier in any given Service Period of the Service Delivery Year;
Actual Target Cost	means the Target Costs actually incurred excluding any Pass-Through Costs properly incurred by the Supplier for delivery of the relevant Services;
Allowable Assumptions	means the assumptions set out in Annex 2;
Allowable Cost	means a cost allowable in accordance with the tables in Annex 3;
Annual Volume Clearance Target	means the target volume of Clearances in respect of each of PIP and WCA that the Supplier is required to achieve in total throughout each Service Delivery Year, which shall be based on the total of the relevant 12 Service Periods' Monthly Volume Clearance Targets as set out in Part 5 of Annex 1;
Assessment Specific Clearance	shall have the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> );
Assessment Specific Target Volume	shall have the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> );
Available Target Fee	means that amount of the Target Fee available, prior to adjustment to reflect the Supplier's performance in respect of the Target Performance Levels, as set out in the third column of each table in Part 3 of Annex 1;



OFFICIAL – COMMERCIAL

Balancing Payment	shall have the meaning given to it in Paragraph 5.5;
Business Readiness Criteria	means the business readiness criteria to be agreed between the Parties in accordance with Paragraph 5.2 of Schedule 6.1 ( <i>Implementation Related Plans</i> );
Claimant	shall have the meaning given in the Glossary of Terms in Schedule 2.1 ( <i>Services Description</i> );
Clearance	has the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> ) and “ <b>Clear</b> ” and “ <b>Cleared</b> ” shall be construed accordingly;
Clearance Delivery Payment or CPD	means the amount per additional Clearance that, subject to the provisions of Paragraphs 19 and 20, the Supplier shall be entitled to be paid in respect of each Assessment Specific Clearance that is achieved by the Supplier in excess of the applicable Assessment Specific Target Volume for the relevant Service Period;
Contract Cost Register	means the Contract Cost Register that forms part of the Supplier’s tender and as set out in Annex 4, detailing all Allowable Costs by category and the Target Fee, by Service Period and by Service Delivery Year, for delivery of the Services at the Assessment Specific Target Volumes;
Cost Cap	means 120% of the Target Costs, which is the maximum amount of the Target Costs that are subject to the Pain Share Mechanism (i.e. any Target Costs above 120% are solely the liability of the Supplier);
Cost Category	means the cost categories set out in the Table 1 at Paragraph 42.11.1, and for the purposes of the Implementation Period only, including the cost categories set out in Table 1 under Paragraph 29.8;
Cumulative Volume Clearance Target	means the cumulative target amount of Assessment Specific Clearances to be achieved by the Supplier at any given cumulative Service Periods of the relevant Service Delivery Year;
Disallowable Cost	means a cost that is not allowable in accordance with the tables in Annex 3;
Excess Cost	shall have the meaning given to it in Paragraph 15.1;

OFFICIAL – COMMERCIAL

Fixed Asset Register	means a detailed list of all non-current assets which are owned by the Supplier to enable it to accurately record and maintain both financial and non-financial information, current and historic, pertaining to each asset and to easily identify and verify an asset when required;
Gain Share	means the gain share amounts, as calculated in accordance with the Gain Share Mechanism;
Gain Share Mechanism	means the mechanism for calculating Gain Share set out at Paragraph 17;
HP	means a health professional as further defined in Schedule 2.1 ( <i>Services Description</i> );
Implementation Period	means the period commencing on the Implementation Services Commencement Date and ending at midnight at the end of the day immediately preceding the Operational Service Commencement Date;
Implementation Plan Cost Cap	means a cap of 15% on the Implementation Plan Costs;
Implementation Plan Costs	means the forecast Costs predicted to be incurred during the Implementation Period as set out in the Contract Cost Register;
Managing Public Money	means the Government guidance on handling public funds found at <a href="https://www.gov.uk/government/publications/managing-public-money">https://www.gov.uk/government/publications/managing-public-money</a> ;
Minimum Performance Level	<p>has the meaning given in the Glossary of Terms in Schedule 2.2 (<i>Performance Levels</i>);</p> <p>For ease of reference, the table contained in Part 3 of Annex 1 includes the relevant Minimum Performance Levels required for the purposes of calculating the Target Fee Achieved.</p>
Monetary Unit Sampling Method	means a validation method whereby a cost lines' probability of being selected for audit is based on its value to mitigate the risk of skewing conclusions drawn about the population being sampled;

Monthly Available Target Fee	means the amount of the Target Fee available, prior to adjustments to reflect the Supplier's performance in respect of the Target Performance Levels and the Monthly Volume Clearance Target, applicable to the Service Period in question, as further described in Paragraph 12.1 and as set out in the third column of the table in Part 2 of Annex 1;
Monthly Volume Clearance Target	means, subject to Paragraph 42.4 of Part B of Schedule 2.1 ( <i>Services Description</i> ), the target volume of Clearances in respect of each of PIP and WCA that the Supplier is required to achieve in each Service Period of each Service Delivery Year, as set out in Part 5 of Annex 1;
Notified Sub-contractor	shall have the meaning given in the Glossary of Terms in Schedule 9.1 ( <i>Staff Transfer</i> );
Outline Implementation Plan	means the outline plan set out at Annex 1 of Schedule 6.1 ( <i>Implementation Related Plans</i> );
Over Cost	shall have the meaning given to it in Paragraph 16.3.1;
Pain Share	means the pain share amounts, as calculated in accordance with the Pain Share Mechanism;
Pain Share Mechanism	means the mechanism for calculating Pain Share set out at Paragraph 16;
Pass-Through Cost	means the costs set out in Annex 3 which are the Costs incurred by the Supplier or third party (typically a Claimant) without adding any overhead, administrative expense, or profit to it or taking any financial risk which is recharged by the Supplier to the Authority at cost and as incurred;
Payable Target Fee	shall have the meaning given in Paragraph 13.8;
Payment Model Construct	means the most up to date structure and figures for the payment of the Charges under Schedule 7.1;
Performance Level	has the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> );
Post-Payment Validation	shall have the meaning given in Paragraph 42.1;
Pre-Payment Validation	shall have the meaning given in Paragraph 38.1;

OFFICIAL – COMMERCIAL

Protected Target Fee	shall have the meaning given to it in Paragraph 13.3, and as set out in the table below Paragraph 13.4;
Rate Card	means the rate card as set out in Part 4 of Annex 1;
Re-Work	has the meaning given in the Glossary of Terms in Schedule 2.1 ( <i>Services Description</i> );
Relevant Transfer	shall have the meaning given in the Glossary of Terms in Schedule 9.1 ( <i>Staff Transfer</i> );
Relevant Transfer Date	shall have the meaning given in the Glossary of Terms in Schedule 9.1 ( <i>Staff Transfer</i> );
Risk Premium	means the risk premiums as set out in the Contract Cost Register;
Risk Premium Review	means the process for review of whether a Risk Premium has materialised as set out in Paragraph 23;
SB	has the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> );
Serious Performance Failure	has the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> );
Share Ratio	means the applicable Authority and Supplier share ratios set out in the table in Part 2 of Annex 1;
Specialist Benefit Performance Credit	shall have the meaning given in Paragraph 21.1;
Specialist Benefit Performance Level	has the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> );
Staged Payments	means the payments to be made in respect of implementation activities as described in Paragraph 5.3 and as set out in Part 1 of Annex 1;
Supplier Cost Report	means a template (of the Authority's design) to be populated by the Supplier detailing all Allowable Costs by category, by month, and by year, for delivery of the Services;
Surplus	has the meaning given to it in Paragraph 5.8.1;

Target Cost	means all Allowable Costs set out in the Contract Cost Register, excluding any Pass-Through Costs;
Target Cost Review	means the process for the potential adjustment of the Target Cost as set out in Paragraph 22;
Target Fee	means the maximum amount of profit based on the Target Fee Percentage Mark-Up that, subject to the provisions of this Schedule 7.1 and Schedule 2.2 ( <i>Performance Levels</i> ), the Supplier shall be entitled to earn for the provision of the Services in accordance with this Agreement, such amount being a fixed value in British pounds and as may be amended from time to time based on changes to the Target Cost made in accordance with the Target Cost review process set out in Paragraph 22;
Target Fee Achieved	means the profit actually achieved by the Supplier for a given Service Period based on the Supplier's performance against the Target Performance Levels as calculated in accordance with Paragraph 12, but prior to the adjustments made based on the Supplier's achievement against the Monthly Volume Clearance Target;
Target Fee Multiplier	shall have the meaning given to it in Paragraph 13.5;
Target Fee Percentage Mark-Up	[REDACTED];
Target Performance Level	has the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> );
Target Price	means the combination of the Target Cost and Target Fee as set out in the table in Part 2 of Annex 1;
TPL	has the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> );
Transactional Data	means the monthly general ledger transaction listing from the profit centre which relates to the contract, with the cost transactions listed categorised in the costs categories defined by the Authority;
Transferring Former Supplier Employees	shall have the meaning given in the Glossary of Terms in Schedule 9.1 ( <i>Staff Transfer</i> );

Trial Balance	means a list of all the general ledger account code balances listed in two equal columns, debits and credits, which summarise to zero;
True-Up	refers to the process at the end of each Service Delivery Year where the Payable Target Fee, Pain Share, Gain Share and Clearance Delivery Payments are reviewed and confirmed in accordance with the processes set out in this Schedule 7.1;
TUPE Costs	<p>means costs relating to the:</p> <ul style="list-style-type: none"> <li>(a) annual salary;</li> <li>(b) annual national insurance cost;</li> <li>(c) pensions;</li> <li>(d) annual life insurance cost;</li> <li>(e) annual sick pay entitlement;</li> <li>(f) maternity/paternity costs;</li> <li>(g) statutory redundancy pay and for any Transferring Former Supplier Employees contractual redundancy pay where such Transferring Former Supplier Employee was entitled to such contractual redundancy pay immediately prior to transfer to the Supplier and/or Notified Sub-contractor under the Employment Regulations;</li> <li>(h) notice pay; and</li> <li>(i) any other cost arising directly from the contract of employment;</li> </ul> <p>of the Transferring Former Supplier Employees;</p>
Under Cost	shall have the meaning given to it in Paragraph 17.1;
Volume Clearance Target	has the meaning given in the Glossary of Terms in Schedule 2.2 ( <i>Performance Levels</i> );
Volume Floors	means the minimum amount of Clearances the Supplier is required to achieve in each Service Period in relation to each Assessment type, in order to earn the Target Fee Achieved, as further described in Paragraph 13.2 and as set out in the table below Paragraph 13.4;

OFFICIAL – COMMERCIAL

Volume Weighting	shall have the meaning given to it in Paragraph 13.1;
Withheld Gain Share	means the Gain Share withheld in accordance with Paragraph 17.4;
Withheld Target Fee	means the amount of the Target Fee Achieved that is withheld in accordance with Paragraph 13.7.2 and 13.7.3; and

**ANNEX 6**

**Process Flows**

[REDACTED]



**ANNEX 7**

**Travel and Subsistence Policy**

[REDACTED]

**ANNEX 8****Worked Examples****Worked Example 1****1. Scenario**

- 1.1. Service Delivery Year: Year 1
- 1.2. Target Cost: Actual Target Costs is above the Target Cost in the first few Service Periods and recovering by Service Period 6.
- 1.3. Target Performance Level: the maximum has been achieved for all 14 TPLs.
- 1.4. PIP Clearances: is lower than the Monthly Volume Clearance Target in the first few Service Periods and recovering to exceed the required Monthly Volume Clearance Targets in the later Service Periods, but not achieving the Annual Volume Clearance Target for PIP.
- 1.5. WCA Clearances: volume of Clearances achieves Monthly Volume Clearance Target for all Service Periods.
- 1.6. Serious Performance Failures: No serious Performance Failures in the Service Delivery Year.

**2. Contracted Values**

Clearances		Benefit Type	Year Unit	1												
				Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	1
Volume Clearance Target	PIP	0	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
Volume Clearance Target	WCA	0	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000
Volume Clearance Target	Specialist	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Total Volume Clearance Target		0	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	660,000
Volume Floor		0.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Protected Target Fee		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Target Cost & Target Fee														
Year	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total	
Target Cost	£0.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£120.0m	
Target Fee	£0.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£12.0m	
Evaluation Cost	£0.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£132.0m	

### 3. Actuals

Clearances		Benefit Type	Year														
		Unit	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total		
Actual Monthly Volume Clearances	PP	0	11,800	16,000	20,000	21,000	21,000	21,000	21,400	21,400	21,400	21,600	21,600	21,600	239,800		
Actual Monthly Volume Clearances	WCA	0	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000		
Actual Monthly Volume Clearances	Specialist	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000		
Total Volume Clearance Target		0	46,800	51,000	55,000	56,000	56,000	56,000	56,400	56,400	56,400	56,600	56,600	56,600	659,800		
Target Cost & Target Fee		Year															
		Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total		
Actual Target Cost		£m	£12.5m	£12.0m	£11.5m	£11.0m	£10.5m	£10.0m	£10.0m	£10.0m	£10.0m	£9.5m	£10.0m	£10.0m	£127.0m		
Available Target Fee		£m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£12.0m		
Evaluation Cost		£m	£13.5m	£13.0m	£12.5m	£12.0m	£11.5m	£11.0m	£11.0m	£11.0m	£11.0m	£10.5m	£11.0m	£11.0m	£139.0m		

#### 4. In Service Period Pain Share and Gain Share

- 4.1. Service Period 1, the Actual Target Cost exceeds the Cost Cap, 100% of the cost above the Cost Cap is the responsibility of the Supplier.
- 4.2. Service Periods 1 to 5, the Supplier is in Pain Share, and so the costs above £10 million are shared in the applicable Share Ratio of 80:20 (Authority%: Supplier%).
- 4.3. Service Period 10, the Supplier's Actual Target Costs are below the Target Cost and qualifies for Gain Share. However, because the Actual Cumulative Volume Clearances are below the Cumulative Volume Clearance Target, the Supplier's Gain Share payment of £100,000 is Withheld.

Monthly Outcomes Pain Share / Gain Share														
Line Item	Year/ Unit	1												
		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	1
Share Ratio	Authority	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
	Supplier	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
	Total Share Ratio's	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Target Cost	Actual Target Cost	£	£12,500,000	£12,000,000	£11,500,000	£11,000,000	£10,500,000	£10,000,000	£10,000,000	£10,000,000	£9,500,000	£10,000,000	£10,000,000	£127,000,000
	Target Cost	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£120,000,000
	Difference Between Actual Target Cost and Target Cost	£	£2,500,000	£2,000,000	£1,500,000	£1,000,000	£500,000	£0	£0	£0	£-500,000	£0	£0	£7,000,000
Cost Cap Test	Target Cost with Cost Cap 20%	£	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£144,000,000
	Cost Cap Breached YES / NO	Text	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
	Actual Target Cost above the Cost Cap	£	£-500,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£-500,000
Pain Share / Gain Share Calculation	Pain Share or Gain Share Indicator	Text	Pain Share	Pain Share	Pain Share	Pain Share	Pain Share	Pain Share	Pain Share	Pain Share	Gain Share	Gain Share	Gain Share	Gain Share
	Difference Between Actual Target Cost and Target Cost	£	£2,500,000	£2,000,000	£1,500,000	£1,000,000	£500,000	£0	£0	£0	£-500,000	£0	£0	£7,000,000
	Less Actual Target Cost above the Cost Cap	£	£-500,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£-500,000
Net Pain or Gain for Sharing		£	£2,000,000	£2,000,000	£1,500,000	£1,000,000	£500,000	£0	£0	£0	£-500,000	£0	£0	£6,500,000
Gain Share Tests	Actual Cumulative Volume Clearances	0	46,800	97,800	152,800	208,800	264,800	320,800	377,200	433,600	490,000	546,600	603,200	659,800
	Cumulative Volume Clearance Target	0	55,000	110,000	165,000	220,000	275,000	330,000	385,000	440,000	495,000	550,000	605,000	660,000
	Difference to Cumulative Volume Clearance Target	Text	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL
Cumulative Volume Clearance Target test PASS / FAIL	Serious Performance Failure test	Text	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS
Pain Share Allocation	Pain Share Supplier	£	£400,000	£400,000	£300,000	£200,000	£100,000	£0	£0	£0	£0	£0	£0	£1,400,000
	Pain Share Authority	£	£1,600,000	£1,600,000	£1,200,000	£800,000	£400,000	£0	£0	£0	£0	£0	£0	£5,600,000
	Total Pain Share	£	£2,000,000	£2,000,000	£1,500,000	£1,000,000	£500,000	£0	£0	£0	£0	£0	£0	£7,000,000
Excess Cost Above Cost Cap Supplier			£500,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£500,000
Gain Share Allocation	Gain Share Available to Supplier	£	£0	£0	£0	£0	£0	£0	£0	£0	£100,000	£0	£0	£100,000
	Gain Share Available to Authority	£	£0	£0	£0	£0	£0	£0	£0	£0	£400,000	£0	£0	£400,000
	Total Gain Share	£	£0	£0	£0	£0	£0	£0	£0	£0	£500,000	£0	£0	£500,000
Payment to Supplier	Lower of Target Cost or Actual Target Cost	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£9,500,000	£10,000,000	£10,000,000	£119,500,000
	Pain Share Authority	£	£1,600,000	£1,600,000	£1,200,000	£800,000	£400,000	£0	£0	£0	£0	£0	£0	£5,600,000
	Supplier Gain Share Paid	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Supplier Gain Share Withheld		£	£0	£0	£0	£0	£0	£0	£0	£0	£100,000	£0	£0	£100,000
	Total Potential Payment to Supplier	£	£11,600,000	£11,600,000	£11,200,000	£10,800,000	£10,400,000	£10,000,000	£10,000,000	£10,000,000	£9,600,000	£10,000,000	£10,000,000	£125,200,000
	Difference Paid to Invoiced	£	£900,000	£400,000	£300,000	£200,000	£100,000	£0	£0	£0	£-100,000	£0	£0	£1,800,000
Difference Reconciliation														
	Pain Share Supplier	£	£400,000	£400,000	£300,000	£200,000	£100,000	£0	£0	£0	£0	£0	£0	£1,400,000
	Excess Cost Supplier	£	£500,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£500,000
Gain Share Paid / Withheld		£	£0	£0	£0	£0	£0	£0	£0	£0	£-100,000	£0	£0	£-100,000
	Total of Reconciling Items	£	£900,000	£400,000	£300,000	£200,000	£100,000	£0	£0	£0	£-100,000	£0	£0	£1,800,000
	Check Difference paid to Invoice = Reconciliation	Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE

**5. Annual True Up Pain Share and Gain Share**

- 5.1. By the end of the Service Delivery Year, the Supplier has failed to recover the Clearances to the required Annual Volume Clearance Targets for each Benefit type.
- 5.2. The total of Actual Target Costs above the Target Cost for the whole Service Delivery Year is £7,000,000; the £500,000 of Excess Cost suffered in Service Period 1 will be repaid to the Supplier as part of the True Up.
- 5.3. The £7,000,000 Pain Share is shared between the Authority and the Supplier in the Share Ratios.
- 5.4. The Supplier's True-Up of Pain Share and Gain Share is compared to the in Service Period Pain Share and Gain Share (including any withheld Gain Share, which in this example is £100,000 due to the Gain Share being withheld in Service Period 10, when the Supplier was able to reduce the Actual Target Costs below the Target Cost).

Annual True-Up Pain Share / Gain Share		
Item	Unit	Year 1
<b>Share Ratios</b>		
Authority	%	80%
Supplier	%	20%
<b>Total Share Ratio's</b>	<b>%</b>	<b>100%</b>
<b>Target Cost</b>		
Actual Target Cost	£	£127,000,000
Target Cost	£	£120,000,000
<b>Difference Between Actual Target Cost and Target Cost</b>	<b>£</b>	<b>£7,000,000</b>
Was Cost Cap Breached in Service Delivery Year	Text	NO
Excess Cost in Service Delivery Year	£	£0
<b>Pain Share True-Up</b>		
Pain Share or Gain Share Indicator	Text	Pain Share
Difference Between Actual Target Cost and Target Cost	£	£7,000,000
Less Actual Target Cost above the Cost Cap	£	£0
<b>Net Pain or Gain for Sharing</b>	<b>£</b>	<b>£7,000,000</b>
<b>Supplier Pain Share</b>		
Suppliers Share of True-Up Pain Share	£	£1,400,000
Supplier Pain Share Incurred in Service Periods	£	£1,400,000
<b>Suppliers Pain Share Pay / (Reclaim)</b>	<b>£</b>	<b>£0</b>
Suppliers Excess Cost at True-Up	£	£0
Supplier Excess Cost Cap in Month	£	£500,000
<b>Suppliers Excess Cost Share Pay / (Reclaim)</b>	<b>£</b>	<b>£500,000</b>
<b>Gain Share True-Up</b>		
Actual Cumulative Volume Clearances in Service Period 12	0	659,800
Annual Volume Clearance Target	0	660,000
<b>Difference to Cumulative Volume Clearance Target</b>	<b>0</b>	<b>(200)</b>
Annual Volume Clearance Target PASS/FAIL	Text	FAIL
Serious Performance Failure in Service Delivery Year	Text	NO
<b>Supplier Gain Share</b>		
Suppliers Share of True-Up Gain Share	£	£0
Supplier Paid Gain Share in Service Periods	£	£0
<b>Suppliers Gain Share Pay / (Reclaim)</b>	<b>£</b>	<b>£0</b>
<b>Reconciliation</b>		
Delta Actual Target Cost vs Target Cost	£	£7,000,000
Made up of:		
Suppliers Excess Cost	£	£0
Suppliers Pain Share	£	£1,400,000
Suppliers Gain Share	£	£0
Suppliers Gain Share Lost	£	£0
Authority Pain Share	£	£5,600,000
Authority Gain Share	£	£0
<b>Total</b>	<b>£</b>	<b>£7,000,000</b>
<b>Suppliers Movements Between Service Periods And True-UP</b>		
Supplier Excess Cost in Service Periods	£	-£500,000
Supplier Pain Share in Service Periods	£	-£1,400,000
Supplier Gain Share in Service Periods	£	£0
<b>Suppliers in Month Total</b>	<b>£</b>	<b>-£1,900,000</b>
Suppliers Excess Cost at True-Up	£	£0
Supplier Pain Share at True-Up	£	-£1,400,000
Supplier Gain Share at True-Up	£	£0
<b>Suppliers True-Up Total</b>	<b>£</b>	<b>-£1,400,000</b>
<b>Pay to Supplier/(Reclaim from Supplier)</b>	<b>£</b>	<b>£500,000</b>

**6. Monthly Target Fee**

- 6.1. It is important to remember that the Target Fee is assessed only in relation to the Assessments for PIP and WCA.
- 6.2. All of the Target Fee is Payable Target Fee for WCA
- 6.3. For PIP, Service Period 1, the Actual Monthly Volume Clearances were below the Volume Floor so 100% of the Target Fee Achieved was withheld.
- 6.4. For PIP, Service Period 2, the Actual Monthly Volume Clearances was 20% below the Monthly Volume Clearance Target, so 50% of the Target Fee Achieved was withheld ( $20\% \times 2.5 = 50\%$ ).
- 6.5. For PIP, Service Periods 3 to 12, the Actual Monthly Volume Clearances for each Service Period was at or above the Monthly Volume Clearance Targets, so 100% of the Target Fee Achieved was paid.

Monthly Outcomes PIP Target Fee		Benefit Unit												Line Item	
		Year	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Annual Volume Clearance Target															
Monthly Volume Clearance Target	PIP	Volume	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
Cumulative Volume Clearance Target	PIP	Volume	20,000	40,000	60,000	80,000	100,000	120,000	140,000	160,000	180,000	200,000	220,000	240,000	
Volume Floor	PIP	Volume	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	
Actual Volume															
Monthly Assessment Specific Clearances	PIP	Volume	11,800	16,000	20,000	21,000	21,000	21,000	21,400	21,400	21,400	21,600	21,600	21,600	239,800
Actual Cumulative Volume Clearances	PIP	Volume	11,800	27,800	47,800	68,800	89,800	110,800	132,200	153,600	175,000	196,600	218,200	239,800	
Actual Volume vs Annual Volume Clearance Target															
Monthly Difference: Monthly Assessment Specific Clearances vs Monthly Volume Clearance Target	PIP	Volume	-8,200	-4,000	0	1,000	1,000	1,000	1,400	1,400	1,400	1,600	1,600	1,600	
Cumulative Difference: Actual Cumulative Volume Clearances vs Cumulative Volume Clearance Target	PIP	Volume	-8,200	-12,200	-12,200	-11,200	-10,200	-9,200	-7,800	-6,400	-5,000	-3,400	-1,800	-200	
Is the Actual Volume Below the Volume Floor?	PIP	Volume	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	
Percentage of Actual Cumulative Volume Clearances vs Annual Volume Clearance Target	PIP	%	-41.0%	-20.0%	0.0%	5.0%	5.0%	5.0%	7.0%	7.0%	7.0%	8.0%	8.0%	8.0%	
Target Fee Achieved, Withheld and Paid															
Target Fee Achieved	PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,000,000
Withheld Target Fee	PIP	£	£500,000	£250,000	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£750,000
Payable Target Fee	PIP	£	£0	£250,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,250,000
Percentage paid	PIP	%	0.0%	50.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Monthly Outcomes WCA Target Fee															
		Year	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Annual Volume Clearance Target															
Monthly Volume Clearance Target	WCA	Volume	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000
Cumulative Volume Clearance Target	WCA	Volume	30,000	60,000	90,000	120,000	150,000	180,000	210,000	240,000	270,000	300,000	330,000	360,000	
Volume Floor	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	
Actual Volume															
Monthly Assessment Specific Clearances	WCA	Volume	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000
Actual Cumulative Volume Clearances	WCA	Volume	30,000	60,000	90,000	120,000	150,000	180,000	210,000	240,000	270,000	300,000	330,000	360,000	
Actual Volume vs Annual Volume Clearance Target															
Monthly Difference: Monthly Assessment Specific Clearances vs Monthly Volume Clearance Target	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	
Cumulative Difference: Actual Cumulative Volume Clearances vs Cumulative Volume Clearance Target	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	
Is the Actual Volume Below the Volume Floor?	WCA	Volume	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	
Percentage of Actual Cumulative Volume Clearances vs Annual Volume Clearance Target	WCA	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Target Fee Achieved, Withheld and Paid															
Target Fee Achieved	WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,000,000
Withheld Target Fee	WCA	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Payable Target Fee	WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,000,000
Percentage paid	WCA	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

## 7. Annual True Up of the Target Fee

7.1. By the end of the Service Delivery Year, most of the Actual Cumulative Volume Clearances has been recovered against the Cumulative Volume Clearance Target for PIP, but the Actual Cumulative Volume Clearances at the end of the Service Delivery Year missed the Annual Volume Clearance Target for PIP by 200 Assessments.

7.2. For the Clearance short fall of 200 Assessments, the percentage shortfall against the Annual Volume Clearance Target is calculated and the multiplier of 2.5 applied ( $200/240,000 = 0.0008$  x  $2.5 = 0.002$ .  $0.002 \times 100 = 0.2\%$ ). As can be seen in the example below the amount of Target Fee lost is £12,500.

Annual True-Up PIP Target Fee					
Item		Benefit	Unit	Year 1	
Volume Analysis					
Annual Volume Clearance Target		PIP	Volume	240,000	
Actual Cumulative Volume Clearances		PIP	Volume	239,800	
Difference: Annual Volume Clearance Target vs Actual Cumulative Volume Clearances		PIP	Volume	-200	
Target Fee Achieved Lost %					
Is the Actual Volume Below the Volume Floor?		PIP	Text	NO	
% of Target Fee Achieved lost due		PIP	%	0.2%	
Net Target Fee Achieved due		PIP	%	99.8%	
Check = 100%		PIP	Text	TRUE	
Volume Analysis					
Target Fee Achieved		PIP	£	£5,000,000	
Target Fee Achieved lost £5,000,000 * 0.2%		PIP	£	-£12,500	
Payable Target Fee due		PIP	£	£5,987,500	
Payable Target Fee already paid		PIP	£	£5,250,000	
Balance of Withheld Target Fee		PIP	£	£737,500	
Less deduction @ 10.0%		PIP	£	-£73,750	
Payable Target Fee to be paid / (reclaimed)		PIP	£	£663,750	
Analyse Withheld Target Fee					
Withheld Target Fee		PIP	£	£750,000	
Target Fee Achieved lost due to volume		PIP	£	-£12,500	
Payable Target Fee before deduction		PIP	£	£737,500	
Less deduction @ 10.0%		PIP	£	-£73,750	
Withheld Target Fee due		PIP	£	£663,750	
Check Analysis = Payable Target Fee to be paid / (reclaimed)		PIP	Text	TRUE	

Annual True-Up WCA Target Fee					
Item		Benefit	Unit	Year 1	
Volume Analysis					
Annual Volume Clearance Target		WCA	Volume	360,000	
Actual Cumulative Volume Clearances		WCA	Volume	360,000	
Difference: Annual Volume Clearance Target vs Actual Cumulative Volume Clearances		WCA	Volume	0	
Target Fee Achieved Lost %					
Is the Actual Volume Below the Volume Floor?		WCA	Text	NO	
% of Target Fee Achieved lost due		WCA	%	0.0%	
Net Target Fee Achieved due		WCA	%	100.0%	
Check = 100%		WCA	Text	TRUE	
Volume Analysis					
Target Fee Achieved		WCA	£	£6,000,000	
Target Fee Achieved lost £6,000,000 * 0.0%		WCA	£	£0	
Payable Payable Target Fee due		WCA	£	£6,000,000	
Payable Target Fee already paid		WCA	£	£6,000,000	
Balance of Withheld Target Fee		WCA	£	£0	
Less deduction @ 10.0%		WCA	£	£0	
Payable Target Fee to be paid / (reclaimed)		WCA	£	£0	
Analyse Withheld Target Fee					
Withheld Target Fee		WCA	£	£0	
Target Fee Achieved lost due to volume		WCA	£	£0	
Payable Target Fee before deduction		WCA	£	£0	
Less deduction @ 10.0%		WCA	£	£0	
Withheld Target Fee due		WCA	£	£0	
Check Analysis = Payable Target Fee to be paid / (reclaimed)		WCA	Text	TRUE	

- 7.3. The £750,000 of Withheld Target Fee from the monthly values is reduced by the £12,500 which has been lost due to the 200 missed assessments.
- 7.4. The Withheld Target Fee is now £737,500 against which a penalty of 10% is applied, for failing to deliver the volumes in the correct Service Periods.
- 7.5. The Withheld Target Fee which is now due is £663,750, which will be paid to the supplier.



**8. Monthly Clearance Delivery Payment**

8.1. There is no Monthly Clearance Delivery Payment due.

**9. Annual True Up Clearance Delivery Payment**

9.1. There is no Annual True Up Clearance Delivery Payment due.

10. Summary Monthly Outcomes

		TARGET COST											
Line Item		1	1	1	1	1	1	1	1	1	1	1	1
Year	Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Target Cost Paid													Total
Submitted Target Cost Invoice	£	£12,500,000	£12,000,000	£11,500,000	£11,000,000	£10,500,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£9,500,000	£10,000,000	£127,000,000
Target Cost Invoice Payment	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£9,500,000	£10,000,000	£119,500,000
Authority Pain Share Payment	£	£1,600,000	£1,600,000	£1,200,000	£800,000	£400,000	-	-	-	-	-	-	£5,600,000
Supplier Gain Share Payment	£	-	-	-	-	-	-	-	-	-	-	-	-
Total Payment to Supplier	£	£11,600,000	£11,600,000	£11,200,000	£10,800,000	£10,400,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£9,500,000	£10,000,000	£125,100,000
Difference to Submitted Target Cost Invoice	£	£900,000	£400,000	£300,000	£200,000	£100,000	-	-	-	-	-	-	£1,900,000
Analysis of Difference to Target Cost Invoice													
Supplier Excess Cost	£	£500,000	-	-	-	-	-	-	-	-	-	-	£500,000
Supplier Pain Share	£	£400,000	£400,000	£300,000	£200,000	£100,000	-	-	-	-	-	-	£1,400,000
Supplier Gain Share Payment	£	-	-	-	-	-	-	-	-	-	-	-	-
Total of Excluded Payments	£	£900,000	£400,000	£300,000	£200,000	£100,000	-	-	-	-	-	-	£1,900,000
Check Analysis of Difference = Difference	Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Target Cost Invoice Reconciliation													
Submitted Target Cost Invoice	£	£12,500,000	£12,000,000	£11,500,000	£11,000,000	£10,500,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£9,500,000	£10,000,000	£127,000,000
Target Cost (Lower of Target Cost or Actual Target Cost)	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£9,500,000	£10,000,000	£119,500,000
Supplier Excess Cost	£	£500,000	-	-	-	-	-	-	-	-	-	-	£500,000
Supplier Pain Share	£	£400,000	£400,000	£300,000	£200,000	£100,000	-	-	-	-	-	-	£1,400,000
Authority Pain Share	£	£1,600,000	£1,600,000	£1,200,000	£800,000	£400,000	-	-	-	-	-	-	£5,600,000
Total of Target Cost Invoice	£	£12,500,000	£12,000,000	£11,500,000	£11,000,000	£10,500,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£9,500,000	£10,000,000	£127,000,000
Check Target Cost Reconciliation = Target Cost Invoice	Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Supplier Gain Share Withheld / Lost	£	-	-	-	-	-	-	-	-	-	£100,000	-	£100,000
Supplier Gain Share Payment Withheld	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Gain Share Payment Lost	£	-	-	-	-	-	-	-	-	-	-	-	-
Total Analysis of Suppliers Gain Share	£	-	-	-	-	-	-	-	-	-	£100,000	-	£100,000
TARGET FEE													
Line Item		1	1	1	1	1	1	1	1	1	1	1	1
Year	Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Payable Target Fee paid													Total
Supplier Available Target Fee - PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,000,000
Supplier Available Target Fee - WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,000,000
Total Supplier Available Target Fee	£	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£12,000,000
Supplier Target Fee Achieved - PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,000,000
Supplier Target Fee Achieved - WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,000,000
Total Supplier Target Fee Achieved	£	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£12,000,000
Difference between Available Target Fee and Target Fee Achieved	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Payable Target Fee - PIP	£	-	£250,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,250,000
Supplier Payable Target Fee - WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,000,000
Total Supplier Payable Target Fee paid	£	£500,000	£750,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£11,250,000
Difference between Target Fee Achieved and Payable Target Fee	£	£500,000	£250,000	-	-	-	-	-	-	-	-	-	£750,000
Analysis Target Fee Differences													
Supplier Target Fee Lost Due to Performance - PIP	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Target Fee Lost Due to Performance - WCA	£	-	-	-	-	-	-	-	-	-	-	-	-
Total Difference between Available Target Fee and Target Fee Achieved	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Withheld Target Fee due to volume - PIP	£	£500,000	£250,000	-	-	-	-	-	-	-	-	-	£750,000
Supplier Withheld Target Fee due to volume - WCA	£	-	-	-	-	-	-	-	-	-	-	-	-
Total Difference Between Target Fee Achieved and Payable Target Fee paid	£	£500,000	£250,000	-	-	-	-	-	-	-	-	-	£750,000

CLEARANCE DELIVERY PAYMENT													
Line Item		1	1	1	1	1	1	1	1	1	1	1	1
Year	Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Clearance Delivery Payment - PIP													
	Volume	0	0	0	0	0	0	0	0	0	0	0	0
	Total additional PIP volume eligible for payment	0	0	0	0	0	0	0	0	0	0	0	0
	Additional PP volume paid	0	0	0	0	0	0	0	0	0	0	0	0
	Additional PP volume withheld	0	0	0	0	0	0	0	0	0	0	0	0
	Additional PP volume lost	0	0	0	0	0	0	0	0	0	0	0	0
	Volume	0	0	0	0	0	0	0	0	0	0	0	0
	Clearance Delivery Payment made - PIP	£	-	-	-	-	-	-	-	-	-	-	-
	Clearance Delivery Payment withheld - PIP	£	-	-	-	-	-	-	-	-	-	-	-
	Clearance Delivery Payment lost - PIP	£	-	-	-	-	-	-	-	-	-	-	-
	Total clearance delivery income	£	-	-	-	-	-	-	-	-	-	-	-
Clearance Delivery Payment - WCA													
	Volume	0	0	0	0	0	0	0	0	0	0	0	0
	Total additional WCA volume eligible for payment	0	0	0	0	0	0	0	0	0	0	0	0
	Additional WCA volume paid	0	0	0	0	0	0	0	0	0	0	0	0
	Additional WCA volume withheld	0	0	0	0	0	0	0	0	0	0	0	0
	Additional WCA volume lost	0	0	0	0	0	0	0	0	0	0	0	0
	Volume	0	0	0	0	0	0	0	0	0	0	0	0
	Total clearance delivery volume	£	-	-	-	-	-	-	-	-	-	-	-
	Clearance Delivery Payment made - WCA	£	-	-	-	-	-	-	-	-	-	-	-
	Clearance Delivery Payment withheld - WCA	£	-	-	-	-	-	-	-	-	-	-	-
	Clearance Delivery Payment lost - WCA	£	-	-	-	-	-	-	-	-	-	-	-
	Total clearance delivery income	£	-	-	-	-	-	-	-	-	-	-	-
TOTAL SUPPLIER PAYMENT													
Line Item		1	1	1	1	1	1	1	1	1	1	1	1
Year	Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Total Supplier Payment													
	Actual Target Cost Invoice	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£9,500,000	£10,000,000	£119,500,000
	Authority Pain Share Payment	£	£1,600,000	£1,200,000	£300,000	£400,000	-	-	-	-	-	-	£5,600,000
	Supplier Pain Share Payment	£	-	-	-	-	-	-	-	-	-	-	-
	Supplier Payable Target Fee	£	£500,000	£750,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£11,250,000
	Supplier Clearance Delivery Payment	£	-	-	-	-	-	-	-	-	-	-	-
	Total Payment to Supplier	£	£12,100,000	£12,350,000	£11,800,000	£11,400,000	£11,000,000	£11,000,000	£11,000,000	£11,000,000	£10,500,000	£11,000,000	£136,350,000

**Corresponding paragraphs in Schedule 7.1**

<b>Paragraph in this worked example 1</b>	<b>Paragraph in Schedule 7.1</b>
1.1	N/A
1.2	15, 16, 17, 18
1.3	12
1.4	13
1.5	13
1.6	17.3.2, 17.4.2, 17.6, 18.7.2
2	N/A
3	N/A
4.1	15.1
4.2	16
4.3	17.4
5.1	18
5.2	18.5
5.3	18.7.2
5.4	18.5
6.1	12.2.2
6.2	12
6.3	13.7.3
6.4	13.7.2
6.5	13.7.1
7.1	14.3.2
7.2	14.3.2
7.3	14.3.2
7.4	14.3.2
7.5	14.3.2
8.1	19
9.1	20
10	N/A

## Worked Example 2

### 1. Scenario

- 1.1. Service Delivery Year: Year 2
- 1.2. Target Cost: Actual Target Costs for Service Period 1 hits the Target Cost, but for Service Periods 2 to 12, Actual Target Costs are 5% below Target Costs.
- 1.3. Target Performance Level: the maximum has been achieved for all 14 TPLs.
- 1.4. PIP Clearances: Service Periods 1 to 4 on Monthly Volume Clearance Targets, Service Period 5 is below the Monthly Volume Clearance Target by 5%, Service Period 6 is above the Monthly Volume Clearance Target by 5%, Service Periods 7 to 12 are on the Monthly Volume Clearance Targets.
- 1.5. WCA Clearances: volume of Clearances hits the Monthly Volume Clearance Target for all Service Periods.
- 1.6. Serious Performance Failures: Serious Performance Failure in Service Period 12.

### 2. Contracted Values

Clearances	Benefit Type	Year Unit	2	2	2	2	2	2	2	2	2	2	2	2	2	2
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	2	Total
Volume Clearance Target	PIP	0	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
Volume Clearance Target	WCA	0	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000
Volume Clearance Target	Specialist	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
<b>Total Volume Clearance Target</b>		<b>0</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>660,000</b>
Volume Floor		0.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%	70.0%
Protected Target Fee		0.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%

Target Cost & Target Fee	Year Unit	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	2	2	Total
Target Cost	£0.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£120.0m
Target Fee	£0.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£12.0m
<b>Evaluation Cost</b>	<b>£0.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£132.0m</b>

### 3. Actuals

[illegible]

#### 4. In Service Period Pain Share and Gain Share

- 4.1. In Service Period 1, the Actual Target Cost is equal to the Target Cost.
- 4.2. In Service Periods 2 to 12, the Supplier's Actual Target Costs are less than the Target Costs so the Supplier is in Gain Share. But in Service Period 5 the Actual Cumulative Volume Clearances are below the Cumulative Volume Clearance Target and so the Gain Share payment for such Service Period was withheld.
- 4.3. In Service Period 12, there is a Serious Performance Failure and so the Gain Share Payment for Service Period 12 was lost.

Line Item		Monthly Outcomes Pain Share / Gain Share													
		Year	2	2	2	2	2	2	2	2	2	2	2	2	2
Unit		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total	
Share Ratio															
Authority	%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Supplier	%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Total Share Ratio's		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Target Cost															
Actual Target Cost	£	£10,000,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£114,500,000	
Target Cost	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£120,000,000	
Difference Between Actual Target Cost and Target Cost		£	£0	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-5,500,000	
Cost Cap Test															
Target Cost with Cost Cap 20%	£	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£144,000,000	
Cost Cap Breached YES / NO	Text	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	
Actual Target Cost above the Cost Cap	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Pain Share / Gain Share Calculation															
Pain Share or Gain Share Indicator	Text	On Target	Gain Share	Gain Share	Gain Share	Gain Share	Gain Share	Gain Share	Gain Share	Gain Share	Gain Share	Gain Share	Gain Share	Gain Share	
Difference Between Actual Target Cost and Target Cost	£	£0	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-5,500,000	
Less Actual Target Cost above the Cost Cap	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Net Pain or Gain for Sharing		£	£0	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-500,000	£-5,500,000	
Gain Share Tests															
Actual Cumulative Volume Clearances	0	55,000	110,000	165,000	220,000	274,000	330,000	385,000	440,000	495,000	550,000	605,000	660,000	660,000	
Cumulative Volume Clearance Target	0	55,000	110,000	165,000	220,000	275,000	330,000	385,000	440,000	495,000	550,000	605,000	660,000	660,000	
Difference to Cumulative Volume Clearance Target		0	-	-	-	(1,000)	-	-	-	-	-	-	-	-	
Cumulative Volume Clearance Target test	Text	PASS	PASS	PASS	PASS	FAIL	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	
Serious Performance Failure test	Text	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	
Pain Share Allocation															
Pain Share Supplier	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Pain Share Authority	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Total Pain Share		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Excess Cost Above Cost Cap Supplier		£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Gain Share Allocation															
Gain Share Available to Supplier	£	£0	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£2,750,000	
Gain Share Available to Authority	£	£0	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£2,750,000	
Total Gain Share		£	£0	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,500,000	
Payment to Supplier															
Lower of Target Cost or Actual Target Cost	£	£10,000,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£114,500,000	
Pain Share Authority	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Supplier Gain Share Paid	£	£0	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£2,250,000	
Supplier Gain Share Withheld	£	£0	£0	£0	£0	£250,000	£0	£0	£0	£0	£0	£0	£0	£250,000	
Total Potential Payment to Supplier		£	£10,000,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,500,000	£117,000,000	
Difference Paid to Invoiced	£	£0	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£0	£-2,500,000	
Difference Reconciliation															
Pain Share Supplier	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Excess Cost Supplier	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Gain Share Paid / Withheld	£	£0	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£0	£-2,500,000	
Total of Reconciling Items		£	£0	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£-250,000	£0	£-2,500,000	
Check Difference paid to invoice = Reconciliation	Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	

**5. Annual True Up Pain Share and Gain Share**

- 5.1. By the end of the Service Delivery Year, the Supplier has saved £5,500,000 of Actual Target Cost against the Target Costs.
- 5.2. The Clearance volume shortfall in Service Period 5, was recovered in Service Period 6 and so the withheld Gain Share for Service Period 5 would have been paid at the end of the Service Delivery Year.
- 5.3. **But**, the Serious Performance Failure in Service Period 12 means that all the Gain Share Paid during the year is recoverable and the withheld Gain Share is forfeited.
- 5.4. The £2,250,000 of Gain Share which was paid, and the £250,000 of Gain Share which was withheld are all lost. The £2,250,000 will be repaid to the Authority.



Annual True-Up Pain Share / Gain Share		
Item	Unit	Year 2
<b>Share Ratios</b>		
Authority	%	50%
Supplier	%	50%
<b>Total Share Ratio's</b>	<b>%</b>	<b>100%</b>
<b>Target Cost</b>		
Actual Target Cost	£	£114,500,000
Target Cost	£	£120,000,000
<b>Difference Between Actual Target Cost and Target Cost</b>	<b>£</b>	<b>-£5,500,000</b>
Was Cost Cap Breached in Service Delivery Year	Text	NO
Excess Cost in Service Delivery Year	£	£0
<b>Pain Share True-Up</b>		
Pain Share or Gain Share Indicator	Text	Gain Share
Difference Between Actual Target Cost and Target Cost	£	-£5,500,000
Less Actual Target Cost above the Cost Cap	£	£0
<b>Net Pain or Gain for Sharing</b>	<b>£</b>	<b>-£5,500,000</b>
<b>Supplier Pain Share</b>		
Suppliers Share of True-Up Pain Share	£	£0
Supplier Pain Share Incurred in Service Periods	£	£0
<b>Suppliers Pain Share Pay / (Reclaim)</b>	<b>£</b>	<b>£0</b>
Suppliers Excess Cost at True-Up	£	£0
Supplier Excess Cost Cap in Month	£	£0
<b>Suppliers Excess Cost Share Pay / (Reclaim)</b>	<b>£</b>	<b>£0</b>
<b>Gain Share True-Up</b>		
Actual Cumulative Volume Clearances in Service Period 12	0	660,000
Annual Volume Clearance Target	0	660,000
<b>Difference to Cumulative Volume Clearance Target</b>	<b>0</b>	<b>-</b>
Annual Volume Clearance Target PASS/FAIL	Text	PASS
Serious Performance Failure in Service Delivery Year	Text	YES
<b>Supplier Gain Share</b>		
Suppliers Share of True-Up Gain Share	£	£0
Supplier Paid Gain Share in Service Periods	£	£2,250,000
<b>Suppliers Gain Share Pay / (Reclaim)</b>	<b>£</b>	<b>-£2,250,000</b>
<b>Reconciliation</b>		
Delta Actual Target Cost vs Target Cost	£	-£5,500,000
Made up of:		
Suppliers Excess Cost	£	£0
Suppliers Pain Share	£	£0
Suppliers Gain Share	£	£0
Suppliers Gain Share Lost	£	-£2,750,000
Authority Pain Share	£	£0
Authority Gain Share	£	-£2,750,000
<b>Total</b>	<b>£</b>	<b>-£5,500,000</b>
<b>Suppliers Movements Between Service Periods And True-UP</b>		
Supplier Excess Cost in Service Periods	£	£0
Supplier Pain Share in Service Periods	£	£0
Supplier Gain Share in Service Periods	£	£2,250,000
<b>Suppliers in Month Total</b>	<b>£</b>	<b>£2,250,000</b>
Suppliers Excess Cost at True-Up	£	£0
Supplier Pain Share at True-Up	£	£0
Supplier Gain Share at True-Up	£	£0
<b>Suppliers True-Up Total</b>	<b>£</b>	<b>£0</b>
<b>Pay to Supplier/(Reclaim from Supplier)</b>	<b>£</b>	<b>-£2,250,000</b>

## 566

- 138

138

## 7. Annual True Up Target Fee

7.1. By the end of the Service Delivery Year, 100% of the Annual Volume Clearance Target has been achieved for PIP.

Annual True-Up PIP Target Fee						
Item		Benefit	Unit	Year 2		
Volume Analysis						
Annual Volume Clearance Target		PIP	Volume	240,000		
Actual Cumulative Volume Clearances		PIP	Volume	240,000		
Difference: Annual Volume Clearance Target vs Actual Cumulative Volume Clearances		PIP	Volume	0		
Target Fee Achieved Lost %						
Is the Actual Volume Below the Volume Floor?		PIP	Text	NO		
% of Target Fee Achieved lost due		PIP	%	0.0%		
Net Target Fee Achieved due		PIP	%	100.0%		
Check = 100%		PIP	Text	TRUE		
Volume Analysis						
Target Fee Achieved		PIP	£	£6,000,000		
Target Fee Achieved lost £6,000,000 * 0.0%		PIP	£	£0		
Payable Target Fee due		PIP	£	£6,000,000		
Payable Target Fee already paid		PIP	£	£5,937,500		
Balance of Withheld Target Fee		PIP	£	£62,500		
Less deduction @ 10.0%		PIP	£	-£6,250		
Payable Target Fee to be paid / (reclaimed)		PIP	£	£56,250		
Analyse Withheld Target Fee						
Withheld Target Fee		PIP	£	£62,500		
Target Fee Achieved lost due to volume		PIP	£	£0		
Payable Target Fee before deduction		PIP	£	£62,500		
Less deduction @ 10.0%		PIP	£	-£6,250		
Withheld Target Fee due		PIP	£	£56,250		
Check Analysis = Payable Target Fee to be paid / (reclaimed)		PIP	Text	TRUE		

Annual True-Up WCA Target Fee						
Item		Benefit	Unit	Year 2		
Volume Analysis						
Annual Volume Clearance Target		WCA	Volume	360,000		
Actual Cumulative Volume Clearances		WCA	Volume	360,000		
Difference: Annual Volume Clearance Target vs Actual Cumulative Volume Clearances		WCA	Volume	0		
Target Fee Achieved Lost %						
Is the Actual Volume Below the Volume Floor?		WCA	Text	NO		
% of Target Fee Achieved lost due		WCA	%	0.0%		
Net Target Fee Achieved due		WCA	%	100.0%		
Check = 100%		WCA	Text	TRUE		
Volume Analysis						
Target Fee Achieved		WCA	£	£6,000,000		
Target Fee Achieved lost £6,000,000 * 0.0%		WCA	£	£0		
Payable Payable Target Fee due		WCA	£	£6,000,000		
Payable Target Fee already paid		WCA	£	£6,000,000		
Balance of Withheld Target Fee		WCA	£	£0		
Less deduction @ 10.0%		WCA	£	£0		
Payable Target Fee to be paid / (reclaimed)		WCA	£	£0		
Analyse Withheld Target Fee						
Withheld Target Fee		WCA	£	£0		
Target Fee Achieved lost due to volume		WCA	£	£0		
Payable Target Fee before deduction		WCA	£	£0		
Less deduction @ 10.0%		WCA	£	£0		
Withheld Target Fee due		WCA	£	£0		
Check Analysis = Payable Target Fee to be paid / (reclaimed)		WCA	Text	TRUE		

7.2. The total Withheld Target Fee for Service Period 5 of £62,500 is available to be paid, less the 10% deduction.

7.3. The Withheld Target Fee of £62,500 – 10% = £56,250 will be paid to the Supplier.

- 8. **Monthly Clearance Delivery Payment**
  - 8.1. There is no Monthly Clearance Delivery Payment due.
- 9. **Annual True Up Clearance Delivery Payment**
  - 9.1. There is no Annual True Up Clearance Delivery Payment due.

# 10. Summary Monthly Outcomes

TARGET COST													
Line Item		2		2		2		2		2		2	
Year	Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Target Cost Paid													
Submitted Target Cost Invoice	£	£10,000,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000
Target Cost Invoice Payment	£	£10,000,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000
Authority Pain Share Payment	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Gain Share Payment	£	-	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
Total Payment to Supplier	£	£10,000,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000	£9,750,000
Difference to Submitted Target Cost Invoice	£	-	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
Analysis of Difference to Target Cost Invoice													
Supplier Excess Cost	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Pain Share	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Gain Share Payment	£	-	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
Total of Excluded Payments	£	-	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
Check Analysis of Difference = Difference	Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Target Cost Invoice Reconciliation													
Submitted Target Cost Invoice	£	£10,000,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000
Target Cost (Lower of Target Cost or Actual Target Cost)	£	£10,000,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000
Supplier Excess Cost	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Pain Share	£	-	-	-	-	-	-	-	-	-	-	-	-
Authority Pain Share	£	-	-	-	-	-	-	-	-	-	-	-	-
Total of Target Cost Invoice	£	£10,000,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000	£9,500,000
Check Target Cost Reconciliation = Target Cost Invoice	Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Supplier Gain Share Withheld / Lost	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Gain Share Payment Withheld	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Gain Share Payment Lost	£	-	-	-	-	-	-	-	-	-	-	-	-
Total Analysis of Suppliers Gain Share	£	-	-	-	-	-	-	-	-	-	-	-	-
TARGET FEE													
Payable Target Fee paid													
Year	Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Supplier Available Target Fee - PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000
Supplier Available Target Fee - WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000
Total Supplier Available Target Fee	£	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000
Supplier Target Fee Achieved - PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000
Supplier Target Fee Achieved - WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000
Total Supplier Target Fee Achieved	£	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000
Difference between Available Target Fee and Target Fee Achieved	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Payable Target Fee - PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000
Supplier Payable Target Fee - WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000
Total Supplier Payable Target Fee paid	£	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000
Difference between Target Fee Achieved and Payable Target Fee	£	-	-	-	-	-	-	-	-	-	-	-	-
Analysis Target Fee Differences													
Supplier Target Fee Lost Due to Performance - PIP	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Target Fee Lost Due to Performance - WCA	£	-	-	-	-	-	-	-	-	-	-	-	-
Total Difference between Available Target Fee and Target Fee Achieved	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Withheld Target Fee due to volume - PIP	£	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Withheld Target Fee due to volume - WCA	£	-	-	-	-	-	-	-	-	-	-	-	-
Total Difference Between Target Fee Achieved and Payable Target Fee paid	£	-	-	-	-	-	-	-	-	-	-	-	-

[illegible]

**Corresponding paragraphs to Schedule 7.1**

<b>Paragraph in this worked example 2</b>	<b>Paragraph in Schedule 7.1</b>
1.1	N/A
1.2	15, 16, 17, 18
1.3	12
1.4	13
1.5	13
1.6	17.3.2, 17.4.2, 17.6, 18.7.2
2	N/A
3	N/A
4.1	16, 17, 18
4.2	17, 17.4
4.3	17.3.2
5.1	16, 17, 18
5.2	17.5, 18.7, 18.8
5.3	18.7.2
5.4	18.7
6.1	12.2.2
6.2	12
6.3	13.7.1
6.4	13.7.2
7.1	14.3.2
7.2	14.3.2
7.3	14.3.2
8.1	19
9.1	20
10	N/A

### Worked Example 3

#### 1. Scenario

- 1.1. Service Delivery Year: Year 3
- 1.2. Target Cost: Actual Target Costs hits the Target Cost for whole Service Delivery Year.
- 1.3. Target Performance Level: Service Periods 1 to 6 100% is achieved for the Performance Levels. In Service Periods 7 to 12 for TPL1a (PIP) which is worth 28% of the Monthly Available Target Fee (£280,000 in the example), all of the Available Target Fee is lost because the Supplier did not achieve above the Minimum Performance Level.
- 1.4. PIP Clearances: In Service Periods 1 to 6, 80% of the Monthly Volume Clearance Target is achieved in each Service Period, and in Service Periods 6 to 12, 100% of the Monthly Volume Clearance Targets are achieved.
- 1.5. WCA Clearances: volume of Clearances hits the Monthly Volume Clearance Target for all Service Period.
- 1.6. Serious Performance Failures: No Serious Performance Failures in the Service Delivery Year.

#### 2. Contracted Values

Clearances	Benefit Type	Unit	Year												3	Total
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12		
Volume Clearance Target	PIP	0	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
Volume Clearance Target	WCA	0	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000
Volume Clearance Target	Specialist	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
<b>Total Volume Clearance Target</b>		<b>0</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>55,000</b>	<b>660,000</b>
Volume Floor		0.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%
Protected Target Fee		0.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%

Target Cost & Target Fee	Year	Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	3	Total
			£0.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£120.0m
Target Cost		£0.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£120.0m
Target Fee		£0.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£12.0m
<b>Evaluation Cost</b>		<b>£0.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£11.0m</b>	<b>£132.0m</b>



3. Actuals

Clearances		Benefit Type	Year Unit	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Actual Monthly Volume Clearances	PIP	0	16,000	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	3	Total
Actual Monthly Volume Clearances	WCA	0	30,000		16,000	16,000	16,000	16,000	16,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	216,000
Actual Monthly Volume Clearances	Specialist	0	5,000		30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000
Total Volume Clearance Target		0	51,000		51,000	51,000	51,000	51,000	51,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	636,000

Target Cost & Target Fee		Year Unit	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Actual Target Cost		£m	£10.0m	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	3	Total
Available Target Fee		£m	£1.0m		£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£120.0m
Evaluation Cost		£m	£11.0m		£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£132.0m

4. In Service Period Pain Share and Gain Share

4.1. Actual Target Cost is equal to the Target Cost, and so Pain Share and Gain Share is not used.

Monthly Outcomes Pain Share / Gain Share													
Line Item	Unit	Year											
		3	3	3	3	3	3	3	3	3	3	3	3
		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Share Ratio													
Authority	%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Supplier	%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Total Share Ratio's	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Target Cost													
Actual Target Cost	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£120,000,000
Target Cost	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£120,000,000
Difference Between Actual Target Cost and Target Cost	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Cost Cap Test													
Target Cost with Cost Cap 20%	£	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£144,000,000
Cost Cap Breached YES / NO	Text	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Actual Target Cost above the Cost Cap	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Pain Share / Gain Share Calculation													
Pain Share or Gain Share Indicator	Text	On Target	On Target	On Target	On Target	On Target	On Target	On Target	On Target	On Target	On Target	On Target	On Target
Difference Between Actual Target Cost and Target Cost	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Less Actual Target Cost above the Cost Cap	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Net Pain or Gain for Sharing	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Gain Share Tests													
Actual Cumulative Volume Clearances	0	51,000	102,000	153,000	204,000	255,000	306,000	361,000	416,000	471,000	526,000	581,000	636,000
Cumulative Volume Clearance Target	0	55,000	110,000	165,000	220,000	275,000	330,000	385,000	440,000	495,000	550,000	605,000	660,000
Difference to Cumulative Volume Clearance Target	0	(4,000)	(8,000)	(12,000)	(16,000)	(20,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)
Cumulative Volume Clearance Target test PASS / FAIL	Text	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL	FAIL
Serious Performance Failure test	Text	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS
Pain Share Allocation													
Pain Share Supplier	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Pain Share Authority	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Total Pain Share	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Excess Cost Above Cost Cap Supplier		£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Gain Share Allocation													
Gain Share Available to Supplier	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Gain Share Available to Authority	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Total Gain Share	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Payment to Supplier													
Lower of Target Cost or Actual Target Cost	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£120,000,000
Pain Share Authority	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Supplier Gain Share Paid	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Supplier Gain Share Withheld	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Total Potential Payment to Supplier	£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£120,000,000
Difference Paid to Invoiced	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Difference Reconciliation													
Pain Share Supplier	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Excess Cost Supplier	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Gain Share Paid / Withheld	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Total of Reconciling Items	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Check Difference paid to invoice = Reconciliation	Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE

## 5. Annual True Up Pain Share and Gain Share

5.1. Actual Target Cost is equal to the Target Cost, so Pain Share and Gain Share is not used.

Annual True-Up Pain Share / Gain Share		
Item	Unit	Year 3
<b>Share Ratios</b>		
Authority	%	50%
Supplier	%	50%
<b>Total Share Ratio's</b>	%	<b>100%</b>
<b>Target Cost</b>		
Actual Target Cost	£	£120,000,000
Target Cost	£	£120,000,000
<b>Difference Between Actual Target Cost and Target Cost</b>	£	<b>£0</b>
Was Cost Cap Breached in Service Delivery Year	Text	NO
Excess Cost in Service Delivery Year	£	£0
<b>Pain Share True-Up</b>		
Pain Share or Gain Share Indicator	Text	On Target
Difference Between Actual Target Cost and Target Cost	£	£0
Less Actual Target Cost above the Cost Cap	£	£0
<b>Net Pain or Gain for Sharing</b>	£	<b>£0</b>
<b>Supplier Pain Share</b>		
Suppliers Share of True-Up Pain Share	£	£0
Supplier Pain Share Incurred in Service Periods	£	£0
<b>Suppliers Pain Share Pay / (Reclaim)</b>	£	<b>£0</b>
Suppliers Excess Cost at True-Up	£	£0
Supplier Excess Cost Cap in Month	£	£0
<b>Suppliers Excess Cost Share Pay / (Reclaim)</b>	£	<b>£0</b>
<b>Gain Share True-Up</b>		
Actual Cumulative Volume Clearances in Service Period 12	0	636,000
Annual Volume Clearance Target	0	660,000
<b>Difference to Cumulative Volume Clearance Target</b>	0	<b>(24,000)</b>
Annual Volume Clearance Target PASS/FAIL	Text	FAIL
Serious Performance Failure in Service Delivery Year	Text	NO
<b>Supplier Gain Share</b>		
Suppliers Share of True-Up Gain Share	£	£0
Supplier Paid Gain Share in Service Periods	£	£0
<b>Suppliers Gain Share Pay / (Reclaim)</b>	£	<b>£0</b>
<b>Reconciliation</b>		
Delta Actual Target Cost vs Target Cost	£	£0
Made up of:		
Suppliers Excess Cost	£	£0
Suppliers Pain Share	£	£0
Suppliers Gain Share	£	£0
Suppliers Gain Share Lost	£	£0
Authority Pain Share	£	£0
Authority Gain Share	£	£0
<b>Total</b>	£	<b>£0</b>
<b>Suppliers Movements Between Service Periods And True-UP</b>		
Supplier Excess Cost in Service Periods	£	£0
Supplier Pain Share in Service Periods	£	£0
Supplier Gain Share in Service Periods	£	£0
<b>Suppliers in Month Total</b>	£	<b>£0</b>
Suppliers Excess Cost at True-Up	£	£0
Supplier Pain Share at True-Up	£	£0
Supplier Gain Share at True-Up	£	£0
<b>Suppliers True-Up Total</b>	£	<b>£0</b>
<b>Pay to Supplier/(Reclaim from Supplier)</b>	£	<b>£0</b>

## 6. Monthly Target Fee

6.1. In Service Periods 1 to 6, the Supplier achieves 100% of the Monthly Available Target Fee for all Performance Levels.

But, because the Actual Monthly Volume Clearances for Service Periods 1 to 6 was 80% of each of the Monthly Volume Clearance Targets, only 50% of the Monthly Available Target Fee is paid (as the Clearances only hits the 80% Volume Floor and so only 50% of the Target Fee is Protected Target Fee), and the remaining 50% is withheld until the end of the Service Delivery Year for the True Up.

6.2. In Service Periods 7 to 12, 28% (£280,000) of the Available Target Fee was lost due to achievement against the Performance Levels. The remainder of the PIP element of £220,000 is paid (£500,000 - £280,000) as the Monthly Volume Clearance Targets are achieved for Service Periods 7 to 12.

Monthly Outcomes PIP Target Fee															
Line Item	Benefit	Year Unit	3												
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	3
Annual Volume Clearance Target															
Monthly Volume Clearance Target	PIP	Volume	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
Cumulative Volume Clearance Target	PIP	Volume	40,000	60,000	80,000	100,000	120,000	140,000	160,000	180,000	200,000	220,000	240,000	240,000	
Volume Floor	PIP	Volume	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	
Actual Volume															
Monthly Assessment Specific Clearances	PIP	Volume	16,000	16,000	16,000	16,000	16,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	216,000
Actual Cumulative Volume Clearances	PIP	Volume	16,000	32,000	48,000	64,000	80,000	96,000	116,000	136,000	156,000	176,000	196,000	216,000	
Actual Volume vs Annual Volume Clearance Target															
Monthly Difference: Monthly Assessment Specific Clearances vs Monthly Volume Clearance Target	PIP	Volume	-4,000	-4,000	-4,000	-4,000	-4,000	0	0	0	0	0	0	0	
Cumulative Difference: Actual Cumulative Volume Clearances vs Cumulative Volume Clearance Target	PIP	Volume	-4,000	-8,000	-12,000	-16,000	-20,000	-24,000	-24,000	-24,000	-24,000	-24,000	-24,000	-24,000	
Is the Actual Volume Below the Volume Floor?	PIP	Volume	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	
Percentage of Actual Cumulative Volume Clearances vs Annual Volume Clearance Target	PIP	%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Target Fee Achieved, Withheld and Paid															
Target Fee Achieved	PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£220,000	£220,000	£220,000	£220,000	£220,000	£220,000	£220,000	£4,320,000
Withheld Target Fee	PIP	£	-£250,000	-£250,000	-£250,000	-£250,000	-£250,000	£0	£0	£0	£0	£0	£0	£0	-£1,500,000
Withheld Target Fee Percentage (max 100%)	PIP	%	50.0%	50.0%	50.0%	50.0%	50.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Payable Target Fee	PIP	£	£250,000	£250,000	£250,000	£250,000	£250,000	£220,000	£220,000	£220,000	£220,000	£220,000	£220,000	£220,000	£2,820,000
Percentage paid	PIP	%	50.0%	50.0%	50.0%	50.0%	50.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Monthly Outcomes WCA Target Fee															
Line Item	Benefit	Year Unit	3												
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	3
Annual Volume Clearance Target															
Monthly Volume Clearance Target	WCA	Volume	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000
Cumulative Volume Clearance Target	WCA	Volume	30,000	60,000	90,000	120,000	150,000	180,000	210,000	240,000	270,000	300,000	330,000	360,000	
Volume Floor	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	
Actual Volume															
Monthly Assessment Specific Clearances	WCA	Volume	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000
Actual Cumulative Volume Clearances	WCA	Volume	30,000	60,000	90,000	120,000	150,000	180,000	210,000	240,000	270,000	300,000	330,000	360,000	
Actual Volume vs Annual Volume Clearance Target															
Monthly Difference: Monthly Assessment Specific Clearances vs Monthly Volume Clearance Target	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	
Cumulative Difference: Actual Cumulative Volume Clearances vs Cumulative Volume Clearance Target	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	
Is the Actual Volume Below the Volume Floor?	WCA	Volume	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	
Percentage of Actual Cumulative Volume Clearances vs Annual Volume Clearance Target	WCA	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Target Fee Achieved, Withheld and Paid															
Target Fee Achieved	WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£6,000,000
Withheld Target Fee	WCA	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Withheld Target Fee Percentage (max 100%)	WCA	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Payable Target Fee	WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£6,000,000
Percentage paid	WCA	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

## 7. Annual True Up Target Fee

7.1. By the end of the Service Delivery Year, 90% of the Annual Volume Clearance Target has been achieved.

Annual True-Up PIP Target Fee				
Item		Benefit	Unit	Year 3
Volume Analysis				
Annual Volume Clearance Target		PIP	Volume	240,000
Actual Cumulative Volume Clearances		PIP	Volume	216,000
Difference: Annual Volume Clearance Target vs Actual Cumulative Volume Clearances		PIP	Volume	-24,000
Target Fee Achieved Lost %				
Is the Actual Volume Below the Volume Floor?		PIP	Text	NO
% of Target Fee Achieved lost due		PIP	%	25.0%
Net Target Fee Achieved due		PIP	%	75.0%
Check = 100%		PIP	Text	TRUE
Volume Analysis				
Target Fee Achieved		PIP	£	£4,320,000
Target Fee Achieved lost £4,320,000 * 25.0%		PIP	£	-£1,080,000
Payable Target Fee due		PIP	£	£3,240,000
Payable Target Fee already paid		PIP	£	£2,820,000
Balance of Withheld Target Fee		PIP	£	£420,000
Less deduction @ 10.0%		PIP	£	-£42,000
Payable Target Fee to be paid / (reclaimed)		PIP	£	£378,000
Analyse Withheld Target Fee				
Withheld Target Fee		PIP	£	£1,500,000
Target Fee Achieved lost due to volume		PIP	£	-£1,080,000
Payable Target Fee before deduction		PIP	£	£420,000
Less deduction @ 10.0%		PIP	£	-£42,000
Withheld Target Fee due		PIP	£	£378,000
Check Analysis = Payable Target Fee to be paid / (reclaimed)				
		PIP	Text	TRUE

Annual True-Up WCA Target Fee				
Item		Benefit	Unit	Year 3
Volume Analysis				
Annual Volume Clearance Target		WCA	Volume	360,000
Actual Cumulative Volume Clearances		WCA	Volume	360,000
Difference: Annual Volume Clearance Target vs Actual Cumulative Volume Clearances		WCA	Volume	0
Target Fee Achieved Lost %				
Is the Actual Volume Below the Volume Floor?		WCA	Text	NO
% of Target Fee Achieved lost due		WCA	%	0.0%
Net Target Fee Achieved due		WCA	%	100.0%
Check = 100%		WCA	Text	TRUE
Volume Analysis				
Target Fee Achieved		WCA	£	£6,000,000
Target Fee Achieved lost £6,000,000 * 0.0%		WCA	£	£0
Payable Payable Target Fee due		WCA	£	£6,000,000
Payable Target Fee already paid		WCA	£	£6,000,000
Balance of Withheld Target Fee		WCA	£	£0
Less deduction @ 10.0%		WCA	£	£0
Payable Target Fee to be paid / (reclaimed)		WCA	£	£0
Analyse Withheld Target Fee				
Withheld Target Fee		WCA	£	£0
Target Fee Achieved lost due to volume		WCA	£	£0
Payable Target Fee before deduction		WCA	£	£0
Less deduction @ 10.0%		WCA	£	£0
Withheld Target Fee due		WCA	£	£0
Check Analysis = Payable Target Fee to be paid / (reclaimed)		WCA	Text	TRUE

7.2. The Annual Volume Clearance Target for PIP was missed by 10%, and the Target Fee Multiplier is 2.5, so 10% \* 2.5 = 25%.

7.3. The Target Fee Achieved is £4,320,000 (£6,000,000 – (£280,000 \* 6 Service Periods)). Therefore, £1,680,000 of Available Target Fee was lost due to performance.

7.4. The Target Fee Achieved of £4,320,000 has the 25% Target Fee Multiplier applied to it (£4,320,000 \* (1- 25%)=£3,240,000).

7.5. £3,240,000 is compared to the Payable Target Fee of £2,820,000 (which was the total Target Fee paid throughout the Service Delivery Year), which demonstrates the balance of the Withheld Target Fee of £420,000 available at True-Up.

7.6. The 10% deduction is applied to the £420,000 \* 10% = £42,000, and so the additional Payable Target Fee of £378,000 is paid to the Supplier.

**8. Monthly Clearance Delivery Payment**

8.1. There is no Monthly Clearance Delivery Payment due.

**9. Annual True Up Clearance Delivery Payment**

9.1. There is no Annual True Up Clearance Delivery Payment due.

**10.**

## TARGET COST

## TARGET FEE

[illegible]



**Corresponding paragraphs to Schedule 7.1**

<b>Paragraph in this worked example 3</b>	<b>Paragraph in Schedule 7.1</b>
1.1	N/A
1.2	15, 16, 17, 18
1.3	12
1.4	13
1.5	13
1.6	17.3.2, 17.4.2, 17.6, 18.7.2
2	N/A
3	N/A
4.1	16, 17, 18
5.1	16, 17, 18
6.1	13
6.2	12, 13
7.1	14
7.2	13
7.3	13
7.4	13
7.5	14.3.2
7.6	14.3.2
8.1	19
9.1	20
10	N/A

## Worked Example 4

### 1. Scenario

- 1.1. Service Delivery Year: Year 4
- 1.2. Target Cost: In Service Periods 1 to 4, the Actual Target Cost was 2% below the Target Cost. In Service Periods 5 to 10, the Actual Target Costs hit the Target Cost. In Service Periods 11 to 12, the Actual Target Cost was 2% above the Target Cost.
- 1.3. Target Performance Level: In Service Periods 1 to 9, 100% is achieved for the Performance Levels. In Service Period 10, for Performance Level TPL1a 94.5% was Achieved, in Service Period 11 for Performance Level TPL1a, 95% was achieved, and in Service Period 12, for Performance Level TPL1a, 12 96% was achieved. All other TPLs achieved the maximum performance level.
- 1.4. PIP Clearances: In Service Periods 1 to 4, 100% of the Monthly Volume Clearance Target is achieved in each Service Period, and in Service Periods 5 to 10, 105% of the Monthly Volume Clearance Target is achieved in each Service Period. In Service Periods 11 to 12, 110% of the Monthly Volume Clearance Target is achieved.
- 1.5. WCA Clearances: volume of Clearances hits the Monthly Volume Clearance Target for all Service Periods, except Service Period 7 which is 1% below the Monthly Volume Clearance Target and Service Period 8 is 1% above the Monthly Volume Clearance Target.
- 1.6. Serious Performance Failures: No Serious Performance Failures in the Service Delivery Year.

### 2. Contracted Values

Clearances		Benefit Type	Year Unit	4		4		4		4		4		4		4		4	
				Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total			
Volume Clearance Target		PIP	0	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000	
Volume Clearance Target		WCA	0	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000	
Volume Clearance Target		Specialist	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000	
Total Volume Clearance Target			0	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	660,000	
Volume Floor			0.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	
Protected Target Fee			0.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	
Target Cost & Target Fee			Year Unit	4		4		4		4		4		4		4		4	
				Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total			
Target Cost			£0.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£120.0m	
Target Fee			£0.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£12.0m	
Evaluation Cost			£0.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£132.0m	

### 3. Actuals

Clearances			Year															
	Benefit Type	Unit	4		4		4		4		4		4		4		4	
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total			
Actual Monthly Volume Clearances	PP	0	20,000	20,000	20,000	20,000	21,000	21,000	21,000	21,000	21,000	21,000	22,000	22,000	250,000			
Actual Monthly Volume Clearances	WCA	0	30,000	30,000	30,000	30,000	30,000	30,000	29,700	30,300	30,000	30,000	30,000	30,000	360,000			
Actual Monthly Volume Clearances	Specialist	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000			
Total Volume Clearance Target		0	55,000	55,000	55,000	55,000	56,000	56,000	55,700	56,300	56,000	56,000	57,000	57,000	670,000			

Target Cost & Target Fee			4															
	Year	Unit	4		4		4		4		4		4		4		4	
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total			
Actual Target Cost		£m	£9.8m	£9.8m	£9.8m	£9.8m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.0m	£10.2m	£10.2m	£119.6m			
Available Target Fee		£m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£1.0m	£12.0m			
Evaluation Cost		£m	£10.8m	£10.8m	£10.8m	£10.8m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.0m	£11.2m	£11.2m	£131.6m			

#### 4. In Service Period Pain Share and Gain Share

- 4.1.** In Service Periods 1 to 4, Gain Share is paid to the Supplier because Actual Target Costs are lower than Target Costs and Actual Cumulative Volume Clearances for each of the Service Periods is equal to the applicable Cumulative Volume Clearance Targets.
- 4.2.** In Service Periods 11 to 12, Pain Share is triggered because Actual Target Costs are above the Target Costs and the Supplier suffers £100,000 of Pain Share for each of these Service Periods.

Monthly Outcomes Pain Share / Gain Share														
Line Item		Year	4				4				4			
		Unit	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Share Ratio														
Authority		%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Supplier		%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Share Ratio's														
Target Cost														
Actual Target Cost		£	£9,800,000	£9,800,000	£9,800,000	£9,800,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,200,000	£119,600,000
Target Cost		£	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£120,000,000
Difference Between Actual Target Cost and Target Cost		£	£-200,000	£-200,000	£-200,000	£-200,000	£0	£0	£0	£0	£0	£0	£200,000	£-400,000
Cost Cap Test														
Target Cost with Cost Cap 20%		£	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£12,000,000	£144,000,000
Cost Cap Breached YES / NO		Text	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Actual Target Cost above the Cost Cap		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Pain Share / Gain Share Calculation														
Pain Share or Gain Share Indicator		Text	Gain Share	Gain Share	Gain Share	Gain Share	On Target	On Target	On Target	On Target	On Target	On Target	Pain Share	Pain Share
Difference Between Actual Target Cost and Target Cost		£	£-200,000	£-200,000	£-200,000	£-200,000	£0	£0	£0	£0	£0	£0	£200,000	£-400,000
Less Actual Target Cost above the Cost Cap		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Net Pain or Gain for Sharing		£	£-200,000	£-200,000	£-200,000	£-200,000	£0	£0	£0	£0	£0	£0	£200,000	£-400,000
Gain Share Tests														
Actual Cumulative Volume Clearances		0	55,000	110,000	165,000	220,000	276,000	332,000	387,700	444,000	500,000	556,000	613,000	670,000
Cumulative Volume Clearance Target		0	55,000	110,000	165,000	220,000	275,000	330,000	385,000	440,000	495,000	550,000	605,000	660,000
Difference to Cumulative Volume Clearance Target							1,000	2,000	2,700	4,000	5,000	6,000	8,000	10,000
Cumulative Volume Clearance Target test PASS / FAIL		Text	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS
Serious Performance Failure test		Text	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS	PASS
Pain Share Allocation														
Pain Share Supplier		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£100,000	£200,000
Pain Share Authority		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£100,000	£200,000
Total Pain Share		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£200,000	£400,000
Excess Cost Above Cost Cap Supplier														
Gain Share Allocation														
Gain Share Available to Supplier		£	£100,000	£100,000	£100,000	£100,000	£0	£0	£0	£0	£0	£0	£0	£400,000
Gain Share Available to Authority		£	£100,000	£100,000	£100,000	£100,000	£0	£0	£0	£0	£0	£0	£100,000	£200,000
Total Gain Share		£	£200,000	£200,000	£200,000	£200,000	£0	£0	£0	£0	£0	£0	£200,000	£400,000
Payment to Supplier														
Lower of Target Cost or Actual Target Cost		£	£9,800,000	£9,800,000	£9,800,000	£9,800,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£119,200,000
Pain Share Authority		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£100,000	£200,000
Supplier Gain Share Paid		£	£100,000	£100,000	£100,000	£100,000	£0	£0	£0	£0	£0	£0	£0	£400,000
Supplier Gain Share Withheld		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Total Potential Payment to Supplier		£	£9,900,000	£9,900,000	£9,900,000	£9,900,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,100,000	£119,800,000
Difference Paid to Invoiced		£	£-100,000	£-100,000	£-100,000	£-100,000	£0	£0	£0	£0	£0	£0	£100,000	£-200,000
Difference Reconciliation														
Pain Share Supplier		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£100,000	£200,000
Excess Cost Supplier		£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Gain Share Paid / Withheld		£	£-100,000	£-100,000	£-100,000	£-100,000	£0	£0	£0	£0	£0	£0	£0	£-400,000
Total of Reconciling Items		£	£-100,000	£-100,000	£-100,000	£-100,000	£0	£0	£0	£0	£0	£0	£100,000	£-200,000
Check Difference paid to Invoice = Reconciliation		Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE

## 5. Annual True Up Pain Share and Gain Share

- 5.1. The Annual True Up does not change anything because the True Up shows that the comparison of Gain Share and Pain Share paid during the Service Delivery Year compared to the overall Gain Share at the end of the year cancels each other out.

Annual True-Up Pain Share / Gain Share		
Item	Unit	Year 4
<b>Share Ratios</b>		
Authority	%	50%
Supplier	%	50%
<b>Total Share Ratio's</b>	%	<b>100%</b>
<b>Target Cost</b>		
Actual Target Cost	£	£119,600,000
Target Cost	£	£120,000,000
<b>Difference Between Actual Target Cost and Target Cost</b>	£	<b>-£400,000</b>
Was Cost Cap Breached in Service Delivery Year	Text	NO
Excess Cost in Service Delivery Year	£	£0
<b>Pain Share True-Up</b>		
Pain Share or Gain Share Indicator	Text	Gain Share
Difference Between Actual Target Cost and Target Cost	£	-£400,000
Less Actual Target Cost above the Cost Cap	£	£0
<b>Net Pain or Gain for Sharing</b>	£	<b>-£400,000</b>
<b>Supplier Pain Share</b>		
Suppliers Share of True-Up Pain Share	£	£0
Supplier Pain Share Incurred in Service Periods	£	£200,000
<b>Suppliers Pain Share Pay / (Reclaim)</b>	£	<b>£200,000</b>
Suppliers Excess Cost at True-Up	£	£0
Supplier Excess Cost Cap in Month	£	£0
<b>Suppliers Excess Cost Share Pay / (Reclaim)</b>	£	<b>£0</b>
<b>Gain Share True-Up</b>		
Actual Cumulative Volume Clearances in Service Period 12	0	670,000
Annual Volume Clearance Target	0	660,000
<b>Difference to Cumulative Volume Clearance Target</b>	0	<b>10,000</b>
Annual Volume Clearance Target PASS/FAIL	Text	PASS
Serious Performance Failure in Service Delivery Year	Text	NO
<b>Supplier Gain Share</b>		
Suppliers Share of True-Up Gain Share	£	£200,000
Supplier Paid Gain Share in Service Periods	£	£400,000
<b>Suppliers Gain Share Pay / (Reclaim)</b>	£	<b>-£200,000</b>
<b>Reconciliation</b>		
Delta Actual Target Cost vs Target Cost	£	-£400,000
Made up of:		
Suppliers Excess Cost	£	£0
Suppliers Pain Share	£	£0
Suppliers Gain Share	£	-£200,000
Suppliers Gain Share Lost	£	£0
Authority Pain Share	£	£0
Authority Gain Share	£	-£200,000
<b>Total</b>	£	<b>-£400,000</b>
<b>Suppliers Movements Between Service Periods And True-Up</b>		
Supplier Excess Cost in Service Periods	£	£0
Supplier Pain Share in Service Periods	£	-£200,000
Supplier Gain Share in Service Periods	£	£400,000
<b>Suppliers in Month Total</b>	£	<b>£200,000</b>
Suppliers Excess Cost at True-Up	£	£0
Supplier Pain Share at True-Up	£	£0
Supplier Gain Share at True-Up	£	£200,000
<b>Suppliers True-Up Total</b>	£	<b>£200,000</b>
<b>Pay to Supplier/(Reclaim from Supplier)</b>	£	<b>£0</b>

**6. Monthly Target Fee**

- 6.1. For Service Periods 1 to 9, the maximum performance has been achieved and Actual Monthly Volume Clearances are greater than the Monthly Volume Clearance Targets for each Service Period. For this period the maximum Available Target Fee for PIP has been earned and paid as the Payable Target Fee.
- 6.2. For Service Periods 10 to 12, the performance for TPL1a (PIP) was below the Target Performance Level, but above the Minimum Performance Level, and Actual Monthly Volume Clearances were greater than Monthly Volume Clearance Targets. For this period, the amount of Monthly Available Target Fee for this Performance Level is pro-rated based on the achieved Performance Level, and such amount is paid in full as the Payable Target Fee.
- 6.3. For Service Period 7, WCA Clearance volume was below the Monthly Volume Clearance Target by 1%, so applying the 2.5 multiplier means that 2.5% of the Target Fee Achieved (which is £12,500) was withheld in that Service Period.

Monthly Outcomes PIP Target Fee																									
Line Item																									
Benefit	Year	Unit	4				4				4				4				4				Total		
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12											
Annual Volume Clearance Target																									
		PIP	Volume	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000	
		PIP	Volume	20,000	40,000	60,000	80,000	100,000	120,000	140,000	160,000	180,000	200,000	220,000	240,000	260,000	280,000	300,000	320,000	340,000	360,000	380,000	400,000	480,000	
		PIP	Volume	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	16,000	
Actual Volume																									
		PIP	Volume	20,000	20,000	20,000	20,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	21,000	250,000	
		PIP	Volume	20,000	40,000	60,000	80,000	101,000	122,000	143,000	164,000	185,000	206,000	228,000	250,000	272,000	294,000	316,000	338,000	360,000	382,000	404,000	426,000	506,000	
Actual Volume vs Annual Volume Clearance Target																									
		PIP	Volume	0	0	0	0	1,000	1,000	1,000	1,000	1,000	1,000	1,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	
		PIP	Volume	0	0	0	0	1,000	2,000	3,000	4,000	5,000	6,000	8,000	10,000	12,000	14,000	16,000	18,000	20,000	22,000	24,000	26,000	30,000	
		PIP	Volume	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	
		PIP	%	0.0%	0.0%	0.0%	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Percentage of Actual Cumulative Volume Clearances vs Annual Volume Clearance Target																									
Target Fee Achieved, Withheld and Paid																									
		PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,503,226	
		PIP	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
		PIP	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
		PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£5,503,226	
		PIP	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Monthly Outcomes WCA Target Fee																									
Line Item																									
Benefit	Year	Unit	4				4				4				4				4				Total		
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12											
Annual Volume Clearance Target																									
		WCA	Volume	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000	
		WCA	Volume	30,000	60,000	90,000	120,000	150,000	180,000	210,000	240,000	270,000	300,000	330,000	360,000	390,000	420,000	450,000	480,000	510,000	540,000	570,000	600,000	720,000	
		WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Actual Volume																									
		WCA	Volume	30,000	30,000	30,000	30,000	30,000	30,000	29,700	30,300	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000	
		WCA	Volume	30,000	60,000	90,000	120,000	150,000	180,000	209,700	240,000	270,000	300,000	330,000	360,000	390,000	420,000	450,000	480,000	510,000	540,000	570,000	600,000	720,000	
Actual Volume vs Annual Volume Clearance Target																									
		WCA	Volume	0	0	0	0	0	0	-300	300	0	0	0	0	0	0	0	0	0	0	0	0	0	
		WCA	Volume	0	0	0	0	0	0	-300	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
		WCA	Volume	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	
		WCA	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Percentage of Actual Cumulative Volume Clearances vs Annual Volume Clearance Target																									
Target Fee Achieved, Withheld and Paid																									
		WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£6,000,000	
		WCA	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
		WCA	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
		WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£6,000,000	
		WCA	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

## 7. Annual True Up Target Fee

7.1. There is no change to the monthly values at True Up for PIP.

7.2. For WCA, £12,500 of Target Fee was withheld in Service Period 7. The WCA Actual Cumulative Volume Clearances was recovered in Service Period 8, meaning that it hit the Annual Volume Clearance Target by the end of the Service Delivery Year.

7.3. The £12,500 Withheld Target Fee was paid at True Up, less the 10% deduction.

Annual True-Up PIP Target Fee				
Volume Analysis	Item	Benefit	Unit	Year 4
Annual Volume Clearance Target		PIP	Volume	240,000
Actual Cumulative Volume Clearances		PIP	Volume	250,000
Difference: Annual Volume Clearance Target vs Actual Cumulative Volume Clearances		PIP	Volume	10,000
<b>Target Fee Achieved Lost %</b>				
Is the Actual Volume Below the Volume Floor?		PIP	Text	NO
% of Target Fee Achieved lost due		PIP	%	0.0%
Net Target Fee Achieved due		PIP	%	100.0%
Check = 100%		PIP	Text	TRUE
<b>Volume Analysis</b>				
Target Fee Achieved		PIP	£	£5,503,226
Target Fee Achieved lost £5,503,226 * 0.0%		PIP	£	£0
<b>Payable Target Fee due</b>		PIP	£	<b>£5,503,226</b>
Payable Target Fee already paid		PIP	£	£5,503,226
<b>Balance of Withheld Target Fee</b>		PIP	£	<b>£0</b>
Less deduction @ 10.0%		PIP	£	£0
<b>Payable Target Fee to be paid / (reclaimed)</b>		PIP	£	<b>£0</b>
<b>Analyse Withheld Target Fee</b>				
Withheld Target Fee		PIP	£	£0
Target Fee Achieved lost due to volume		PIP	£	£0
<b>Payable Target Fee before deduction</b>		PIP	£	<b>£0</b>
Less deduction @ 10.0%		PIP	£	£0
<b>Withheld Target Fee due</b>		PIP	£	<b>£0</b>
Check Analysis = Payable Target Fee to be paid / (reclaimed)		PIP	Text	TRUE

Annual True-Up WCA Target Fee				
Volume Analysis	Item	Benefit	Unit	Year 4
Annual Volume Clearance Target		WCA	Volume	360,000
Actual Cumulative Volume Clearances		WCA	Volume	360,000
Difference: Annual Volume Clearance Target vs Actual Cumulative Volume Clearances		WCA	Volume	0
<b>Target Fee Achieved Lost %</b>				
Is the Actual Volume Below the Volume Floor?		WCA	Text	NO
% of Target Fee Achieved lost due		WCA	%	0.0%
Net Target Fee Achieved due		WCA	%	100.0%
Check = 100%		WCA	Text	TRUE
<b>Volume Analysis</b>				
Target Fee Achieved		WCA	£	£6,000,000
Target Fee Achieved lost £6,000,000 * 0.0%		WCA	£	£0
<b>Payable Payable Target Fee due</b>		WCA	£	<b>£6,000,000</b>
Payable Target Fee already paid		WCA	£	£5,987,500
<b>Balance of Withheld Target Fee</b>		WCA	£	<b>£12,500</b>
Less deduction @ 10.0%		WCA	£	-£1,250
<b>Payable Target Fee to be paid / (reclaimed)</b>		WCA	£	<b>£11,250</b>
<b>Analyse Withheld Target Fee</b>				
Withheld Target Fee		WCA	£	£12,500
Target Fee Achieved lost due to volume		WCA	£	£0
<b>Payable Target Fee before deduction</b>		WCA	£	<b>£12,500</b>
Less deduction @ 10.0%		WCA	£	-£1,250
<b>Withheld Target Fee due</b>		WCA	£	<b>£11,250</b>
Check Analysis = Payable Target Fee to be paid / (reclaimed)		WCA	Text	TRUE



**8. Monthly Clearance Delivery Payment (CDP)**

8.1. There is no CDP due for Service Periods 1 to 4 because the number of Clearances achieved was not greater than the Monthly Volume Clearance Targets. The Supplier took Gain Share rather than to invest to delivering greater volume of Clearances.

8.2. CDP is paid for Service Periods 5 to 9 and 11 to 12 because in these months, the number of Clearances exceeded the Monthly Volume Clearance Targets.

8.3. CDP is withheld for Service Period 7, because the Actual Monthly Volume Clearances for WCA was cumulatively below the Cumulative Volume Clearance Target.

8.4. CDP is lost for Service Period 10 because the performance against TPL1a was below the CDP requirement.

Monthly Outcomes PIP Clearance Delivery Payment

Line Item	Benefit Unit	Year												Total
		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	
Volume Test														
Monthly Assessment Specific: Clearances Actual Cumulative Volume Clearances  Monthly Volume Clearance Target Cumulative Volume Clearance Target  Difference to Monthly Volume Clearance Target Difference to Cumulative Volume Clearance Target <b>Volume eligible for payment in Service Period</b> <b>Test 1:</b> Monthly Volume > Target <b>Test 2:</b> Monthly >= Cumulative Volume	PIP	Volume	20,000	20,000	20,000	20,000	21,000	21,000	21,000	21,000	21,000	22,000	22,000	250,000
	PIP	Volume	20,000	40,000	60,000	80,000	101,000	122,000	143,000	164,000	185,000	206,000	228,000	250,000
	PIP	Volume	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	240,000
	PIP	Volume	20,000	40,000	60,000	80,000	100,000	120,000	140,000	160,000	180,000	200,000	220,000	240,000
	PIP	Volume	0	0	0	0	1,000	1,000	1,000	1,000	1,000	2,000	2,000	10,000
	PIP	Volume	0	0	0	0	1,000	2,000	3,000	4,000	5,000	6,000	8,000	10,000
	PIP	Volume	0	0	0	0	1,000	1,000	1,000	1,000	1,000	2,000	2,000	10,000
	PIP	Text	NO	NO	NO	NO	YES	YES	YES	YES	YES	YES	YES	YES
	PIP	Text	NO	NO	NO	NO	YES	YES	YES	YES	YES	YES	YES	YES
	PIP	Text	NO	NO	NO	NO	YES	YES	YES	YES	YES	YES	YES	YES
Quality Test														
Measure 1 Actual Measure 1 Target <b>Test 3:</b> Minimum Score Achieved?	PIP	%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	95.0%	95.0%	96.0%
	PIP	%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
	PIP	Text	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
WCA Volume Test														
WCA	WCA	Text	YES	YES	YES	YES	YES	NO	YES	YES	YES	YES	YES	YES
Decision														
Payment Decision		PIP	Text	No Payment	No Payment	No Payment	Payment	Hdd Payment	Payment	Payment	No Payment	Payment	Payment	Payment
Payment Made/Payment Withheld/Payment Lost														
Clearance Delivery Payment														
PIP	PIP	£	£150	£150	£150	£150	£150	£150	£150	£150	£150	£150	£150	£150
PIP	PIP	Volume	0	0	0	0	1,000	1,000	1,000	1,000	1,000	2,000	2,000	8,000
PIP	PIP	£	£0	£0	£0	£0	£150,000	£150,000	£150,000	£150,000	£0	£300,000	£300,000	£1,200,000
PIP	PIP	Volume	0	0	0	0	1,000	0	0	0	0	0	0	1,000
PIP	PIP	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£150,000
PIP	PIP	Volume	0	0	0	0	0	0	0	0	1,000	0	0	1,000
PIP	PIP	£	£0	£0	£0	£0	£0	£0	£0	£0	£150,000	£0	£0	£150,000
PIP	PIP	Volume	0	0	0	0	0	0	0	0	1,000	0	0	1,000
PIP	PIP	£	£0	£0	£0	£0	£0	£0	£0	£0	£150,000	£0	£0	£150,000

Monthly Outcomes WCA Clearance Delivery Payment

Monthly Outcomes WCA Clearance Delivery Payment															
Line Item	Benefit Unit	Year	4	4	4	4	4	4	4	4	4	4	4	4	4
			Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Volume Test															
Actual Monthly Volume	WCA	Volume	30,000	30,000	30,000	30,000	30,000	29,700	30,300	30,000	30,000	30,000	30,000	30,000	360,000
Actual Cumulative Volume	WCA	Volume	30,000	60,000	90,000	120,000	150,000	180,000	209,700	240,000	270,000	300,000	330,000	360,000	
Contract Monthly Volume	WCA	Volume	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	360,000
Contract Cumulative Volume	WCA	Volume	30,000	60,000	90,000	120,000	150,000	180,000	210,000	240,000	270,000	300,000	330,000	360,000	
Delta Month Volume	WCA	Volume	0	0	0	0	0	-300	300	0	0	0	0	0	0
Delta Cumulative Volume	WCA	Volume	0	0	0	0	0	-300	0	0	0	0	0	0	0
Volume Eligible for Payment in Month	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0
Test 1: Monthly Volume > Target	WCA	Text	NO	NO	NO	NO	NO	NO	YES	NO	NO	NO	NO	NO	NO
Test 2: Monthly >=Cumulative Volume	WCA	Text	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Quality Test															
Measure 1 Actual	WCA	%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	
Measure 1 Target	WCA	%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	
Test 3: Minimum Score Achieved?	WCA	Text	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	
WCA Volume Test															
Test 4: Actual Cumulative PIP >= Target	PIP	Text	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	
Decision															
Payment Decision	WCA	Text	No Payment	No Payment	No Payment	No Payment	No Payment	No Payment	No Payment	No Payment	No Payment	No Payment	No Payment	No Payment	
Payment Made/Withheld/Payment Lost															
Clearance Delivery Payment	WCA	£	£150	£150	£150	£150	£150	£150	£150	£150	£150	£150	£150	£150	
Volume Payment Made on	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0
CDP Payment	WCA	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Volume Payment Withheld on	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0
CDP Payment Withheld	WCA	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Volume Payment Lost on	WCA	Volume	0	0	0	0	0	0	0	0	0	0	0	0	0
CDP Payment Lost	WCA	£	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0

## 9. Annual True Up Clearance Delivery Payment

9.1. There was additional PIP Clearances in Service Periods 10, but the Minimum Performance Level score for PIP (TPL1a) was not achieved in that Service Period and so the CDP payment is lost.

9.2. There was additional PIP Clearances in Service Period 7, which was withheld because the Actual Cumulative Volume Clearances for WCA was below the Cumulative Volume Clearance Target. The WCA Actual Cumulative Volume Clearances had recovered in Service Period 8, so this payment was released at True Up

Annual True Up CDP PIP				
PIP Volume Test	Item	Benefit	Unit	Year 4
PIP Actual Cumulative Volume Clearances at True-Up		PIP	Volume	250,000
PIP Annual Volume Clearance Target		PIP	Volume	240,000
PIP volume difference		PIP	Volume	10,000
Test 1: PIP Actual > Target		PIP	Text	YES
WCA Volume Test				
WCA Actual Cumulative Volume Clearances at True-Up		WCA	Volume	360,000
WCA Annual Volume Clearance Target		WCA	Volume	360,000
WCA volume difference		WCA	Volume	0
Test 2: WCA Actual >= Target		WCA	Text	YES
Both Tests Passed				
Test 3: Has Increased Volume Passed both Tests?		PIP	Text	YES
Accepted Clearance volume increase		PIP	Volume	10,000
CDP Volume Allowed				
PIP volume difference		PIP	Volume	10,000
Volume Payment Made on		PIP	Volume	8,000
Volume Payment Withheld on		PIP	Volume	1,000
Total eligible volume of Clearances gained		PIP	Volume	9,000
CDP Volume Lost				
Volume Payment Lost on Due to Failed Quality		PIP	Volume	1,000
CDP Volume Lost				
Lower of PIP volume difference or total eligible volume of clearances gained		PIP	Volume	9000
CDP Unit Cost		PIP	£	£150
CDP Payment Due at True-Up		PIP	£	£1,350,000
Payment Due / (Reclaim Due)		PIP	£	£150,000 Release Withheld Payment
Explanation of Decision		PIP	Text	

Annual True Up CDP WCA				
WCA Volume Test	Item	Benefit	Unit	Year 150000
WCA Actual Cumulative Volume Clearances at True-Up		WCA	Volume	360,000
WCA Annual Volume Clearance Target		WCA	Volume	360,000
WCA volume difference		WCA	Volume	0
Test 1: WCA Actual > Target		WCA	Text	NO
PIP Volume Test				
PIP Actual Cumulative Volume Clearances at True-Up		PIP	Volume	250,000
PIP Annual Volume Clearance Target		PIP	Volume	240,000
PIP volume difference		PIP	Volume	10,000
Test 2: PIP Actual >= Target		PIP	Text	YES
Both Tests Passed				
Test 3: Has Increased Volume Passed both Tests?		WCA	Text	NO
Accepted Clearance volume increase		WCA	Volume	0
CDP Volume Allowed				
WCA volume difference		WCA	Volume	0
Volume Payment Made on		WCA	Volume	0
Volume Payment Withheld on		WCA	Volume	0
Total eligible volume of Clearances gained		WCA	Volume	0
CDP Volume Lost				
Volume Payment Lost on Due to Failed Quality		WCA	Volume	0
CDP Volume Lost				
Lower of WCA volume difference or total eligible volume of clearances gained		WCA	Volume	0
CDP Unit Cost		WCA	£	£150
CDP Payment Due at True-Up		WCA	£	£0
Payment Due / (Reclaim Due)		WCA	£	£0
Explanation of Decision		WCA	Text	No Action

10. Summary Monthly Outcomes

TARGET COST														
Line Item	Year	4	4	4	4	4	4	4	4	4	4	4	4	
Unit		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Target Cost Paid														
Submitted Target Cost Invoice	£	£9,800,000	£9,800,000	£9,800,000	£9,800,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,200,000	£10,200,000	£119,600,000
Target Cost Invoice Payment	£	£9,800,000	£9,800,000	£9,800,000	£9,800,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£119,200,000
Authority Pain Share Payment	£	-	-	-	£9,800,000	-	-	-	-	-	-	£100,000	£100,000	£200,000
Supplier Gain Share Payment	£	£100,000	£100,000	£100,000	£100,000	-	-	-	-	-	-	-	-	£400,000
Total Payment to Supplier	£	£9,900,000	£9,900,000	£9,900,000	£9,900,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,100,000	£10,100,000	£10,100,000	£119,800,000
Difference to Submitted Target Cost Invoice	£	£100,000	£100,000	£100,000	£100,000	-	-	-	-	-	£(100,000)	£(100,000)	£(100,000)	£200,000
Analysis of Difference to Target Cost Invoice														
Supplier Excess Cost	£	-	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Pain Share	£	-	-	-	-	-	-	-	-	-	£(100,000)	£(100,000)	-	£(200,000)
Supplier Gain Share Payment	£	£100,000	£100,000	£100,000	£100,000	-	-	-	-	-	-	-	-	£400,000
Total of Excluded Payments	£	£100,000	£100,000	£100,000	£100,000	-	-	-	-	-	£(100,000)	£(100,000)	-	£200,000
Check Analysis of Difference = Difference	Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Target Cost Invoice Reconciliation														
Submitted Target Cost Invoice	£	£9,800,000	£9,800,000	£9,800,000	£9,800,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,200,000	£10,200,000	£10,200,000	£119,600,000
Target Cost (Lower of Target Cost or Actual Target Cost)	£	£9,800,000	£9,800,000	£9,800,000	£9,800,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£119,200,000
Supplier Excess Cost	£	-	-	-	-	-	-	-	-	-	-	-	-	£200,000
Supplier Pain Share	£	-	-	-	-	-	-	-	-	-	-	£100,000	£100,000	£200,000
Authority Pain Share	£	-	-	-	-	-	-	-	-	-	-	£100,000	£100,000	£200,000
Total of Target Cost Invoice	£	£9,800,000	£9,800,000	£9,800,000	£9,800,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,200,000	£10,200,000	£10,200,000	£119,600,000
Check Target Cost Reconciliation = Target Cost Invoice	Text	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
Supplier Gain Share Withheld / Lost														
Supplier Gain Share Payment Withheld	£	-	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Gain Share Payment Lost	£	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Analysis of Suppliers Gain Share	£	-	-	-	-	-	-	-	-	-	-	-	-	-
TARGET FEE														
Line Item	Year	4	4	4	4	4	4	4	4	4	4	4	4	Total
Unit		Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Payable Target Fee paid														
Supplier Available Target Fee - PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£6,000,000
Supplier Available Target Fee - WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£6,000,000
Total Supplier Available Target Fee	£	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£12,000,000
Supplier Target Fee Achieved - PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£274,194	£319,355	£409,677	£5,503,226
Supplier Target Fee Achieved - WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£6,000,000
Total Supplier Target Fee Achieved	£	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£774,194	£819,355	£909,677	£11,503,226
Difference between Available Target Fee and Target Fee Achieved	£	-	-	-	-	-	-	-	-	-	£(225,806)	£(180,645)	£(90,323)	£(496,774)
Supplier Payable Target Fee - PIP	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£274,194	£319,355	£409,677	£5,503,226
Supplier Payable Target Fee - WCA	£	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£500,000	£6,000,000
Total Supplier Payable Target Fee paid	£	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£987,500	£1,000,000	£1,000,000	£774,194	£819,355	£909,677	£11,490,726
Difference between Target Fee Achieved and Payable Target Fee	£	-	-	-	-	-	-	£(12,500)	-	-	-	-	-	£(12,500)
Analysis Target Fee Differences														
Supplier Target Fee Lost Due to Performance - PIP	£	-	-	-	-	-	-	-	-	-	£(225,806)	£(180,645)	£(90,323)	£(496,774)
Supplier Target Fee Lost Due to Performance - WCA	£	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Difference between Available Target Fee and Target Fee Achieved	£	-	-	-	-	-	-	-	-	-	£(225,806)	£(180,645)	£(90,323)	£(496,774)
Supplier Withheld Target Fee due to volume - PIP	£	-	-	-	-	-	-	-	-	-	-	-	-	-
Supplier Withheld Target Fee due to volume - WCA	£	-	-	-	-	-	-	£(12,500)	-	-	-	-	-	£(12,500)
Total Difference Between Target Fee Achieved and Payable Target Fee paid	£	-	-	-	-	-	-	£(12,500)	-	-	-	-	-	£(12,500)

CLEARANCE DELIVERY PAYMENT

Line Item	4				4				4				4				Year Unit
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 1	Month 2	Month 3	Month 4	
<b>Clearance Delivery Payment - PIP</b>																	
<b>Total additional PIP volume eligible for payment</b>	Volume	0	0	0	0	1,000	1,000	1,000	1,000	1,000	2,000	2,000	Volume	0	0	0	10,000
Additional PP volume paid	Volume	0	0	0	0	1,000	0	1,000	1,000	0	2,000	2,000	Volume	0	0	0	8,000
Additional PP volume withheld	Volume	0	0	0	0	0	1,000	0	0	0	0	0	Volume	0	0	0	1,000
Additional PP volume lost	Volume	0	0	0	0	0	0	0	0	1,000	0	0	Volume	0	0	0	1,000
<b>Total clearance delivery volume</b>	Volume	0	0	0	0	1,000	1,000	1,000	1,000	1,000	2,000	2,000	Volume	0	0	0	10,000
Clearance Delivery Payment made - PIP	£	-	-	-	-	£150,000	-	£150,000	£150,000	-	£300,000	£300,000	£	-	-	-	£1,200,000
Clearance Delivery Payment withheld - PIP	£	-	-	-	-	-	-	-	-	-	-	-	£	-	-	-	£150,000
Clearance Delivery Payment lost - PIP	£	-	-	-	-	-	-	-	-	-	-	-	£	-	-	-	£150,000
<b>Total clearance delivery income</b>	£	-	-	-	-	£150,000	£150,000	£150,000	£150,000	£150,000	£300,000	£300,000	£	-	-	-	£1,500,000
<b>Clearance Delivery Payment - WCA</b>																	
<b>Total additional WCA volume eligible for payment</b>	Volume	0	0	0	0	0	0	0	0	0	0	0	Volume	0	0	0	0
Additional WCA volume paid	Volume	0	0	0	0	0	0	0	0	0	0	0	Volume	0	0	0	0
Additional WCA volume withheld	Volume	0	0	0	0	0	0	0	0	0	0	0	Volume	0	0	0	0
Additional WCA volume lost	Volume	0	0	0	0	0	0	0	0	0	0	0	Volume	0	0	0	0
<b>Total clearance delivery volume</b>	Volume	0	0	0	0	0	0	0	0	0	0	0	Volume	0	0	0	0
Clearance Delivery Payment made - WCA	£	-	-	-	-	-	-	-	-	-	-	-	£	-	-	-	-
Clearance Delivery Payment withheld - WCA	£	-	-	-	-	-	-	-	-	-	-	-	£	-	-	-	-
Clearance Delivery Payment lost - WCA	£	-	-	-	-	-	-	-	-	-	-	-	£	-	-	-	-
<b>Total clearance delivery income</b>	£	-	-	-	-	-	-	-	-	-	-	-	£	-	-	-	-

TOTAL SUPPLIER PAYMENT

Line Item	4				4				4				4				Year Unit
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 1	Month 2	Month 3	Month 4	
<b>Total Supplier Payment</b>																	
Actual Target Cost Invoice	£	£9,800,000	£9,800,000	£9,800,000	£10,000,000	-	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£10,000,000	£	£10,000,000	£10,000,000	£10,000,000	£119,200,000
Authority Pain Share Payment	£	-	-	-	-	-	-	-	-	-	-	-	£	-	-	-	£200,000
Supplier Gain Share Payment	£	£100,000	£100,000	£100,000	£1,000,000	-	£987,500	£1,000,000	£1,000,000	£774,194	£309,677	-	£	£100,000	£100,000	£100,000	£400,000
Supplier Payable Target Fee	£	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£987,500	£1,000,000	£1,000,000	£774,194	£309,677	-	£	£1,000,000	£1,000,000	£1,000,000	£11,490,726
Supplier Clearance Delivery Payment	£	-	-	-	£150,000	£150,000	-	£150,000	£150,000	-	£300,000	£300,000	£	-	-	-	£1,200,000
<b>Total Payment to Supplier</b>	£	£10,900,000	£10,900,000	£10,900,000	£11,150,000	£11,150,000	£10,987,500	£11,150,000	£11,150,000	£10,774,194	£11,309,677	£11,309,677	£	£11,309,677	£11,309,677	£11,309,677	£132,490,726

**Corresponding paragraphs to Schedule 7.1**

<b>Paragraph in this worked example 4</b>	<b>Paragraph in Schedule 7.1</b>
1.1	N/A
1.2	15, 16, 17, 18
1.3	12
1.4	13
1.5	13
1.6	17.3.2, 17.4.2, 17.6, 18.7.2
2	N/A
3	N/A
4.1	17
4.2	18
5.1	19
6.1	12
6.2	12, 13
6.3	13
7.1	14
7.2	14.3
7.3	14.3.2
8.1	19
8.2	19.1
8.3	19.2.1, 19.3
8.4	19.2.2.1, 19.4
9.1	19.2.2.1, 19.4
9.2	20.3, 20.4
10	N/A

OFFICIAL – COMMERCIAL

**SCHEDULE 7.2**

**PAYMENTS ON TERMINATION**

**Payments on Termination**

1 **DEFINITIONS**

1.1 In this Schedule, the following definitions shall apply:

<b>“Applicable Supplier Personnel”</b>	<p>any Supplier Personnel who:</p> <ul style="list-style-type: none"><li>(a) at the Termination Date:<ul style="list-style-type: none"><li>(i) are employees of the Supplier;</li><li>(ii) are Dedicated Supplier Personnel;</li><li>(iii) have not transferred (and are not in scope to transfer at a later date) to the Authority or the Replacement Supplier by virtue of the Employment Regulations; and</li></ul></li><li>(b) are dismissed or given notice of dismissal by the Supplier within:<ul style="list-style-type: none"><li>(i) 40 Working Days of the Termination Date; or</li><li>(ii) such longer period required by Law, their employment contract (as at the Termination Date) or an applicable collective agreement; and</li></ul></li><li>(c) have not resigned or given notice of resignation prior to the date of their dismissal by the Supplier; and</li><li>(d) the Supplier can demonstrate to the satisfaction of the Authority:<ul style="list-style-type: none"><li>(i) are surplus to the Supplier's requirements after the Termination Date notwithstanding its obligation to provide services to its other customers;</li><li>(ii) are genuinely being dismissed for reasons of redundancy; and</li><li>(iii) have been selected for redundancy by the Supplier on objective grounds other than the fact that the Supplier is entitled to reimbursement under this provision in respect of such employees;</li></ul></li></ul>
<b>“Breakage Costs Payment”</b>	<p>an amount equal to the Redundancy Costs and the Contract Breakage Costs as at the Termination Date as determined in accordance with Paragraph 3;</p>



<b>“Compensation Payment”</b>	the payment calculated in accordance with Paragraph 6;
<b>“Contract Breakage Costs”</b>	the amounts payable by the Supplier to its Key Sub-contractors or other third parties (as applicable) for terminating all relevant Leases, Licences, Key Sub-contracts or Third Party Contracts as a direct result of the early termination of this Agreement;
<b>“Dedicated Supplier Personnel”</b>	all Supplier Personnel then assigned to the Services or any part of the Services. If the Supplier is unsure as to whether Supplier Personnel are or should be regarded as so assigned, it shall consult with the Authority whose view shall be determinative provided that the employee has been materially involved in the provision of the Services or any part of the Services;
<b>“Lease”</b>	has the meaning given in Schedule 15.1 (Estates) and <b>“Leases”</b> shall be construed accordingly;
<b>“Licence”</b>	has the meaning given in Schedule 15.1 (Estates) and <b>“Licences”</b> shall be construed accordingly;
<b>“Redundancy Costs”</b>	<p>the total sum of any of the following sums paid to Applicable Supplier Personnel, each amount apportioned between the Supplier and the Authority based on the time spent by such employee on the Services as a proportion of the total Service duration:</p> <ul style="list-style-type: none"> <li>(a) any statutory redundancy payment; and</li> <li>(b) in respect of an employee who was a Transferring Former Supplier Employee or a Transferring Authority Employee, any contractual redundancy payment (or where such a contractual benefit on redundancy is a benefit payable from a pension scheme, the increase in cost to the Supplier as a net present value compared to the benefit payable on termination of employment without redundancy), provided that such employee was entitled to such contractual redundancy payment immediately prior to his or her transfer to the Supplier under the Employment Regulations;</li> </ul>
<b>“Request for Estimate”</b>	a written request sent by the Authority to the Supplier, requiring that the Supplier provide it with an accurate estimate of the Termination Payment that would be payable if the Authority exercised its right under Clause 35.1 ( <i>Termination by the Authority</i> ) to terminate this Agreement for convenience on a specified Termination Date;

**“Shortfall Period”** has the meaning given in Paragraph 6.2; and

**“Termination Estimate”** has the meaning given in Paragraph 11.2.

## **2 TERMINATION PAYMENT**

2.1 The Termination Payment payable by the Authority in accordance with Clause 36.3 (*Payments by the Authority*) shall comprise:

- (a) the Breakage Costs Payment; and
- (b) the Compensation Payment.

## **3 BREAKAGE COSTS PAYMENT**

3.1 The Supplier may recover through the Breakage Costs Payment only those costs incurred by the Supplier directly as a result of the termination of this Agreement which:

- (a) would not have been incurred had this Agreement continued until expiry of the Initial Term, or in the event that the Term has been extended, the expiry of the Extension Period;
- (b) are unavoidable, proven, reasonable, and not capable of recovery;
- (c) are incurred under arrangements or agreements that are directly associated with this Agreement;
- (d) subject to Paragraph 3.8, are not Contract Breakage Costs relating to leases, licences, contracts or Sub-contracts with Affiliates of the Supplier; and
- (e) relate directly to the termination of the Services.

### **Limitation on Breakage Costs Payment**

3.2 The Breakage Costs Payment shall not exceed 120% of the estimate for the Breakage Costs Payment set out in any relevant Termination Estimate.

### **Redundancy Costs**

3.3 The Authority shall not be liable under this Schedule for any costs associated with Supplier Personnel (whether relating to redundancy, redeployment (subject to Paragraph 3.4) or otherwise) other than the Redundancy Costs.

3.4 Where the Supplier can demonstrate that a member of Supplier Personnel will be made redundant following termination of this Agreement, but redeployment of such person is possible and would offer value for money to the Authority when compared with redundancy, then the Authority shall pay the Supplier the actual direct costs incurred by the Supplier or its Sub-contractor arising out of the redeployment of such person (including retraining and relocation costs) subject to a maximum amount of £30,000 per relevant member of the Supplier Personnel.

### Contract Breakage Costs

- 3.5 The Supplier shall be entitled to Contract Breakage Costs only in respect of Third Party Contracts, Leases, Licences or Sub-contracts which:
- (a) are not assigned or novated to the Authority or a Replacement Supplier at the request of the Authority in accordance with Schedule 8.5 (*Exit Management*) and/or this Schedule and/or any other provision of the Agreement, and the Supplier acknowledges that the Authority's expectation is that all such Third Party Contracts, Leases, Licences or Sub-contracts should be assigned or novated; and
  - (b) the Supplier can demonstrate:
    - (i) are surplus to the Supplier's requirements after the Termination Date, whether in relation to use internally within its business or in providing services to any of its other customers; and
    - (ii) have been entered into by it in the ordinary course of business.
- 3.6 The Supplier shall use all reasonable endeavours to negotiate termination of any Third Party Contracts, Leases, Licences or Sub-contracts (which are not assigned or novated (or to be assigned or novated) pursuant to Paragraph 3.5(a)) with the relevant third party or Sub-contractor (as the case may be) using all reasonable endeavours to minimise all costs (including any cancellation or termination charges) in relation to any Leases and Licences and any cancellation or termination charges in relation to any Third Party Contracts or Sub-contracts.
- 3.7 Except with the prior written agreement of the Authority, the Authority shall not be liable for any costs (including cancellation or termination charges) that the Supplier is obliged to pay in respect of:
- (a) the termination of any contractual arrangements for occupation of, support of and/or services provided for properties occupied under Leases or Licences which may arise as a consequence of the termination of this Agreement other than in respect of the Leases and Licences subject to and in accordance with this Schedule; and/or
  - (b) Assets not yet installed at the Termination Date.
- 3.8 In respect of any Lease or Licence which has been entered into by an Affiliate of the Supplier, provided:
- (a) the Supplier has notified the Authority of the Affiliate contracting party in accordance with its obligations in this Agreement; and
  - (b) such Affiliate has minimised and mitigated its costs in the same way as the Supplier is required to do under this Schedule,
- then the Supplier may recover the actual costs properly incurred by such Affiliate directly as a result of the termination of this Agreement as part of the Contract Breakage Costs subject to and in accordance with this Schedule and Paragraphs 3.9 and 3.10.
- 3.9 In respect of Contract Breakage Costs for each relevant Lease or Licence, this shall be one of the following, whichever is the lesser:

- (a) costs that the Supplier has negotiated with the landlord, lessor or licensor for early termination (if any); and
- (b) costs that will be incurred if the relevant Lease or Licence continues beyond the Termination Date, such costs to be the lesser of:
  - (i) the costs payable from the Termination Date until the end of the term of the Lease or Licence;
  - (ii) the costs payable from the Termination Date until the termination of the Lease or Licence at the earliest possible date or where contractually permitted; and
  - (iii) the costs payable from the Termination Date until the end of the period which is 12 months from the date of issue of the Termination Notice (the “**Reimbursable Period**”), except where the Supplier can demonstrate to the Authority’s reasonable satisfaction that the Supplier is not in breach of its obligations in Paragraphs 3.6, 5.1(b) and 5.1(c), in which case the Authority shall determine, acting reasonably, whether to cover the Lease or Licence costs beyond the Reimbursable Period

such costs to be determined in accordance with Paragraph 3.10.

3.10 The costs referred to in Paragraph 3.9(b) shall:

- (a) reflect the actual costs incurred in relation to the relevant Leases or Licences by the Supplier or an Affiliate during the Term before the Termination Date;
- (b) subject to Paragraph 3.10(c), be based on the anticipated costs to be incurred by the Supplier or an Affiliate in respect of Leases or Licences that run beyond the Termination Date as verified by an independent third party surveyor appropriately qualified to make the determination; and
- (c) not exceed the aggregated forecast monthly costs in relation to the relevant Leases and Licences for the period referred to in either Paragraph 3.9(b)(i), 3.9(b)(ii) or 3.9(b)(iii) as applicable (the “**Relevant Period**”), as set out in the Supplier Cost Report, as submitted by the Supplier in accordance with Paragraph 40 of Schedule 7.1 (*Charges and Invoicing*) in the month immediately preceding the date of the Termination Notice plus an agreed tolerance of 5% of the aggregated forecast monthly costs in relation to the relevant Leases and Licences for the Relevant Period, as set out in such Supplier Cost Report.

3.11 In the event that any Leases or Licences are assigned or novated to the Authority or a Replacement Supplier, all dilapidations costs accrued by the Supplier in respect of the relevant Leases or Licences as Allowable Costs during the Term (“**Accrued Dilapidations Costs**”) shall be due to the Authority on or before the Termination Date. The Authority shall determine whether:

- (a) the Supplier shall pay to the Authority or a Replacement Supplier (as designated by the Authority) all Accrued Dilapidations Costs, in which case the Supplier shall pay to the Authority or a Replacement Supplier all Accrued Dilapidations Costs without deduction or set off; or

- (b) to deduct the Accrued Dilapidations Costs from any further payments due to the Supplier following the issue of a Termination Notice.

4 **NOT USED**

5 **MITIGATION OF CONTRACT BREAKAGE COSTS AND REDUNDANCY COSTS**

5.1 The Supplier agrees to use all reasonable endeavours to minimise and mitigate Contract Breakage Costs and Redundancy Costs by:

- (a) the appropriation of Assets, employees and resources for other purposes;
- (b) at the Authority's request, assigning any Lease or Licence (where freely transferable without landlord, lessor or licensor consent; or if not freely transferable, the Supplier shall use all reasonable endeavours to procure landlord, lessor or licensor consent to assign), Third Party Contracts and Sub-contracts to the Authority or a Replacement Supplier; and
- (c) in relation to Leases, Licences, Third Party Contracts and Sub-contracts that are not to be assigned to the Authority or to another third party, terminating those leases, licences and contracts at the earliest possible date without breach or where contractually permitted.

5.2 If Assets, employees and resources can be used by the Supplier for other purposes, then there shall be an equitable reduction in the Contract Breakage Costs and Redundancy Costs payable by the Authority or a third party to the Supplier. In the event of any Dispute arising over whether the Supplier can use any Assets, employees and/or resources for other purposes and/or over the amount of the relevant equitable reduction, the Dispute shall be referred to an Expert for determination in accordance with the procedure detailed in Schedule 8.3 (*Dispute Resolution Procedure*).

6 **COMPENSATION PAYMENT**

6.1 The Compensation Payment payable pursuant to Clause 36.3(b) (*Payments by the Authority*) shall be an amount equal to the total Target Fee that would have been paid by the Authority over the Shortfall Period had the Agreement not been terminated early, adjusted to reflect the Supplier's performance in respect of the Target Performance Levels and Volume Clearance Targets, as assessed and calculated in accordance with Paragraphs 12 and 13 of Schedule 7.1 (*Charges and Invoicing*) respectively, during the rolling 3 month period immediately before the date on which the Termination Notice is served. Such Compensation Payment shall take into account a pro-rated True-Up (depending on how far during the Service Delivery Year the Termination Date falls) of the Target Fee, Pain Share and Gain Share and the Clearance Delivery Payments.

6.2 For the purposes of Paragraph 6.1, the "**Shortfall Period**" means:

- (a) where the Authority terminates this Agreement pursuant to Clause 35.1(a) (*Termination by the Authority*), a number of days equal to 365 days minus the number of days' notice given; or
- (b) where the Supplier terminates this Agreement pursuant to Clause 35.3(a) (*Termination by the Supplier*), a number of days equal to 365 days minus the number of days between (and including) the date of the non-payment by the Authority to (and including) the Termination Date;

provided that if the remainder of the Term is less than the period set out in (a) or (b) above (as applicable), the “**Shortfall Period**” shall be the remainder of the Term.

**7 FULL AND FINAL SETTLEMENT**

- 7.1 Any Termination Payment paid under this Schedule shall be in full and final settlement of any claim, demand and/or proceedings of the Supplier in relation to any termination by the Authority pursuant to Clause 35.1 (*Termination by the Authority*) or termination by the Supplier pursuant to Clause 35.3 (*Termination by the Supplier*) (as applicable), and the Supplier shall be excluded from all other rights and remedies it would otherwise have been entitled to in respect of any such termination.

**8 INVOICING FOR THE PAYMENTS ON TERMINATION**

- 8.1 Unless otherwise agreed between the Parties upon termination of the Agreement, all sums due under this Schedule shall be payable by the Authority to the Supplier in accordance with the payment terms and validation processes set out in Part C of Schedule 7.1 (*Charges and Invoicing*).

**9 SET OFF**

- 9.1 The Authority shall be entitled to set off any outstanding liabilities of the Supplier against any amounts that are payable by it pursuant to this Schedule.

**10 NO DOUBLE RECOVERY**

- 10.1 If any amount payable under this Schedule (in whole or in part) relates to or arises from any Transferring Assets then, to the extent that the Authority makes any payments pursuant to Schedule 8.5 (*Exit Management*) in respect of such Transferring Assets, such payments shall be deducted from the amount payable pursuant to this Schedule.
- 10.2 The value of the Termination Payment shall be reduced or extinguished to the extent that the Supplier has already received the Charges or the financial benefit of any other rights or remedy given under this Agreement so that there is no double counting in calculating the relevant payment.
- 10.3 Any payments that are due in respect of the Transferring Assets shall be calculated in accordance with the provisions of the Exit Plan.

**11 ESTIMATE OF TERMINATION PAYMENT**

- 11.1 The Authority may issue a Request for Estimate at any time during the Term provided that no more than 2 Requests for Estimate are to be issued in any 6-month period.
- 11.2 The Supplier shall within 20 Working Days of receiving the Request for Estimate (or such other timescale agreed between the Parties), provide an accurate written estimate of the Termination Payment that would be payable by the Authority based on a postulated Termination Date specified in the Request for Estimate (such estimate being the “**Termination Estimate**”). The Termination Estimate shall:
- (a) be based on the relevant amounts set out in the Supplier Cost Report;
  - (b) include:
    - (i) details of the mechanism by which the Termination Payment is calculated;

- (ii) full particulars of the estimated Contract Breakage Costs in respect of each Sub-contract, Third Party Contract, Lease or Licence and appropriate supporting documentation; and
    - (iii) such information as the Authority may reasonably require; and
  - (c) state the period for which that Termination Estimate remains valid, which shall be not less than 20 Working Days.
- 11.3 The Supplier acknowledges that issue of a Request for Estimate shall not be construed in any way as to represent an intention by the Authority to terminate this Agreement.
- 11.4 If the Authority issues a Termination Notice to the Supplier within the stated period for which a Termination Estimate remains valid, the Supplier shall use the same mechanism to calculate the Termination Payment as was detailed in the Termination Estimate unless otherwise agreed in writing between the Supplier and the Authority.

OFFICIAL – COMMERCIAL

**SCHEDULE 7.4**

**FINANCIAL DISTRESS**



## 1. Introduction

1.1. This Schedule provides (amongst other matters) for the assessment of the financial standing of the FDE Group and the establishment of trigger events relating to changes in such financial standing which, if they occur, will have specified consequences.

1.2. For the purposes of this Schedule, the following terms and phrases shall bear the following meanings:

<b>“Balance Sheet”</b>	means a financial statement that reports an entity’s assets, liabilities and shareholder equity at a particular point in time;
<b>“Cash Flow Statement”</b>	means a financial statement that shows how changes in Balance Sheet accounts and income and expenditure affect cash and cash equivalents, and breaks the analysis down into operating, investing and financing activities;
<b>“Current Assets”</b>	means assets which can be expected to be sold, consumed, exhausted or liquidated quickly, within a financial year;
<b>“Current Liabilities”</b>	means amounts due to be paid to creditors within twelve months;
<b>“FDE Group”</b>	means, the Supplier, Key Sub-contractors and the Guarantor;
<b>“Finance Leases”</b>	means a contract or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration;
<b>“Financial Ratio Level”</b>	means, in respect of each FDE Group member, the levels set out Table 1 at Paragraph 2.1 (and <b>“Financial Ratio”</b> shall be construed accordingly);
<b>“Financial Ratios Calculation Period”</b>	means the standard annual accounting period from time to time of each FDE Group member;
<b>“Fixed Assets”</b>	means items purchased for long term use in a business which are not likely to be sold within 12 months (also known as non-current assets or long term assets). Examples include property, plant and equipment;

<b>“Group Undertakings”</b>	means ‘undertakings’ (in accordance with section 1161 of the Companies Act 2006) which are subsidiary undertakings of the same parent undertaking but are not parent undertakings or subsidiary undertakings of each other;
<b>“Income Statement”</b>	means a financial statement (also known as profit and loss, or statement of Revenue and expenses) which details an entity’s Revenue, expenses and profit over a stated period;
<b>“Inventories”</b>	means financial records of raw materials of production, work in progress and maintenance, repair and overhaul;
<b>“Net Assets”</b>	means the total Fixed Assets plus total Current Assets, less, total Current Liabilities and total long term liabilities;
<b>“Net Cash Flow from Operating Activities”</b>	means the amount of money an entity brings in from its ongoing regular business activities. It is the first section of a Cash Flow Statement;
<b>“Net Interest Paid”</b>	means the net position of any interest paid less any interest received;
<b>“Operating Profit”</b>	means an entity’s business operations’ gross profit minus operating expenses before deduction of interest and taxes;
<b>“Profit Warning Event”</b>	shall mean the issue by a FDE Group member of a profit warning to a stock exchange (or making any other public announcement about a material deterioration in the FDE Group member’s financial position or prospects);
<b>“Retirement Benefit Assets”</b>	means the funds an entity will use to meet its future compensation obligations to retired employees;
<b>“Retirement Benefit Obligations”</b>	means the present value of retirement benefits earned by employees, determined by an actuary; and
<b>“Revenue”</b>	means the total amount of income generated by the business operations of an entity.

## 2. Financial Ratios

- 2.1. The Supplier shall monitor the Financial Ratios on an ongoing basis and calculate the following Financial Ratios (on the basis of published accounts that shall be prepared by the Supplier in accordance with all relevant accounting

standards and associated guidance published by the IFRS Foundation) as at the end of each Financial Ratios Calculation Period. The Supplier shall confirm to the Authority in writing on the earlier of:

- (a) one (1) month following publication in the public domain of the financial accounts for the Financial Ratios Calculation Period; or
- (b) one hundred and twenty (120) calendar days after the end of each such Financial Ratios Calculation Period,

whether the Financial Ratios for each FDE Group member fall within the “Acceptable” Financial Ratio Level as set out in the following table. The Supplier will make the calculations referred to in the following table in accordance with Paragraph 7. The Supplier shall also provide Quarterly reports based on latest management accounts in respect of each FDE Group member with the calculations referred to in the following table in accordance with Paragraph 7. If, at any point, the Financial Ratios for any FDE Group member do not fall within the “Acceptable” Financial Ratio Level, for any reason(s) other than solely due to a change in the standards and guidance published by the IFRS Foundation , the provisions of Paragraphs 3 or 4 shall apply (as applicable).

Table 1

Test				
	Calculation	Acceptable	Risk Level 1	Risk Level 2
Turnover Ratio	Supplier annual Revenue / Expected Annual Contract Value	2 and above	Below 2, but above 1.5	1.5 and below
Operating Margin	Operating Profit / Revenue	10% and above	Below 10%, but above 5%	5% and below
Free Cash Flow to Net Debt Ratio	Free Cash Flow / Net Debt	15% and above	Below 15%, but above 5%	5% and below
Net Debt to EBITDA Ratio	Net Debt / EBITDA	2.5 and below	Below 3.5, but above 2.5	3.5 and above
Net Pension Deficit and Net Debt to EBITDA Ratio	(Net Pension Deficit + Net Debt) / EBITDA	4 and below	Below 5, but above 4	5 and above
Net Interest Paid Cover	EBIT / Net Interest Paid	4.5 and above	Below 4.5, but above 3	3 and below
Acid Ratio	(Current Assets – Inventories) / Current Liabilities	1 and above	Below 1, but above 0.8	0.8 and below
Net Asset Value	Net Assets	Above 0		0 and below
Group Exposure Ratio	Group Exposure / Gross Assets	25% and below	Below 50%, but above 25%	50% and above

- 2.2. Unless otherwise agreed with the Authority in writing, the Supplier warrants and represents to the Authority for the benefit of the Authority that as at the Effective Date the Financial Ratios for each FDE Group member (in accordance with Table 1 in Paragraph 2.1) fall within the “Acceptable” Financial Ratio Level.
- 2.3. The Supplier shall regularly monitor relevant indicators of risk, including without limitation the Financial Ratios relating to the FDE Group, in accordance with this Schedule throughout the Term and shall promptly notify, or shall procure that its auditors promptly notify, the Authority in writing following the occurrence of a Financial Distress Event, any such notification to be made in any event within no more than ten (10) Working Days from the date on which the Supplier

first becomes aware of any fact, circumstance or matter which has caused or constitutes a Financial Distress Event. For the avoidance of doubt, whilst the methodology for calculating the Net Debt to EBITDA Ratio shall be determined by reference to a methodology used in preparing a particular set of published accounts in respect of the FDE Group, nothing in this Schedule shall be treated as requiring the Supplier only to monitor and calculate Financial Ratios after the end of a particular Financial Ratios Calculation Period and/or by reference to particular published accounts, and instead the Supplier shall be required in accordance with this Paragraph 2.3 to monitor and calculate Financial Ratios for the FDE Group on a regular basis throughout the Term (based on then current management accounts or other relevant financial information in respect of the FDE Group) and to notify the Authority if at any point in time during the Term any Financial Ratios for a FDE Group member cease to fall within the "Acceptable" level (as set out in Table 1 of Paragraph 2.1).

### **3. Risk Level 1 Financial Distress Event**

3.1. Any of the following events shall constitute a Financial Distress Event which is categorised for the purposes of this Schedule as a "Risk Level 1" Financial Distress Event:

- (a) any member of the FDE Group having an adverse decline in one or more of the Financial Ratios specified in Table 1 of Paragraph 2.1 such that the Financial Ratios fall within Financial Ratio "Risk Level 1";
- (b) a Key Sub-contractor, pursuant to the obligation included within its Key Sub-contractor agreement under Paragraph 6.1, providing a report to the Authority that the Supplier has not satisfied any material sums properly due under a specified invoice and not subject to a genuine dispute;
- (c) a FDE Group member failing (or being unable) within ten (10) Working Days of a Profit Warning Event to demonstrate to the Authority's reasonable satisfaction, that (notwithstanding such Profit Warning Event), (i) the Financial Ratios for that FDE Group member remain within the "Acceptable" Financial Ratio Level (as set out in Table 1 of Paragraph 2.1); and (ii) there are no other implications of such Profit Warning Event that would impact on the Financial Ratio Level of that FDE Group member in the future, or would otherwise impact on the ability of the Supplier to provide the Services, or ability of that FDE Group member to meet its obligations under the this Agreement, the Guarantee, Key Sub-contract, or other agreement relevant to the supply of Services under this Agreement, as appropriate;
- (d) there being a public investigation into improper financial accounting and reporting, suspected fraud or any other impropriety of a FDE Group member; and/or
- (e) a FDE Group member committing a material breach of covenants to its lenders,

and if any such Financial Distress Event or any Profit Warning Event occurs then, immediately upon notification of the Financial Distress Event or Profit Warning Event (or if the Authority becomes aware of the Financial Distress Event or Profit Warning Event without notification and brings the Financial

Distress Event or Profit Warning Event to the attention of the Supplier), the Authority shall have the rights set out in Paragraph 3.2.

3.2. At the request of the Authority, the Supplier shall:

- (a) meet with the Authority (and, if the Financial Distress Event relates to another member of the FDE Group, use all reasonable endeavours to procure that member of the FDE Group shall meet with the Authority) as soon as is reasonably practicable and in any event within three (3) Working Days of the Authority's request to review the effect of the Financial Distress Event upon the continued performance of the Services or of the Guarantee (as the case may be);
- (b) provide such information as the Authority may reasonably require relating to the Financial Distress Event in advance of, at, or within five (5) Working Days of the meeting referred to at Paragraph 3.2(a); and/or
- (c) submit to the Authority for its approval, a draft Service Continuity Plan in relation to such Financial Distress Event as soon as possible and in any event not later than ten (10) Working Days (or such other period as the Authority may permit and notify to the Supplier in writing) after the initial notification under Paragraph 2.3 (or if the Authority becomes aware of the Financial Distress Event without notification and brings the Financial Distress Event to the attention of the Supplier, as soon as possible and in any event not later than ten (10) Working Days after the Financial Distress Event has been brought to the attention of the Supplier).

3.3. The Authority shall not withhold its approval of a draft Financial Distress Event Service Continuity Plan unreasonably. If the Authority does not approve the draft Financial Distress Event Service Continuity Plan it shall inform the Supplier of its reasons and the Supplier shall take those reasons into account in the preparation of a further Financial Distress Event Service Continuity Plan, which shall be resubmitted to the Authority within five (5) Working Days of the rejection of the first draft.

3.4. If the Authority reasonably considers that the draft Financial Distress Event Service Continuity Plan is insufficiently detailed to be properly evaluated, or will take too long to complete or will not remedy the Financial Distress Event it relates to, then it may either agree a further time period for the development and agreement of the Financial Distress Event Service Continuity Plan or rely on Paragraph 3.6(b).

3.5. The Supplier shall comply with any Financial Distress Event Service Continuity Plan following its approval by the Authority.

3.6. If:

- (a) the Supplier does not provide the information required in accordance with Paragraph 3.2(b); and/or
- (b) the Parties fail to reach agreement on the Financial Distress Event Service Continuity Plan prepared in accordance with Paragraph 3.2(c); and/or

- (c) the Supplier fails to fully and promptly implement any Financial Distress Event Service Continuity Plan in accordance with its terms,

then the Authority shall be entitled to treat such event as being a Risk Level 2 Financial Distress Event and Paragraph 4 shall apply.

3.7. If and to the extent that:

- (a) a Risk Level 1 Financial Distress Event arises due to one or more of the Financial Ratios of a FDE Group member and that FDE Group member's Financial Ratios then improve to an "Acceptable" level; or
- (b) a Risk Level 1 Financial Distress Event arises due to factors other than the Financial Ratios of a FDE Group member and the Authority reasonably determines that the factors no longer constitute any type of financial, performance or reputation risk to the Authority or to the provision of any Services (such decision being revocable where it considers new or varied information gives rise to such risk to the Authority and/or the provision of any of the Services),

and in each case, no new factors have arisen which would give rise to a Risk Level 1 Financial Distress Event, then the Authority shall notify the Supplier that the Risk Level 1 Financial Distress Event no longer applies, but the Supplier shall nonetheless complete delivery of any Financial Distress Event Service Continuity Plan (unless otherwise agreed between the Parties).

- 3.8. Where the Financial Distress Event relates to the non-payment of Key Sub-contractors pursuant to Paragraph 3.1(b), the Authority shall, prior to exercising its rights under Paragraph 3.2, give the Supplier a period of not more than ten (10) Working Days in which to rectify that non-payment or to demonstrate to the Authority's reasonable satisfaction that there is a valid reason for non-payment.

**4. Risk Level 2 Financial Distress Event**

- 4.1. Any of the following events shall constitute a Financial Distress Event which is categorised for the purposes of this Schedule as a "Risk Level 2" Financial Distress Event:

- (a) a FDE Group member having an adverse decline in one or more of the Financial Ratios specified in table 1 of Paragraph 2.1 such that the Financial Ratios fall within Financial Ratio Risk Level 2;
- (b) a FDE Group member failing to pay any financial indebtedness (regardless of litigation in respect of that failure to pay);
- (c) a cancellation or suspension of financial indebtedness in respect of a FDE Group member;
- (d) the external auditor of a FDE Group member expressing a qualified opinion on, or including an emphasis of matter in its opinion on the statutory accounts of that FDE Group member;
- (e) any of the circumstances outlined in Paragraph 3.6 arise;

- (f) commencement of any litigation against a FDE Group member with respect to financial indebtedness greater than £5m or any obligation under a service contract with a total value greater than £5m, non-payment of any financial indebtedness, any financial indebtedness of a FDE Group member becoming due as a result of an event of default, the cancellation or suspension of any financial indebtedness of a FDE Group member, which will directly impact upon the Supplier's ability to deliver the Services; and/or
- (g) an Insolvency Event in respect of any FDE Group member,

and if any such Financial Distress Event occurs then, immediately upon notification of the Financial Distress Event (or if the Authority becomes aware of the Financial Distress Event without notification and brings the Financial Distress Event to the attention of the Supplier), the provisions of Paragraph 3.2 shall apply to the extent applicable and the Authority shall also have the rights set out in Paragraph 4.2.

4.2. The Authority may:

- (a) require the Supplier's chief financial officer to update the Authority as to the relevant FDE Group member's financial standing (including its key funding sources) on a monthly basis and, if applicable, require the Supplier to use all reasonable endeavours to procure that the FDE Group member directly provides monthly updates to the Authority; and/or
- (b) require the Supplier to provide the Authority with a draft Financial Distress Event Service Continuity Plan setting out how the Supplier will ensure the continuity of provision of the Services in the event that the relevant FDE Group member becomes subject to the occurrence of an Insolvency Event, in which case: (i) the provisions of Paragraphs 3.2(c) and 3.3 shall apply mutatis mutandis as regards the process (including timescales) for the relevant Financial Distress Event Service Continuity Plan to be submitted to, and approved by, the Authority; and (ii) the Supplier shall comply with the relevant Financial Distress Event Service Continuity Plan following its approval by the Authority.

4.3. If and to the extent that:

- (a) a Risk Level 2 Financial Distress Event arises due to one or more of the Financial Ratios of a FDE Group member and that FDE Group member's Financial Ratios then improve to an "Acceptable" level; or
- (b) a Risk Level 2 Financial Distress Event arises due to factors other than the Financial Ratios of a FDE Group member and the Authority reasonably determines that the factors no longer constitute any type of financial, performance or reputation risk to the Authority or to the provision of any Services (such decision being revocable where it considers new or varied information gives rise to such risk to the Authority and/or the provision of any of the Services),

and in each case, no new factors have arisen which would give rise to a Risk Level 2 Financial Distress Event, then the Authority shall notify the Supplier that the Risk Level 2 Financial Distress Event no longer applies, but the



Supplier shall nonetheless complete delivery of any Financial Distress Event Service Continuity Plan (unless otherwise agreed between the Parties).

## 5. Termination Rights

5.1. The Authority shall be entitled to terminate this Agreement if:

- (a) the Supplier fails to notify the Authority in accordance with Paragraph 2.3 of a Financial Distress Event;
- (b) the Supplier fails, in any material respect, to comply with Paragraphs 3.2(c), 3.3 and/or 4.2(b) and does not remedy that failure to the reasonable satisfaction of the Authority within five (5) Working Days of the Authority notifying the Supplier of the failure and requiring that it be remedied; and/or
- (c) the Supplier materially fails to comply with the terms of any Financial Distress Event Service Continuity Plan in accordance with Paragraphs 3.5 or 4.2(b).

## 6. Sub-contractor Payment

6.1. The Supplier shall ensure that all Key Sub-contracts include an obligation on the Key Sub-contractor to report to the Authority, within ten (10) Working Days of the due date for payment, any material non-payment or late payment of any sums due to it from the Supplier under the provision of the Key Sub-contract.

## 7. Calculation Methodology

7.1. The Supplier shall ensure that it uses the general and specific methodologies set out in Paragraphs 7.2 and 7.3 for calculating the Financial Ratio Levels.

### 7.2. General methodology

**Terminology:** The terms referred to in this Paragraph 7 are those used by UK companies in their financial statements. Where the entity is not a UK company, the corresponding items should be used even if the terminology is slightly different (for example a charity would refer to a surplus or deficit rather than a profit or loss).

**Groups:** Where the entity is the holding company of a group and prepares consolidated financial statements, the consolidated figures should be used.

**Foreign currency conversion:** Figures denominated in foreign currencies should be converted at the exchange rate in force at the relevant date for which the Financial Ratio Level is being calculated.

**Treatment of non-underlying items:** Financial Ratio Levels should be based on the figures in the financial statements before adjusting for non-underlying items.

7.3. **Specific Methodology**

Financial Ratio	Specific Methodology
<b>Turnover Ratio</b>	<p>The elements used to calculate the Revenue should be shown on the face of the Income Statement in a standard set of financial statements and should exclude the entity's share of the results of any joint ventures or Associates.</p> <p>The Expected Annual Contract Value will be the annual value of the estimated total contract value defined in the amended "Instructions to Bidders" document issued by the Authority on 7 October 2022.</p>
<b>Operating Margin</b>	<p>The elements used to calculate the Operating Margin should be shown on the face of the Income Statement in a standard set of financial statements.</p> <p>Figures for Operating Profit and Revenue should exclude the entity's share of the results of any joint ventures or Associates.</p> <p>Where an entity has an operating loss (i.e. where the Operating Profit is negative), Operating Profit should be taken to be zero.</p>
<b>Free Cash Flow to Net Debt Ratio</b>	<p><b>"Free Cash Flow"</b> = Net Cash Flow from Operating Activities – Capital Expenditure.</p> <p><b>"Capital Expenditure"</b> = Purchase of property, plant &amp; equipment + purchase of intangible assets.</p> <p><b>"Net Debt"</b> = Bank overdrafts + Loans and borrowings + Finance Leases + Deferred consideration payable – Cash and cash equivalents.</p> <p>The majority of the elements used to calculate the Free Cash Flow to Net Debt Ratio should be shown on the face of the Cash Flow Statement and the Balance Sheet in a standard set of financial statements.</p> <p><u>Net Cash Flow from Operating Activities</u> This should be stated after deduction of interest and tax paid.</p> <p><u>Capital expenditure</u> The elements of capital expenditure may be described slightly differently but will be found under 'Cash flows from investing activities' in the Cash Flow Statement; they should be limited to the purchase of Fixed Assets (including intangible assets) for the business and exclude acquisitions. The figure should be shown gross without any deduction for any proceeds of sale of Fixed Assets.</p> <p><u>Net Debt</u> The elements of Net Debt may also be described slightly differently and should be found either on the face of the Balance Sheet or in the relevant note to the financial statements. All</p>

Financial Ratio	Specific Methodology
	<p>interest bearing liabilities (other than Retirement Benefit Obligations) should be treated as borrowings as should, where disclosed, any liabilities (less any assets) in respect of any hedges designated as linked to borrowings (but not non-designated hedges). Borrowings should also include balances owed to other group members.</p> <p>Deferred consideration payable should be included in Net Debt despite typically being non-interest bearing.</p> <p>Cash and cash equivalents should include short-term financial investments shown in Current Assets.</p>
<b>Net Debt to EBITDA Ratio</b>	<p><b>“EBITDA”</b> = Operating Profit + Depreciation charge + Amortisation charge.</p> <p>The majority of the elements used to calculate the Net Debt to EBITDA Ratio should be shown on the face of the Balance Sheet, Income Statement and Cash Flow Statement in a standard set of financial statements but will otherwise be found in the notes to the financial statements.</p> <p><u>Net Debt</u> Refer to the notes for Free Cash Flow to Net Debt Ratio.</p> <p><u>EBITDA</u> Operating Profit should be shown on the face of the Income Statement and, for the purposes of calculating this Financial Ratio, should include the entity’s share of the results of any joint ventures or Associates. The depreciation and amortisation charges for the period may be found on the face of the Cash Flow Statement or in a note to the accounts. The depreciation and amortisation charges for the period may be found on the face of the Cash Flow Statement or in a note to the financial statements.</p>
<b>Net Pension Deficit and Net Debt to EBITDA Ratio</b>	<p><b>“Net Pension Deficit”</b> = Retirement Benefit Obligations – Retirement Benefit Assets.</p> <p>The majority of the elements used to calculate the Net Pension Deficit and Net Debts to EBITDA Ratio should be shown on the face of the Balance Sheet, Income Statement and Cash Flow Statement in a standard set of financial statements but will otherwise be found in the notes to the financial statements.</p> <p><u>Net Pension Deficit</u> Retirement Benefit Obligations and Retirement Benefit Assets may be shown on the face of the Balance Sheet or in the notes to the financial statements. They may also be described as pension benefits / obligations, post-employment obligations or other similar terms.</p>

Financial Ratio	Specific Methodology
	<p><u>Net Debt</u> Refer to the notes for Free Cash Flow to Net Debt Ratio.</p> <p><u>EBITDA</u> Operating Profit should be shown on the face of the Income Statement and, for the purposes of calculating this Financial Ratio, should include the entity's share of the results of any joint ventures or Associates. The depreciation and amortisation charges for the period may be found on the face of the Cash Flow Statement or in a note to the accounts. The depreciation and amortisation charges for the period may be found on the face of the Cash Flow Statement or in a note to the financial statements.</p>
<b>Net Interest Paid Cover</b>	<p><b>"EBIT"</b> = Operating Profit.</p> <p>Operating Profit should be shown on the face of the Income Statement in a standard set of financial statements and, for the purposes of calculating this Financial Ratio, should include the entity's share of the results of any joint ventures or Associates.</p> <p>Interest received and interest paid should be shown on the face of the Cash Flow Statement.</p>
<b>Acid Ratio</b>	<p>All elements that are used to calculate the Acid Ratio are available on the face of the Balance Sheet in a standard set of financial statements.</p>
<b>Net Asset value</b>	<p>Net Assets are shown (but sometimes not labelled) on the face of the Balance Sheet of a standard set of financial statements. Net Assets are sometimes called net worth or 'Shareholders' Funds'. They represent the net assets available to the shareholders. Where an entity has a majority interest in another entity in which there are also minority or non-controlling interests (i.e. where it has a subsidiary partially owned by outside investors), Net Assets should be taken inclusive of minority or non-controlling interests (as if the entity owned 100% of such entity).</p>
<b>Group Exposure Ratio</b>	<p><b>"Group Exposure"</b> = Balances owed by Group Undertakings + Contingent liabilities assumed in support of Group Undertakings.</p> <p><b>"Gross Assets"</b> = Fixed Assets + Current Assets.</p> <p><u>Group Exposure</u> Balances owed by (i.e. receivable from) Group Undertakings are shown within Fixed Assets or Current Assets either on the face of the Balance Sheet or in the relevant notes to the financial statements. In many cases there may be no such balances, in particular where an entity is not a member of a group or is itself the ultimate holding company of the group.</p>

Financial Ratio	Specific Methodology
	<p>Contingent liabilities assumed in support of Group Undertakings are shown in the 'Contingent Liabilities' note in a standard set of financial statements. They include guarantees and security given in support of the borrowings of other group companies, often as part of group borrowing arrangements. Where the contingent liabilities are capped, the capped figure should be taken as their value.</p> <p>In many cases an entity may not have assumed any contingent liabilities in support of Group Undertakings, in particular where an entity is not a member of a group or is itself the ultimate holding company of the group.</p> <p><u>Gross Assets</u> Both Fixed Assets and Current Assets are shown on the face of the Balance Sheet.</p>