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Price / Quality Evaluations

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The Question

1. When budget settlements are so tight, is there a best practice model for price/quality evaluation and scoring methodologies?

2. Is there a creative way of going beyond conventional price/quality formulae?

3. Should we use price/quality ratios?

1. Is there a best practice model?

- Article/Regulation 67
  - "..shall base the award on the MEAT…"
  - "…identified on the basis of the price or cost, using a cost-effectiveness approach, such as life-cycle costing in accordance with r68, and may include the best price-quality ratio…"
  - "…cost element may also take the form of a fixed price or cost on the basis of which economic operators will compete on quality criteria only"

So there is flexibility of choice

- Subject to general principles of:
  - Equal treatment
  - Transparency
  - Non-discrimination
  - Relevance
  - Proportionality

Price Only	Quality only	Price/Quality

• Suitable where:
  • can clearly define specification
  • there is reasonable competition
• NB:
  • Sustainability
  • ALTs (r69)
	• Suitable where:
	  • can clearly define a financial envelope
	  • need to assess different solutions
	• NB:
	  • Scope for challenge
	  • Overly prescriptive scoring matrices
		• A flexible approach in terms of:
		  • weightings
		  • structure
		  • maths
		• NB:
		  • R67 - “Ratio”
		  • Price for each point of quality

Price/Quality Ratios

- Enables comparison of price per quality point

Quality Points	Price	Ratio
40	£80	1:£2
50	£100	1:£2

- Requires other parameters e.g.:
  - Financial envelope
  - Indifference curve enables variation in the value placed per unit of quality

2. Creative ways of going beyond conventional price/quality formulae?

- Evaluate ability to deliver future costs savings
  - http://www.northdevonhealth.nhs.uk/wp-content/uploads/2015/06/Provisional-findings.pdf
- Outcomes-based incentivised commissioning
  - www.cobic.co.uk

3. Should we use Price/Quality Ratios?

- Transparent?
- Equal treatment and non-discrimination?
- Relevant and proportionate?

Inverse proportionality – a relative methodology

- Lowest price bid = £300
- Bid A = £400
- Bid B = £350
- Bid C = £300
- Price Weighting = 60%
- So … Bid A would score as follows:

$$\frac{300}{400} \times 60\% = 45$$

Problems with relative pricing

- Example – inverse proportionality (price 60%)
  - Bid A: (300 ÷ 400)=75 x 60% = 45
  - Bid B: (300 ÷ 350) = **85.7 x 60% = 51.4**
  - Bid C: (300 ÷ 300) = 100 x 60% = 60
- Not a mathematically straight line…

Add in quality at 40%

	Price Score	Quality Score	Overall ranking
Bid A	45	38	83
Bid B	51.4	32	**83.6 (1st)**
Bid C	60	20	80

Add in Bid D at 250 and ranking changes

	Price Score	Quality Score	Overall ranking
Bid A (250 ÷ 400 x 60)	37.5	38	**75.5 (1st)**
Bid B (250 ÷ 350 x 60)	42.86	32	74.86
Bid C (250 ÷ 300 x 60)	49.99	20	69.99
Bid D (250)	60	15	75

Views from courts in the EU

- Sweden (*Malmö - Case 5293-10*)
  - Price 60%, Operational costs 20%
  - Scoring methodology
    - lowest price received highest score with higher prices scored down, relative to lowest price
    - same quality scores - higher price tender won
  - CA was transparent in its approach
    - Methodology allowed for score manipulation
    - Not equal treatment, not an award of most economically advantageous tender

Views from courts in the EU

- France (*Communes de Lognes*)– possible price score 0 to 40 using this formula to calculate the score

$$\frac{\text{Most expensive bid} - \text{bid price}}{\text{Most expensive bid} - \text{least expensive bid}} \times 40$$

- Only two bids submitted – worked example - 1 euro difference in price
  - Bidder A 100 euro (M most expensive bid)
  - Bidder B 99 euro (L least expensive bid)

Views from courts in the EU

- Bidder A

$$\frac{100\,(M) - 100\,(P) \times 40}{100\,(M) - 99\,(L)} = \frac{0}{1} = \text{Score of } 0$$

- Bidder B

$$\frac{100\,(M) - 99\,(P) \times 40}{100\,(M) - 99\,(L)} = \frac{40}{1} = \text{Score of } 40$$

- CA was transparent in its approach but methodology was struck out by the court – irregular because it did not take account of actual or real differences between prices

Average pricing

£100	£200	£300	£400	£500
1	3	5	3	1

- "… [this] average pricing methodology represents unequal treatment of tenderers, particularly those with valid low tenders"
- "average pricing is not allowed as it is not an objective criterion related to the subject matter of the contract"
- European Commission Public Procurement Guidance for Practitioners on the avoidance of the most common errors in projects funded by the European Structural and Investment Funds (2015)

Practical considerations

- Test formula against market and purchase
- Modelling
- Incorporated into procurement documents from the start
- Avoid overly rigid matrix for award of quality marks as may lead to finding of manifest error

References

- *A comparative study of Formulas for Choosing the Economically Most Advantageous Tender* – Stan Stilger, Jan Siderius and van Raaij
- *Price-Quality ratios in Value-for-Money Awards* - Kilver and Kodym
- *Aspects of Evaluation from a Decision Theory Perspective* – Derek W. Bunn
- *Random Effects of scoring price in a tender evaluation* – Michael Bowsher QC

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