

Access to Work Holistic Assessment Procurement

Invitation to Tender (ITT)
Financial Evaluation Methodology

1. Principles

- 1.1 This document sets out the methodology that will be used for the financial evaluation of the Access to Work Holistic Assessment procurement. The financial evaluation will comprise:
- 1.2 **Part 1** - A financial evaluation of the submitted tenders. Financial evaluation comprises of 40 per cent of the overall evaluation score for each bid, with the remaining 60 per cent derived from the quality evaluation scoring process.
- 1.3 **Part 2** – A financial viability risk assessment will be undertaken, which will not count towards the tender assessment scores, but will be used to highlight any financial risks to the Authority. This will be used to provide feedback to Potential Suppliers on issues they need to consider and resolve. An overall “Red” rating may result in elimination from the competition.

2. PART 1 – FINANCIAL EVALUATION

- 2.1 DWP will assess the Potential Supplier’s proposed prices in two stages:
 - **Detailed review and clarification.** A cost analysis tool will bring all pertinent costings together from the pricing proposal (Annex S) to enable cost comparison and identify any anomalies or unnaturally high or low costings. The Authority reserves the right to request clarifications where required. This review will ensure that the prices offered are sustainable and in line with more detailed delivery cost assumptions. The detailed costs in the pricing proposal may only be cross-referenced to the information provided within the Quality elements of the proposal to ensure that the information correlates at the preferred bidder stage. If there are any discrepancies or ambiguities, these may be clarified with Potential Suppliers.

For instance, if a Potential Supplier states in their Quality response that there will be 20 staff involved in delivery but the financial cost breakdown identifies only 15, the Authority will clarify with the Potential Supplier to establish which is correct, and whether their bid price needs to be adjusted as a consequence; and
 - **Final Price Scoring and Ranking.** Scoring will be undertaken using the methodology in the ITT Instructions to Potential Suppliers, Paragraph 7A final ranking will be produced taking in to account any adjustments made following the detailed review and clarification.

3. Scoring and Ranking

- 3.1 Potential Suppliers are required to complete the Pricing Proposal (Annex S) for the delivery of the Access to Work Assessments provision, showing total contract price for the life of the contract. This should be calculated by the potential supplier based on the specification of requirements and anticipated volumes.
- 3.2 The Financial evaluation methodology, with a worked example, is described in the ITT Instructions to Potential Suppliers, Paragraph 7.
- 3.3 **Abnormally low tenders.** Potential Suppliers are advised that the Authority will require them to explain the price or costs proposed in any tender which appears abnormally low in accordance with Regulation 69 of the Public Contracts Regulations 2015. The Authority will assess the information supplied by consulting with the Potential Supplier. Where the evidence supplied does not satisfactorily account for the low price, or costs proposed, the Authority will reject the bid.

4. PART 2 – FINANCIAL VIABILITY RISK ASSESSMENT

- 4.1 The aim of the evaluation is to ensure Potential Suppliers who proceed have sufficient resources to successfully deliver the contract with a minimal risk of failure. The assessment will consist of an evaluation of the accounts and other financial and organisational data that the prospective Potential Suppliers makes available to the Authority.
- 4.2 Special Purpose Vehicles (SPVs) will be assessed using the same approach as other companies, except each member of the SPV will have their contribution to the key metrics apportioned based on their equity holding in the organisation (or proposed equity holding if the SPV has not yet been formed).
- 4.3 In order to comply with the accounting standard, IAS 24 Related Party Disclosures, Potential Suppliers are required to ensure that their financial statements contain the disclosures necessary to draw attention to the possibility that its financial position, and profit or loss, may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.
- 4.4 Where the Potential Supplier organisation has a Parent Company, then the Parent Company accounts should also be supplied on request.
- 4.5 In order for a like for like evaluation on organisations based abroad, the Authority will require that all financial accounts are converted and supplied in GB sterling, stating the exchange rate used and the justification for this exchange rate.

- 4.6 The analysis of the accounts will consider the size of the business, its age and which sector of industry it is trading in, as well as focusing on appropriate ratio analysis and organisational growth. The financial appraisals will be conducted by suitably qualified and experienced staff to ensure an accurate, consistent and professional approach.
- 4.7 Individual Potential Supplier responses will be assessed on the following three areas:
- Organisational Stability;
 - Financial Stability; and
 - Growth Management;
- 4.8 If the assessment of any of the above areas produces a RAG rating of **RED** the result will be potential elimination from the procurement. An organisation that has a negative balance sheet (technically insolvent) will be given a RAG rating of **RED**. Further investigation and clarification will be required by the Authority to fully understand the issues causing the red rating.
- 4.9 As part of such investigation and clarification the Authority may require the Potential Supplier to provide supplementary information relating to the matters specified. If, following such clarification, the Authority is satisfied that there are clear and robust mitigating circumstances, which provide satisfactory assurance that there is minimal risk of contract failure as demonstrated by the clarification and/or supplementary information provided, the Authority reserves the right not to eliminate the Potential Supplier from the procurement process, and to amend the RAG rating from **RED** to **AMBER**.
- 4.10 If you identify that your organisation will be rated **RED**, but believe there to be mitigating circumstances, then you should submit an explanation and supporting evidence of the mitigating circumstances with your annual accounts.
- 4.11 If any Potential Suppliers score a mixture of **AMBER** and **GREEN** in the criteria listed in **Annex 1**, the **AMBER** score takes priority. An **AMBER** rating does not exclude an organisation from progressing in the competition.
- 4.12 For an organisation which achieves an **AMBER** rating it may be necessary before contracting with that organisation for a Potential Supplier to supply additional evidence that the Potential Supplier can manage the level of growth, from an organisational, financial and delivery perspective. **Annex 1** provides the RAG criteria and related action across all areas of the assessment.

5. Organisational Stability

- 5.1 This section focuses on the overall stability of the organisation based on set criteria. Using the data supplied in the financial statements, an

assessment will be completed to determine the stability of the organisation.

- 5.2 If the assessment raises major concerns about the organisation [please see the qualification table at **Annex 2** for more information] this will result in the organisation being given a **RED** rating which will result in the potential elimination from the process.
- 5.3 Organisations that do not fall into the above rating category will receive a **GREEN** rating.

6. Growth Management

- 6.1 This section provides an initial assessment of an organisation's ability to manage the contract. Please see **Annex 3** for details that will be used in the assessment at this stage.
- 6.2 Turnover growth analysis will focus on the contract limit, and an organisation's ability to manage a single contract.
- 7.3 This analysis will be used to identify how the organisation is likely to achieve the following:
- **Financial Strength** - can the organisation cope financially with the size of contract or asset requirement; and
 - **Capacity** - does the organisation have the resource to carry out the work
- 6.4 The Authority will assess each organisation's ability to carry out and complete the contract, and will calculate an organisational threshold initially based on 100% of their annual turnover. Organisational / Group / SPV structures will also be taken into account, where appropriate, as part of this financial threshold calculation. It is anticipated that this financial threshold must be equal to or higher than the annual contract value to progress.
- 6.5 Failure to meet the threshold will not mean automatic elimination from the competition, but further assurances will be sought by the Authority regarding the organisation's ability to grow and cope with the requirements of the contract. Failure to provide these assurances will result in elimination from the competition.
- 6.6 If the organisation progresses through to future stages of the procurement exercise, the department may wish to explore financial and non-financial elements to further measure growth potential. This will be dependent on contract size. The non-financial elements will include, but not be limited to:
- Strategic Management;
 - Supply Chain Management;

- Infrastructure;
- People and Skills; and
- Policies and Procedures.

7. Financial Stability

- 7.1 This section involves completing a ratio analysis of the financial information contained in the Potential Suppliers organisation's financial statements and will inform the outcome of this part of the assessment.
- 7.2 Two ratios will be analysed: the Acid Test ratio (1) and the Debt ratio (2). Please see **Annex 3** for details of the scoring and weighting criteria that will be attributed to this assessment.
- 7.3 When analysing a Potential Supplier organisation's Liabilities, the Authority will exclude any amounts in relation to Provisions for Pensions Liabilities.

8. Outcome

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

ANNEX 1

Qualifying Criteria

The following table defines the RAG assessment and related action.

Criteria	Outcome
RED - Potential Elimination	Potential Supplier exits the exercise subject to section 6.8 – 6.10 above
AMBER - Tentative Progression	Potential Supplier progresses to next stage, but analysis continues and a dialogue commences between DWP and the organisation. The possibility of elimination at a later date does exist, but is not definite.
GREEN - Progression	Potential Supplier progresses to next stage

ANNEX 2

Turnover Growth Methodology

The table below shows the scoring and weighting mechanism for Turnover Growth (section 7 refers).

Criteria	Score
Turnover Growth	>100% = Red 100% or less = Green

ANNEX 3

Financial Stability and Growth Management Scoring Methodology

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

Criteria	Score
Acid Test Ratio	>1.1 = Green <1.1 = Amber
Debt Ratio	<0.5 = Green >0.5 = Amber

- i) All Potential Suppliers will be given an Amber or Green risk rating based on this assessment. Green rated Potential Suppliers will be deemed as having passed the analysis.
- ii) For those Potential Suppliers achieving an Amber rating the Commercial Finance Business Partner Team may seek further clarification and reassurance that any potential risks can be fully mitigated.
- iii) Acid Test Ratio = (Current Assets – Inventory) / Current Liabilities
- iv) Debt Ratio = (Total Debt – Pensions Liability) / Total Assets