

# Where's the MEAT?

**David Gollancz**

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**White Paper conference**

# Price/Quality evaluations: the question



- When budget settlements are so tight, what is the best practice model for Price/Quality evaluation and scoring methodologies?
- Is there a creative way of going beyond conventional Price/Quality formulae?
- Should we use price:quality ratios?

# Health Warning: the best evaluation is no use unless the contract is managed



- The Agency and Capita began the development of the business processes and systems in a constructive way but the relationship came under stress as problems mounted. *NAO report: Criminal Records Bureau: Delivering Safer Recruitment? 2004*
- The National Audit Office found that...better contract management could generate savings of between £160m and £290m a year... *Office of Government Commerce 2008*

- Government will not achieve value for money from its contracts until it pays much more attention to contract management. *House of Commons Public Accounts Committee Report 26 November 2014*
- The root cause of the weaknesses in contract management is failure over many years to establish contract management as a distinct and respected specialism with a strong ethos and well-defined responsibilities. *National Audit Office, 4 September 2014*

## ➤ Law

- Disqualification – reg. 57
  - Selection - reg. 58, 65
  - Evaluation – reg. 67 (+ (96))
  - Contract – conditions and management
- Award: PCR 2015 reg. 67, Directive 2014/24/EU recitals 89 - 99

# Law – PCR 2015 reg. 67; UCR 2016 reg. 82; CCR 2016 reg. 41



- Public and Utilities regulations:
  - MEAT shall be identified on basis of price or cost using a cost-effectiveness approach (e.g. life-cycle costing)
  - May include best price-quality ratio
  - May also use a fixed price or cost, bidders compete on quality.
  - No express permission to use lowest price but see Directive 2014/24/EU recital s (90) second indent and (96) first indent.
- Concession Regs different: competition and *overall economic advantage*

# Clearly explained in recitals to public sector Directive



(89) The notion of award criteria is central to this Directive. It is therefore important that the relevant provisions be presented in as simple and streamlined a way as possible. This can be obtained by using the terminology 'most economically advantageous tender' as the overriding concept, since all winning tenders should finally be chosen in accordance with what the individual contracting authority considers to be the economically best solution among those offered. In order to avoid confusion with the award criterion that is currently known as the 'most economically advantageous tender' in Directives 2004/17/EC and 2004/18/EC, a different terminology should be used to cover that concept, the 'best price-quality ratio'. Consequently, it should be interpreted in accordance with the case-law relating to those Directives, except where there is a clearly materially different solution in this Directive.

(90) Contracts should be awarded on the basis of objective criteria that ensure compliance with the principles of transparency, non-discrimination and equal treatment, with a view to ensuring an objective comparison of the relative value of the tenders in order to determine, in conditions of effective competition, which tender is the most economically advantageous tender. It should be set out explicitly that the most economically advantageous tender should be assessed on the basis of the best price-quality ratio, which should always include a price or cost element. It should equally be clarified that such assessment of the most economically advantageous tender could also be carried out on the basis of either price or cost effectiveness only. It is furthermore appropriate to recall that contracting authorities are free to set adequate quality standards by using technical specifications or contract performance conditions. ..(96) It should hence be made clear that, except where it is assessed on the basis of price only, contracting authorities can determine the most economically advantageous tender and the lowest cost using a life-cycle costing approach.

**Best practice models: evaluation models  
are a trap if they're not customised**



# Quality scoring



Score	Criterion
0	Completely fails to meet required standard / does not provide any proposal
1	Proposal contains significant shortcomings / is inconsistent with other proposals
2	Proposal falls short of expected standard in a number of specific respects
3	Proposal meets required standard in most material respects but includes shortcomings or inconsistencies in other respects
4	Proposal meets expected standard in all material respects
5	Proposal meets required standard in all material respects and exceeds some key requirements

- **Differential**: Lowest price gets 100%. Other prices converted into a percentage of that lowest price. *Can distort relative positions of bidders – does that matter? Does the outcome reflect the authority's intention? Is it transparent?*
- **Ceiling**: Maximum compliant price is published. Ceiling scores 0, any tender exceeding is disqualified, prices scored according to how much less than ceiling. *Happy to publish budget? Need quality thresholds, approach to ALTs*

- **Savings**: Prices scored against published baseline price/savings target; maximum score for meeting savings target, scores reflecting absolute position between target and current price (i.e. not relative to best bid). *Happy to publish budget and target? What about bidder who could genuinely go lower? Quality thresholds.*
- **Price/quality ratio**: What does each quality point cost? *Quality thresholds.*

- **Fixed price**, compete on quality only (reg. 67(4)) -  
*Tenderers know exactly what money's available,  
focuses their minds on offering the best quality.  
Happy to commit to a price? Quality threshold.*

- Price loading
- Scoring rebates/discounts separately
- Modelling
- Exploiting KPIs/service credits

# Price scoring: Q60, P40



## ➤ Q scores:

Bidder	£m	Q /100	Q 60%
A	1.5	92	55
B	1.1	72	43
C	1.3	85	51

# Differential model



Bidder	£m	£%	/40
A	1.5	73.3 (1.1m/1.5m)x100	29.3 (73.3/100x40)
B	1.1	100	40
C	1.3	84	33.6

# Differential model



Bidder	Aggregate score	Rank
A	$55 + 29 = 84$	2
B	$43 + 40 = 83$	3
C	$51 + 34 = 85$	1

- Ceiling is £1.5m

Bidder	£m	%	/40
A	1.5	0	0
B	1.1	73.3 (26.7)	10.68
C	1.3	86.6 (13.4)	5.36

Bidder	Aggregate	Rank
A	$55 + 0 = 55$	2
B	$43 + 10.68 = 53.68$	3
C	$51 + 5.36 = 56.36$	1

- Current service £1.6m, bids over £1.6m non-compliant. Target is 20% saving: £320K saving/£1.28m bid.

Bidder	£m	% of target saving	/40
A	1.5	31.25	12.5
B	1.1	125	40
C	1.3	93.75	37.5



Bidder	Aggregate	Rank
A	$55+12.5 = 67.5$	3
B	$43+40=83$	2
C	$51+37.5 = 88.5$	1

# Price:quality: Lowest price per point



Bidder	£m	Quality	Score	Rank
A	1.5	92	16304.35	3
B	1.1	72	15277.77	1
C	1.3	85	15294.12	2

Lowest price/cost



# Structure: preparing the ground for lowest price award



- Disqualification – reg. 57
- Selection - reg. 58, 65
- Evaluation – reg. 67 (+ (96))
- Contract – conditions and management
- If you've weeded out the untrustworthy, the irresponsible and the seriously poor performers, and selected the most capable and proven performers, and you have a contract which incentivises performance, and you're prepared to manage the contract...
- Why not award to the lowest priced tender?

- Harder to challenge the assessment of price;
- The other stages ((disqualification, qualification, selection) will probably have happened and been communicated more than 30 days ago. They may be challenged but (a) you will have time to put things right if need be and (b) it should not suspend your award.
- **But** beware gaming – not just in lowest price tenders but generally

- Don't just recycle model from previous tenders
- Differential model is not always reliable
- If possible, run simulations: will the model deliver what you want?
- Consider specifying prices/acceptable ranges
- In all procurements where quality matters, consider thresholds but deploy with caution so as not inadvertently to exclude an acceptable bid
- Contractualise quality proposals and manage the contract to ensure delivery

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